



KCELL JSC

**Consolidated Financial Statements
for the year ended 31 December 2015
and Independent Auditor's Report**

KCELL JSC

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KCELL JSC

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Kcell JSC ("the Company") and its subsidiaries (together referred to as "the Group") as at 31 December 2015, the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2015 were approved by management on 4 February 2016.

Approved for issue and signed on behalf of the Management

Arti Ots
Chief Executive Officer



Trond Moe
Chief Financial Officer



Deloitte, LLP
36 Al Farabi Ave.
Almaty, 050059
Republic of Kazakhstan

Tel: +7 (727) 258 13 40
Fax: +7 (727) 258 13 41
deloitte.kz

INDEPENDENT AUDITOR'S REPORT

To: Shareholders and Board of Directors of Kcell JSC

We have audited the accompanying consolidated financial statements of Kcell JSC and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kcell JSC and its subsidiaries as at 31 December 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

MSJS

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



Deloitte, LLP

Deloitte, LLP Audit license
of the Republic of Kazakhstan #0000015,
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of the Republic of Kazakhstan
dated 13 September 2006



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

H. Bekenov

Nurlan Bekenov
General Director
Deloitte, LLP

4 February 2016

Almaty, the Republic of Kazakhstan

KCELL JSC

Consolidated Statement of Financial Position (in thousand of Kazakhstani Tenge, unless otherwise stated)

	Note	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	8	94,501,445	108,955,322
Intangible assets	9	16,956,188	12,493,561
Long-term trade receivable	10	397,111	-
Financial aid receivable from related party	7	300,000	-
Restricted cash		145,748	145,047
Total non-current assets		112,300,492	121,593,930
Current assets			
Inventories		2,801,602	2,336,064
Trade and other receivables	10	13,440,877	13,241,334
Prepaid current income tax		5,114,688	1,027,055
Due from related parties	7	780,054	274,256
Cash and cash equivalents		31,589,007	19,520,357
Total current assets		53,726,228	36,399,066
TOTAL ASSETS		166,026,720	157,992,996
EQUITY			
Share capital	11	33,800,000	33,800,000
Retained earnings		46,646,103	58,273,778
TOTAL EQUITY		80,446,103	92,073,778
LIABILITIES			
Non-current liabilities			
Deferred income tax liability	17	5,037,021	4,442,050
Other non-current liabilities		1,285,482	1,376,244
Total non-current liabilities		6,322,503	5,818,294
Current liabilities			
Borrowings	13	50,201,227	25,020,026
Trade and other payables	12	18,509,955	25,119,293
Due to related parties	7	1,215,538	661,338
Deferred revenue		8,397,228	8,809,049
Taxes payable		934,166	491,218
Total current liabilities		79,258,114	60,100,924
TOTAL LIABILITIES		85,580,617	65,919,218
TOTAL LIABILITIES AND EQUITY		166,026,720	157,992,996

Approved for issue and signed on behalf of the Management on 4 February 2016

Arti Ots
Chief Executive Officer

Trond Moe
Chief Financial Officer

The accompanying notes on pages 8 to 19 are an integral part of these consolidated financial statements

KCELL JSC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in thousand of Kazakhstani Tenge, unless otherwise stated)

	Note	2015	2014
Revenues	14	168,424,046	187,580,725
Cost of sales	15	(89,932,191)	(84,220,866)
Gross profit		78,491,855	103,359,859
Selling and marketing expenses	15	(9,221,036)	(11,548,822)
General and administrative expenses	15	(12,380,999)	(10,665,896)
Other operating income		2,422,854	1,031,000
Other operating expenses	15	(6,711,830)	(6,978,843)
Operating profit		52,600,844	75,197,298
Finance income	16	13,524,281	531,781
Finance costs	16	(5,713,217)	(1,584,325)
Profit before income tax		60,411,908	74,144,754
Income tax expense	17	(13,779,583)	(15,873,918)
Profit and total comprehensive income for the year		46,632,325	58,270,836
Earnings per share (Kazakhstani Tenge), basic and diluted	11	233.16	291.35

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

Approved for issue and signed on behalf of the Management on 4 February 2016

Arti Ots
Chief Executive Officer

Trond Moe
Chief Financial Officer

The accompanying notes on pages 3 to 36 are an integral part of these consolidated financial statements

KCELL JSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (in thousand of Kazakhstani Tenge)

	Share capital	Retained earnings	Total equity
Balance at 1 January 2014	33,800,000	63,392,942	97,192,942
Profit and total comprehensive income for the year	-	58,270,836	58,270,836
Dividends declared (Note 11)	-	(63,390,000)	(63,390,000)
Balance at 31 December 2014	33,800,000	58,273,778	92,073,778
Profit and total comprehensive income for the year	-	46,632,325	46,632,325
Dividends declared (Note 11)	-	(58,260,000)	(58,260,000)
Balance at 31 December 2015	33,800,000	46,646,103	80,446,103

Approved for issue and signed on behalf of the Management on 4 February 2016

Arti Ots
Chief Executive Officer



Trond Moe
Chief Financial Officer

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KCELL JSC

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousand of Kazakhstani Tenge)

	Note	2015	2014
Cash flows from operating activities			
Profit for the year		46,632,325	58,270,836
Adjustments for:			
Depreciation of property, plant and equipment	8	21,707,948	21,772,145
Amortisation of intangible assets	9	2,866,065	3,417,343
Income tax		(3,492,662)	(981,973)
Net foreign exchange difference (gain)/loss		(11,927,863)	517,268
Interest income		(376,100)	(454,777)
Impairment of trade receivables	10	692,005	983,383
Interest expense		5,493,653	1,560,374
Impairment of property, plant and equipment	8	3,976,839	3,683,490
Operating cash flows before working capital changes		65,572,210	88,768,089
Change in working capital and other balances:			
Trade and other receivables		(891,549)	(4,956,368)
Long-term receivables		(397,111)	-
Due from related parties		(505,798)	32,606
Inventories		(465,538)	(1,836,884)
Taxes payable		442,947	(876,893)
Trade and other payables		(2,946,663)	1,882,770
Due to related parties		554,200	159,293
Deferred revenues		(411,821)	1,462,363
Other		(700)	(19,471)
Cash generated from operations		60,950,177	84,615,505
Interest paid		(5,612,452)	(1,511,527)
Interest received		376,100	454,777
Net cash generated from operating activities		55,713,825	83,558,755
Cash flows from investing activities			
Purchase of property, plant and equipment		(15,985,099)	(17,983,024)
Purchase of intangible assets		(7,328,692)	(1,831,632)
Financial aid paid to related party		(300,000)	-
Net cash used in investing activities		(23,613,791)	(19,814,656)
Cash flows from financing activities			
Proceeds from bank borrowing	13	39,800,000	13,200,000
Repayment of borrowing	13	(14,500,000)	(12,950,000)
Dividends paid	11	(58,260,000)	(63,390,000)
Net cash used in financing activities		(32,960,000)	(63,140,000)
Net (decrease)/increase in cash and cash equivalents		(859,966)	604,099
Effects of exchange rate changes on the balance of cash held in foreign currencies		12,928,616	-
Cash and cash equivalents at the beginning of the year		19,520,357	18,916,258
Cash and cash equivalents at the end of the year		31,589,007	19,520,357

Approved for issue and signed on behalf of the Management on 4 February 2016

Arti Ots
Chief Executive Officer

Trond Moe
Chief Financial Officer

The accompanying notes on pages 8 to 36 are an integral part of these consolidated financial statements

I THE GROUP AND ITS OPERATIONS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board for the year ended 31 December 2015 for Kcell JSC (“the Company”) and its subsidiaries (together referred to as “the Group”).

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

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

In 2008, the Group accepted an offer from the government of the Republic of Kazakhstan to acquire additional 5 MHz radiofrequencies in the range of 1800 MHz. On 26 August 2008, the competent authority approved an addendum to the Group’s operating GSM license. The revised license provides the Group with a right to operate both GSM-900 and GSM-1800 networks. Under revised terms, the Group provided all locations with a population over 1,000 people with mobile services using GSM-900 and GSM-1800 standards by 31 December 2012.

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

The Company acquired KT-Telecom LLP (“KT-Telecom”) in 2008 and AR-Telecom LLP (“AR-Telecom”) in 2007. The purpose of these acquisitions was to obtain wireless local loop (“WLL”, “Wireless Local Loop”) licenses (Note 9). In 2009, KT-Telecom and AR-Telecom commenced their operating activities. Accordingly, the Group started to prepare its consolidated financial statements from 2009. In 2010, WiMAX services were launched in Astana and Atyrau under WLL licenses. Subsequently in 2011, the ownership of WLL licenses have been transferred to the Company.

On 25 December 2010, the competent authority signed an addendum to the existing GSM license, which provided the Company with a right to operate a 3G network. In December 2010, the Company launched 3G services in Astana and Almaty. As of 1 January 2015 the Group provided all locations with a population of over 10,000 people with mobile services using UMTS/WCDMA standards based on the terms of the addendum.

On 13 December 2012, the Company successfully completed its offering of Global Depositary Receipts on the London Stock Exchange and common shares on the Kazakhstan Stock Exchange. The offering consisted of a sale by Sonera Holding B.V., a company of TeliaSonera, of 50 million shares, which represented 25 percent of the Company’s share capital (Note 11).

The Company’s registered address is 100, Samal-2, Almaty, Republic of Kazakhstan.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES***Basis of preparation***

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) on the historical cost basis.

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

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

In addition, for financial reporting purposes, fair value measurements are categorised into levels based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These consolidated financial statements have been prepared in accordance with IFRS standards and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations issued and effective.

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

Foreign currency translation***(i) Functional and presentation currency***

All amounts in these consolidated financial statements are presented in thousands of Kazakhstani Tenge (“Tenge”), unless otherwise stated. The functional currency of the Group entities is also Tenge, the currency of the primary economic environment in which they operate.

(ii) Transactions and balances

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

At 31 December 2015, the principal rate of exchange used for translating foreign currency balances was US Dollar (“USD”) 1 = Tenge 339.47 (31 December 2014: USD 1 = Tenge 182.35). Exchange restrictions and currency controls exist relating to converting Tenge into other currencies. At present, the Tenge is not a freely convertible currency in most countries outside of the Republic of Kazakhstan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

*(in thousand of Kazakhstani Tenge, unless otherwise stated)***Consolidated financial statements**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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

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

Property, plant and equipment*(i) Recognition and subsequent measurement*

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

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

Advances for property, plant and equipment are presented within property, plant and equipment financial statement line.

(ii) Depreciation

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

	<u>Useful lives in years</u>
Property	10 to 50
Plant and machinery	3 to 10
Equipment tools and installations	2 to 8

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

(iii) Impairment

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(in thousand of Kazakhstani Tenge, unless otherwise stated)

Intangible assets

The Group's operating licenses (GSM-900, GSM-1800 and 3G), as disclosed in Notes 1 and 9, are recorded at cost and are amortised on a straight-line basis over the estimated economic useful life of the license/right. The economic useful life of the original GSM license and 3G license is estimated by management at 15 years based on their terms. The useful life of the initial license term is in line with management's assessment of the development of communication technology. The economic useful life of the right for the radiofrequencies (GSM-1800) was estimated by management to expire in line with the GSM-900 license.

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

	<u>Useful lives in years</u>
Computer software and software license rights	3 to 8
Other telecom licenses	10
Other	8 to 10

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

Advances for intangible assets are presented within intangible assets financial statement line.

Operating leases

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

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

Inventories

Inventories primarily include handsets and other good for resale. Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Trade and other receivables

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

An allowance for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. When a trade receivable is deemed to be uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited to the profit or loss for the year. The primary factors that the Group considers whether a receivable is impaired is its overdue status and collection history.

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

Prepayments

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks with original maturities of three months or less and are subject to insignificant risk of change in value. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in restricted cash.

Share capital

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

Dividends

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

Value added tax

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

Trade and other payables

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

Provisions for liabilities and charges

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(in thousand of Kazakhstani Tenge, unless otherwise stated)

Revenue recognition

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

Revenue is categorised as follows: voice services, data services, value added services, and sale of handsets.

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

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

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

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

In revenue arrangements where more than one good or service is provided to the customer, customer consideration is allocated between the goods and services using relative fair value principles. Determining the fair value of each deliverable can require complex estimates. The Group generally determines the fair value of individual elements based on prices at which the deliverable is regularly sold on a stand-alone basis after considering volume discounts where appropriate.

(i) Call out revenue

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

(ii) Interconnect revenues and costs

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

(iii) Data revenue

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

(v) Roaming fees charged to other wireless operators

The Group charges roaming per minute fees to other wireless operators for non-Group subscribers utilising the Group's network. The Group recognises such revenues when the services are provided.

(vi) Value added services

Value added services mainly consists of content provided by third parties, different info services, fax and voice mail. When invoicing the end-customer for third party content service, amounts collected on behalf of the principal are excluded from revenue.

(vii) Deferred revenue

Prepayments received for communication services are recorded as deferred revenue. The Group recognises revenue when the related service has been provided to the subscriber.

Roaming discounts

The Group enters into roaming discount agreements with a number of wireless operators. According to the terms of the agreements the Group is obliged to provide and entitled to receive a discount that is generally dependent on the volume of inter operator roaming traffic. The Group uses various estimates and assumptions, based on historical data and adjusted for known changes, to determine the amount of discount to be received or granted. Such estimates are adjusted monthly to reflect newly-available information.

The Group accounts for discounts received as a reduction of roaming expenses and discounts granted as reduction of roaming revenue. The Group considers terms of the various roaming discount agreements in order to determine the appropriate presentation of the amounts receivable from and payable to its roaming partners in its consolidated statements of financial position.

Sales commission to dealers

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

Payroll expenses and related contributions

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

Pension payments

The Group does not incur any expenses in relation to provision of pensions or other post-employment benefits to its employees. In accordance with the legal requirements of the Republic of Kazakhstan, the Group withholds pension contributions from employee salaries and transfers them into state or private pension funds on behalf of its employees. Pension contributions are the responsibility of employees, and the Group has no current or future obligations to make payments to employees following their retirement. Upon retirement of employees, all pension payments are administered by the pension funds directly.

Income taxes

Income taxes have been provided for in these consolidated financial statements in accordance with Kazakhstani legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the period.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(in thousand of Kazakhstani Tenge, unless otherwise stated)

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

Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to owners of the Group by the weighted average number of participating shares outstanding during the reporting year. The Group has no dilutive or potentially dilutive securities outstanding.

Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. The chief operating decision-maker has been identified as the Company's CEO. The Group determined the Group's operations as a single reporting segment.

Financial instruments***(i) Key measurement terms***

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and the current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

*(in thousand of Kazakhstani Tenge, unless otherwise stated)**(ii) Classification of financial assets*

Financial assets of the Group include loans and receivables. The management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise trade receivables (Note 10), due from related parties (Note 7) in the consolidated statements of financial position.

(iii) Classification of financial liabilities

Financial liabilities of the Group include financial liabilities carried at amortised cost. The Group's financial liabilities comprise trade and other payables (Note 12) and due to related parties (Note 7).

(iv) Initial recognition of financial instruments

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

(v) Derecognition of financial assets

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

Reclassifications and change in accounting policy

Certain reclassifications have been made to the consolidated statement of financial position as of 31 December 2014 to conform to the presentation as of 31 December 2015, as the current year presentation provides a better view of the financial position of the Group. In 2015, the Group has revised presentation of advances paid for property, plant and equipment and intangible assets which are now presented within property, plant and equipment and intangible assets in the Group's statements of financial position. Previously they were shown as a part of other non-current assets.

The Group has revised presentation of foreign exchange gains and losses on a gross basis. Previously they were shown on a net basis. Management believes that the current year presentation provides a better view of profit and comprehensive income for the period. Therefore certain retrospective reclassifications have been made to the consolidated statement of comprehensive income for year ended 31 December 2014 to conform to the presentation for the year ended 31 December 2015.

	For the year ended 31 December 2014 (as reported)	Effect of change in accounting policy	For the year ended 31 December 2014 (as restated)
Other operating income	540,727	-490,273	1,031,000
Other operating expense	(6,435,517)	(543,326)	(6,978,843)
Finance income	-54,777	77,004	531,781
Finance expense	(1,560,374)	(23,951)	(1,584,325)

3 CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Useful lives of property, plant and equipment and intangible assets

Management determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and intangible assets. This estimate is based on projected period over which the Group expects to consume economic benefits from the asset. It could change significantly as a result of technical innovations and competitor actions in a high-tech and competitive mobile industry. The carrying amount of assets most affected by judgements (switches and transmission devices) amounted to 60,736,902 thousand Tenge (Note 8) as of 31 December 2015 (2014: 61,524,236 thousand Tenge). Management will increase the depreciation charge where useful lives are less than previously assessed estimated lives, or it will write-down technically obsolete assets that have been abandoned.

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

Provisions and contingencies

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

Deferred tax assets and liabilities

As at each reporting date, management determines the amount of deferred income tax by comparing the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the date of the corresponding consolidated statements of financial position. Management makes certain assumptions in determining future taxable income sufficient for compensation of deferred tax assets reflected in the consolidated statement of financial position. The carrying amount of deferred tax liability as at 31 December 2015 amounted to 5,037,021 thousand Tenge (as at 31 December 2014: 4,442,050 thousand Tenge) (Note 17).

Going concern

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

At 31 December 2015 and 2014 the Group's net current liabilities are 25,531,886 thousand Tenge and 23,701,858 thousand Tenge, respectively. Management has considered the Company's future plans, and in light of these plans and the current and expected profitability of the Group, positive cash flows from operations, management believes that the Group will continue to operate as a going concern for the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(in thousand of Kazakhstani Tenge, unless otherwise stated)

4 AMENDMENTS TO IFRS AND THE NEW INTERPRETATION THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR

In the current year, the Group has applied a number of amendments to IFRSs and a new Interpretation issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2015.

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions;
- Annual Improvements to IFRSs 2010 - 2012 Cycle and 2011 – 2013 Cycle.

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

5 NEW AND REVISED IFRS IN ISSUE BUT NOT YET EFFECTIVE

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

	<u>Effective for accounting periods beginning on or after</u>
<i>IFRS 16 Leases</i>	1 January 2019, with earlier application permitted
<i>IFRS 9 Financial Instruments</i>	1 January 2018, with earlier application permitted
<i>IFRS 15 Revenue from Contracts with Customers</i>	1 January 2018, with earlier application permitted
<i>Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized losses</i>	1 January 2017, with earlier application permitted
<i>Amendments to IAS 7: Statements of Cash Flows</i>	1 January 2017, with earlier application permitted
<i>Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations</i>	1 January 2016, with earlier application permitted
<i>Amendments to IAS 1 Disclosure Initiative</i>	1 January 2016, with earlier application permitted
<i>Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation</i>	1 January 2016, with earlier application permitted
<i>IFRS 14 Regulatory Deferral Accounts</i>	1 January 2016, with earlier application permitted
<i>Amendments to IAS 27: Equity Method in Separate Financial Statements</i>	1 January 2016, with earlier application permitted
<i>Annual improvements 2012-2014 Cycle</i>	1 January 2016, with earlier application permitted
<i>Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants</i>	1 January 2016, with earlier application permitted
<i>Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	1 July 2016, with limited exceptions; earlier application is permitted
<i>Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception</i>	1 July 2016, with earlier application permitted

IFRS 16 Leases was announced in January 2016. IFRS 16 supersedes IAS 17 Leases and related interpretations and is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 Revenue from Contracts with Customers' has also been applied. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however remains largely unchanged and the distinction between operating and finance leases is retained. The management of the Company anticipates that the application of this standard may have an impact on the Group's consolidated financial statements. The Group is currently assessing an impact of the new standard on the financial results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group plans to adopt the new standard on the required effective date. During 2015 the Group has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9. The Group expects changes in loss allowance methodology and will perform a detailed assessment in the future to determine the extent.

The Group's current accounting and recognition of revenue for bundled offerings and allocation of the consideration between equipment and service is in line with IFRS 15. The Group is currently in the process of assessing the possible effect of IFRS 15 and expects there will be a limited impact of its adoption. Management anticipates that the adoption of the standards listed above will not have a material impact on the consolidated financial statements of the Group in the period of initial application.

6 SEGMENT INFORMATION

The Group's operations are a single reportable segment.

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

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

7 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Company's ultimate controlling party is TeliaSonera. Entities of TeliaSonera group include entities under common control and associates of TeliaSonera. Immediate shareholders are disclosed in Note 11.

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

		<u>2015</u>	<u>2014</u>
Due from related parties	Entities of TeliaSonera group	780,054	274,256
Financial aid receivable from related party	Entities of TeliaSonera group	300,000	-
Due to related parties	Entities of TeliaSonera group	331,346	265,033
Due to related parties	Immediate and ultimate parent	884,192	396,305
Revenue	Entities of TeliaSonera group	1,679,127	1,363,078
Expense	Entities of TeliaSonera group	5,078,847	2,578,926
Expense	Immediate and ultimate parent	165,037	81,440

Amounts due from related parties are neither past due nor impaired. They represent receivables from related parties for roaming services. These entities do not have credit ratings assigned but their reliability is determined by the Group on the basis of long-term cooperation and which have a good credit history. The Group's management believes that amounts due from related parties will be fully repaid in 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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On 25 December 2015, the Company issued financial aid to Aksoran LLP (“Aksoran”), which is a subsidiary of KazNet Media LLP (Note 18).

Memorandum of Understanding (“MoU”)

On 26 August 2012, Sonera and the Company entered into a memorandum of understanding, details of which are disclosed further in Note 18.

Compensation of key management personnel

Compensation paid to key management personnel for their services in full time executive management positions and to the members of the board of directors consists of a contractual salary, performance bonus depending on financial performance of the Group, and other compensation in the form of reimbursement of apartment rent expenses from the Company. Total compensation included in staff costs in the statement of comprehensive income is equal to 213,591 thousand Tenge for the year ended 31 December 2015 (2014: 219,639 thousand Tenge). Compensation scheme does not include share-based payments, post-employment or other long-term benefits.

8 PROPERTY, PLANT AND EQUIPMENT

	Property	Plant and machinery	Equipment tools and installations	Assets under construction and advances given	Total
As at 1 January 2014					
Cost	20,551,263	177,915,545	20,804,041	14,914,779	234,185,628
Accumulated depreciation and impairment losses	(3,401,526)	(99,509,133)	(16,025,481)	-	(118,936,140)
Carrying amount as at 1 January 2014	17,149,737	78,406,412	4,778,560	14,914,779	115,249,488
Additions	386,079	121,920	1,638,298	17,015,172	19,161,469
Transfers	-	10,241,790	-	(10,241,790)	-
Impairment	-	(983,306)	(40,769)	(2,659,415)	(3,683,490)
Depreciation charge	(45,843)	(20,318,080)	(1,408,222)	-	(21,772,145)
As at 31 December 2014					
Cost	20,789,633	181,370,531	22,336,985	19,028,746	243,525,895
Accumulated depreciation and impairment losses	(3,299,660)	(113,901,795)	(17,369,118)	-	(134,570,573)
Carrying amount as at 31 December 2014	17,489,973	67,468,736	4,967,867	19,028,746	108,955,322
Additions	258,643	1,849,261	2,974,392	6,148,614	11,230,910
Transfers	-	12,381,702	245,691	(12,627,393)	-
Impairment	-	(2,081,573)	(21,711)	(1,873,555)	(3,976,839)
Depreciation charge	(1,327,710)	(18,881,224)	(1,499,014)	-	(21,707,948)
As at 31 December 2015					
Cost	21,048,276	183,391,835	25,182,608	10,676,412	240,299,131
Accumulated depreciation and impairment losses	(4,627,370)	(122,654,933)	(18,515,383)	-	(145,797,686)
Carrying amount as at 31 December 2015	16,420,906	60,736,902	6,667,225	10,676,412	94,501,445

As at 31 December 2015, the gross carrying value of property, plant and equipment, which has been fully depreciated and still in use, was 84,786,886 thousand Tenge (31 December 2014: 53,414,730 thousand Tenge).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

Due to the absence of exact plans on usage the Company had written-off property, plant and equipment in the amount of 3,965,245 thousand Tenge (31 December 2014: 3,639,319 thousand Tenge). The related impairment of property, plant and equipment charge was included in other operating expenses (Note 15).

9 INTANGIBLE ASSETS

	Software and licenses	Intangible assets in progress	Advances given	Total
As at 1 January 2014				
Cost	36,590,170	-	124,727	36,714,897
Accumulated depreciation	(22,635,625)	-	-	(22,635,625)
Carrying amount as at 1 January 2014	13,954,545	-	124,727	14,079,272
Additions	1,831,632	-	-	1,831,632
Transfers	124,727	-	(124,727)	-
Amortisation charge	(3,417,343)	-	-	(3,417,343)
As at 31 December 2014				
Cost	38,546,529	-	-	38,546,529
Accumulated amortisation	(26,052,968)	-	-	(26,052,968)
Carrying amount as at 31 December 2014	12,493,561	-	-	12,493,561
Additions	2,617,707	813,570	3,897,415	7,328,692
Transfers	441,703	3,073,208	(3,514,911)	-
Amortisation charge	(2,866,065)	-	-	(2,866,065)
As at 31 December 2015				
Cost	41,605,939	3,886,778	382,504	45,875,221
Accumulated depreciation	(28,919,033)	-	-	(28,919,033)
Carrying amount as at 31 December 2015	12,686,906	3,886,778	382,504	16,956,188

The original GSM network license (GSM-900) was provided by the State Committee of Telecommunications and Information of the Republic of Kazakhstan for a fee in the amount of 5.5 billion Tenge and is valid for 15 years, commencing June 1998. On 28 August 2008, the Group obtained a radiofrequency band of 5 MHz spectrum (receipt/transit) in the range of 1800 MHz under the existing GSM network license (Note 1) for the amount of 2.6 billion Tenge. The acquired frequencies were capitalised as intangible assets within the "Software and licenses" category. On 1 July 2011, the Ministry of Communication and Information of Kazakhstan extended the Company's GSM-900 and GSM-1800 general license from the initial 15 years to an unlimited period of time. As at 31 December 2014, GSM-900 and 1800 license was fully amortized, therefore, its carrying value was nil.

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

On 25 December 2010, the Group received a right to operate a 3G network by utilising a radiofrequency band of 20 MHz (receipt/transit) in the range of 1920-1980 MHz and 2110-2170 MHz. The radiofrequencies were provided in the form of an addendum to the existing GSM license. The acquisition cost was 5 billion Tenge.

As at 31 December 2015, a new billing system Amdocs was classified as intangible assets in progress. According to the contract with Amdocs Software Solutions Limited Liability Company the migration of post-paid subscribers from the new billing system is in progress.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (in thousand of Kazakhstani Tenge, unless otherwise stated)

As at 31 December 2015, the carrying amount of the 3G license was 3,333,333 thousand Tenge and its remaining amortisation period was 10 years.

10 TRADE AND OTHER RECEIVABLES

	31 December 2015	31 December 2014
Trade and other receivables from dealers and distributors	1,665,086	2,802,912
Trade receivables from subscribers	6,652,075	3,567,136
Trade receivables for interconnect services	1,054,610	1,784,636
Trade receivables from roaming operators	2,863,044	1,711,249
Less: allowance for impairment of trade receivables	<u>(2,467,799)</u>	<u>(2,041,663)</u>
Total financial assets	<u>9,767,016</u>	<u>7,824,270</u>
Less: long term trade receivables from subscribers	(397,111)	-
Total current financial assets	<u>9,369,905</u>	<u>7,824,270</u>
Advances to suppliers	2,564,323	2,336,806
VAT recoverable	-	1,821,468
Prepaid other taxes	638,512	593,241
Deferred expenses	403,728	384,374
Other receivables	<u>464,409</u>	<u>281,175</u>
Total trade and other receivables	<u>13,440,877</u>	<u>13,241,334</u>

Total financial assets are denominated in currencies as follows:

	31 December 2015	31 December 2014
Tenge	6,903,972	6,113,021
US dollar	<u>2,863,044</u>	<u>1,711,249</u>
Total financial assets	<u>9,767,016</u>	<u>7,824,270</u>

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

	31 December 2015	31 December 2014
<i>Total neither past due nor impaired</i>	<i>6,057,731</i>	<i>4,630,058</i>
<i>Past due but not impaired</i>		
due for 1 month	522,147	71,791
due for 2 months	800,420	186,547
due for 3 months	143,374	291,952
due for 4 to 6 months	732,277	1,230,939
due for more than 6 months	1,511,067	1,412,983
<i>Total past due but not impaired</i>	<i>3,709,285</i>	<i>3,194,212</i>
<i>Impaired</i>		
30 to 60 days	58,435	5,768
60 to 90 days	59,313	10,597
90 to 120 days	97,543	10,442
150 to 200 days	231,181	822,532
over 200 days	2,021,327	1,192,324
<i>Total impaired</i>	<i>2,467,799</i>	<i>2,041,663</i>
<i>Allowance for impairment of trade receivables</i>	<i><u>(2,467,799)</u></i>	<i><u>(2,041,663)</u></i>
Total financial assets	<u>9,767,016</u>	<u>7,824,270</u>

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

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

Neither past due nor impaired receivables represent receivables from companies and subscribers with no credit ratings assigned but their reliability is determined by the Company on the basis of long-term cooperation representing those companies which have a good credit history. The Company's management believes that neither past due nor impaired receivables in the amount of 6,057,731 thousand Tenge will be fully repaid in 2016.

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

	<u>2015</u>	<u>2014</u>
As at 1 January	2,041,663	1,710,085
Charge for the year	692,005	983,383
Receivables written off during the year as uncollectible	<u>(265,869)</u>	<u>(651,805)</u>
As at 31 December	<u>2,467,799</u>	<u>2,041,663</u>

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

11 SHARE CAPITAL AND EARNINGS PER SHARE

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

	31 December 2015		31 December 2014	
	<u>Share</u>	<u>Number of shares</u>	<u>Share</u>	<u>Number of shares</u>
Fintur	51 percent	102,000,000	51 percent	102,000,000
Sonera	24 percent	48,000,000	24 percent	48,000,000
JSC Central Securities Depository	23.31 percent	46,625,346	23.31 percent	46,625,306
Single Accumulative Pension Fund	1.14 percent	2,270,950	1.14 percent	2,270,950
Other	0.55 percent	1,103,704	0.55 percent	1,103,744

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

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

	<u>2015</u>	<u>2014</u>
Profit for the period attributable to equity shareholders	<u>46,632,325</u>	<u>58,270,836</u>
Weighted average number of common shares	<u>200,000,000</u>	<u>200,000,000</u>
Earnings per share (Kazakhstani Tenge), basic and diluted	<u>233.16</u>	<u>291.35</u>

The Group has no dilutive or potentially dilutive securities outstanding.

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

	<u>31 December 2015</u>	<u>31 December 2014</u>
Net assets, excluding intangible assets	63,872,419	79,580,217
Number of common shares in issue	<u>200,000,000</u>	<u>200,000,000</u>
Book value per share (Kazakhstani Tenge)	<u>319.36</u>	<u>397.90</u>

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

	<u>2015</u>	<u>2014</u>
Dividends payable at 1 January	-	-
Dividends declared during the year	58,260,000	63,390,000
Dividends paid during the year	<u>(58,260,000)</u>	<u>(63,390,000)</u>
Dividends payable at 31 December	<u>-</u>	<u>-</u>

12 TRADE AND OTHER PAYABLES

	<u>31 December 2015</u>	<u>31 December 2014</u>
Trade payables	<u>17,147,552</u>	<u>20,534,843</u>
Total financial liabilities	<u>17,147,552</u>	<u>20,534,843</u>
Accrued salaries and bonuses to employees	1,179,154	2,873,488
Other payables	<u>183,249</u>	<u>1,710,962</u>
Total trade and other payables	<u>18,509,955</u>	<u>25,119,293</u>

Trade and other payables are denominated in currencies as follows:

	<u>31 December 2015</u>	<u>31 December 2014</u>
Tenge	10,645,696	12,857,312
US dollar	6,127,865	7,629,844
Euro	361,809	39,437
Other	<u>12,182</u>	<u>8,250</u>
Total financial liabilities	<u>17,147,552</u>	<u>20,534,843</u>

13 BORROWINGS

	<u>31 December 2015</u>	<u>31 December 2014</u>
Halyk Bank of Kazakhstan JSC	30,153,333	8,006,000
Kazkommertsbank JSC	17,039,667	-
Altyn Bank JSC (previously – SB HSBC Kazakhstan JSC)	3,008,227	2,203,424
Syndicated loans from Citibank Kazakhstan JSC and SB RBS Kazakhstan JSC	<u>-</u>	<u>14,810,602</u>
Total borrowings	<u>50,201,227</u>	<u>25,020,026</u>

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

Due to their short-term nature, the carrying amount of the Group's borrowings approximate their fair value.

Bank name	Date of issue	Maturity date	Nominal interest rate	Outstanding balance	Total borrowings
Halyk Bank of Kazakhstan JSC	14.04.2015	13.04.2016	15.00%	22,146,666	22,146,666
Kazkommertsbank JSC	25.09.2015	25.09.2016	14.00%	17,039,667	17,039,667
Halyk Bank of Kazakhstan JSC	29.12.2014	26.12.2016	15.00%	8,006,667	8,006,667
Altyn Bank JSC	25.09.2014	23.09.2016	15.50%	3,008,227	3,008,227
Total				50,201,227	50,201,227

On 25 September 2014, the Company signed an additional agreement to the credit line agreement with Altyn Bank JSC for 2.2 billion Tenge with 8.5 percent per annum interest rate payable monthly and principal payable at maturity, and a twelve month term. On 23 September 2015, the Company signed an additional agreement to the credit line agreement with Altyn Bank JSC for prolongation of 2.2 billion Tenge loan with 15.5 percent per annum interest rate payable monthly and principal payable at maturity, and a twelve month term. Additionally, the Company received 800 million Tenge at 15.5 percent per annum interest rate and the credit line agreement was increased to 3 billion Tenge.

On 29 December 2014, the Company received 8 billion Tenge under the 30 billion Tenge credit line agreement with Halyk Bank of Kazakhstan JSC with maturity on 24 September 2015, nominal interest rate of 9 percent per annum payable monthly and principal payable at maturity. On 13 May 2015, the loan's maturity was extended until 24 December 2015.

On 14 April 2015, the Company completed the drawdown received of a 22 billion of the approved credit line with Halyk Bank of Kazakhstan JSC. This tranche was obtained under the bank loan agreement signed between Kcell JSC and Halyk Bank of Kazakhstan JSC for 30 billion Tenge for working capital financing with a nominal interest rate of 15 percent annum. The maturity date is 13 April 2016.

On 25 September 2015, the Company received 17 billion Tenge under the credit line facility agreement with Kazkommertsbank JSC with maturity on 25 September 2016, bearing a nominal interest rate of 14 percent per annum payable monthly and principal payable maturity.

On 28 September 2015, the Company fully repaid a loan under a syndicated loan facility agreement with Citibank Kazakhstan JSC and SB RBS Kazakhstan JSC in full.

On 18 December 2015, the Company successfully prolonged as 8 billion Tenge loan under the 30 billion Tenge credit line agreement with Halyk Bank of Kazakhstan JSC, with maturity on 26 December 2016, bearing a nominal interest rate of 15 percent per annum payable monthly and principal payable at maturity.

No assets were pledged under borrowing agreements.

As at 31 December 2015 and 2014, the Company was in compliance with financial covenants.

14 REVENUES

	2015	2014
Voice service	105,345,069	132,696,904
Data service	39,277,710	33,130,500
Value added services	12,649,717	16,567,257
Sale of handsets	11,151,550	5,186,064
Total revenues	168,424,046	187,580,725

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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15 EXPENSES BY NATURE

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

	<u>2015</u>	<u>2014</u>
Interconnect fees and expenses	27,718,449	26,691,450
Depreciation of property, plant and equipment and amortization of intangible assets	24,574,013	25,189,488
Network maintenance expenses	13,292,300	13,827,257
Cost of SIM card, scratch card, start package sales and handsets	11,101,596	5,350,184
Staff costs	9,300,820	9,385,557
Transmission rent	8,155,332	8,111,584
Frequency usage charges and taxes other than on income	8,108,801	6,506,997
Sales commissions to dealers and advertising expenses	3,728,797	6,034,536
Others	5,554,118	5,338,531
Total expenses	<u>111,534,226</u>	<u>106,435,584</u>

Amortisation and depreciation by function were as follows.

	<u>2015</u>	<u>2014</u>
Cost of sales	22,100,037	22,590,960
General and administrative expenses	2,473,976	2,598,528
Total depreciation of property, plant and equipment and amortisation of intangible assets	<u>24,574,013</u>	<u>25,189,488</u>

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

	<u>2015</u>	<u>2014</u>
Property, plant and equipment write-off (Note 8)	3,965,245	3,639,319
Operational foreign exchange loss	2,394,270	1,060,595
Provision for legal cases (Note 18)	96,803	1,600,000
Other	255,512	678,929
Total other operating expenses	<u>6,711,830</u>	<u>6,978,843</u>

16 FINANCE INCOME AND FINANCE EXPENSE

Finance income for the year ended 31 December comprised the following:

	<u>2015</u>	<u>2014</u>
Foreign exchange gains	13,148,181	77,004
Interest income	376,100	454,777
Total finance income	<u>13,524,281</u>	<u>531,781</u>

Finance expense for the year ended 31 December comprised the following:

	<u>2015</u>	<u>2014</u>
Foreign exchange losses	219,564	23,951
Interest expense	5,493,653	1,560,374
Total finance expense	<u>5,713,217</u>	<u>1,584,325</u>

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17 TAXES

Income tax expense comprises the following:

	<u>2015</u>	<u>2014</u>
Current income tax	13,184,612	16,663,316
Deferred income tax	594,971	(789,398)
Total income tax expense	<u>13,779,583</u>	<u>15,873,918</u>

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

	<u>2015</u>	<u>2014</u>
Profit before income tax	<u>60,411,908</u>	<u>74,144,754</u>
Theoretical tax charge at the statutory rate of 20 percent	12,082,382	14,828,951
Non-deductible expenses	1,697,201	1,044,967
Income tax expense	<u>13,779,583</u>	<u>15,873,918</u>

The Group paid income tax in the amount of 17,272,245 thousand Tenge for the year ended 31 December 2015 (2014: 17,645,289 thousand Tenge).

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

	<u>31 December 2014</u>	<u>Charged/ (credited) to profit or loss</u>	<u>31 December 2015</u>
Tax effects of deductible temporary differences			
Deferred revenue	1,140,039	(1,140,039)	-
Other	1,053,484	(163,673)	889,811
Gross deferred tax asset	<u>2,193,523</u>	<u>(1,303,712)</u>	<u>889,811</u>
Tax effect of taxable temporary differences			
Property, plant and equipment	6,737,092	(676,749)	6,060,343
Intangible assets	(101,519)	(31,992)	(133,511)
Gross deferred tax liability	<u>6,635,573</u>	<u>(708,741)</u>	<u>5,926,832</u>
Less offsetting with deferred tax assets	(2,193,523)	1,303,712	(889,811)
Recognised deferred tax liability, net	<u>4,442,050</u>	<u>594,971</u>	<u>5,037,021</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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Comparative movements for year ended 31 December 2014 is detailed below:

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

18 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Political and economic conditions in Kazakhstan

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

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

On 20 August 2015, the Government and the National Bank of Kazakhstan announced a transition to a new monetary policy based on free floating tenge exchange rate, and cancelled the currency corridor. The average rate of Tenge to the US dollar in the morning trading session at the Kazakhstan Currency Exchange (KASE) on 20 August was formed at the level of 255.26 Tenge to the US Dollar compared to 188.38 Tenge on 19 August. In order to mitigate the risk of recent devaluation the Company has taken all necessary measures by maintaining financing in national currency and converting available cash deposits into foreign currency.

At the present time it is impossible to determine the impact of further possible devaluation on the Kazakhstan economy and the banking system. Management believes it is taking all necessary measures to support the sustainability of the Group in these conditions.

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

Taxation

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

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, as at 31 December 2015 no provision for potential tax liabilities has been recorded (31 December 2014: nil).

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Capital expenditure commitments

As at 31 December 2015, the Group has contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totalling 7,898,620 thousand Tenge (2014: 3,048,263 thousand Tenge).

Non-cancellable service commitments

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

	<u>31 December 2015</u>	<u>31 December 2014</u>
Not later than 1 year	5,374,000	5,020,000
From 1 to 2 years	5,455,000	480,000
From 2 to 3 years	-	280,000
Total non-cancellable commitments	<u>10,829,000</u>	<u>5,780,000</u>

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

Acquisitions and Investments

(i) Memorandum of understanding with Sonera

On 26 August 2012, Sonera and the Company entered into a memorandum of understanding (the "Buy and Sell MoU"), under which the Company has the right to require Sonera to sell to it, and Sonera has the right to require the Company to acquire from it, all participatory interests owned by Sonera in KazNet Media LLP ("KazNet") together with all rights and obligations of Sonera under a framework agreement to buy all the participatory interests in the charter capital of KazNet (refer to "WIMAX Business Acquisition by Sonera" below) and all the participatory interests owned by Sonera in Rodnik Inc LLP ("Rodnik") together with all rights and obligations of Sonera under the agreements to buy participatory interests in the charter capital of Rodnik (refer to "Investment in Rodnik by Sonera").

Subject to satisfaction of the applicable conditions, each of Sonera and the Company is entitled to exercise its option at any time starting from nine months after the date of the offering of global depository receipts and listing on local stock exchange, 13 December 2012. The purchase price that the Company will pay to Sonera for the acquisition resulting from the exercise of the option will be the amount of net cost incurred by Sonera in connection with the corresponding investments and acquisition transactions plus interest accrued on such amount.

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

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

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

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

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(ii) WIMAX Business Acquisition by Sonera

On 13 August 2012, Sonera entered into a framework agreement with a third party to buy all the participatory interests in the charter capital of KazNet for a total consideration of US dollars 170 million. The acquisition was completed on 14 January 2013.

As a condition precedent to Sonera's purchase of the participatory interests in KazNet, KazNet acquired two limited liability partnerships in the Republic of Kazakhstan, namely Aksoran LLP ("Aksoran") and Instaphone LLP ("Instaphone"). Aksoran and Instaphone each holds certain radio frequency permits that are capable of being deployed for the operation of a WIMAX business in Kazakhstan. The KazNet group owns and operates a WIMAX business in Kazakhstan.

On 20 October 2015, the Company and KT-Telecom (100 percent subsidiary of the Company) has signed agreement for the purchase of 100 percent of the participatory interest in KazNet where TeliaSonera is the seller. KazNet holds 100 percent of the participatory interest in Aksoran and 100 percent of the participatory interest in Instaphone – companies holding frequencies that are capable of being deployed for 4G/LTE.

In accordance with the agreement, the Nominal price of the transaction is USD 5 million plus fair market value of frequencies. The total amount of the transaction will not exceed USD 70 million (Note 21).

(iii) Investment in Rodnik by Sonera

Sonera negotiated an agreement with a third party to acquire 25 percent of the participatory interests in the charter capital of Rodnik. Rodnik owns 79.92 percent of the total share capital of KazTransCom JSC ("KTC").

The purchase price for acquisition is US dollars 20 million, subject to adjustments to be made based on the amount of net debt of Rodnik and KTC at the time the acquisition is completed.

On 13 August 2012, Sonera entered into a call option agreement with a third party, under which Sonera has a call option to acquire another 75 percent participatory interest in Rodnik. Pursuant to the terms of that call option agreement, the call option exercise price will be calculated based on fair market value of the participatory interest in Rodnik.

The acquisition of 25 percent of the participatory interests in the charter capital of Rodnik was completed on 14 January 2013.

Anti-monopoly legislation

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

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

Starting from June 2013, the Company was subject to regulation by the Ministry of Transport and Communication ("the Ministry"). Since August 2014, the Company is subject to regulation by the Ministry of Investment and Development ("the MID"). The MID can reduce the Company's interconnection tariffs, while interconnection tariffs of other mobile operators that have not been included in the State Register would remain unregulated. The MID cannot change interconnection tariffs of the Company retrospectively.

The standby letter of credit

The standby letter of credit for US dollars 10 million, within the framework of the general agreement between Kcell JSC and Citibank Kazakhstan JSC, was issued on 23 September 2015. This instrument has been issued in favour of Apple Distribution International (Ireland) to allow the Company to extend the term of payment for goods purchased from the company, and will have a positive impact on the Company's working capital. As of 31 December 2015, the instrument has not been used.

Regulatory updates

New rules of rendering cellular communication services came in force on 16 June 2015. An operator can only change conditions of communication service tariffs upon subscribers' consent, notifying subscribers not less than one month before these changes come into effect. There is no impact of new regulatory rules on the financial performance of the Group as of 31 December 2015. The Company has applied for the amendment of the new rules to the Committee for Communications, Informatization and Information ("the Regulator") who is still in the process of new rules implementation. In case if the Regulator refuses, the Company will consider applying to the court.

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

During 2013, an investigation was initiated by the Agency for Competition Protection of the Republic of Kazakhstan (the "ACP"), in relation to the "Daytime Unlimited" service under the Activ brand and non-interruption of services when a customer's balance reaches zero under the Kcell brand. On conclusion of the initial investigations, the Antimonopoly Inspectorate issued an administrative offence report with a potential fine on the Company of 16 billion Tenge. During the following court process the Company was able to reduce the penalty to 325 million Tenge and subsequently made payment in full in May 2014.

The ACP ordered that the Company should comply with the following on or before 21 April 2014:

1. to stop collection of the subscription fees under the tariff plan "Daytime Unlimited" in case of insufficiency of funds on a subscriber's account;
2. to ensure interruption of connection (voice or Internet access) when a subscriber's balance reaches zero;
3. to ensure a refund to subscribers, any fees received as a result of failure to interrupt the connection when a subscriber's balance reaches zero ("the Order").

The Company complied with point 1, however, due to technical limitations of the billing system, the Company is currently unable to implement point 2. However, the Company is in the process of introducing a new billing system that will enable the interruption of the connection.

The Company has challenged the ACP findings and decision through the courts system in the Republic of Kazakhstan, culminating in an appeal to the Supreme Court. On 30 June 2015, the Supreme Court of the Republic of Kazakhstan dismissed the Company's supervisory appeal. On 15 June 2015, the ACP filed a claim in court seeking for enforcement of the order. On 9 July 2015, the court issued a resolution on satisfying the ACP claim to enforce the order, and as a result the Company must now enforce points 2 and 3 in the above ACP order.

During 2015, the Company has refunded its subscribers the total amount of 2,171,328 thousand Tenge. As at 31 December 2015, the Company accrued a provision in the amount of 92,382 thousand tenge (2014: 1.6 billion Tenge), included in "other payables" (Note 12). The Company expects further refunding the subscription of fees in case of insufficient funds until the point 2 above is enforced.

Kazakhtelecom Case

On 2 December 2014, the Company received an order from the ACP on the commencement of the investigation related to the violation of anti-monopoly legislation. Starting from April 2013, the Company blocked the traffic of Kazakhtelecom. Later another operator also limited international Kazakhtelecom traffic. There is risk that the following action may be treated as collusion for both operators.

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In accordance with the order of the Almaty City Specialised Interdistrict Administrative Court, an administrative fine of 5 percent of monopoly gain, or 252,660 thousand Tenge was imposed on the Company, without confiscation of monopoly gains, under Article 159 Part 3 of the Administrative Offence Code of the Republic of Kazakhstan. The Company fully repaid fine in the amount of 252,660 thousand Tenge. As of 31 December 2015, management has estimated that it is most probable that the decision will be appealed. No provision has been recorded as of 31 December 2015 (Note 12).

19 FINANCIAL RISK MANAGEMENT

Financial risk factors

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

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

Credit risk

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

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

	Note	31 December 2015	31 December 2014
Cash and cash equivalents		31,589,007	19,520,357
Trade receivables	10	9,369,905	7,824,270
Due from related parties	7	780,054	274,256
Long-term trade receivables		397,111	-
Financial aid receivable from related party	7	300,000	-
Restricted cash		145,748	145,047
Total maximum exposure to credit risk		42,581,825	27,763,930

Credit risk from balances with cash and cash equivalents is managed by the Company's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved financial institutions and within credit limits assigned to each bank or financial institution. Financial institutions' credit limits are reviewed by the Group's Treasury Department on a monthly basis. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a financial institution's potential failure to make payments.

The Group has policies in place to ensure that sales of products and services are made to customers and distributors with an appropriate credit history. If corporate customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer taking into account its financial position, past experience and other factors. The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Customers that fail to settle their liabilities for mobile services provided are disconnected until the debt is paid. Management provides ageing and other information about credit risk (Note 10). The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount of trade receivables exposed to credit risk. The Group has no significant concentrations of credit risk since the customers portfolio is diversified among a large number of customers, both individuals and companies. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(in thousand of Kazakhstani Tenge, unless otherwise stated)

The Group has no significant concentrations of credit risk since the customers portfolio is diversified among a large number of customers, both individuals and companies.

Foreign exchange risk

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

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows.

	Liabilities		Assets	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
US Dollar	6,127,865	7,629,844	26,909,960	17,160,186
Euro	361,809	39,437	31,120	4,734
Others	12,182	8,250	24,137	-

As at 31 December 2015, if the US Dollar had weakened/strengthened by 10% percent against the Tenge with all other variables held constant, after-tax profit for year ended 31 December 2015 would have been 2,581,258 thousand Tenge lower/higher (2014: 247,902 thousand Tenge lower/higher), mainly as a result of foreign exchange gains/losses on translation of US Dollar denominated bank balances, receivables and payables. Profit is less sensitive to movement in Tenge/US Dollar exchange rates at 31 December 2015 than at 31 December 2014 because of the increased amount of US Dollar denominated cash and cash equivalents at 31 December 2015 offsets exposure to US Dollar denominated accounts payable.

Cash flow and fair value interest rate risk

The Group does not have floating interest bearing assets or liabilities as of 31 December 2015, and as such, management has not presented interest rate sensitivity analysis.

Liquidity risk

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

The table below shows financial liabilities as at 31 December 2015 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the reporting date.

The maturity analysis of financial liabilities as at 31 December 2015 is as follows:

	Demand and less than 3 months	From 3 to 12 months	Total
Liabilities			
Borrowings	1,856,997	52,633,539	54,490,536
Trade payables	17,147,552	-	17,147,552
Due to related parties	1,215,538	-	1,215,538
Total future payments	20,220,087	52,633,539	72,853,626

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(in thousand of Kazakhstani Tenge, unless otherwise stated)

Comparative maturity analysis of financial liabilities as at 31 December 2014 is detailed below:

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

Management believes that the payments of the borrowings and other financial liabilities will be financed by cash flows from operating activities and that the Group will be able to meet its obligations as they fall due. The Company can extend borrowings up to an additional twelve months, subject to consent of the lenders (Note 13).

Capital management

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

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows as at 31 December 2015:

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position and net amount of exposure (c) = (a) - (b)
	(a)	(b)	(c) = (a) - (b)
ASSETS			
Trade receivables from interconnect services	6,538,225	(5,483,615)	1,054,610
Trade receivables from roaming services	8,068,465	(5,205,421)	2,863,044
Total assets subject to offsetting, master netting and similar arrangement	14,606,690	(10,689,036)	3,917,654
LIABILITIES			
Trade payables for interconnect services	7,037,682	(5,483,615)	1,554,067
Trade payables for roaming services	5,205,421	(5,205,421)	-
Total liabilities subject to offsetting, master netting and similar arrangement	12,243,103	(10,689,036)	1,554,067

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(in thousand of Kazakhstani Tenge, unless otherwise stated)

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

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position and net amount of exposure (c) = (a) - (b)
	(a)	(b)	(c) = (a) - (b)
ASSETS			
Trade receivables from interconnect services	3,976,008	(2,191,372)	1,784,636
Trade receivables from roaming services	5,071,776	(3,360,527)	1,711,249
Total assets subject to offsetting, master netting and similar arrangement	9,047,784	(5,551,899)	3,495,885
LIABILITIES			
Trade payables for interconnect services	2,191,372	(2,191,372)	-
Trade payables for roaming services	3,360,527	(3,360,527)	-
Total liabilities subject to offsetting, master netting and similar arrangement	5,551,899	(5,551,899)	-

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting.

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

20 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Republic of Kazakhstan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments. For the purpose of fair value disclosures the Company determines below described instruments' fair value hierarchy as level 2 (significant observable inputs).

Financial assets carried at amortised cost

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

Financial liabilities carried at amortised cost

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

21 SUBSEQUENT EVENTS*Currency devaluation*

During the period from 31 December 2015 to 4 February 2016 the foreign exchange rate Tenge/USD decreased 11% from 339.47 to 375.25.

Acquisition of KazNet

On 15 January 2016, all parties of the sale agreement signed waiver-letters according to which all parties confirmed the sale agreement came in force. Thus as at 15 January 2016 the applicable list of conditions were satisfied and the acquisition was completed. The Company intends to consolidate the entity starting from the first quarter of 2016. As at 4 February 2016, the Company has not completed the evaluation of initial purchase price allocation (Note 17).

Allocation of radio frequency for LTE (4G) services

On 6 January 2016, the Company announced that it has been informed by Kazakhstan's Ministry for Investments and Development ("the Ministry") that the Ministry will allocate radio frequencies that will enable the rollout of LTE services to all existing mobile operators in the Kazakh market. The Ministry will allocate to Kcell access to 10+10 MHz radio frequency within the 700/800 MHz band on payment of a one-off fee of 22 billion tenge, to be made in two tranches of 10 billion tenge by 1 March 2016 and 12 billion tenge by 1 December 2016. The Company is analyzing different scenarios of LTE deployment.

The Ministry will also allocate to Kcell access to 10+10 MHz radio frequency within the 1700/1800 MHz band, on payment of a one-off fee of 4 billion tenge by 1 February 2016.

In addition, the Ministry will permit all existing mobile operators to use the radio frequencies allocated to them in the GSM, DCS-1800 (GSM-1800) UMTS/WCDMA (3G) standards for the provision of LTE (4G) and LTE Advanced services subject to obtaining the respective radiofrequency permits in the prescribed manner.

Reduction of mobile termination rate

The mobile termination rate for calls to other networks was reduced from the current 8.0 tenge to 5.0 tenge starting from 1 January 2016.

22 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue on 4 February 2016.