



KCELL JSC

**Condensed Interim Consolidated
Financial Information
for the three months ended
31 March 2016 (unaudited)**

KCELL JSC

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION FOR THE THREE MONTHS ENDED 31 MARCH 2016

Management of Kcell JSC (hereinafter – “the Company”) is responsible for the preparation of the condensed interim consolidated financial information of the Company and its subsidiaries (hereinafter jointly “the Group”) that presents fairly the consolidated financial position of the Group as at 31 March 2016, the results of its operations, changes in equity and cash flows for the three months then ended, in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting.

In preparing the condensed interim consolidated financial information, management is responsible for:

- Properly selecting and applying accounting policies;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IAS 34 have been followed, subject to any material departures disclosed and explained in the condensed interim consolidated financial information;
- Providing additional disclosures when compliance with the specific requirements in IAS 34 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the consolidated financial position and financial performance of the Group;
- 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 the consolidated financial position of the Group, and which enable them to ensure that the condensed interim consolidated financial information complies with IAS 34;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Kazakhstan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

This condensed interim consolidated financial information of the Group for the three months ended 31 March 2016 was approved by management on 6 May 2016.

Approved for issue and signed on behalf of the Management

Arti Ots
Chief Executive Officer



Guzel Khassanova
Chief Accountant

REPORT ON REVIEW OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

To: Shareholders and Board of Directors of Kcell JSC

Introduction

We have reviewed the accompanying condensed interim consolidated statement of financial position of Kcell JSC and its subsidiaries as at 31 March 2016 and the related condensed interim consolidated statements of comprehensive income, changes in equity and cash flows for the three month period then ended, and notes to the condensed interim consolidated financial information. Management is responsible for the preparation and presentation of this condensed interim consolidated financial information in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this condensed interim consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.



Deloitte LLP

Almaty, Kazakhstan

6 May 2016

KCELL JSC

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in thousand of Kazakhstani Tenge)

	Note	31 March 2016 (unaudited)	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	6	93,040,677	94,501,445
Intangible assets	7	42,051,489	16,956,188
Long-term trade receivables		770,950	397,111
Financial aid receivable from related party	5	300,000	300,000
Restricted cash		86,219	145,748
Total non-current assets		136,249,335	112,300,492
Current assets			
Inventories		3,162,405	2,801,602
Trade and other receivables	8	15,530,401	13,440,877
Prepaid current income tax		7,253,905	5,114,688
Due from related parties	5	581,795	780,054
Cash and cash equivalents		19,142,864	31,589,007
Total current assets		45,671,370	53,726,228
TOTAL ASSETS		181,920,705	166,026,720
EQUITY			
Share capital	9	33,800,000	33,800,000
Retained earnings		53,271,185	46,646,103
TOTAL EQUITY		87,071,185	80,446,103
LIABILITIES			
Non-current liabilities			
Deferred income tax liability		4,695,106	5,037,021
Other non-current liabilities		1,285,482	1,285,482
Total non-current liabilities		5,980,588	6,322,503
Current liabilities			
Borrowings	11	50,219,428	50,201,227
Trade and other payables	10	29,657,831	18,509,955
Due to related parties	5	1,312,577	1,215,538
Deferred revenue		7,210,913	8,397,228
Taxes payable		468,183	934,166
Total current liabilities		88,868,932	79,258,114
TOTAL LIABILITIES		94,849,520	85,580,617
TOTAL LIABILITIES AND EQUITY		181,920,705	166,026,720

Approved for issue and signed on behalf of the Management on 6 May 2016

Arti Ots
Chief Executive Officer

Guzel Khassanova
Chief Accountant

The accompanying notes on pages 8 to 20 are an integral part of this condensed interim consolidated financial information.

KCELL JSC

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

	Note	For the three months ended	
		31 March 2016	31 March 2015
Revenues		35,469,725	43,084,575
Cost of sales		(20,728,410)	(21,121,910)
Gross profit		14,741,315	21,962,665
Selling and marketing expenses		(2,512,780)	(2,143,267)
General and administrative expenses		(3,121,934)	(2,951,126)
Other operating income		1,044,821	359,996
Other operating expenses		(1,093,669)	(117,250)
Operating profit		9,057,753	17,111,018
Finance income		1,384,911	267,257
Finance costs		(2,134,861)	(590,513)
Profit before income tax		8,307,803	16,787,762
Income tax expense	12	(1,682,721)	(3,553,801)
Profit and total comprehensive income for the period		6,625,082	13,233,961
Earnings per share (Kazakhstani Tenge), basic and diluted	9	33.13	66.17

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 6 May 2016

Arti Ots
Chief Executive Officer



Guzel Khassanova
Chief Accountant

The accompanying notes are an integral part of this condensed interim consolidated financial information.

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

	Share capital	Retained earnings	Total equity
Balance at 1 January 2015	33,800,000	58,273,778	92,073,778
Profit and total comprehensive income for the period	-	13,233,961	13,233,961
Balance at 31 March 2015	<u>33,800,000</u>	<u>71,507,739</u>	<u>105,307,739</u>
Balance at 1 January 2016	33,800,000	46,646,103	80,446,103
Profit and total comprehensive income for the period	-	6,625,082	6,625,082
Balance at 31 March 2016	<u>33,800,000</u>	<u>53,271,185</u>	<u>87,071,185</u>

Approved for issue and signed on behalf of the Management on 6 May 2016

Arti Ots
Chief Executive Officer


Guzel Khassanova
Chief Accountant

The accompanying notes on pages 4 to 20 are an integral part of this condensed interim consolidated financial information.

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

	Note	For the three months ended	
		31 March 2016	31 March 2015
Cash flows from operating activities			
Profit for the year		6,625,082	13,233,961
Adjustments for:			
Depreciation of property, plant and equipment	6	4,377,904	5,397,552
Amortisation of intangible assets	7	1,134,893	718,369
Income tax		(2,481,132)	(792,730)
Net foreign exchange difference gain		(881,538)	(263,184)
Interest income		(336,881)	(1,823)
Impairment of trade receivables		224,817	173,464
Interest expense		2,025,656	588,262
Loss on disposal of property, plant and equipment	6	9,666	7,982
Operating cash flows before working capital changes		10,698,467	19,061,853
Change in working capital and other balances:			
Trade and other receivables		(2,444,966)	(3,100,013)
Long-term receivables		(373,839)	-
Due from related parties		198,259	(24,389)
Inventories		(360,803)	(1,485,492)
Taxes payable		(465,982)	(27,252)
Trade and other payables		1,675,722	1,276,045
Due to related parties		97,039	39,547
Deferred revenues		(1,186,315)	(3,105,257)
Other		59,529	(300)
Cash generated from operations		7,897,111	12,634,742
Interest paid		(1,876,830)	(881,651)
Interest received		336,881	1,823
Net cash generated from operating activities		6,357,162	11,754,914
Cash flows from investing activities			
Purchase of property, plant and equipment		(5,621,141)	(8,233,453)
Purchase of intangible assets		(14,230,194)	(332,591)
Net cash used in investing activities		(19,851,335)	(8,566,044)
Net (decrease)/increase in cash and cash equivalents		(13,494,173)	3,188,870
Effects of exchange rate changes on the balance of cash held in foreign currencies		1,048,030	263,184
Cash and cash equivalents at the beginning of the period		31,589,007	19,520,357
Cash and cash equivalents at the end of the period		19,142,864	22,972,411

Approved for issue and signed on behalf of the Management on 6 May 2016

Arti Ots
Chief Executive Officer

Guzel Khassanova
Chief Accountant

The accompanying notes on pages 8 to 20 are an integral part of this condensed interim consolidated financial information.

1 THE GROUP AND ITS OPERATIONS

This condensed interim consolidated financial information has been prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*, for the three months ended 31 March 2016 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. (“Sonera”) 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, a subsidiary of TeliaSonera. On 1 July 2012, the General Meeting of the participants of GSM Kazakhstan 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.

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 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 of 50 million shares, which represented 25 percent of the Company’s share capital (Note 9).

In January 2016, the Group paid 14 billion Tenge as the first tranche for LTE radio frequencies. In accordance with the decision made by Kazakhstan’s Ministry of Investments and Development (“the MID”) in January 2016, the Group had to pay a one-time fee of 4 billion Tenge by 1 February 2016 for 10/10 MHz radio frequency within the 1700/1800 MHz band, and the first tranche of 10 billion Tenge by 1 March 2016 to gain access to 10/10 MHz radio frequency within the 700/800 MHz band. The second tranche for 10/10 MHz radio frequencies within the 700/800 MHz band in the amount of 12 billion Tenge is to be paid by 1 December 2016 (Note 7, 10). On 1 March 2016, the Group launched LTE in its network on the previously granted frequencies.

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

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

This condensed interim consolidated financial information for the three months ended 31 March 2016 has been prepared in accordance with IAS 34, *Interim Financial Reporting*. The condensed interim consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which had been prepared in accordance with International Financial Reporting Standards (“IFRS”).

Accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as described below.

Income taxes

Taxes on income for the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

Foreign currency translation

As at 31 March 2016, the principal rate of exchange of the National Bank of Republic of Kazakhstan used for translating foreign currency balances was US Dollar 1 = Kazakhstani Tenge ("Tenge") 343.06 (31 December 2015: US Dollar 1 = Tenge 339.47).

New and revised standards

New standards, amendments and interpretations shall be applied in preparation of the first interim financial information issued after their effective dates. There are no IFRS or their interpretations which would have material effect on the Group when applied for first time to this interim period.

The range of new standards, amendments to the standards and interpretations are effective as at 31 March 2016. The requirements of these amended standards have been considered for preparation of these condensed interim consolidated financial statements.

In the current period, 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 2016.

- Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*;
- Amendments to IAS 1 *Disclosure Initiative*;
- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*;
- IFRS 14 *Regulatory Deferral Accounts*;
- Amendments to IAS 27: *Equity Method in Separate Financial Statements*;
- Annual improvements 2012-2014 Cycle;
- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*.

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 condensed interim consolidated financial information of the Group.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of the condensed interim consolidated financial information required management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed interim consolidated financial information, significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2015, with the exception of changes in estimates that are required in determining the provision for income taxes.

4 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, *Operating Segments*, 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 Chief Executive Officer. 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.

5 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Company's ultimate controlling party is TeliaSonera. Entities of TeliaSonera group include entities under common control and associates of TeliaSonera. Immediate shareholders are disclosed in the Note 9.

The Group's primary transactions with related parties are consulting services, technical assistance and operational support, roaming and interconnect. Amounts due from and due to related parties as at 31 March 2016 and 31 December 2015 were as follows:

		<u>31 March 2016</u>	<u>31 December 2015</u>
Due from related parties	Entities of TeliaSonera group	581,795	780,054
Financial aid receivable from related party	Entities of TeliaSonera group	300,000	300,000
Due to related parties	Entities of TeliaSonera group	362,298	331,346
Due to related parties	Immediate and ultimate parent	950,279	884,192

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.

The income and expense items with related parties for the three months ended 31 March 2016 and 2015 were as follows:

		<u>Three months ended 31 March 2016</u>	<u>Three months ended 31 March 2015</u>
Revenue	Entities of TeliaSonera group	402,765	409,921
Expenses	Entities of TeliaSonera group	1,137,776	1,001,005
Expenses	Immediate and ultimate parent	5,699	11,213

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

6 PROPERTY, PLANT AND EQUIPMENT

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

	Property	Plant and machinery	Equipment tools and installations	Assets under construction and advances given	Total
As at 1 January 2015					
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	17,489,973	67,468,736	4,967,867	19,028,746	108,955,322
Additions	54,150	255,926	812,977	665,410	1,788,463
Transfers	-	2,678,517	-	(2,678,517)	-
Disposals (net)	-	-	(7,982)	-	(7,982)
Depreciation charge	(255,433)	(4,747,711)	(394,408)	-	(5,397,552)
As at 31 March 2015					
Cost	20,843,783	184,304,974	23,125,805	17,015,639	245,290,201
Accumulated depreciation and impairment losses	(3,555,093)	(118,649,506)	(17,747,351)	-	(139,951,950)
Carrying amount	17,288,690	65,655,468	5,378,454	17,015,639	105,338,251
As at 1 January 2016					
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	16,420,906	60,736,902	6,667,225	10,676,412	94,501,445
Additions	108,787	-	548,951	2,269,064	2,926,802
Transfers	-	956,796	123,859	(1,080,655)	-
Disposal (net)	-	-	(9,666)	-	(9,666)
Depreciation charge	(188,899)	(3,670,945)	(518,060)	-	(4,377,904)
As at 31 March 2016					
Cost	21,157,063	184,348,631	25,769,891	11,864,821	243,140,406
Accumulated depreciation and impairment losses	(4,816,269)	(126,325,878)	(18,957,582)	-	(150,099,729)
Carrying amount	16,340,794	58,022,753	6,812,309	11,864,821	93,040,677

As at 31 March 2016, the gross carrying value of property, plant and equipment, which has been fully depreciated and still in use, was 87,743,958 thousand Tenge (31 December 2015: 84,786,886 thousand Tenge).

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

7 INTANGIBLE ASSETS

	Software and licenses	Intangible assets in progress	Advances given	Total
As at 1 January 2015				
Cost	38,546,529	-	-	38,546,529
Accumulated amortisation	(26,052,968)	-	-	(26,052,968)
Carrying amount	12,493,561	-	-	12,493,561
Additions	332,591	-	-	332,591
Amortisation charge	(718,369)	-	-	(718,369)
As at 31 March 2015				
Cost	38,879,120	-	-	38,879,120
Accumulated amortisation	(26,771,337)	-	-	(26,771,337)
Carrying amount	12,107,783	-	-	12,107,783
As at 1 January 2016				
Cost	41,605,939	3,886,778	382,504	45,875,221
Accumulated amortisation	(28,919,033)	-	-	(28,919,033)
Carrying amount	12,686,906	3,886,778	382,504	16,956,188
Additions	26,230,194	-	-	26,230,194
Transfers	374,282	-	(374,282)	-
Amortisation charge	(1,134,893)	-	-	(1,134,893)
As at 31 March 2016				
Cost	68,860,415	3,886,778	8,222	72,755,415
Accumulated amortisation	(30,703,926)	-	-	(30,703,926)
Carrying amount	38,156,489	3,886,778	8,222	42,051,489

As at 31 March 2016, 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.

As at 31 March 2016, the carrying amount of the 3G license was 3,250,000 thousand Tenge (31 December 2015: 3,333,333 thousand Tenge) and its remaining amortisation period was 10 years.

In January 2016, the Group paid 14 billion Tenge as the first tranche for LTE radio frequencies. In accordance with the decision made by the MID of the Republic of Kazakhstan in January 2016, the Group had to pay a one-time fee of 4 billion Tenge by 1 February 2016 for 10/10 MHz radio frequency within the 1700/1800 MHz band, and the first tranche of 10 billion Tenge by 1 March 2016, to gain access to 10/10 MHz radio frequency within the 700/800 MHz band. The second tranche for 10/10 MHz radio frequencies within the 700/800 MHz band in the amount of 12 billion Tenge is to be paid by 1 December 2016 (Note 10).

On 1 March 2016, the Group launched LTE in its network on the previously granted frequencies.

KCELL JSC

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

8 TRADE AND OTHER RECEIVABLES

	31 March 2016	31 December 2015
Trade and other receivables from dealers and distributors	1,245,475	1,665,086
Trade receivables from subscribers	6,924,178	6,652,075
Trade receivables for interconnect services	678,232	1,054,610
Trade receivables from roaming operators	2,701,225	2,863,044
Less: allowance for impairment of trade receivables	<u>(2,633,544)</u>	<u>(2,467,799)</u>
Total financial assets	8,915,566	9,767,016
Less: long term trade receivables from subscribers	(770,950)	(397,111)
Total current financial assets	8,144,616	9,369,905
Advances to suppliers	2,936,118	2,564,323
VAT recoverable	2,515,365	-
Prepaid other taxes	501,818	638,512
Deferred expenses	286,141	403,728
Other receivables	<u>1,146,343</u>	<u>464,409</u>
Total trade and other receivables	15,530,401	13,440,877

9 SHARE CAPITAL AND EARNINGS PER SHARE

Share capital of the Company as at 31 March 2016 and 31 December 2015 is as follows:

	31 March 2016		31 December 2015	
	Share	Number of shares	Share	Number of shares
Fintur	51 percent	102,000,000	51 percent	102,000,000
Sonera	24 percent	48,000,000	24 percent	48,000,000
JSC Central Securities Depository	23.31 percent	46,636,706	23.31 percent	46,625,346
Single Accumulative Pension Fund	1.14 percent	2,270,950	1.14 percent	2,270,950
Other	0.55 percent	1,092,344	0.55 percent	1,103,704

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 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:

	For the three months ended	
	31 March 2016	31 March 2015
Profit for the period attributable to equity shareholders	6,625,082	13,233,961
Weighted average number of common shares	200,000,000	200,000,000
Earnings per share (Kazakhstani Tenge), basic and diluted	33.13	66.17

The Group has no dilutive or potentially dilutive securities outstanding.

KCELL JSC

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

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 March 2016 and 31 December 2015 is presented below.

	<u>31 March 2016</u>	<u>31 December 2015</u>
Net assets, excluding intangible assets	45,027,918	63,872,419
Number of common shares in issue	<u>200,000,000</u>	<u>200,000,000</u>
Book value per share (Kazakhstani Tenge)	<u>225.14</u>	<u>319.36</u>

During the three months ended 31 March 2016 and 2015, the Company has not declared dividends.

10 TRADE AND OTHER PAYABLES

	<u>31 March 2016</u>	<u>31 December 2015</u>
Trade payables	15,765,314	17,147,552
Payable due to MID (Note 7)	<u>12,000,000</u>	<u>-</u>
Total financial liabilities	27,765,314	17,147,552
Accrued salaries and bonuses to employees	1,812,146	1,179,154
Other payables	<u>80,371</u>	<u>183,249</u>
Total trade and other payables	<u>29,657,831</u>	<u>18,509,955</u>

11 BORROWINGS

	<u>31 March 2015</u>	<u>31 December 2015</u>
Halyk Bank of Kazakhstan JSC	30,171,667	30,153,333
Kazkommertsbank JSC	17,039,667	17,039,667
Altyn Bank JSC (previously – SB HSBC Kazakhstan JSC)	<u>3,008,094</u>	<u>3,008,227</u>
Total borrowings	<u>50,219,428</u>	<u>50,201,227</u>

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

The carrying amount of the Group’s borrowings approximate their fair value due to their short-term maturities.

The details of the Group’s borrowings as of 31 March 2016 are as follows:

Bank name	<u>Date of issue</u>	<u>Maturity date</u>	<u>Nominal interest rate</u>	<u>Outstanding balance</u>	<u>Total borrowings</u>
Halyk Bank of Kazakhstan JSC	14.04.2015	13.04.2016	15.0%	22,165,000	22,165,000
Kazkommertsbank JSC	25.09.2015	25.09.2016	14.0%	17,039,667	17,039,667
Halyk Bank of Kazakhstan JSC	29.12.2014	26.12.2016	15.0%	8,006,667	8,006,667
Altyn Bank JSC	25.09.2014	23.09.2016	15.5%	<u>3,008,094</u>	<u>3,008,094</u>
Total				<u>50,219,428</u>	<u>50,219,428</u>

No assets were pledged under borrowing agreements.

As at 31 March 2016 and 31 December 2015, the Company was in compliance with financial covenants.

12 TAXES

Income tax expense is recognised based on the management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the three months ended 31 March 2016 is 20 percent (the estimated tax rate for the three months ended 31 March 2015 was 20 percent).

13 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS*Political and economic conditions in the Republic of Kazakhstan*

Emerging markets such as the Republic of 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 the Republic of 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, therefore 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 the Republic 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 the Tenge to the US Dollar in the morning trading session at 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, at 31 March 2016 no provision for potential tax liabilities has been recorded (31 December 2015: nil).

Capital expenditure commitments

As at 31 March 2016, the Company has contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totalling 6,185,127 thousand Tenge (31 December 2015: 7,898,620 thousand Tenge).

Non-cancellable service commitments

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

	<u>31 March 2016</u>	<u>31 December 2015</u>
Not later than 1 year	5,394,250	5,374,000
From 1 to 2 years	<u>4,091,250</u>	<u>5,455,000</u>
Total non-cancellable commitments	<u>9,485,500</u>	<u>10,829,000</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 had the right to require Sonera to sell to it, and Sonera had 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 was entitled to exercise its option at any time starting from nine months after the date of the offering of global depositary receipts and listing on local stock exchange, which took place on 13 December 2012. The purchase price that the Company was supposed to pay to Sonera for the acquisition resulting from the exercise of the option would 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 the statement of comprehensive income. The Group did not have 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.

The exercise of these options was 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 had the option to sell ("the Put Option") and the Company had the option to buy ("the Call Option") the participatory interest. The strike price of both the options equals the 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 could 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 the valuation of the derivative. The Company measured the derivative at original cost, which is zero.

(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 5 million US Dollars plus fair market value of frequencies. The total amount of the transaction will not exceed 70 million US Dollars.

On 15 January 2016, all parties of the sale agreement signed waiver-letters according to which all parties confirmed no need for execution of the amendment to the MoU and corresponding satisfaction of all the condition precedents set forth in the sale-purchase agreement. Parties also agreed that the sale and purchase of 100 percent of the participatory interests in KazNet will be at a nominal amount of 1 (one) US Dollar. The parties agreed that the Company will gain operational control over KazNet, including Aksoran and Instaphone, starting from the first day of the month following the month when Aksoran repays 5 million US Dollars of a loan principal plus 369,000 US Dollars of accrued interest on that loan to Sonera.

(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.

Execution of the option in relation to KazNet part had no effect on the option in relation to Rodnik part.

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, the Cassation Board of Astana court cancelled the April decision of the 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 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 at 31 March 2016, the instrument has been used, and the outstanding balance is 736,572 thousand Tenge.

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 at 31 March 2016. 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 implementing the new rules. 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; and
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.

As at 31 March 2016, the total amount returned to subscribers is 2,386,560 thousand Tenge. As at 31 March 2016, the Company accrued a provision in the amount of 92,382 thousand Tenge (31 December 2015: 92,382 billion Tenge), included in “other payables” (Note 10). The Company expects further refunding the subscription of fees in case of insufficient funds until the point 2 above is enforced.

Recovery of lost profits of Paylink LLP

In February 2016, Paylink LLP filed a lawsuit against the Company to recover the lost profits in the amount of 196.9 million Tenge in accordance with the agreement for collecting the payments for mobile services dated 8 May 2008. On 29 March 2016, the Specialized Interdistrict Economic Court of Almaty ("the SIEC") made a decision on a partial satisfaction of the claim in the amount of 94 million Tenge. The Company plans to appeal against this decision to Almaty city Court and file complaints against the actions of a judge during the trial to the prosecutor's office of Almaty, Almaty city Court and the Supreme Court of the Republic of Kazakhstan (Note 15).

14 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.

During three months ended 31 March 2016 there have been no changes in the risk management policies disclosed in the Group's annual financial statements for 2015.

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 March 2015	31 December 2015
Cash and cash equivalents		19,142,864	31,589,007
Trade receivables	8	8,144,616	9,369,905
Due from related parties	5	581,795	780,054
Long-term trade receivables		770,950	397,111
Financial aid receivable from related party		300,000	300,000
Restricted cash		86,219	145,748
Total maximum exposure to credit risk		29,026,444	42,581,825

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. 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

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(in thousand of Kazakhstani Tenge, unless otherwise stated)

factors, management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

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.

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 March 2016 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 March 2016 is as follows:

	Demand and less than 3 months	From 3 to 12 months	Total
Liabilities			
Borrowings	1,878,606	54,852,444	56,731,050
Trade and other payables	15,765,314	12,000,000	27,765,314
Due to related parties	1,312,577	-	1,312,577
Total future payments	18,956,497	66,852,444	85,808,941

Comparative maturity analysis of financial liabilities as at 31 December 2015 is detailed below:

	Demand and less than 3 months	From 3 to 12 months	Total
Liabilities			
Borrowings	1,856,997	52,633,539	54,490,536
Trade and other 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

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 month, subject to consent of the lenders.

15 SUBSEQUENT EVENTS

In April 2016, the Group made an accrual for the whole amount of claim in accordance with the decision of the SIEC, according to which the Company has to pay Paylink LLP 94 million Tenge.

On 4 April 2016, the Company extended the term of its 22 billion Tenge loan from Halyk Bank of Kazakhstan JSC for twelve months from 13 April 2016 to 13 April 2017.

On 28 April and 5 May 2016, the Company signed an interest-free financial aid agreement in favor of Aksoran in the amount of 285,000 thousand tenge and 1,900,000 thousand tenge, respectively, with a maturity for up to 36 months.