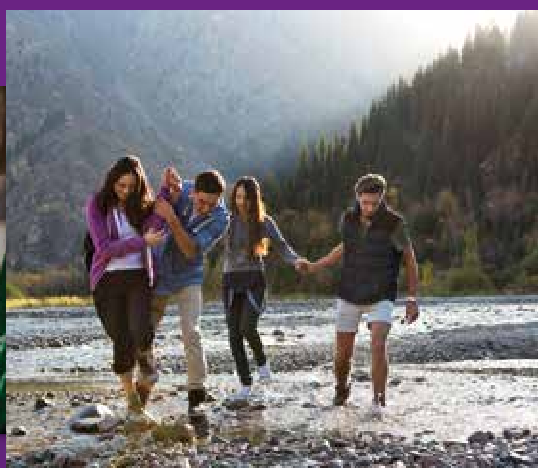
Kcell

Kcell Annual Report 2015

OPPORTUNITY IN CHANGE



WELCOME TO KCELL'S ANNUAL REPORT FOR 2015, ONE OF THE MOST EVENTFUL YEARS IN THE COMPANY'S HISTORY. AMID A SERIES OF DEVELOPMENTS IN ITS ECONOMY, INDUSTRY AND CORPORATE STORY, KCELL RESPONDED PROACTIVELY THROUGHOUT THE YEAR, RECONFIRMING ITS MARKET LEADERSHIP AND MOVING TO TAKE ADVANTAGE OF THE OPPORTUNITY IN CHANGE.

By any measure, 2015 was a challenging year, as the macroeconomic environment deteriorated, the tenge moved to free float, and price competition in the sector became unprecedented.

Despite this, Kcell reconfirmed its position as Kazakhstan's number one mobile telecommunications operator in terms of both revenues and subscriber numbers*. We have 10.4 million subscribers and 72.7% of the population has access to our high-speed 3G network. We also adjusted our B2B and B2C strategies to ensure that we continue to meet and exceed the ever-changing needs of all customers, both retail and business.

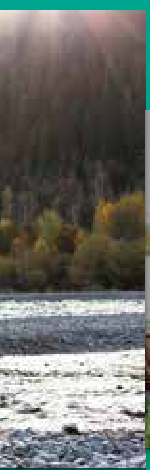
* Based on the Company's calculations.

CONTENTS

STRATEGIC REPORT

GOVERNANCE REPORT

FINANCIAL STATEMENTS



THE FULL ANNUAL REPORT AND ACCOUNTS ARE AVAILABLE ONLINE AT:
annualreport2015.kcell.kz

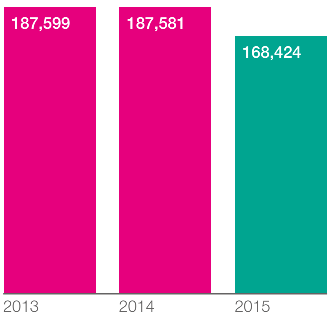
THE YEAR IN BRIEF

IN THE FACE OF NUMEROUS CHALLENGES IN 2015, KCELL PROVED ABLE TO RESPOND PROACTIVELY.

FINANCIAL HIGHLIGHTS 2015

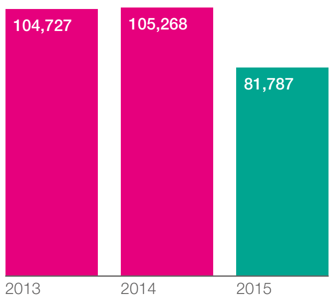
Revenues (KZT)

168,424M
-10.2%



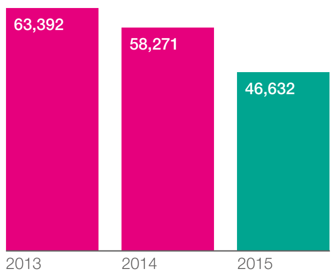
EBITDA (KZT)

81,787M[1]
-22.3%



Net income (KZT)

46,632M
-20.0%



1 Excluding non-recurring items.

OPERATIONAL HIGHLIGHTS 2015

- Kcell overhauled its retail model in 2015, opening eight branded customer-oriented stores, refurbishing sales centres and launching an online store
- Over the year, the Company boosted smartphone penetration on its network from 31.0% to 41.0% and data's share in revenues from 17.7% to 23.4%, in line with a key strategic objective
- In November, it launched mobile number portability between its brands
- Kcell further revised its approach in the business segment in 2015, increasing the share of B2B in revenues substantially
- In December, Microsoft awarded Kcell "silver" status in its partner programme, reflecting their joint work on IT solutions with clients
- Just after the reporting period, Kcell was informed that it would receive the frequencies needed to roll out its 4G/LTE network

Service revenues

-13.8% Y-O-Y

Data revenues

+18.6% Y-O-Y

Equipment revenues

+115.0% Y-O-Y

Share of data in revenues

23.4%

Smartphone penetration

41.0%

Data traffic

+88.8% Y-O-Y

LEADING THE MARKET THROUGH INNOVATION AND AGILITY

SINCE ITS CREATION IN 1998, KCELL HAS BEEN THE LEADER OF KAZAKHSTAN'S MOBILE TELECOMMUNICATIONS INDUSTRY, MAINTAINING ITS POSITION BY DRIVING TECHNOLOGICAL DEVELOPMENT AND REACTING PROMPTLY TO CHANGE.

SERVICES

Kcell provides the full spectrum of mobile telecommunications services to both individuals and organisations. Alongside voice, SMS, MMS and data transmission, it offers internet access and value-added services, including mobile content.

The Company has licences to operate GSM-900, GSM-1800 and 3G networks for an indefinite period of time. In addition, just after the reporting period, it received access to the radio frequencies needed to roll out LTE services in Kazakhstan: the 10+10 MHz frequency within the 700/800 MHz and 1700/1800 MHz bands, and those allocated on the GSM and UMTS/WCDMA (3G) standards for such services.

Kcell is not just a mobile operator, but a service provider. In 2015, in an extension of the five strategic objectives identified in 2014, it reviewed every aspect of its B2B and B2C strategies to deliver the best possible service throughout its business.

BRANDS

The Company operates through two key brands that are among the best established in Kazakhstan. Activ is targeted at the mass market ("B2C") and Kcell at corporate subscribers and public organisations ("B2B"), as well as high-net-worth individuals.

Activ aims to fulfil all individual customers' mobile communication needs by offering numerous regional, national and international tariffs, complemented by various bundles and an extensive range of additional services.

Aimed at organisations and high-net-worth individuals, the Kcell brand offers a premium service, including personal managers. At the end of 2015, to enhance its B2B service even further, the Company launched Alga, a range of six tariff plans aimed specifically at corporate customers. In addition, recognising the ever-growing importance of technology in business, Kcell has made doubling the share of IT solutions in B2B revenues a key aim.

HISTORY

1998

On 1 June 1998, Kcell was established as GSM Kazakhstan OAO Kazakhtelecom, a limited liability partnership, to design, construct and operate a cellular telecommunications network in Kazakhstan using the Global System for Mobile Communications (GSM) standard.

After receiving the first GSM licence in Kazakhstan, the Company officially launched its mobile communications network on 7 February 1999, operating under the Kcell trademark initially and adding the Activ brand in September of that year.

2003

On 18 September 2003, Kcell announced the launch of General Packet Radio Service (GPRS) technology, making it the first telecommunications operator in Kazakhstan to offer mobile internet, and unveiled Multimedia Messaging Service (MMS) technology.

The launch of GPRS marked a major step towards modernising the GSM network and paving the way for 3G technology. In September 2005, Kcell continued to build on this competitive advantage by being the first cellular operator to introduce GPRS roaming.

2010

On 1 December 2010, Kcell officially began operating dedicated 3G networks in Astana and Almaty. This heralded a new stage in the development of the country's telecommunications industry, significantly improving the quality of data transfer services in Kazakhstan.

The new technology has played a key role in enabling the country to offer high-quality mobile telecommunications while hosting major events, such as the Organisation for Security and Cooperation in Europe (OSCE) summit in December 2010 and the Seventh Asian Winter Games in January-February 2011.

2012

Before 2 February 2012, the Company was a subsidiary of Fintur Holdings B.V. (Fintur), which owned 51%, and Kazakhtelecom JSC (Kazakhtelecom), which held 49%. Fintur itself is owned jointly by Sonera Holding B.V. and Turkcell Iletisim Hizmetleri A.S., which have holdings of 58.55% and 41.45%, respectively.

On 2 February 2012, Kazakhtelecom sold its 49% to Sonera Holding B.V. (Sonera), a subsidiary of TeliaSonera.

In July 2012, the Company was converted from a Limited Liability Partnership to a Joint Stock Company.

NETWORK

In 1998, Kcell became the first company to receive a licence to provide cellular services on the GSM-900 standard in Kazakhstan. Since then, it has built one of the most modern, technologically advanced and extensive mobile telecommunication networks in the country.

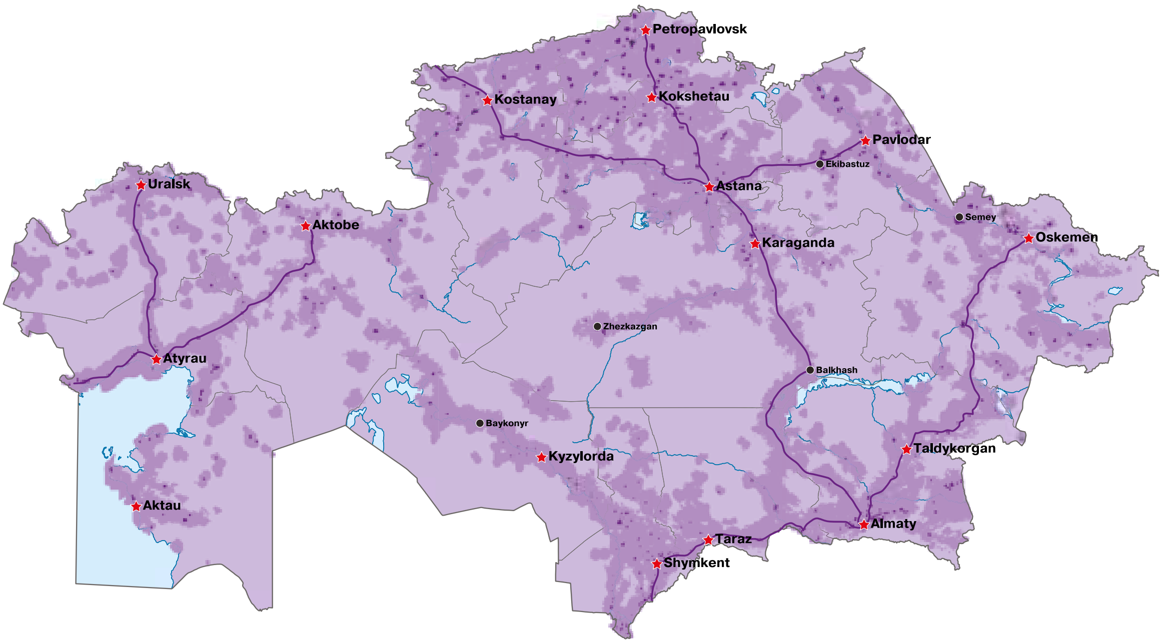
The network is collocated and operates at three frequency bands – 900 MHz, 1800 MHz and 2100 MHz – providing both data and voice communications. The data services are based on GPRS, EDGE and HSPA+ technologies, while Kcell launched pilot LTE zones in four cities just after the end of the reporting period. Data transfer speeds range from 50 kbps to 300 kbps using 2G, up to 42 Mbps using 3G. At the end of 2015, the Company had fibre-optic networks in 19 major cities in Kazakhstan.

Committed to maintaining a superior network, Kcell invested in further expansion and improvements in 2015. At the year-end, our 2G network covered 96.1% of people and 47.1% of territory in Kazakhstan, while our 3G services were available to 72.7% of the population.

MAP KEY

3G coverage

2G coverage



2012

On 17 December 2012, Kcell successfully completed an initial public offering of global depository receipts (GDRs) on the London Stock Exchange and ordinary shares on the Kazakhstan Stock Exchange. The offering consisted of a sale by Sonera Holding B.V. of 50 million shares, representing 25% of Kcell's share capital. The shares were priced at US$10.50 per GDR and KZT1,578.68 per ordinary share.

Following the placement, Sonera Holding B.V. retains 24% directly, Fintur Holdings B.V. holds 51% directly, and the remaining 25% is in free float.

2013

On 1 February 2013, following a decision by the Committee on Indices and Securities Valuation, Kcell's common shares were included in the representative list of shares for calculating the KASE Index.

2014

In May 2014, Kcell became an official distributor of iPhone in Kazakhstan.

In September 2014, Kcell launched a major rebranding and repositioning campaign for its popular Activ brand. The objective of the campaign is to reinvigorate the brand in order to strengthen subscriber loyalty, drive growth in the mass-market segment and retain leadership in the highly competitive market.

2015

On 14 March 2015, the Company opened its first branded Kcell Store in Almaty, marking the beginning of a drive to overhaul its retail business model. The aim of the new concept is to combine service and sales in a single environment, improving the experience for customers, who can explore new products and applications in-store.

As part of this drive, over the rest of the year, Kcell opened eight such stores overall, began a project to refurbish its service centres and launched an online sales platform.

CHAIRMAN'S STATEMENT

OPPORTUNITY IN CHANGE

"IN CHANGE LIES OPPORTUNITY, AND KCELL DEMONSTRATED ITS ABILITY TO RESPOND PROMPTLY AND TAKE ADVANTAGE OF THIS IN 2015."

DEAR STAKEHOLDERS,

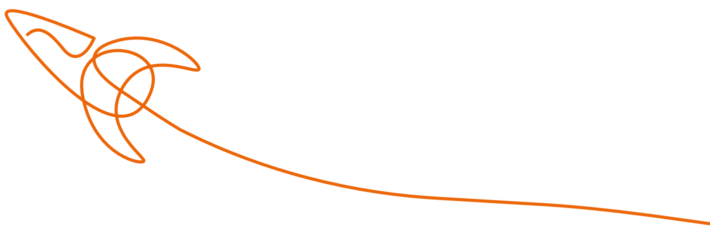
In speeches in 1959 and 1960, then US President John F Kennedy said that in the Chinese language, the word "crisis" is composed of two characters, one representing danger and the other opportunity. Since then, this concept has become embedded in corporate, political and motivational philosophy, while a linguistic debate has ensued about the primary meaning of the individual elements.

Whatever the etymological nuances, the underlying principle is an important one. While "crisis" might be a strong word for describing 2015, the macroeconomic and industry environments were certainly challenging, while the year was one of many events, both positive and negative, expected and unexpected. However, in change lies opportunity, and Kcell demonstrated its ability to respond promptly and take advantage of this in 2015.

One watershed came just after the reporting period, when the Ministry for Investments and Development of the Republic of Kazakhstan announced that it will allocate radio frequencies that will enable the rollout of LTE services to all existing mobile operators on the Kazakh market. Kcell has received access to the 10+10 MHz radio frequency within the 700/800 MHz and 1700/1800 MHz bands and permission to use the radio frequencies allocated in the GSM, DCS-1800 (GSM-1800) UMTS/WCDMA (3G) standards for the provision of LTE and LTE advanced services.

We would like to thank the authorities for all of their work, efforts and commitment leading to this. The decision is monumental, and we look forward to bringing the next generation of mobile telecommunication services to Kazakhstan and investing further in the country's infrastructure and future.

Another transformational development came from within, as Kcell sharpened its strategic focus in 2015. Having laid solid foundations in the form of five key long-term objectives in 2014, we will now regularly set short-term targets to drive us towards our goal. In a reflection of our commitment to providing first-class products and service in all segments, the first targets are to boost the share of retail customers with bundles, double revenues from business solutions and increase customer satisfaction with data quality. We would like to thank every one of our employees for their contribution to taking the Company to the next level.



A third major development came in September 2015, when TeliaSonera announced plans to reduce its presence in Eurasia and ultimately exit the region over time. Since Kcell's initial public offering at the end of 2012, we have benefited greatly from TeliaSonera's expertise and guidance, enabling us to establish a defined business strategy, robust internal structures and protocols to ensure best practice in corporate governance. We would like to thank the group for its invaluable input and support.

After the reporting period, in February 2016, Turkcell announced its intention to submit a binding offer for the 58.55% of Sonera Holding B.V. (TeliaSonera) in Fintur Holdings B.V. (Fintur) and TeliaSonera's 24% direct stake in Kcell.

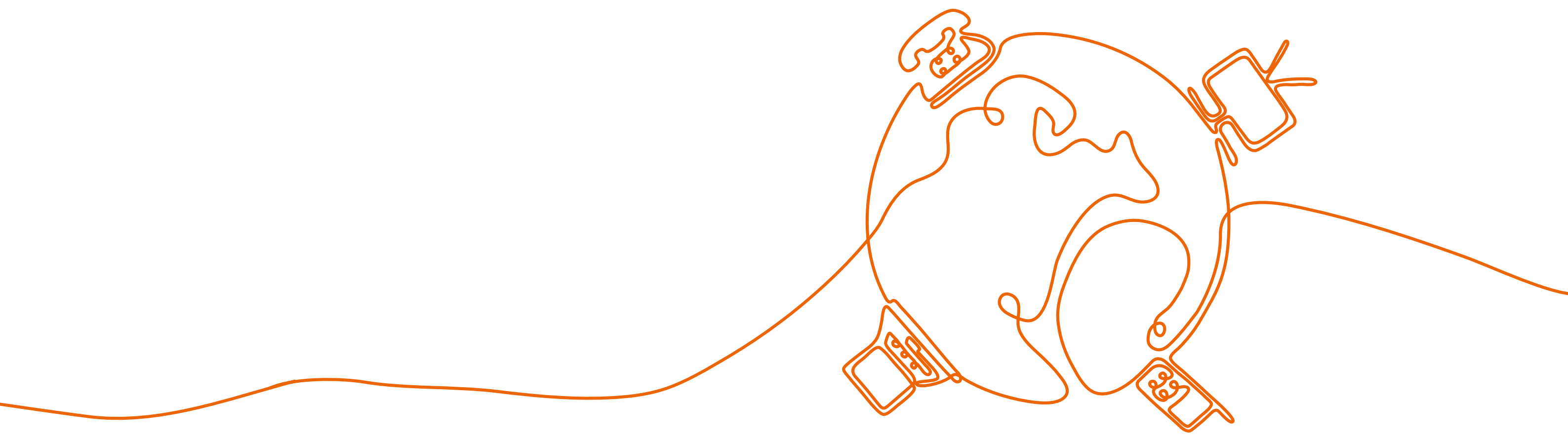
I am proud to say that despite the challenges in the economy and industry, Kcell continued to generate value for shareholders and invest in the future in 2015. Our EBITDA margin was 48.6%, a commendable result given the price competition, while our CAPEX-to-revenues ratio stood at 11.0%, almost unchanged from 11.2% in 2014, despite the macroeconomic conditions.

We continue to fulfil our pledge to return income to investors. Kcell's dividend policy envisages distribution of at least 70% of the Company's net income for the previous financial year, together with any excess capital, after considering cash at hand, cash flow projections, medium-term investment plans and capital market conditions. In 2015, Kcell paid an annual dividend of KZT203.91 (around US$1.10), representing 70% of net income, and a special dividend of KZT87.39 (around US$0.32) per ordinary share, representing 30% of net income, for the 12 months ending 31 December 2014.

One of our overriding priorities is that we conduct business responsibly, and we strengthened our system of oversight even further in 2015. We expanded the Sustainability function by appointing a specialist in due diligence, and we introduced and revised numerous internal documents on procurement and other key areas. We implemented an electronic system to log potential or actual conflicts of interest. We also introduced a mandatory due diligence process for all new vendors and scrutinised our base of existing ones.

Kcell has reconfirmed its lead in the sector, is financially stable and remains committed to the highest standards of management, corporate governance and business conduct. It also has superior network coverage and quality. Certainly, further developments in the Company's story ahead look likely. With a merger between two operators pending, ever-shifting customer needs and rapid advancements in technology, Kcell looks well positioned to take advantage of the opportunity in change.

Jan Rudberg
Chairman of the Board of Directors



AN EVENTFUL YEAR

"IN 2015, WE BUILT ON THE STRATEGIC FOUNDATIONS LAID IN THE PREVIOUS YEAR BY IDENTIFYING AND ESTABLISHING KEY TARGETS TO HELP FOCUS THE COMPANY AND EMPLOYEES ON SEIZING OPPORTUNITIES FOR GROWTH. WE ALSO SCRUTINISED EVERY ASPECT OF THE TWO CORE AREAS OF OUR BUSINESS."

DEAR STAKEHOLDERS,

From an external perspective, 2015 was an eventful year for Kazakhstan, the mobile telecommunications industry and Kcell. Driven mainly by the oil price, macroeconomic conditions continued to deteriorate, culminating in the tenge devaluation and move to free-float in August. Competition in our business intensified even further, and an unprecedented price war between two operators embroiled all players. Elsewhere, TeliaSonera announced plans to reduce its presence in Eurasia and fully exit the region over time. Objectively speaking, this also heralds change.

Amid such significant developments, Kcell proved able to respond quickly. We looked inside and outside the Company proactively, focusing on efficiency, improving strategy execution and targeting growth areas in the business. We also pursued our commitment to innovation, unveiling cutting-edge products, launching competitive tariffs and working to enhance customer service even further.

In 2015, we built on the strategic foundations laid in the previous year by identifying and establishing key targets to help focus the Company and employees on seizing opportunities for growth. We also scrutinised every aspect of the two core areas of our business.

Having established our longer-term aims in 2014, we honed our shorter-term focus in 2015. The initial strategy execution programme, Kcell Plus, brought meaningful results so quickly that we created a permanent function. From here, to ensure that we move towards our long-term strategic objectives progressively, the team will devise short-term strategic targets. We have also established an inclusive, transparent system to engage, motivate and reward employees in the effort.

JANUARY

- Kcell approves a Relationship and Services Agreement with TeliaSonera
- Trond Moe is appointed as Finance Director
- The European Performance Satisfaction Index rating names the Company as the leading Kazakh mobile operator in terms of customer satisfaction and loyalty

FEBRUARY

- Kcell reports on progress in its internal investigation, announcing formal grounds to request that a criminal case be opened against certain former employees
- Douglas Lubbe joins the Board of Directors
- The Company wins a nomination at the European Business Association's Corporate Social Responsibility Awards for the second year in a row

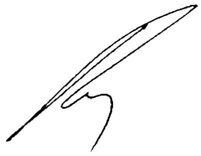
One of our five key objectives in 2014 was to develop the B2B business, and we began the drive in 2015. The first step was a comprehensive review of the segment, which identified demand for five key services: mobile marketing, convergent communication, fixed internet, IT and mobile. From there, we prepared strategies for each area, devising solutions tailored to customers' needs.

Our progress in developing the B2B business has been tremendous. We began fixed internet sales in June 2015, attracting 34 clients by the year-end. We also launched Carte Blanche, a new range of tariffs for organisations, in August and gained market share rapidly. One of the most prominent achievements was through our work with Microsoft. After beginning sales of its products in May, we received "silver" status on its partner programme in November. This is a solid endorsement of Kcell's joint efforts with a global industry leader, and we look forward to obtaining "gold" status in the near future. All of this brings us closer to becoming a customer-centric provider of internet services that brings businesses together.

In response to the tremendous competition and as part of our dedication to customer service, Kcell undertook a similar drive in the B2C business in 2015. We left no stone unturned, reviewing every aspect of how and what we offer clients. To focus our efforts most effectively, we concentrated on three priority areas: sales channels, products and services, and tariffs.

The results here have been similarly impressive, particularly in such a short space of time, again underscoring the Company's ability to respond rapidly to change and lead the market. Over the year, in six cities, we opened eight branded Kcell Stores, which bring together sales, service and top-level hospitality. We began a project to transform existing service centres into modern retail outlets, and launched the first phase of an online sales platform. Later in the year, we unveiled a trio of multimedia products – Activ TV, Activ Music and Bookmate – further demonstrating our commitment to next-generation mobile services. The new tariffs that we launched, "Hello, Kazakhstan" and "Alga", quickly proved successful in helping the initiative to promote bundled mobile packages and, through their pricing, we have reiterated our pledge to giving customers value and conducting business sustainably. In Kazakhstan's mobile telecommunications industry, Kcell is proud to be leading a retail revolution.

Such tremendous results in such a changing environment are possible only because of the dedication of the people at Kcell. I would like to thank every one of our directors, managers and employees for their commitment, efforts and achievements in 2015, when we once again demonstrated our ability to adapt proactively and stay at the forefront of the market.



Arti Ots
Chief Executive Officer

MARCH

- Kcell opens a branded store in Almaty, the first of eight in the year, marking the start of a drive to overhaul its retail strategy
- The Board of Directors proposes a dividend for 2014, approved in April, of 100% of net income (70% as an annual and 30% as a special dividend), keeping its pledge to shareholders despite the macroeconomic conditions

SEPTEMBER

- Kenneth Karlberg resigns from the Board of Directors
- TeliaSonera, Kcell's majority shareholder, announces plans to reduce its presence in and, over time, fully exit Eurasia
- The Company again acts as an official partner of the Tech Garden festival, held to promote technological innovation in Kazakhstan

OCTOBER

- The Kcell Board of Directors approves the purchase of KazNet Media LLP, subsidiaries of which hold frequencies eligible for LTE licences
- The Company's call centre receives EN 15838:2009-11 international certification for service provision
- Kcell again acts as general partner of TEDx in Kazakhstan, helping to organise the fifth annual conference in Almaty

NOVEMBER

- Erik Halberg steps down from the Board of Directors
- Kcell launches mobile number portability among its brands, ahead of the market at the year-end
- The Company receives "silver" status in Microsoft's partnership programme, as part of its efforts in the B2B segment

CREATING VALUE FOR CUSTOMERS AND SHAREHOLDERS

KCELL HAS INVESTED SUBSTANTIAL EFFORT AND RESOURCES IN DEVELOPING WHAT IT SEES AS THE CENTRAL FOUNDATIONS OF THE BUSINESS, AND THIS APPROACH HAS BEEN CONFIRMED BY THE VALUE CREATED FOR BOTH CUSTOMERS AND SHAREHOLDERS.

STRONG FOUNDATIONS

The strength of any construction depends on its foundations. At Kcell, our overarching objective is to serve and create value for our customers, shareholders and country, and we do so successfully thanks to the robustness of the model underpinning our business.

At our core are high-quality assets that can be divided into four main groups: people, network, brands, and data-centric products and services. All of them combine to form a compelling proposition.

Moreover, the industry is experiencing one of the most significant transitions in its history, the shift from voice to data. To remain ahead in this, we are further reinforcing our offering through new tariffs and bundles, many of them exclusive, across the main price segments.

COMPLETE CYCLE

The overall result is a business model that not only generates revenues, but also contributes to sustainability. At Kcell, free cash flow is one of our key performance indicators, and our dividend policy reflects our commitment to creating value for shareholders. Equally important, however, are the funds reinvested in our asset base, which complete the cycle, further strengthening our foundations today for the generations of tomorrow.

The substantial effort and resources invested in the central foundations of the business has proved the right approach, as confirmed by the value created for both customers and shareholders.

PEOPLE

By far our most important asset is our people, whose customer focus, standards and commitment have made us one of most dedicated service providers in Kazakhstan today. Without them, we simply would not exist.

NETWORK

Another key strength is our high-quality network, through which we have led, and continue to lead, the advancement of mobile telecommunications nationwide. With the LTE frequencies now allocated, we look forward to bringing the next generation of mobile telecommunications into Kazakhstan.

BRANDS

Cementing our identity in the market are our brands, which are among the best established in Kazakhstan and synonymous with the quality of customer experience and value that we offer.

DATA-CENTRIC PRODUCTS AND SERVICES

Last, but far from least, is our vast range of data-centric products and services, which we revise constantly to meet the evolving needs of customers and remain the leader in innovation. As the industry moves away from voice and other traditional services, they are becoming an increasingly important business driver.

PURSUING EXCELLENCE FROM WITHIN

If our business model is the vehicle for reaching our ultimate goal, our strategy is our road map. As competition in the market intensifies, the importance of remaining the leader becomes even greater. To maintain its position, Kcell recognises the need for the highest standards, the greatest efficiency and maximum focus throughout its activities, and these come from within.

In 2014, the Company devised five key strategic objectives to guide the business over the long term: establish a strong leadership and culture of responsible business practice; pursue a data-centric approach; focus on smartphone penetration and greater data usage; develop the B2B business; and ensure superior network quality.

With these in place, in December 2014, just before the reporting period, Kcell turned its attention to achievements in the short term. Following a meeting of the executive management to discuss current direction, intended destination and priority areas, the Kcell Plus programme was created.

Running over the first six months of 2015, the programme was devised specifically to focus on immediate growth opportunities that would drive the Company towards its long-term strategic objectives. As part of it, through regular meetings, senior managers elaborated a Company mission, consisting of key goals, such as to be the mobile provider of choice in Kazakhstan, an internet-driven business and the most efficient operator in the country. In parallel, five areas for development were identified – B2B, B2C, corporate culture, distribution and services – and 14 projects across them were devised and implemented.

"IN JULY, THE KCELL STRATEGY EXECUTION PROGRAMME WAS LAUNCHED AND A THREE-PERSON STRATEGY TEAM WAS ESTABLISHED TO COORDINATE THE WORK."

Kcell Plus brought tangible results rapidly, so much so that the management decided to turn the initiative into a permanent function. In July, the Kcell Strategy Execution Programme was launched and a three-person strategy team was established to coordinate the work. The function is part of the CEO's office, ensuring an effective two-way transmission channel between the senior executive body and other departments.

As with Kcell Plus, the team's main responsibility is to identify strategic targets for the short term, each year, that will help to fulfil the long-term objectives. For 2016, these are to boost the share of retail customers with bundles, double revenues from business solutions, and increase customer satisfaction with data quality.

Behind this, the achievements in such a short space of time have been tremendous. Personal goals have been set for all members of staff whose work is connected with any target. Kcell has established an intranet tool where employees can view them and the achievements of everyone openly. Each week, the strategy team meets with heads of department to discuss progress to date and next steps. The Company has adopted the "Four Disciplines of Execution" (4DX) methodology and is educating employees about it through workshops and training sessions. Individual KPIs are aligned with the strategic targets. Together, these measures are focusing the efforts of all employees on pursuing excellence from within.

OUR ULTIMATE STRATEGIC GOAL IS TO STRENGTHEN CUSTOMER LOYALTY BY CREATING VALUE

STRATEGIC OBJECTIVE 1

ESTABLISH A STRONG LEADERSHIP AND CULTURE OF RESPONSIBLE BUSINESS PRACTICE

STRATEGIC OBJECTIVE 2

PURSUE A DATA-CENTRIC APPROACH

STRATEGIC OBJECTIVE 3

FOCUS ON SMARTPHONE PENETRATION AND GREATER DATA USAGE

STRATEGIC OBJECTIVE 4

DEVELOP THE B2B BUSINESS

STRATEGIC OBJECTIVE 5

ENSURE SUPERIOR NETWORK QUALITY

STRATEGIC TARGET 1

BOOST THE SHARE OF RETAIL CUSTOMERS WITH BUNDLES

STRATEGIC TARGET 2

DOUBLE REVENUES FROM BUSINESS SOLUTIONS

STRATEGIC TARGET 3

INCREASE CUSTOMER SATISFACTION WITH DATA QUALITY

A RETAIL REVOLUTION

AS WITH THE B2B DRIVE, AND AS PART OF ITS DEDICATION TO CUSTOMER SERVICE, KCELL OVERHAULED ITS RETAIL BUSINESS IN 2015, IN TERMS OF HOW AND WHAT IT OFFERS CLIENTS.

SALES CHANNELS

For Kcell, making a sale is only one part of customer interaction: far more important are point of contact, service and long-term support. With this in mind, the Company opened new, state-of-the-art sales channels and refreshed its existing ones in 2015, focusing above all on making the customer experience the most interactive, pleasant and informative on the market.

KCELL STORES

- Opened eight branded Kcell Stores in six major cities, beginning in Almaty in March.
- The concept is designed to blend sales, service and top-level hospitality.
- Over 900 square metres of front-of-house space.

SERVICE CENTRES

- Began a project to upgrade existing service centres into full retail outlets.
- Completed nine by the year-end and 11 after the reporting period.

ONLINE SALES PLATFORM

- Launched the first phase of www.shop.kcell.kz in July 2015.
- The initial focus is on making smartphones more accessible to customers nationwide.
- A second phase, expanding the range of smartphone and accessories available online, is due to be launched in the first half of 2016.

Number of visitors to Kcell Stores in 2015

>400,000

Smartphones sold in Kcell Stores in 2015

>10,000

PRODUCTS AND SERVICES

Kcell is more than just a mobile operator: it is a service provider. In 2015, as the move from voice to data continued, the Company unveiled a range of next-generation multimedia and other content products, while enhancing its customer support capabilities and gaining recognition for its work.

PRODUCTS

- Tested Activ TV, which gives access to over 100 local and overseas TV channels in real time.
- Commissioned Activ Music, which enables customers to stream almost 2 million songs from Kazakhstan and worldwide.
- Launched Bookmate, an online library containing around 5,000 books in eight languages, including some 3,700 publications in Kazakh.

SERVICES

- Unveiled "Landing Page", a new automated service system for subscribers.
- Reviewed and expanded operations at the call centre, setting new KPIs to enhance service.
- Obtained international certification for the call centre, governing both service provision (EN 15838:2009-11) and information security management (ISO/IEC 27001:2013).

OTHER INITIATIVES

- Introduced mobile number portability via dealers.
- Increased the use of surveys to measure customer satisfaction more.

TARIFFS

In 2015, the price competition in Kazakhstan's mobile telecommunications sector reached an unprecedented level. Kcell responded proactively to this by launching several new tariffs for individual subscribers, while making its range of bundles more attractive, reconfirming why it is the leader on the market.

"HELLO, KAZAKHSTAN"

- Launched the "Hello, Kazakhstan" tariff range, offering various combinations of fixed amounts of voice and data traffic, in June.
- Expanded the range to accommodate heavier data usage in October 2015, in response to customer demand and with the launch of LTE in mind.

"ALGA"

- Unveiled "Alga", a range of new all-net bundled tariffs, in November 2015.
- Following strong interest, introduced it in the B2B segment at the year-end.

OTHER

- Introduced a "yearly internet" data pack for Activ and Kcell subscribers, offering a 50% discount.
- Devised more competitive roaming packages.

Change in share of data revenues in 2015

+5.7%

Data traffic in 2015

59,607,325 GB

Active subscribers to "Hello, Kazakhstan" (daily) in 2015

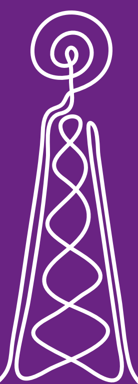
1.4 MILLION

Subscriptions to "Alga" in 2015

>30,000

BRINGING BUSINESSES TOGETHER

IN 2015, IN LINE WITH A KEY STRATEGIC OBJECTIVE, KCELL EMBARKED ON A CONCERTED B2B DRIVE TO BOOST GROWTH, FURTHER ENHANCE SERVICE AND CEMENT ITS LEADERSHIP IN THE SEGMENT.



MOBILE MARKETING

Through its vast subscriber database, Kcell can help organisations to reach the nation in a targeted, effective way, while maintaining the utmost confidentiality and security for its customers.

PROGRESS MADE

- Prepared and approved a mobile marketing strategy.
- Approved a consumer satisfaction index project action plan.
- Unveiled Club 701, a mobile marketing service offering access to different subscriber segments.

NEXT STEPS

- Launch an opt-in database project.
- Develop a B2B retention programme.

Revenues from bulk SMS in 2015

KZT1 BILLION

IT SERVICES

In 2015, Kcell took its IT solutions for businesses to the next level in terms of number and scope, receiving "silver" status in Microsoft's partnership programme in recognition of this.

PROGRESS MADE

- Began Microsoft product sales project in May 2015.
- Received Microsoft "silver" partner status in November 2015.
- Rolled out a B2B car fleet management system.

NEXT STEPS

- Build an integrated sales model for Microsoft products.
- Develop and launch a data centre for an enterprise sales project.

Number of clients with Microsoft IT solutions in 2015

39

CONVERGENT COMMUNICATION

Kcell offers a comprehensive range of in-house and external telecommunications solutions for companies and public organisations, including private branch exchanges (PBX), revolver numbers, and conference and call centre services.

PROGRESS MADE

- Launched commercial testing and pre-sales of push-to-talk (PTT) solutions.
- Completed technical implementation of a unified compute platform (UCP).
- Developed virtual PBX, mobile employee and audio-conferencing services.

NEXT STEPS

- Launch PTT and UCP services commercially.
- Begin the technical development of a notification system.
- Develop a video-conference service.

Number of PBX clients in 2015

187

FIXED INTERNET

Through one of the most advanced fixed-line networks in Kazakhstan, Kcell provides high-speed fixed internet services, including virtual private networks (VPNs) and distributed denial-of-service (DDoS) protection.

PROGRESS MADE

- Began fixed internet sales in June 2015.
- Attracted 34 clients (44 connections) by the year-end.
- Launched DDoS protection.

NEXT STEPS

- Optimise fixed internet costs.
- Launch equipment project.

Revenues from fixed internet and VPN in 2015

>KZT15 MILLION

MOBILE SERVICES

Kcell is one of the market leaders in terms of B2B mobile subscriber plans, primarily through its new Carte Blanche range of tariffs.

PROGRESS MADE

- Unveiled Carte Blanche in August 2015, quickly gaining substantial market share.

NEXT STEPS

- Devised an MNP retention programme and a “come back” project.

Number of B2B mobile subscribers in 2015

33,175

MOVING INTO THE NEXT GENERATION

DESPITE THE CLEAR SHORT-TERM MACROECONOMIC CHALLENGES AND SUBSTANTIAL PRICE COMPETITION, KAZAKHSTAN'S TELECOMMUNICATIONS MARKET RETAINS CONSIDERABLE LONG-TERM POTENTIAL TO GROW, DRIVEN BY DATA SERVICES AND SMARTPHONE PENETRATION, AND REINFORCED BY THE RECENT LIBERALISATION OF THE LTE SEGMENT AND BROADER MARKET REFORM EFFORTS.

MACROECONOMIC OVERVIEW

Kazakhstan has the largest economy in Central Asia and the second largest in the CIS. The country has some of the largest oil and gas reserves in the world. It is a major producer of other mineral resources, has a major agricultural sector and has emergent consumer and service industries. Its location in the heart of Central Asia makes it a major transit route.

Since the early 1990s, Kazakhstan has witnessed a stellar rise in living standards. As measured by the World Bank, the country's gross national income (GNI) per capita, using comparable purchasing power parity (PPP) rates, rose from US$1,430 in 1993 to US$11,850 in 2014. Today, the World Bank ranks Kazakhstan among the world's upper middle income economies, placing it on par with countries such as China, Mexico and Turkey.

Since 2014, Kazakhstan has faced substantial macroeconomic headwinds. GDP growth in local currency terms slowed to 1.2% in 2015, compared with 4.2% in 2014. In February 2016, Kazakhstan's government indicated that growth would slow further in the year. The causes of this are clear: falling commodity prices, with oil accounting for 20% of GDP alone, coupled with a slowdown in large neighbouring countries such as Russia and China.

It appears, however, there may be a silver lining in lower commodity receipts. The government, which already has the best record in the region for fiscal and market liberalisation, has engaged in a new round of reforms. According to a list presented by the European Bank for Reconstruction and Development in early 2016, Kazakhstan has made strong recent progress in many key areas: a new investment law, a new exchange rate regime, public-private partnership legislation, tariff reform in regulated sectors and the transformation of the Samruk-Kazyna sovereign wealth fund.

TELECOMMUNICATIONS MARKET

Kazakhstan's telecommunications market has certain structural features in common with those of other Central Asian economies. The country's sheer geographic size – roughly equal to Western Europe – and thin population density in many areas make achieving national coverage relatively costly. Historically, the same factor has led to relatively low fixed-line penetration.

Still, overall, Kazakhstan has the most developed and competitive telecommunications market in Central Asia. A differentiator is ongoing market liberalisation, highlighted by the regulator's decision in early 2016 to open the LTE market to all players, which forecasters expect to accelerate growth in the data services market. Notably, BMI has cited a survey of data services costs[1] in the main markets of Central Asia, which found that Kazakhstan already has the lowest costs. Market liberalisation should also help the development of the small but rapidly growing business-to-business (B2B) segment, a market previously underserved by mobile operators.

According to the Kazakhstan Statistics Agency, the country's telecommunications market expanded by 1.6% year-on-year in 2015, reaching a value of KZT684.3 billion. The mobile segment accounted for 36.4% of the market, or KZT249.4 billion.

Mobile telephony has outpaced the fixed-line segment in recent years, while the preponderance of pre-pay cards, network connection charges and other factors have led many people to have two or more SIM cards. As a result, Kazakhstan has the highest mobile penetration rate in Central Asia, with subscriber numbers far exceeding the total population.

In 2016, according to BMI, the number of mobile phone subscribers reached an estimated 26.7 million, although growth in additions slowed due to saturation in the voice segment. At the end of 2015, mobile SIM penetration exceeded 150%, and saturation has depressed average revenue per user (ARPU) numbers[2].

MOBILE INTERNET ACCESS

Mobile data traffic growth remains one of the main drivers of overall expansion in Kazakhstan's mobile telecommunications market. A key factor supporting this was the rise in the number of smartphones in the market. According to Kcell's own figures, smartphone penetration stood at 41%, suggesting considerable room for growth.

The number of handsets will remain an important driver. It is encouraged by active promotions by mobile operators of accessible data packages and affordable smartphones, such as Kcell's popular bundles featuring Apple, Lenovo and Samsung handsets. In turn, demand for mobile services, including small business card payment solutions, banking, social networks, games and other applications create a virtuous circle of development seen in Western European telecommunications markets.

Continued long-term growth in mobile data services has been assured by the regulator's decision in early 2016 to liberalise the LTE market. Previously, only one operator had an LTE licence. While the rollout of LTE services will require substantial CAPEX by some operators, Kcell is well positioned due to the investments already made in its 3G network and testing of its LTE capabilities. In 2016, forecasters expect the LTE market to expand rapidly outside Almaty and Astana.

COMPETITIVE LANDSCAPE

Kcell remains a leader in Kazakhstan's mobile telecommunications market. According to BMI, competition brought about by the low-price strategy pursued by rival operators has meant subscription additions in the low-value segment of the market, with Kcell's "Hello Kazakhstan" looking to buck this trend, which has driven down ARPU for all operators. In the meantime, the end of one operator's monopoly in LTE came after the reporting period, but all forecasters see LTE as the key competitive driver in 2016.

REGULATION

Following the reorganisation of the government in August 2014, the primary regulator of Kazakhstan's mobile telecommunications sector is the Communication, IT and Information Committee, which is part of the Ministry of Investment and Development. Among other matters, it oversees licencing, the granting of radio frequencies, price regulation, mobile number portability (MNP) and legislation on communication.

The beginning of 2016 saw the mandatory implementation of MNP by all operators, allowing consumers to keep their phone numbers when switching operators. As expected, MNP implementation led to some moderate subscriber churn. As expected, Kcell's superior quality, coverage and customer service has prevented MNP from having a substantial impact on its business to date.

OUTLOOK FOR 2016 AND BEYOND

Mobile data traffic is expected to remain the chief driver of revenue growth and profitability for Kazakhstan's mobile sector. A competitive LTE landscape will drive mobile data uptake as prices for LTE packages fall.

Market risk aside, still low data penetration and a largely untapped B2B market create a clear path to growth for Kcell, given its competitive advantages as the leading operator in terms of coverage, readiness to roll out its LTE network and superior customer service.

1 Data comparison conducted in 2013. Source: BMI.
2 Source: BMI forecast.

MARGIN TREND OFFSET BY COST CONTROL

"KCELL'S FINANCIAL RESULTS FOR 2015 REFLECTED THE OBJECTIVELY MORE CHALLENGING ENVIRONMENT IN WHICH THE COMPANY FOUND ITSELF IN THE YEAR. AT THE SAME TIME, OUR STRICT COST CONTROL PROGRAMME PROVED SUCCESSFUL IN PARTLY OFFSETTING THE NEGATIVE TREND IN THE EBITDA MARGIN."

– Net revenues decreased by 10.2% to KZT168,424 million (KZT187,581 million in 2014). Service revenues fell by 13.8% to KZT157,288 million (KZT182,398 million in 2014).
– EBITDA, excluding non-recurring items, declined by 22.3% to KZT81,787 million (KZT105,268 million in 2014). The EBITDA margin decreased to 48.6% (56.1% in 2014).
– Operating income, excluding non-recurring items, decreased by 28.6% to KZT57,213 million (KZT80,079 million in 2014).
– Net financial items increased to KZT7,811 million (KZT-1,052 million in 2014).
– Net income declined by 20.0% to KZT46,632 million (KZT58,271 million in 2014).
– Free cash flow fell to KZT32,400 million (KZT63,744 million in 2014).
– The customer base decreased to 10,357 thousand (11,192 thousand at end 2014).

FINANCIAL HIGHLIGHTS

KZT in millions except key ratios, per share data and changes	2015	2014	Change (%)
Revenues	**168,424**	187,581	-10.2
of which service revenues	**157,288**	182,398	-13.8
EBITDA, excluding non-recurring items	**81,787**	105,268	-22.3
Margin (%)	**48.6**	56.1	
Operating income	**52,601**	75,197	-30.0
Operating income, excluding non-recurring items	**57,213**	80,079	-28.6
Net income attributable to owners of the parent company	**46,632**	58,271	-20.0
Earnings per share (KZT)	**233.2**	291.4	-20.0
CAPEX-to-sales (%)	**11.0**	11.2	
Free cash flow	**32,400**	63,744	-49.2

BREAKDOWN OF REVENUES

KZT in millions, except %	2015	% of total	2014	% of total
Voice services	**105,345**	62.5	132,697	70.7
Data services	**39,278**	23.4	33,131	17.7
Value-added services	**12,650**	7.5	16,567	8.8
Other revenues	**11,152**	6.6	5,186	2.8
Total revenues	**168,424**	100.0	187,581	100.0

REVENUES
Net revenues decreased by 10.2% to KZT168,424 million (KZT187,581 million in 2014). Service revenues fell by 13.8% to KZT157,288 million (KZT182,398 million in 2014). Revenues from voice services declined by 20.6% to KZT105,345 million (KZT132,697 million in 2014). Data revenues increased by 18.6% to KZT39,278 million (KZT33,131 million in 2014). Revenues from value-added services fell by 23.6% to KZT12,650 million (KZT16,567 million in 2014). Other revenues rose by 115.0% to KZT11,152 million (KZT5,186 million in 2014).

VOICE SERVICES
Revenues from voice services declined by 20.6% to KZT105,345 million (KZT132,697 million in 2014). Voice traffic remained stable at 23,540 million minutes (23,538 million minutes in 2014), while the average revenues per minute of use (ARMU) decreased to KZT3.2 (4.2 in 2014).

Interconnection revenues fell by 13.3% to KZT23,277 million (KZT26,852 million in 2014), mainly due to a reduced interconnection rate.

DATA SERVICES
Data revenues rose by 18.6% to KZT39,278 million (KZT33,131 million in 2014). Data traffic soared by 88.8% to 59,607,325 GB (31,576,580 GB in 2014). The increase was partly offset by packages with lower tariffs per MB, which reduced the average revenues per MB (ARMB) to KZT0.7 (KZT1.0 in 2014).

VALUE-ADDED SERVICES
Revenues from value-added services decreased by 23.6% to KZT12,650 million (KZT16,567 million in 2014), reflecting a decline in SMS revenues.

OTHER REVENUES
Other revenues increased to KZT11,152 million (KZT5,186 million in 2014), reflecting higher sales of handsets.

EXPENSES
COST OF SALES
Cost of sales grew by 6.8% to KZT89,932 million (KZT84,221 million in 2014), primarily due to increases in the cost of handsets and interconnection expenses.

SELLING AND MARKETING EXPENSES
Selling and marketing expenses fell by 20.2% to KZT9,221 million (KZT11,549 million in 2014), mainly as a result of lower commissions.

GENERAL AND ADMINISTRATIVE EXPENSES
General and administrative expenses increased by 16.1% to KZT12,381 million (KZT10,666 million in 2014), primarily due to an increase in the mobile tax rate.

EARNINGS, FINANCIAL POSITION AND CASH FLOW
CAPEX declined to KZT18,531 million (KZT21,009 million in 2014) and the CAPEX-to-sales ratio dropped slightly to 11.0% (11.2% in 2014).

Free cash flow decreased to KZT32,400 million (KZT63,744 million in 2014).

The net debt/equity ratio was 23.1% (6.0% in 2014), while the net debt/EBITDA ratio equalled 0.24 (0.05 in 2014) and the equity/assets ratio 48.5% (58.3% in 2014).

FINANCIAL KEY RATIOS

	2015	2014
Return on equity (%, rolling 12 months)	**54.1**	63.3
Return on capital employed (%, rolling 12 months)	**69.6**	75.7
Equity/assets ratio (%)	**48.5**	58.3
Net debt/equity ratio (%)	**23.1**	6.0
Net debt/EBITDA ratio (multiple, rolling 12 months)	**0.24**	0.05
Owners' equity per share (KZT)	**402.2**	460.4

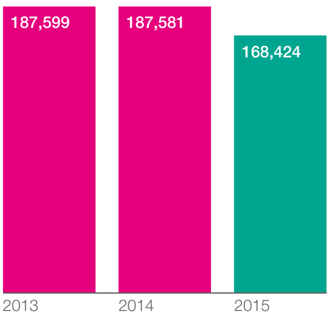
FOCUSING ON PERFORMANCE

WE USE KEY PERFORMANCE INDICATORS PRIMARILY TO KEEP US FOCUSED ON ACHIEVING OUR STRATEGIC OBJECTIVES AND TARGETS.

FINANCIAL INDICATORS

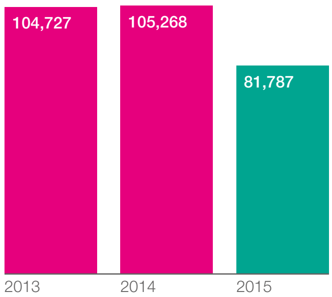
Revenues (KZT)

168,424M
-10.2%



EBITDA (KZT)

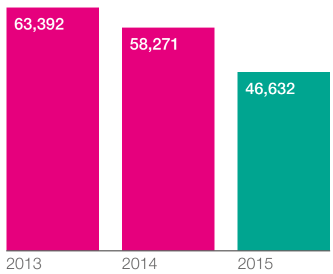
81,787M[1]
-22.3%



1 Excluding non-recurring items.

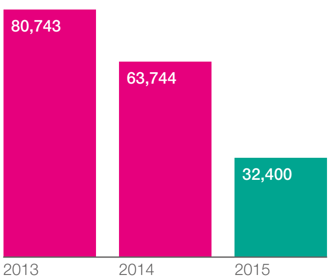
Net income (KZT)

46,632M
-20.0%



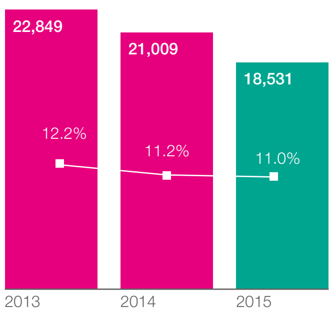
Free cash flow (KZT)

32,400M



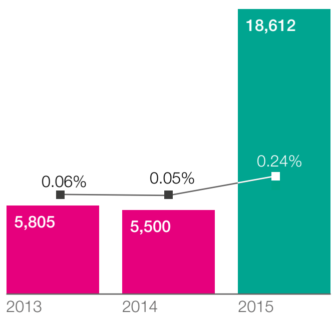
Capital expenditures to sales (CAPEX: KZT) and CAPEX to sales ratio

18,531M



Net debt (KZT) and net debt to EBITDA ratio

18,612M

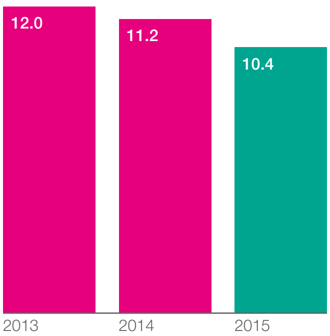


OPERATIONAL INDICATORS

Total subscribers* (million)

10.4

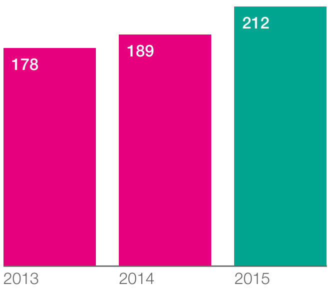
-7.5%



Minutes of usage (MOU: minutes per month)

212

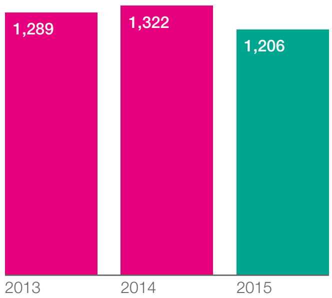
+12.2%



Average revenues per user (ARPU: KZT)

1,206

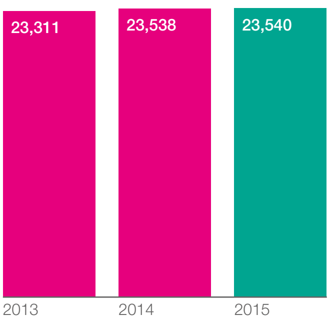
-8.7%



Voice traffic (million minutes)

23,540

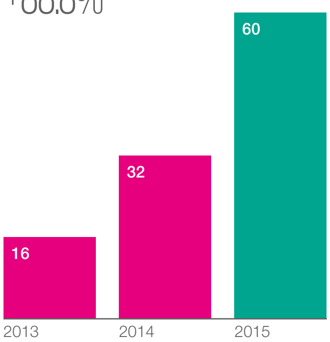
+0.0%



Data traffic (million GB)

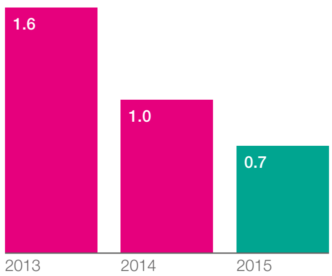
60

+88.8%



Average revenue per MB (ARMB: KZT)

0.7



* In the first quarter of 2015, the method for calculating the number of prepaid mobile subscriptions changed. A prepaid subscription is now counted if a subscriber has been active in the last three months. The prior periods shown here (2013 and 2014) have been restated for comparability.

PURSUING THE HIGHEST STANDARDS OF BUSINESS CONDUCT

BUILDING ON THE SOLID ETHICS AND COMPLIANCE FRAMEWORK CREATED IN 2013-2014, THE SUSTAINABILITY FUNCTION SCRUTINISED SPECIFIC AREAS OF THE BUSINESS EVEN MORE CLOSELY IN 2015.

OUR RESPONSIBILITY

Kcell's status as one of Kazakhstan's leading companies brings a high degree of visibility. The Company sees this position as a privilege and is committed to being a role model for responsible business. Kcell firmly believes that in steadfastly adhering to the highest standards of ethical conduct in every interaction, it is setting the best example for all stakeholders: investors, customers, employees, partners, suppliers, public organisations and society in general. In doing so, it seeks to contribute to and promote an enduring culture of responsible business.

OUR PLATFORM

At Kcell, sustainability covers all efforts relating to how we account for our long-term effect on society and the environment. Our responsibility extends along the entire value chain. We believe that when we do good, it strengthens not only our business, but also the communities in which we operate, creating long-term shared value for society and shareholders. Sustainability is a vital part of our business model, strategy and philosophy: through it, we mitigate negative impact and create a positive effect on society.

In line with TeliaSonera, Kcell channels its responsible business efforts into the following areas of focus:

- Anti-bribery and corruption
- Responsible procurement
- Customer privacy
- Freedom of expression
- Environmental responsibility
- Occupational health and safety.

These areas are governed by an ethics and compliance framework, whose purpose is to ensure that Kcell has a systematic approach for implementation, monitoring and compliance.

Building on the foundations laid in 2013-2014, the Company increased both the size of the Sustainability function and the scope of its work in 2015. In December, it appointed a third person to the department. One employee received on-the-job training at TeliaSonera's headquarters in Stockholm to become a specialist in due diligence. This confirms Kcell's commitment to responsible business.

The compliance framework was further strengthened by introducing and revising numerous internal guiding documents. Over the year, Kcell implemented the Internal Reporting and Non-retaliation instruction, approved in December 2014. At the end of the year, the Company updated its procurement policy and the accompanying instruction and handbook, reflecting the substantial work done to overhaul the vendor approval process and re-screen the existing supplier pool in 2015.

Kcell held a further three governance, risk, ethics and compliance (GREC) meetings in 2015. Their purpose is to integrate risk areas and further embed risk management into the decision-making process. Bringing together the executive management, heads of departments and other key employees, they help to coordinate GREC efforts across the organisation.

ANTI-BRIBERY AND CORRUPTION

Kcell takes a "zero-tolerance" approach to corruption: it is committed to implementing effective measures to prevent, monitor and eliminate questionable business practices in any form. To this end, in 2014, the Company launched a major drive to root out corruption from any and every aspect of its activities, as part of a group-wide initiative by TeliaSonera.

The face-to-face anti-bribery and corruption programme established was developed further in 2015. With almost 100% of employees having successfully completed the foundation anti-bribery and corruption training – which is also now mandatory for all new employees – in 2014, Kcell was keen to continue its drive.

In 2015, the Company conducted another course, "Ethical Dilemma Training", which, while containing theoretical elements, is more practical than the foundation training. In interactive sessions, groups of employees discussed dilemmas, both from TeliaSonera material and those devised internally. The Ethics and Compliance team conducted the face-to-face training throughout the entire organisation. As Kcell has 18 offices spread across a vast country, this approach helped to unify the message even more. Over the reporting period, 745 employees, or 95% of the target group of "high-risk employees" (those dealing with third parties), underwent the new course.

Another key achievement in Kcell's anti-bribery and corruption work was the introduction of an electronic system to log potential or actual conflicts of interest. For employees in some areas, such as government relations, HR, procurement, ethics and compliance, an annual declaration of the presence or absence of any potential conflict of interest is now mandatory.

SPEAK-UP LINE AND DISCIPLINARY ACTION

Alongside the anti-bribery and corruption training programme, another major part of Kcell's approach is the Speak-Up line. Established in 2014 in all TeliaSonera subsidiaries, the line is a secure channel through which all stakeholders can report potential unethical business practices or misconduct. An independent third party manages the system to ensure the utmost impartiality and confidentiality. The portal is available on Kcell's intranet for employees and on the external website for third parties. Messages can be left online or with a call centre.

TeliaSonera and Kcell improved the accessibility and effectiveness of the Speak-Up line at the group and subsidiary level in the reporting period. The service is offered in 22 languages, and there is a direct link in the "Responsible business" section on Kcell's external website, which the Company created in 2015.

To promote the Speak-Up line as widely as possible, Kcell maintains a high-visibility employee communications campaign in its offices. It also introduced a separate internal reporting line for managers wishing to raise concerns about conduct.

Of the 141 whistleblowing reports logged with TeliaSonera during 2015, 62% came via the Speak-Up line. Of the total, 30 were received from Kcell. Of these, nine were subject to internal investigation, while four related to HR matters and were dealt with jointly by Kcell and TeliaSonera HR. The other 17 reports concerned matters that were sent to other departments for information (for example, supplier or customer complaints) or could be closed after an initial review and response to the whistleblower (for example, ethical reproach). Conflicts of interest remain the most commonly reported concern.

Kcell remains the business unit within the TeliaSonera group with the largest number of reports filed. This is seen not as negative, but rather as a positive indication that employees and managers are engaged and support the Company's ethics and compliance approach, and that they have the confidence to speak up without fear of retaliation.

RESPONSIBLE PROCUREMENT

Following the work to centralise procurement and establish a Tender Committee in 2014, the main initiative as part of Kcell's responsible business work in 2015 centred on knowing its suppliers better. In March, the Company introduced a mandatory due diligence process for all vendors seeking to do business with Kcell. It consists of an "information package", including a detailed questionnaire, and represents a more thorough screening system than the previous approach.

RESPONSIBLE BUSINESS CONTINUED

New suppliers are only one part of the picture. Also in January, as part of a wider "backlog" project by TeliaSonera, Kcell began a comprehensive review of all existing vendors, grouping them according to risk profile. A specially created Compliance Committee – comprising the heads of the Finance, Legal Affairs, Security, Ethics and Compliance and Procurement departments in Kcell – then reviewed each high-risk case and took one of several decisions. These include conducting new due diligence, holding a new tender and ending the relationship and any projects if necessary.

The Compliance Committee's role has since been extended as part of the drive, and it is now reviewing all existing contracts for deviations from Kcell's policies and procedures.

CUSTOMER PRIVACY

Kcell is committed to respecting and safeguarding its customers' privacy. Our aim is to integrate privacy as a natural part of our services, processes, infrastructure and daily activities. We strive to operate highly secure communication networks and take action to prevent unauthorised access to customers' personal data.

The Company's work in this area is guided by the Kcell privacy policy, which sets a consistent standard with regard to respecting customer privacy. Among other matters, the policy defines principles regarding the collection, processing and retention of personal data, transparency, data accuracy, risk assessments, supplier requirements, and technical and organisational measures to protect integrity and confidentiality.

Kcell pursues its customer privacy objectives in accordance with a dedicated road map. In 2015, a mandatory e-learning course regarding the road map was introduced and some 95% of employees completed it. Overall progress in the area is monitored by a specially appointed officer, a privacy governance organisation and GREC meetings.

In 2015, Kcell also began the process of signing a mandatory data protection agreement with vendors that handle customer information, to ensure that appropriate controls are in place in the supply chain. As of the year-end, around 70% of suppliers had signed the agreement, and the work is ongoing.

FREEDOM OF EXPRESSION

We believe that our services contribute to social development by enabling information and ideas to be shared openly.

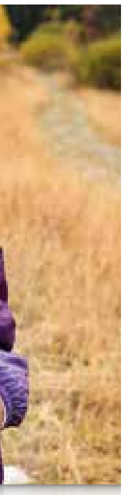
To this end, Kcell has a dedicated policy on freedom of expression in telecommunications. Its primary purposes are to reduce human rights risks relating to government surveillance of communications, and to give customers confidence that the Company will, wherever possible, respect and safeguard their freedom of expression.

The policy's principles apply to requests, demands and legislative initiatives by governments or national authorities relating to the surveillance of communications, including restrictions on access to networks and internet websites, and signals intelligence.

ENVIRONMENTAL RESPONSIBILITY

Kcell cares about the environment in which it exists and operates. We contribute to local and global environmental sustainability by developing, promoting and utilising resource-efficient and environmentally friendly services and by seeking to reduce our environmental footprint. We constantly look for opportunities to maximise the use of best practices and synergies between our businesses.

The Company contributes data about its energy and resource consumption for inclusion in TeliaSonera's sustainability report, in accordance with Global Reporting Initiative requirements. The consolidated information can be found at http://www.teliasonera.com/en/sustainability/reports/.



OCCUPATIONAL HEALTH AND SAFETY

For Kcell, the health and safety of employees is of paramount importance. We implement all measures in this area in accordance with the Labour Code of Kazakhstan and other corresponding regulations.

The Company has a policy and an instruction on occupational health and safety, which define its commitments aimed at safeguarding employees in the workplace. These include providing safety training and protective clothing and equipment; guaranteeing optimal labour conditions; standardising sanitary labour conditions; making health care services available; and monitoring compliance with occupational safety and health standards.

In 2015, Kcell received international OHSAS 18001 certification. In addition, based on risk assessments, it developed and implemented safety instructions covering offices, transport, warehouses and field maintenance, while around 200 employees underwent safety training.

EMPLOYEES

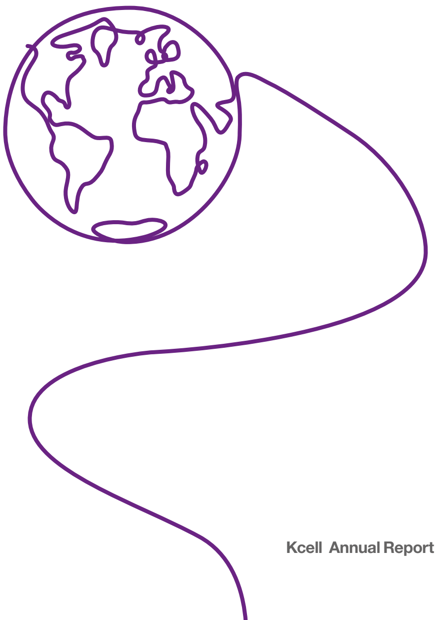
As a people-centric organisation, Kcell believes that its employees are the lifeblood of its business. As such, we aim to hire, develop and retain talented people and to be an employer of choice in Kazakhstan.

Kcell supports the international human rights and dignity of all employees as outlined by the UN declaration and core International Labour Organisation conventions.

All employees have a remuneration package that reflects internal equity and external local market conditions. We work with two different international HR consultants to monitor salaries in the local market. Based on the results of research conducted, we make suggestions to the management about shifting pay bands. We also conduct an annual review of employees' fixed pay, based on individual overall performance and differentiated within acceptable salary ranges.

In an effort to create a positive and motivating work environment as well as improve the quality of life of employees and their family members, Kcell provides numerous benefits over and above those required by law in Kazakhstan. Our comprehensive benefits package includes: voluntary medical insurance, transportation, mobile communications, a meal allowance and financial aid in the case of sickness of an employee and close relative or death of a close relative.

As of 31 December 2015, Kcell had 1,830 employees, up 5.4% year-on-year. We support equality and diversity in the workforce. At the year-end, the Company employed 769 male and 1,061 female staff representing more than 31 nationalities.



COMMITTED TO MAKING A DIFFERENCE

JUST AS POSITIVE COMMUNICATION CONTRIBUTES TO PEOPLE'S WELLBEING, SOCIAL RESPONSIBILITY IS AN INHERENT PART OF KCELL'S PHILOSOPHY. THE COMPANY IS COMMITTED TO PLAYING A PROACTIVE ROLE IN SHAPING SOCIETY FOR THE BETTER.

Every business has a symbiotic relationship with the society in which it operates: their success is interdependent. Kcell demonstrated its commitment to pursuing the highest principles of corporate social responsibility (CSR) alongside market leadership almost a decade ago. In 2007, it was the first telecommunications company in Kazakhstan to sign the United Nations Global Compact, which seeks to create a sustainable and inclusive global economy by encouraging businesses to follow key principles regarding human rights, labour, environment and anti-corruption.

Even before then, since its very creation, Kcell has been actively involved in tens of initiatives aimed at improving life for people where possible. With a view to maximising the benefit of its efforts and organising its approach most effectively, the Company has identified five key areas in which to target support: education, cultural heritage, sport and healthy lifestyle, society and environment.

When evaluating potential projects, Kcell seeks to engage with established partners committed to making a difference over the long term and for as many individuals as possible. Of particular interest are initiatives that strengthen the fabric of society, by contributing to sustainable development, helping those less fortunate and creating equal opportunities for self-improvement, as well as those that drive progress through innovation, integrity and inspiration.

Helping people in need and investing in a brighter tomorrow become especially critical in more challenging times. In 2015, Kcell was involved in 27 CSR projects, some of which have been under way for years, and the Company would like to thank every one of its partners for their support.

EDUCATION

Education is one of the primary drivers of personal, social and national development. As such, making learning accessible to as many people as possible is one of Kcell's overriding CSR priorities. The Company seeks to provide ongoing support to both individuals dedicated to self-improvement through education and organisations established to help them, and its work in this area often receives authoritative acclaim.

One such example is an award that Kcell won in 2015 for its involvement in Coursera, the e-learning portal. Founded in 2012, it aims to provide universal access to online courses from leading universities, and currently offers more than 1,800 study programmes from around 140 higher educational institutions worldwide. The platform also acts as a forum where students can connect with fellow learners and instructors.

The initiative incorporates many of Kcell's central CSR principles – including sustainable development, self-improvement and innovation – and the Company was quick to become a part of the project. In 2014, it financed and managed the translation of five of the most popular Coursera programmes into Kazakh: "Gamification", "Creative Programming for Digital Media and Mobile Applications", "Inspiring Leadership", "Networks: Friends, Money and Bytes" and "Learn to Program: the Fundamentals". This underscores its support for universal access to education in Kazakhstan, technology as a means of progress and the national language.

In addition, as part of Kcell Academy, a major ongoing educational endeavour, the Company supported numerous student projects. One notable example was the Progressive Generation Summit at KIMEP University, at which students made presentations on journalism, marketing and PR, and the winners received work placements at companies represented on the jury. Another was the seventh Republican Student Olympiad at Al-Farabi Kazakh National University. Some 22 teams from 11 cities in Kazakhstan took part in the event, held to encourage innovation and excellence in academia.

In 2015, these efforts were recognised, when Kcell won the "Support for Students" nomination in the third annual Corporate Social Responsibility Awards organised by the European Business Association of Kazakhstan. This followed its victory in the "Support for Kazakh Entrepreneurs" category in the previous year.

In continuation of its role in the inaugural Tech Garden festival last year, Kcell again acted as official partner in 2015. The festival, Kazakhstan's largest, is organised by the Tech Garden innovation cluster fund in Almaty, which was established to stimulate innovation, technological potential and industrial competitiveness in the country.

This time, the festival took place over three days in September on the campus of KIMEP University. It featured two main events, Tech Garden Cup and Tech Garden Start-up Day, competitions in which founders of start-ups presented their projects and ideas to potential investors. The winners received grants of up to KZT5 million.

CULTURAL HERITAGE

Cultural heritage plays a vital role in society, as it can give people a sense of belonging, pride and respect. Alongside its drive to encourage positive change through innovation, Kcell recognises the importance of a nation's cultural foundations and is committed to helping to preserve them.

Like Coursera, much of Kcell's CSR work relates to more than one of its priority areas. A similar example is www.kitap.kz, a free online library of books in Kazakh, which promotes both education and the country's cultural heritage through the national language. Launched in 2012, it is part of the WikiBilim public fund's Kazakhstan Open Library project, which aims to popularise national works of literature, science and culture by curating a universally accessible multimedia collection of the country's cultural heritage in digital format. In November 2015, Kcell unveiled the Kitap free mobile application, which gives access to more than 4,000 books from the online library.

Another project aimed at developing and promoting national identity in which Kcell took part in 2015 was "Yel Tulghasy" ("Name of the Motherland"). The competition, which was launched in 2011, is held annually to identify people associated with meaningful achievements in Kazakhstan since its independence in 1991. Residents and people worldwide vote via a short local SMS number or online in seven categories – social activities, business, arts and culture, science, sports, new name, historical personality – each with 10 entrants, from June to September, and the results were announced in October. In 2015, more than 350,000 people voted, three times as many as in 2012. Kcell, which is the same age as modern-day Kazakhstan, supported the Exclusive multimedia portal in organising the project.

Kcell also continued in its role as general partner of TEDx in Kazakhstan in 2015, helping to organise the fifth annual conference in Almaty, "Dare to Be", which was held in the Kurmangazy National Conservatory. TED is an international non-profit organisation dedicated to sharing knowledge and ideas openly with a view to creating positive change (the 'x' denotes an event outside the US, where TED began). This reflects one of Kcell's overriding CSR objectives, and the Company has been TEDx's main strategic partner in Kazakhstan since the first conference in the country in 2010.

SPORT AND HEALTHY LIFESTYLE

Like education, sport is central to the development of individuals, communities and nations. It stimulates health, energy and spirit and encourages teamwork and friendly competition. Kcell provides financial, technological and other assistance to numerous sporting endeavours at the local, national and international level.

In summer 2015, the Special Olympics in Kazakhstan, with which Kcell has been a partner for more than 15 years, organised a Camp Shriver summer sports event with help from the Company. The camp gives young athletes with intellectual disabilities the chance to take part in individual and team competitions, learn new sports and meet like-minded people. The 2015 event, the fifth in Almaty, was held at the Haileybury international school from 22 June to 3 July, and some 70 young athletes, 10 coaches and 15 volunteers took part.

Camp Shriver, which began in the US in 1962, is now an international movement, as is the Special Olympics, which was established in 1968. Kcell is especially proud of its work with both of these organisations, which enable people with intellectual disabilities of all ages to train and compete in sporting events worldwide. Today, the Special Olympics brings together more than 4 million athletes with intellectual disabilities.

In October 2015, a sports festival for disabled people was held in Taraz, and Kcell acted as general partner. The programme featured contests in various activities: athletics, arm-wrestling, draughts, equestrian sport and darts. The event was arranged by ASAR, an association of legal organisations that helps people with disabilities in Zhambyl Region.

In 2015, Kcell acted as general partner of another sporting event in Kazakhstan: the annual championship of the Almaty Student Football League, which began in November. The organiser is the AdamaSky public association, which established the league in 2012, and it has since become the largest in the city. The Company supports the competition through its Activ brand.

Kcell also seeks to make sport and healthy living a central part of life for its people. Its headquarters in Almaty have sports facilities, including table-tennis tables and a gym. There is a corporate football team that competes against teams from other firms in the city, while the Company organises in-house basketball and table-tennis tournaments.

This ongoing commitment to supporting numerous sporting activities was recognised in 2015, when Kcell won the “Contribution to Promoting a Healthy Lifestyle in the Community” category in the Assyl Alma competition for the second year in a row. The judges noted the Company’s contribution to a broad range of sporting initiatives in 2014, including its support of the Kazakh national team at the Sochi Winter Paralympic Games; the third Almaty marathon, “Courage to Be the First”; and the Special Olympics in Kazakhstan.

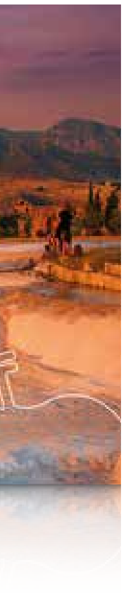
The Assyl Alma competition is organised by the Almaty Department of Health and the city administration. Since its creation in 2009, more than 250 enterprises in Almaty have competed, while Kcell has won three times.

SOCIETY

Society is the sphere in which we interact: it shapes our lives, meaning that we all have a vested interest in it flourishing. As the leading provider of telecommunications in Kazakhstan, Kcell is at the heart of daily life and strives to use this position to support social development where possible.

Part of the core of society is family. In June 2015, Kcell supported and participated in the Unity Family Festival in Almaty, dedicated to strengthening ties between children and parents, promoting family traditions and raising awareness about young people with disabilities. Over two days, shows, contests and master classes were held to encourage involvement, learning and creativity in various areas, such as health, sport and arts and crafts. As part of this, through its Activ brand, Kcell organised a site called “Digital Life” to teach parents and children how to use smartphones and their applications more beneficially: to stay in contact at all times, monitor exercise and calorie intake, and so on.

The site proved a precursor for a larger, ongoing Digital Life project. Announced in July, it aims to increase mobile literacy and raise awareness about the opportunities and benefits that smartphones and mobile applications offer. From July to the year-end, the project helped thousands of people in Kazakhstan to learn how to use smartphones and mobile applications more to their advantage. More than 150 training sessions and workshops for all social groups, including students and pensioners, were held in 16 cities of Kazakhstan. People from all walks of life – business, culture, education and everyday life – could choose from 12 topics, such as “Mobile Media”, “Mobile Applications for Beginners”, “Mobile Security”, “Mobile Health”, “Mobile Government”, “Mobile Applications for Education”, “Mobile Applications for Cultural Society” and “Mobile Applications for Business”.



More than 400 students from 19 universities and high schools in 16 cities underwent the “Mobile Applications for Education” training, while 254 journalists, bloggers and other people in media attended the “Mobile Media” course in 12 cities. The “Mobile Health” training attracted 322 people in 15 cities and showed participants how to use cardiographs, develop a health calendar, use calorie counters, plan medication and even find affordable medicine.

The organisers of Digital Life are particularly proud of one initiative called “Grandmas, Grandpas and Smartphones”, which was held in six cities. Its aim was to teach people aged 50 and over to use smartphones and overcome the so-called “digital barriers”, enabling them to enjoy all of the benefits of modern mobile technology. Through the course, around 60 people aged 50 and over began to use smartphones for the first time. One 82-year-old joined a social media network and found friends. Another pensioner shot a video and posted it online. A third now communicates more regularly with her grandson through mobile messaging.

The Digital Life initiative fits with Kcell’s drive to increase smartphone penetration and help people to maximise their benefits, and it continues in 2016.

ENVIRONMENT

The world represents an ecosystem consisting of many finite resources, and working to preserve it today will help the generations of tomorrow. Throughout its activities, Kcell seeks to promote ‘green’ values and initiatives and mitigate its environmental footprint.

Building on its cooperation with “Plant a Tree” in 2014, Kcell supported the YARKOcross five-kilometre races, held to raise funds for the non-profit organisation, in 2015. They took place in four cities: Almaty, Astana, Karaganda and Shymkent. Along each route, Activ sponsored a branded station, one of several where participants, who wore white for the race, were painted a different colour to mark their progress.

In 2014, more than 11,000 people took part in YARKOcross and some 4,250 trees were planted in Almaty, Astana and Karaganda with the money raised. In 2015, over 17,500 participants entered the four races, helping to fund thousands of new trees. Kcell originally joined forces with “Plant a Tree” in 2014 in the joint Green City environmental initiative. As part of it, the Company created the short number 1101, through which people can donate 100 tenge to the organisation’s work by sending a non-blank message.

In February 2015, Kcell and the consumer protection authorities in Zhambyl Region held a media event to raise awareness about the sanitary rules, regulations and standards relating to the installation of mobile telecommunication network equipment. As part of this, the electromagnetic fields of two of the Company’s base stations in residential areas were tested. Their electromagnetic flux was below the maximum permissible in Kazakhstan, which is one 10th of the level set in the EU and US and one 40th of that in Israel.

BOARD OF DIRECTORS

KCELL'S BOARD OF DIRECTORS COMPRISES PROFESSIONALS WITH EXTENSIVE EXPERIENCE OF OVERSEEING LEADING COMPANIES IN THE TELECOMMUNICATIONS AND OTHER SECTORS WORLDWIDE.

JAN RUDBERG
CHAIRMAN, INDEPENDENT NON-EXECUTIVE DIRECTOR

Jan Rudberg has been the chairman of the Board of Directors and an independent director at Kcell since 9 November 2012.

Mr Rudberg is the chairman of the board of directors at Hogia AB, and an independent director and the chairman of the Audit Committee at PJSC MegaFon. He is a member of the board of directors at Turkcell Iletisim Hizmetleri A.S. and the chairman of the board of directors at CJSC Belarusian Telecommunications Network.

From 1994 to 2003, he held various managerial positions with Telia AB. He previously served as CEO of Tele2 AB, executive vice president of Nordbanken AB and CEO of Enator AB.

Mr Rudberg holds a degree from the Gothenburg School of Business Administration, Sweden.

WILLIAM H R AYLWARD
INDEPENDENT NON-EXECUTIVE DIRECTOR

William H R Aylward has been an independent member of the Board of Directors at Kcell since 24 May 2013, and he has been chairman of the Strategic Planning and Personnel and Remuneration committees.

Mr Aylward has extensive experience working as chairman, CEO and non-executive director of both private and public companies across various sectors, including telecommunications, media and technology (TMT), energy, software and services, and manufacturing. Since 2011, he has served as chairman and CEO of Alchemy Group, which primarily focuses on TMT and energy.

Mr Aylward has been a strategic investment adviser at Redwave Technology Ltd since 2006. From 2008 to 2011, he was CEO of Belvedere Media Santa Monica, CA. Before that, he held senior management positions in numerous companies, including Jonathan Partners Inc, Bulgarian Telecommunications Company, Advent International, Fusion Telecommunications Ltd, Landtel Communications Inc, Kingston Communications Plc and Westminster Cable UK. He has extensive M&A experience.

Mr Aylward graduated from the University of London with a BSc in Mechanical and Production Engineering.

VLADIMIR SMIRNOV
INDEPENDENT NON-EXECUTIVE DIRECTOR

Vladimir Smirnov has been an independent member of the Board of Directors at Kcell since 24 May 2014.

Mr Smirnov's background is in sport at international level. A professional cross-country skier since 1976, he won a gold medal at the 1994 Winter Olympics in Lillehammer, was four times world champion, and won the world cup 29 times and has been a general holder twice. He was also a member of the International Olympic Committee (2000–2002) and its Athletes' Commission (1998–2002) and vice-president for sport in the International Biathlon Union (2006–2010). In 1991, he moved to Sweden as a professional athlete.

From 1999 to 2004, Mr Smirnov ran his own company, Vladimir SMIRRE Smirnov AB, working in cooperation with Veidekke AS, Norge. From 2004 to 2006, he was the managing director for Almaty's application to host the 2014 Winter Olympics. From 2005 to 2007, he consulted for Scania in Kazakhstan, taking the position of vice director of the group's representative office. In 2006, when the executive board of Scania Group decided to establish regional operations in Kazakhstan, Scania Central Asia, it appointed Mr Smirnov as managing director. This role included developing the division's own infrastructure in Kazakhstan, including building a Scania service centre, a €15 million investment. In August 2014, he became the general director of the Astana Presidential Professional Sports Club.

Mr Smirnov graduated from the Kazakhstan Institute of Physical Culture and Sport in 1985. In September 2014, he became the Honorary Consul of the Republic of Kazakhstan to the Kingdom of Sweden, having also held the position from 2001–2004.

* As of the end of 2015, two seats on the Board of Directors were vacant; just after the reporting period, Peter Lav and Emil Nilsson joined the Board of Directors, returning the total number of members to seven.

INGRID STENMARK

NON-EXECUTIVE DIRECTOR (REPRESENTATIVE OF THE SHAREHOLDER FINTUR HOLDINGS B.V.)

Ingrid Stenmark has been a member of the Board of Directors at Kcell since 24 May 2014. She is a vice president and head of the CEO's office at TeliaSonera AB.

Since joining TeliaSonera in 1994, Ms Stenmark has held several managerial positions in the Group. Currently, she is a vice president and head of the CEO's office (since May 2014). Previously, she was acting general counsel and head of Regulatory Affairs (February 2013 to August 2013), deputy and acting general counsel (September to December 2013), general counsel for the Mobility Services business area (January 2007 to January 2013), head of Corporate Affairs for Norway, Denmark and the Baltic countries (January 2003 to December 2006), and head legal counsel for the Mobile business area at Telia AB (October 1998 to December 2002). Before joining TeliaSonera, she worked at the law firm Nordlander.

Ms Stenmark has been a board member of numerous companies in the TeliaSonera group, including a member of the supervisory council of SIA LMT, the mobile operator in Latvia (2003–2013). She is currently a member of the board of directors at PJSC MegaFon.

Ms Stenmark holds a Masters in Law from Stockholm University.

DOUGLAS LUBBE

NON-EXECUTIVE DIRECTOR (REPRESENTATIVE OF THE SHAREHOLDER FINTUR HOLDINGS B.V.)

Douglas Lubbe became a member of the Board of Directors at Kcell on 3 February 2015.

Mr Lubbe joined TeliaSonera as CFO for Eurasia, based in Istanbul, in July 2014. Before that, he had been working at Vodacom Group in various senior managerial positions since 1997. During his tenure there, he served on numerous boards and board sub-committees at subsidiaries. Between April 2012 and September 2012, he served as interim managing director at Vodacom Mozambique, successfully seeing off the launch of a third operator shortly after his arrival and also starting a project to overhaul the sales and distribution network. In 2013, he was transferred to the Mergers and Acquisitions division in Vodacom Group and was responsible for the integration of a pending acquisition that would combine a fixed-line operation with the South African business.

Mr Lubbe is a qualified chartered accountant and a registered member of the South African Institute of Chartered Accountants. He also holds an MBA from the University of Southern Queensland in Australia and an executive management diploma from the University of South Africa.

EXECUTIVE MANAGEMENT

KCELL'S MANAGEMENT TEAM BRINGS TOGETHER A UNIQUE AND STRONG COMBINATION OF INDUSTRY EXPERIENCE, SKILLS AND VISION.

ARTI OTS
CEO

Arti Ots became CEO on 19 December 2014. After receiving regulatory approval, he began in the role on 9 February 2015.

Before his appointment, Mr Ots had been vice president for Commercial and Business Development at TeliaSonera Eurasia since May 2014. Between February 2012 and May 2014, he was CEO of Elion, TeliaSonera's Broadband Services division in Estonia. Prior to becoming CEO, he had spent ten years at Elion, working as director of Marketing between 2004 and 2012.

Mr Ots holds an MBA from Henley Business School.

TROND MOE
FINANCE DIRECTOR

Trond Moe became director of the Finance department at Kcell on 27 January 2015.

Before joining Kcell, Mr Moe served as CFO of Mode Group in London. From 2011 to 2013, he was a partner at Eastern Europe Group (Ukraine), consulting foreign investors on strategic risk in Eastern Europe. From 2006 to 2011, he was a country manager at Telenor, Ukraine, where he oversaw its investments in the country, including Kyivstar. From 2000 to 2006, he held senior positions at telecommunications businesses in several regions, including Eastern Europe and Asia.

Mr Moe holds an MSc in Economics and Business Administration from the Norwegian School of Economics.

ALIYA KISHKIMBAYEVA
DIRECTOR OF LEGAL AFFAIRS DEPARTMENT

Aliya Kishkimbayeva has been director of the Legal Affairs department at Kcell since March 2010.

Ms Kishkimbayeva joined Kcell in 2007 as a senior lawyer and later served as head of Contracts and Litigation. Previously, she worked as a lawyer at AralParker and PetroKazakhstan.

Ms Kishkimbayeva holds a degree in English from the Kazakh State University of World Languages and in Law from the Adilet Higher Law School.

OLGA TSOI
DIRECTOR OF B2B DEPARTMENT

Olga Tsoi has been director of B2B at Kcell since 10 December 2013.

Before that, Ms Tsoi had held numerous positions at Kcell since 2008, including head and manager of Corporate Marketing. Prior to joining the Company, from 2006 to 2007, she was a customer marketing specialist at Colgate Palmolive. From 2007 to 2008, she was a trade marketing manager at Wimm-Bill-Dann Central Asia.

Ms Tsoi holds a BSc in Science and a Masters of Business Administration from KIMEP University.

MARAT DZHILKIBAYEV
DIRECTOR OF REGIONAL OPERATIONS AND CUSTOMER RELATIONS DEPARTMENT

Marat Dzhilkibayev has been director of the Regional Operations and Customer Relations department (formerly Regional Development) at Kcell since 3 January 2013.

Mr Dzhilkibayev joined Kcell in 2009 and was head of the Kostanay branch and manager of the Almaty regional office. Prior to that, he spent 12 years at several banks in Pavlodar and Kostanay, progressing from specialist to director of a bank branch at one of them.

Mr Dzhilkibayev holds a degree in Economics and Management from Pavlodar State University.

DENIS VANYUSHKIN
ACTING DIRECTOR OF B2C DEPARTMENT

Denis Vanyushkin has been acting director of B2C at Kcell since July 2015.

Mr Vanyushkin joined Kcell in 2008 as a retention group supervisor and then became head of Acquisitions and Retentions in 2010. Before that, from 2000, he worked at Coca-Cola Almaty Bottlers, progressing through numerous roles in the IT and Marketing departments, including acting marketing manager.

Mr Vanyushkin holds a BSc in Mathematics and Computer Science with a minor in Economics from Almaty State University.

RIKARD SLUNGA
DIRECTOR OF TECHNOLOGY DEPARTMENT

Rikard Slunga became director of the Technology department on 1 April 2014 and, after receiving all of the regulatory approval, officially began in the role on 25 July 2014.

Mr Slunga has 30 years' experience in telecommunications. He started his career in 1985 as a manager at Ericsson and later became CTO at Orange Sverige. From 2003 to 2009, he worked for companies including Vodafone Global and Nordisk Mobiltelefon Sverige, before moving into consultancy.

Mr Slunga is a graduate of Luleå University of Technology and Bromma Flight School.

EVGENY KLIMOV
DIRECTOR OF SECURITY DEPARTMENT

Evgeny Klimov has been director of the Security department at Kcell since 10 November 2014.

Mr Klimov has experience of managing the IT security department at a major international consultancy, as well as training and successfully completing the ISO/IEC 27001:2005 certification at a major Russian steel holding.

Mr Klimov graduated from the Russian Academy of the Federal Security Service, where he majored in IS Organisation and Technology.

ALIAKSANDR PRAKAPOVICH
DIRECTOR OF CENTRALISED PROCUREMENT DEPARTMENT

Aliaksandr Prakapovich has been director of the Centralised Procurement department since 18 December 2014.

Mr Prakapovich joined Kcell in August 2014 as deputy director of the Procurement and Administration department. He led the drive to centralise the procurement function. Before that, he spent eight years in procurement at Velcom, the first GSM operator in Belarus, ultimately heading a department.

Mr Prakapovich holds a degree in International Economic Relations from the Institute of Parliamentarism and Entrepreneurship in Minsk.

CORPORATE GOVERNANCE

KCELL IS COMMITTED TO INTERNATIONAL BEST PRACTICE IN CORPORATE GOVERNANCE, AS REINFORCED BY ITS LISTING ON THE LONDON STOCK EXCHANGE. THE COMPANY HAS ESTABLISHED A RIGOROUS CORPORATE GOVERNANCE SYSTEM, UNDERPINNED BY STRONG INSTITUTIONS, TO ENSURE ACCOUNTABILITY, TRANSPARENCY AND RESPONSIBILITY THROUGHOUT EVERY AREA OF THE BUSINESS.

Corporate governance guidelines for Kazakh companies are set out in the Kazakh Model Code, which is based on international best practice in corporate governance.

The Model Code contains certain general rules and recommendations regarding corporate governance that may be applied on a voluntary basis. The Kcell Corporate Governance Code, which has been adopted by the General Meeting of Shareholders, is based on the Kazakh Model Code and TeliaSonera's Code of Ethics and Conduct. It complies with the regulations of the Kazakhstan Stock Exchange concerning joint stock companies and securities.

Corporate governance at Kcell is based on the principles of fairness, honesty, responsibility, transparency, professionalism and expertise. The Company's system of corporate governance requires respect and protection for the rights and interests of all stakeholders; increases Kcell's efficiency and market value; and promotes financial stability and profitability.

CORPORATE GOVERNANCE PRINCIPLES

Protecting the rights and interests of shareholders	The Company guarantees fair and equitable treatment of all shareholders, assists shareholders in participating effectively in key decisions, and provides detailed information relevant to their interests.
Effective management of the Company by the Board of Directors and Chief Executive Officer (CEO)	The Board of Directors aims to increase the Company's market value and provide shareholders with a balanced and accurate assessment of progress and prospects. The CEO manages the Company's daily operations in accordance with the established business plan and development strategy.
Transparency and objectivity in disclosure of information on Company operations	The Company aims to ensure maximum transparency through the timely and accurate disclosure of information.
Legality and ethics	The Company operates in strict accordance with the law, its Corporate Governance Code and generally accepted standards of business ethics.
Effective dividend policies	The Company pays dividends in accordance with the law, the Charter and the relevant resolutions of the General Meeting of Shareholders. Net income is distributed in accordance with the decision of the General Meeting of Shareholders on payment of dividends, taking into account the Company's development goals and the ratio of long-term net debt to EBITDA.
Effective human resources policies	The Company guarantees its employees' rights under the law and the Kcell Code of Ethics and Conduct, developed based on TeliaSonera's Code of Ethics and Conduct. The Company develops partnership relations with staff to address social issues and the regulation of working conditions.
Environmental protection	The Company considers the need for environmental preservation in conducting its operations and complies with environmental safety standards established by the law and its Code of Ethics and Conduct.
Settlement of corporate disputes	In the event of a corporate dispute, participants can seek resolution through negotiation, in order to effectively protect the rights of all shareholders and the Company's reputation.

CORPORATE GOVERNANCE POLICIES

Kcell has adopted a range of policies in support of its commitment to establishing a strong corporate governance framework. They include the following:

- Corporate Governance Code
- CEO's instructions
- Procurement Policy
- Financial Management Policy
- Insurance Policy
- Risk Management Policy
- Communication Policy
- Recruitment Policy
- Remuneration Policy
- Insider Information Policy
- Insider Trading Policy
- Security Policy
- Code of Ethics and Conduct
- Anti-corruption Policy
- Privacy Policy
- Freedom of Expression in Telecommunications Policy
- Occupational Health and Safety Policy
- Supplier Code of Conduct.

UK CORPORATE GOVERNANCE CODE

In keeping with Kcell's GDR listing on the London Stock Exchange, the Company is aiming to move towards compliance on a voluntary basis with the UK Corporate Governance Code.

BOARD OF DIRECTORS

Kcell's Charter sets out the duties of the Board and the CEO. Under the Charter, the Board is responsible for the general management of Kcell's activities. Besides formulating strategies and approving plans for the Company's development, the Board is responsible for taking decisions on establishing Kcell branches and representative offices; on the Company acquiring or disposing of 10% or more of third-party shares; on concluding major transactions and transactions with related parties; on approving annual budgets; and on deciding other issues that belong to the exclusive competence of the Board of Directors according to the Company's Charter and the Joint-Stock Company Law of the Republic of Kazakhstan.

The CEO and executive management of Kcell are a highly professional team of experts with experience spanning telecommunications, finance, marketing and information technology. The Company's Charter details the CEO's responsibilities in managing daily operations. These include all matters not within the exclusive jurisdiction of the Board of Directors or the Annual General Meeting (AGM) of Shareholders. In addition, the CEO is responsible for executing decisions taken by the AGM and the Board of Directors.

MEMBERSHIP OF THE BOARD OF DIRECTORS

Members of the Board of Directors are elected at the General Meeting, where their terms of office are also decided. The current members of the Board of Directors have been elected for the term until the next General Meeting, the agenda of which will include the issue of re-election of the Board of Directors.

The Board is chaired by Jan Rudberg*. The CEO, Arti Ots, is not a member of the Board. The other members of the Board are:

William H R Aylward*
Vladimir Smirnov*
Ingrid Stenmark
Douglas Lubbe.

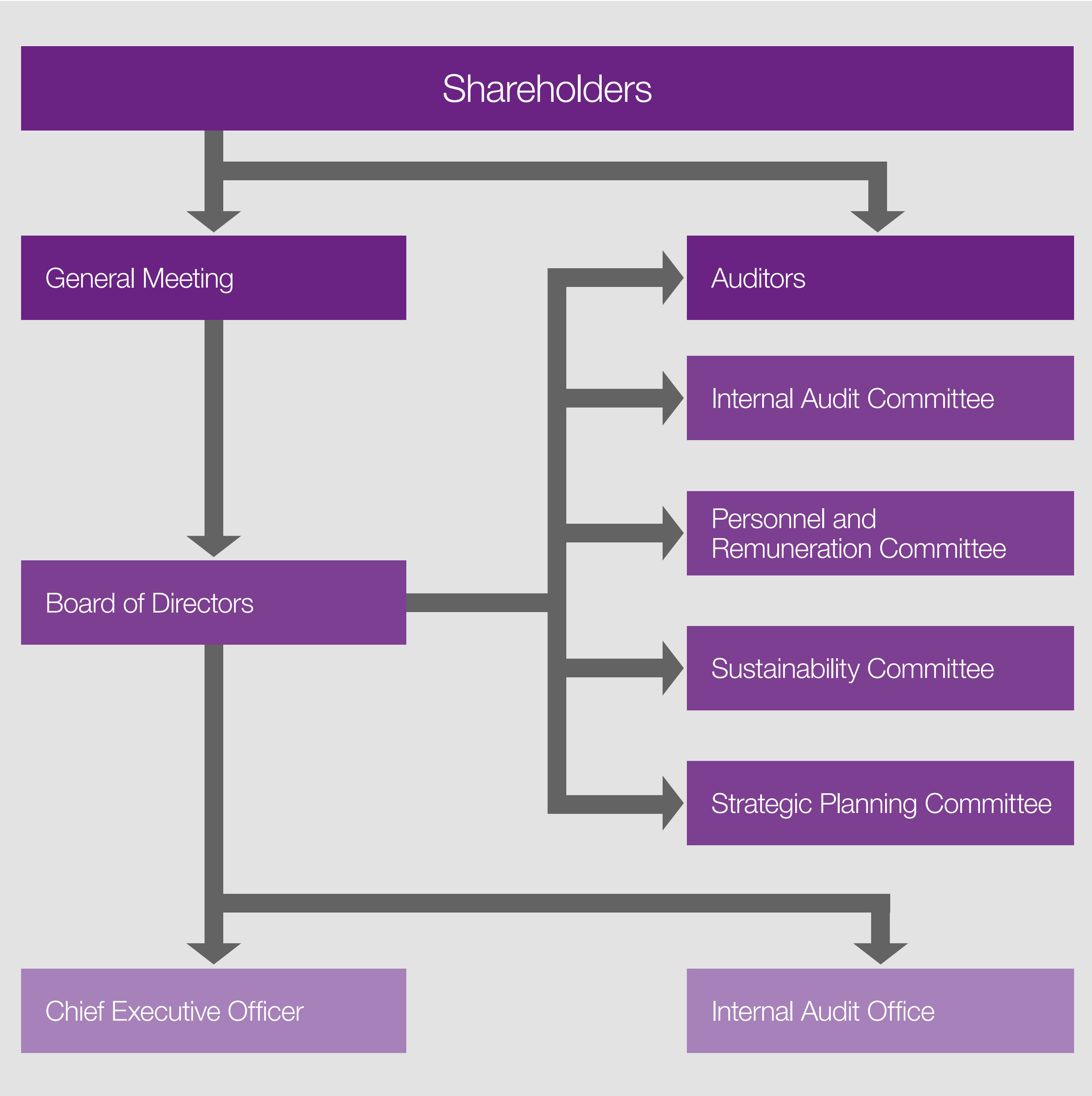
* The Company Charter and the law require that at least thirty percent (30%) of the members of the Board be independent directors. UK legal advice has confirmed that Mr Rudberg, Mr Aylward and Mr Smirnov are independent in accordance with the UK Corporate Governance Code (section B.1.1).

The Directors' biographies are on pages 30-31.

In 2015, no members of the Board of Directors held shares in Kcell.

CORPORATE GOVERNANCE CONTINUED

CORPORATE STRUCTURE



COMMITTEES OF THE BOARD OF DIRECTORS

In line with the legislation on joint stock companies in Kazakhstan, Kcell has established the following committees to consider important issues and prepare recommendations for the Board of Directors: Strategic Planning Committee, Personnel and Remuneration Committee, Internal Audit Committee and Sustainability Committee (previously the "Social Matters Committee", it was renamed in 2014 as part of the Company's increasing focus on sustainability).

The Board may create other committees at its discretion. The chairperson of each committee is an independent director. The law also requires that committees be drawn from members of the Board of Directors who have the necessary expertise to serve on the given committee. All committees are advisory bodies of the Board of Directors.

Committee name	Role	Chairman and members
Strategic Planning Committee	Makes recommendations to the Board of Directors on the Company's strategic development. One meeting is held each year.	William H R Aylward (Chairman) Jan Rudberg Vladimir Smirnov Ingrid Stenmark Douglas Lubbe
Personnel and Remuneration Committee	Makes recommendations to the Company's Board of Directors on qualification requirements for employees, appointment and dismissal of certain employees, bonuses and salary for management bodies, and internal documents evaluating staff fitness, training and motivation of employees. Two meetings are held each year.	William H R Aylward (Chairman) Ingrid Stenmark
Internal Audit Committee	Makes recommendations to the Company's Board of Directors on financial statements, internal controls and risk management, and internal and external audits. Four meetings are held each year.	Jan Rudberg (Chairman) Douglas Lubbe
Sustainability Committee	Makes recommendations to the Company's Board of Directors on internal documents related to social accountability and sustainable development; improvement of the sustainability strategy; development and implementation of the policies and procedures of the Company relating to environmental and social sustainability, including but not limited to, respecting human rights, environmental safety, social responsibility, compliance with business ethics requirements in accordance with internal documents of the Company and applicable legislation. Two meetings are held each year.	Vladimir Smirnov (Chairman) Ingrid Stenmark Jan Rudberg

BOARD ACTIVITIES

Kcell uses specialist software that is designed to improve Board communications and effectiveness. This provides end-to-end security for its governance and workflow management. The Board of Directors held in total ten meetings during 2015: eight were conducted in person, two via conference calls, and more than 30 decisions were adopted by voting in absentia.

The Board's activities during 2015 included:

- Updates on business, commercial, operational and legal matters, and approvals arising from these
- The 2015 annual operating plan and budget
- Approvals of major contracts, agreements and purchases
- Approval of the appointment and terms of employment of the members of the senior management and executive bodies of Kcell subsidiaries
- Preliminary approval of the 2014 annual financial report and approval of quarterly financial reports
- Convocation of the Extraordinary General Meeting of Shareholders to approve amendments to the Charter and the appointment of a new member of the Board of Directors
- Convocation of the 2015 AGM, including dividend proposals
- Interested-party transaction approval
- Election of Board Committee members
- Approval of audit fees
- Approval of revisions to policies, including the updated Procurement Policy
- Approval of the purchase of an interest in KazNet Media LLP
- Approval of changes to the terms and conditions of loan agreements.

The Board's agenda for 2016 is as follows:

There are five Board meetings scheduled for 2016. As well as regular items covering financial results, risks reviews and reports from the CEO and Board committees, the Board's schedule includes a review of the Company's policies; business development projects; public affairs; year-end matters, including the external audit report, annual report and AGM; strategy; sustainability approach; and the annual operating plan. In addition, ad hoc meetings or conference calls will be held as and when required for approvals when there is no scheduled meeting planned.

ACCOUNTABILITY AND VIABILITY

The Board of Directors is responsible for preparing the annual report and accounts. They consider that the 2015 annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy. A description of the basis on which Kcell generates value over the longer term, its business model, and the strategy for delivering the objectives of the company are explained in the Strategic Report on pages 8-15.

The Board has assessed the Company's prospects over the next year, being the period over which the key risks facing the Company can be accurately assessed and mitigated. Based on this assessment, the Board has a reasonable expectation that the Company will be able to continue to operate and meet its liabilities as they fall due over the period of their assessment.

The Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten Kcell's business model, future performance, solvency or liquidity. These risks and an explanation of how they are being managed or mitigated are described in the Risk Management section on pages 40-41. The Company's risk management and internal control systems are monitored by the Board, and their effectiveness has been reviewed during the year. This review has covered all material controls, including financial, operational and compliance controls.

INTERNAL AUDIT COMMITTEE

The Internal Audit Committee met four times during 2015. It considered significant issues in relation to financial statements; initiated a series of internal investigations based on whistleblowing allegations and the findings of an internal audit (see page 23); and requested a review of existing procurement policies to ensure transparency and financial control.

An Internal Audit department was established in 2013, and the Committee monitors and reviews the effectiveness of its activities.

The Committee also has primary responsibility for making recommendations on the appointment, reappointment and removal of the external auditor to the General Meeting of Shareholders. Deloitte has been the Company's auditor since 2014. To protect its independence, Deloitte is not engaged for any non-audit services for Kcell.

REMUNERATION OF THE BOARD OF DIRECTORS

In accordance with Kcell's regulations on the amount and terms of remuneration and compensation of expenses paid to the Board of Directors' members for the fulfilment of their duties, remuneration is paid to independent directors and to directors who are not employed at TeliaSonera. The amount of remuneration paid to the Board of Directors consists of two parts: a fixed annual remuneration, which depends on attendance at meetings by Board members, and an auxiliary annual remuneration for participation in Board committees. The regulation also provides for the compensation of expenses incurred by the Board of Directors when fulfilling their duties.

The General Meeting of Shareholders held in 2012 approved the following pre-tax annual remuneration for those independent directors and directors who are not employed at TeliaSonera: fixed annual remuneration of US$75,000; auxiliary annual remuneration for chairing the Board of Directors of US$25,000; US$15,000 for participating in the Internal Audit Committee; and US$6,000 for participating in any other Board committee. These payments remained unchanged in 2014 and 2015.

According to the payment terms, 50% of the fixed annual remuneration fee and annual additional remuneration for committee membership is paid six months after a director takes office; and the remaining 50% and additional annual remuneration for committee membership is paid one year after a director takes office.

The total remuneration paid to the Board of Directors in 2015 was US$418,988 (before tax).

RELATIONS WITH SHAREHOLDERS

The Board is in regular dialogue with Kcell's major shareholders. In 2015, the Board approved a relationship agreement with TeliaSonera.

RISK MANAGEMENT

LIKE ANY BUSINESS, WHILE CONDUCTING ITS ACTIVITIES, KCELL ENCOUNTERS VARIOUS POTENTIAL AND ACTUAL RISKS. TO IDENTIFY AND MITIGATE THESE TO THE GREATEST EXTENT POSSIBLE, THE COMPANY HAS ESTABLISHED A ROBUST INTEGRATED RISK MANAGEMENT SYSTEM, DESIGNED TO DEAL WITH ANY THREATS TO OPERATIONS IN A PLANNED AND COORDINATED MANNER. KCELL IS COMMITTED TO CONTINUOUSLY IMPROVING ITS RISK MANAGEMENT METHODS AND PROCESSES TO ENSURE THAT ITS BUSINESS FUNCTIONS WITHOUT DISRUPTION FOR THE BENEFIT OF CUSTOMERS, EMPLOYEES AND SHAREHOLDERS ALIKE.

RESPONSIBILITY

In 2013, Kcell adopted a risk management policy based on the principles contained in TeliaSonera's Group policy. Overall responsibility for the Company's risk profile lies with the Board of Directors, which is supported in this area by the Internal Audit Committee. At the same time, Kcell's aim is to foster a culture of risk awareness, management and accountability throughout the Company, the ultimate objective being to identify risks rapidly and ensure that all employees take responsibility in their work.

Risk management is fully integrated into the business planning and control processes, with established procedures, clear lines of reporting and regular reviews.

On an operational level, within each business area, departmental heads and dedicated risk coordinators are responsible for:

- Identifying, assessing, managing and mitigating risks.
- Making relevant and reasonable efforts to safeguard business continuity.
- Reporting risks in a timely and clear manner.
- Recruiting staff to oversee effective risk evaluation, mitigation and reporting processes.
- Maintaining and promoting overall risk awareness in their area of responsibility.
- Ensuring that the department's risk management activities are adequately documented.

FRAMEWORK

Kcell's risk management framework has been developed in line with the Committee of Sponsoring Organisations of the Treadway Commission's Enterprise Risk Management framework.

Kcell's risk management process identifies and evaluates potential threats to the business and implements plans to ensure its continuity. It enshrines risk management as part of daily operations: all business units are tasked with continuously identifying, assessing and monitoring risks across all activities.

PROCESS

The main principles of the risk management process are:

- Integrity – Kcell considers the elements of its overall risk in the context of a corporate risk management system.
- Openness – The risk management system is easily accessible and understandable.
- Structuring – The risk management system has a clear structure.
- Awareness – The risk management system necessitates objective, accurate and timely information.
- Continuity – The risk management process is on an ongoing one.
- Cyclicity – The risk management process is a constantly recurring cycle consisting of main components.

RISK IDENTIFICATION

Kcell uses risk identification to categorise its exposure to uncertainty. This requires an intimate knowledge of the Company, the market in which it operates, and the legal, social, political and cultural environment in which it exists. It also involves a sound understanding of its strategic and operational objectives, including factors critical to its success and related threats and opportunities.

Through the risk management framework, Kcell has identified several principal risks and uncertainties that are key to its day-to-day operations: strategic, operational, financial, legal, and natural disaster/catastrophe.

STRATEGIC RISK

Strategic risks represent the potential for losses due to changes or errors in defining and implementing the business strategy, the Company's development, competition, changes in the political or regional environment, and customer or industry changes. Most are considered high-risk, requiring the attention of the management.

Strategic risks include increased price competition caused by the activities of other mobile operators or changes in legislation, such as the introduction of mobile number portability (MNP) in Kazakhstan, which could affect the churn rate of subscribers. Kcell seeks to mitigate these risks by, for example, introducing internal MNP so that subscribers can move between its brands, protecting its leadership in "strong" regions and increasing market share by launching competitive tariffs and products.

OPERATIONAL RISK

Operational risks are defined as the potential for losses due to defects or errors in internal processes, the supply chain, recruitment, culture, regulations, the Board's composition, and information systems and technologies. Most of them have a low-risk rating, and mitigating actions are already in place as part of the daily risk management procedures.

CYBER SECURITY RISK

Risks related to cyber security could affect Kcell's ability to achieve its objectives by, among other things, causing severe disruption to business processes or the operational supply chain, impacting the Company's reputation, or compromising sensitive customer data and intellectual property. To mitigate this risk, Kcell has implemented a cyber security management system based on the ISO/IEC 27001 international standard.

FINANCIAL RISK

Kcell's activities involve various financial risks. The Company's risk management framework seeks to minimise potential adverse effects on performance from fluctuations on financial markets and other macro and microeconomic factors. Kcell does not use derivative financial instruments to hedge risk exposure.

Alongside its principles for overall risk management, Kcell has written policies covering specific areas of financial risk: credit, foreign exchange and interest rate risk.

CREDIT RISK

Kcell has introduced policies to ensure that sales of products and services are made to customers and distributors with an appropriate credit history. If corporate customers have independent ratings, they are used. If not, risk control assesses a customer's credit quality based on financial position, past experience and other factors. The Company's management reviews ageing analysis of outstanding trade receivables and follows up on overdue balances. Customers that fail to settle their liabilities for mobile services provided are disconnected until the debt is paid.

Kcell has no significant concentration of credit risk, as its customer portfolio is highly diversified, with a large number of both individuals and companies. While the collection of receivables could be influenced by economic factors, the management sees no significant risk of loss.

Kcell has established relationships with numerous banks, which are considered at the time of deposit to have minimal risk of default. The Company works only with the banks in Kazakhstan that have the highest credit ratings.

Kcell reviews the credit ratings of these banks periodically to reduce its credit risk exposure. As Kazakhstan continues to display some characteristics of an emerging market, certain risks inherent to the country are also inherent to the banks where the Company has placed its cash and cash equivalents and term deposits at the end of the reporting period.

FOREIGN EXCHANGE RISK

The majority of Kcell's purchases of property, plant and equipment and inventories, as well as certain services such as roaming, are denominated in foreign currencies.

Overall, most of the Company's foreign exchange risk relates to the movement of the tenge against the US dollar, although profit is less sensitive to this. Due to the undeveloped market for financial instruments in Kazakhstan, the Company does not hedge its foreign exchange risk. At the same time, it has a treasury policy in place: all borrowings are denominated in tenge, while all free cash is kept in US dollar deposits.

INTEREST RATE RISK

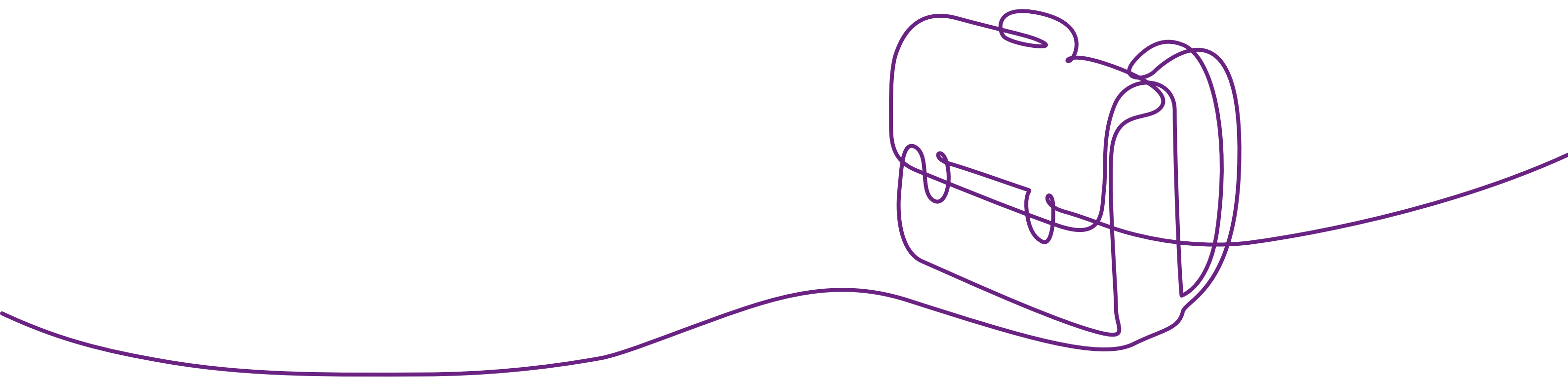
Kcell's income and operating cash flow are largely independent of changes in market interest rates. As of 31 December 2014, the Company had no assets or liabilities with floating interest rates.

LEGAL RISK

Legal risks are defined as the potential for uncertainty due to legal action or uncertainty in the applicability or interpretation of contracts, laws or regulations. Kcell's legal department checks queries and orders for compliance with legislation, monitors amendments to legislation, and participates, whenever possible, in draft law debates.

NATURAL DISASTER/CATASTROPHE RISK

Natural disasters or catastrophes are defined as natural phenomena or processes that provoke catastrophic situations characterised by a sudden reduction in the population, the destruction of infrastructure and property and/or death. Kcell has implemented measures for dealing with disasters such as fires, accidents and incidents arising from human neglect. These include fire drills, fire alarm systems, regular vehicle servicing, preventive measures against seasonal illnesses, medical insurance, annual medical examinations, diesel generators for use during power failures, deliveries of reserve water supplies to employees, and preventive work.



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
Finance Director

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.

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.

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

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

Deloitte, LLP Audit license of the Republic of Kazakhstan
#0000015, type MFU-2, issued by the Ministry of Finance
of the Republic of Kazakhstan dated 13 September 2006

Nurlan Bekenov
General Director
Deloitte, LLP

4 February 2016
Almaty, the Republic of Kazakhstan

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
Finance Director

The accompanying notes on pages 48 to 72 are an integral part of these consolidated financial statements

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
Finance Director

The accompanying notes on pages 48 to 72 are an integral part of these consolidated financial statements

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
Finance Director

The accompanying notes on pages 48 to 72 are an integral part of these consolidated financial statements

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
Finance Director

The accompanying notes on pages 48 to 72 are an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSAND OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)

1 THE GROUP AND ITS OPERATIONS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board for the year ended 31 December 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

BASIS OF PREPARATION CONTINUED

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.

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.

(IN THOUSAND OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

PROPERTY, PLANT AND EQUIPMENT CONTINUED

(II) DEPRECIATION

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

	Useful lives in years
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.

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:

	Useful lives in years
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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

REVENUE RECOGNITION CONTINUED

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 recognised at the time of revenue recognised. 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. Customised 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.

(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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

PAYROLL EXPENSES AND RELATED CONTRIBUTIONS

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

PENSION PAYMENTS

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

INCOME TAXES

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

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

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

EARNINGS PER SHARE

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

SEGMENT REPORTING

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

FINANCIAL INSTRUMENTS

(I) KEY MEASUREMENT TERMS

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

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

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

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

(IN THOUSAND OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

FINANCIAL INSTRUMENTS CONTINUED

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

(II) CLASSIFICATION OF FINANCIAL ASSETS

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 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 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	454,777	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 recognised 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 realised 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.

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.

(IN THOUSAND OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)

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:

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

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:

		2015	2014
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.

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.

(IN THOUSAND OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)

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).

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 amortised, 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.

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.

(IN THOUSAND OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)

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	**(2,467,799)**	(2,041,663)
Total financial assets	**9,767,016**	7,824,270
Less: long term trade receivables from subscribers	**(397,111)**	–
Total current financial assets	**9,369,905**	7,824,270
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	**464,409**	281,175
Total trade and other receivables	**13,440,877**	13,241,334

Total financial assets are denominated in currencies as follows:

	31 December 2015	31 December 2014
tenge	**6,903,972**	6,113,021
US dollar	**2,863,044**	1,711,249
Total financial assets	**9,767,016**	7,824,270

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
Total neither past due nor impaired	**6,057,731**	4,630,058
Past due but not impaired		
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
Total past due but not impaired	**3,709,285**	3,194,212
Impaired		
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
Total impaired	**2,467,799**	2,041,663
Allowance for impairment of trade receivables	**(2,467,799)**	(2,041,663)
Total financial assets	**9,767,016**	7,824,270

10 TRADE AND OTHER RECEIVABLES CONTINUED

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:

	2015	2014
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	**(265,869)**	(651,805)
As at 31 December	**2,467,799**	2,041,663

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	
	Share	**Number of shares**	Share	Number of shares
Fintur	**51 percent**	**102,000,000**	51 percent	102,000,000
Sonera	**24 percent**	**48,000,000**	24 percent	48,000,000
JSC Central Securities Depositary	**23.31 percent**	**46,625,346**	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 Depositary Receipts on the London Stock Exchange and common shares on the Kazakhstan Stock Exchange. The offering consisted of a sale by Sonera Holding B.V. of 50 million shares, including shares representing 25 percent of the Company's share capital. The total authorised 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:

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

The Group has no dilutive or potentially dilutive securities outstanding.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(IN THOUSAND OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)

11 SHARE CAPITAL AND EARNINGS PER SHARE CONTINUED

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

	2015	2014
Dividends payable at 1 January	–	–
Dividends declared during the year	58,260,000	63,390,000
Dividends paid during the year	(58,260,000)	(63,390,000)
Dividends payable at 31 December	–	–

12 TRADE AND OTHER PAYABLES

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

Trade and other payables are denominated in currencies as follows:

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

13 BORROWINGS

	31 December 2015	31 December 2014
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	–	14,810,602
Total borrowings	50,201,227	25,020,026

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

13 BORROWINGS CONTINUED

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

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.

	2015	2014
Interconnect fees and expenses	**27,718,449**	26,691,450
Depreciation of property, plant and equipment and amortisation 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	**111,534,226**	106,435,584

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(IN THOUSAND OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)

15 EXPENSES BY NATURE CONTINUED

Amortisation and depreciation by function were as follows.

	2015	2014
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	**24,574,013**	25,189,488

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

	2015	2014
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	**6,711,830**	6,978,843

16 FINANCE INCOME AND FINANCE EXPENSE

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

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

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

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

17 TAXES

Income tax expense comprises the following:

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

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:

	2015	2014
Profit before income tax	**60,411,908**	74,144,754
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	**13,779,583**	15,873,918

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).

17 TAXES CONTINUED

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

	31 December 2014	Charged/ (credited) to profit or loss	**31 December 2015**
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	**2,193,523**	**(1,303,712)**	**889,811**
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	**6,635,573**	**(708,741)**	**5,926,832**
Less offsetting with deferred tax assets	(2,193,523)	1,303,712	(889,811)
Recognised deferred tax liability, net	**4,442,050**	**594,971**	**5,037,021**

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.

(IN THOUSAND OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)

18 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS CONTINUED

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).

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:

	31 December 2015	31 December 2014
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	**10,829,000**	5,780,000

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

ACQUISITIONS AND INVESTMENTS

(I) MEMORANDUM OF UNDERSTANDING WITH SONERA

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

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

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.

(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.

18 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS CONTINUED

ACQUISITIONS AND INVESTMENTS CONTINUED

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).

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, Informatisation 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.

18 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS CONTINUED

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.

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.

19 FINANCIAL RISK MANAGEMENT CONTINUED

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.

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.

(IN THOUSAND OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)

19 FINANCIAL RISK MANAGEMENT CONTINUED

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**

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 (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position and net amount of exposure (c) = (a) - (b)
ASSETS			
Trade receivables from interconnect services	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**

19 FINANCIAL RISK MANAGEMENT CONTINUED

CAPITAL MANAGEMENT CONTINUED

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 (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position and net amount of exposure (c) = (a) - (b)
ASSETS			
Trade receivables from interconnect services	3,976,008	(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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(IN THOUSAND OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)

21 SUBSEQUENT EVENTS CONTINUED

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 analysing 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 on 4 February 2016.

Designed and produced by Emperor
www.emperordesign.co.uk +44 (0)131 220 7990

Content by Edward Austin
www.edward-austin.com
+44 (0)207 193 4402

edward:
austin

Kcell JSC
2G, Timiryazev Street
050013 Almaty
Kazakhstan

Tel: +7 (727) 258 2755
Fax: +7 (727) 258 2768
www.kcell.kz
www.investors.kcell.kz