Kcell Annual Report
2016

IN LINE WITH GLOBAL TRENDS: SWITCHING FROM VOICE TO DATA

Welcome to our 2016 Annual Report!

We are going to show you:

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Overview

Established in 1998 as a mobile operator, Kcell is now well on its way toward becoming an innovative service provider. The Company is licensed and permitted to operate on the following spectrum of frequencies: 2G/3G/4G (LTE).

About us

Established in 1998 as a mobile operator, Kcell is now well on its way towards becoming an innovative service provider. The Company is licensed and permitted to operate on the following full spectrum of frequencies: 2G/3G/4G (LTE).

Kcell is publicly recognized as Kazakhstan's leading domestic mobile service provider by market share and number of subscribers. The Company holds about 40% market share with about 10 million subscribers.

Kcell's products and services are sold and provided through two key brands regarded among most established in Kazakhstan: the Kcell brand, targeting corporate clients (B2B) and high-net-worth individuals (HNWI); and the Activ brand, targeting the mass market (B2C). This segmentation provides a great opportunity for the brand's differentiation and customer loyalty strengthening. It also provides the ability for movement towards a revenue generation model.

On 31 December 2016 Kcell tied for the title of Best Net Promoter Score Player in Kazakhstan, improving its position since 2015.

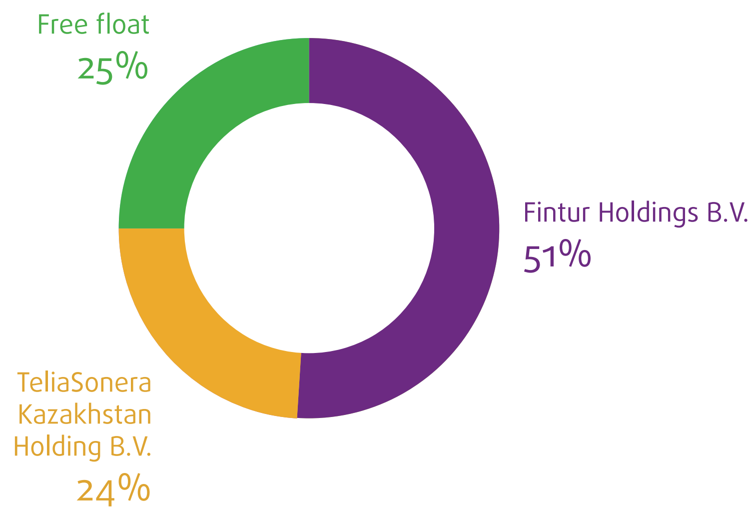
Kcell's retail chain consists of 30 exclusively branded stores and an online shop. The Company aims to further expand its retail business in accordance with its Strategic Plan.

Kcell's shares have been publicly traded on London Stock Exchange (LSE) and Kazakhstan Stock Exchange (KASE) since the end of 2012. The Company's total dividend for the period of 2012–2016 amounted to KZT 189 billion, representing an overall dividend payout ratio of 87%.

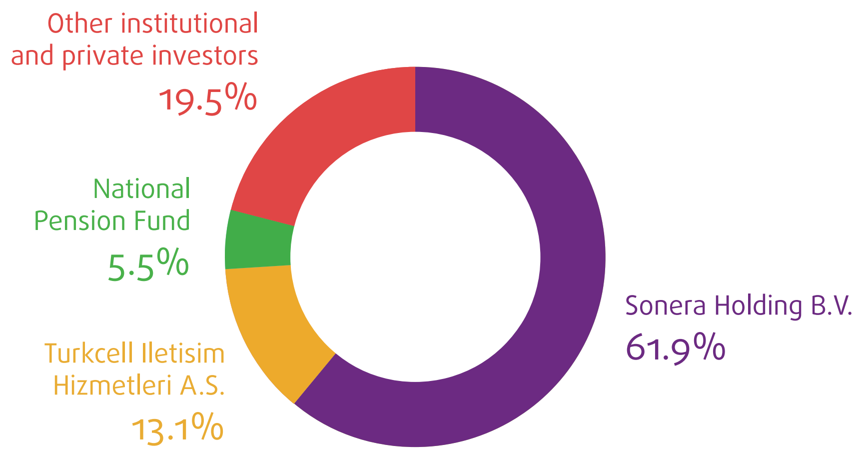
On 24 May 2017, the AGM approved the proposal of Kcell Board of Directors to distribute KZT 11,678 million, representing 70 percent of the net income for 2016, as an annual dividend. The total dividend amount will equate to a gross figure of KZT 58.39 per ordinary share (each GDR representing one ordinary share).

SHAREHOLDERS STRUCTURE

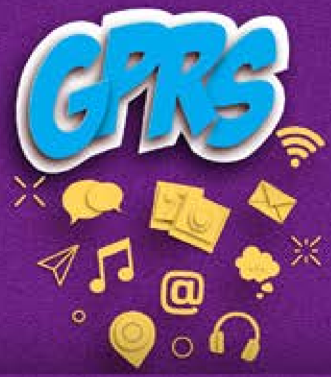
NOMINAL



EFFECTIVE



History



1998

June: 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 only Kcell trademark initially and then adding Activ brand in September of that year.

2003

September: Kcell announced the launch of General Packet Radio Service (GPRS) technology, making it the first telecommunication 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

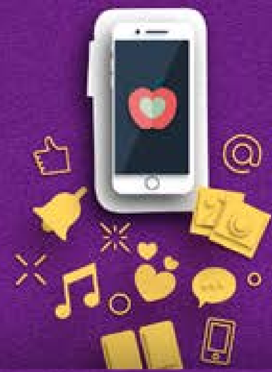
December: Kcell officially began operating dedicated 3G networks in Astana and Almaty. This heralded a new stage in the development of the country's telecommunications industry, significantly improving the quality of data transfer services in Kazakhstan. The new technology has played a key role in enabling the country to offer high-quality mobile telecommunications while hosting major events, such as the Organization for Security and Cooperation in Europe (OSCE) summit in December 2010 and the seventh Asian Winter Games from January-February in 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.

February: Kazakhtelecom sold its 49% to Sonera Holding B.V. (Telia), a subsidiary of TeliaSonera.

July: the Company was converted from a Limited Liability Partnership to a Joint Stock Company.



2012

December: Kcell successfully completed an initial public offering (IPO) 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 USD 10.50 per GDR and KZT 1,578.68 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

February: 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

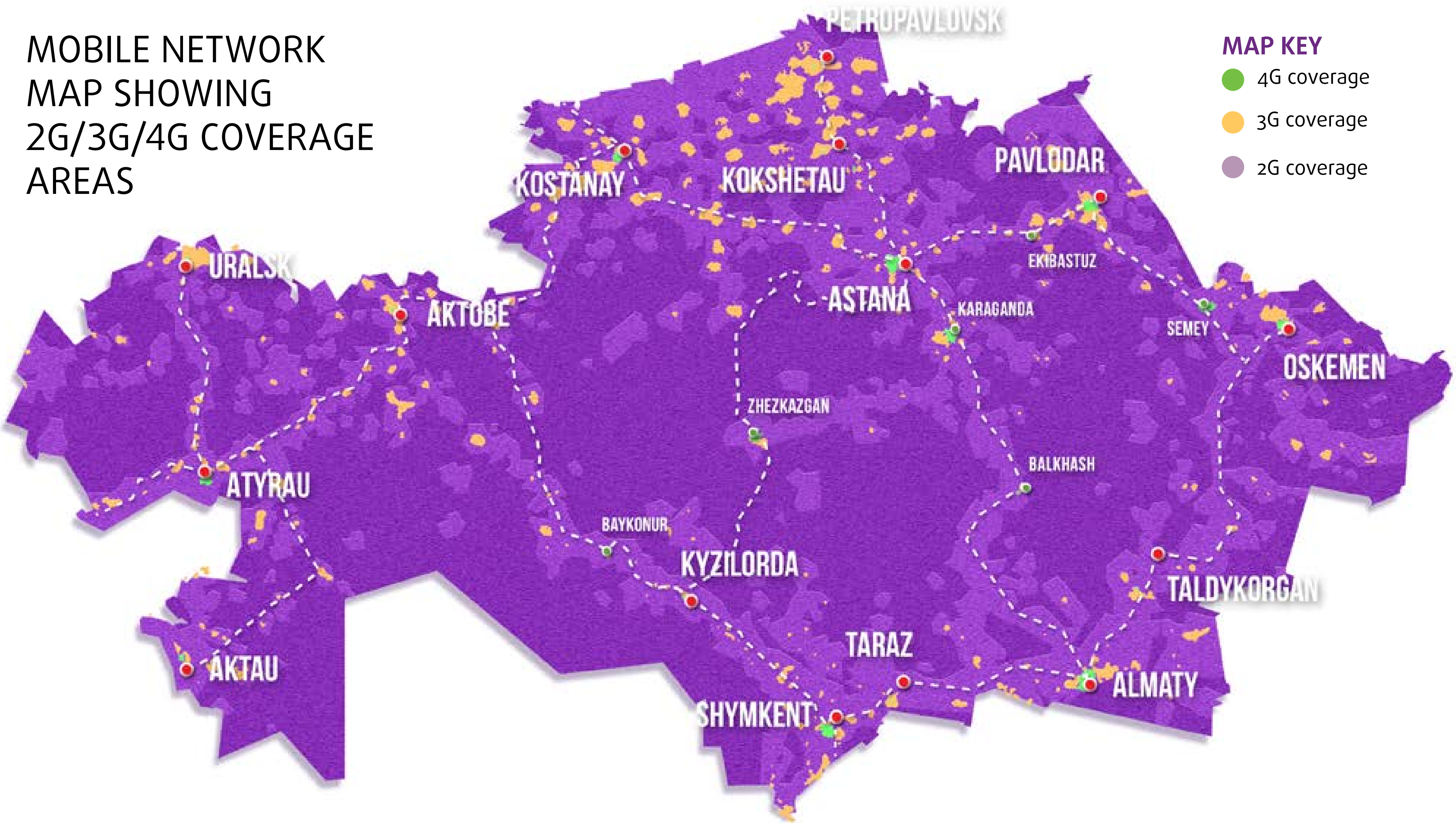
May: Kcell became an official distributor of iPhone products in Kazakhstan. In September 2014, Kcell launched a major rebranding and repositioning campaign for its popular Activ brand. The objective of the campaign was to reinvigorate the brand in order to strengthen subscriber loyalty, drive growth in the mass-market segment and retain leadership in the highly competitive market.

2015

March: the Company opened its first exclusively 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, by the end pf 2015 Kcell opened eight such stores overall, began a project to refurbish its service centres, and launched an online sales platform.

Network Improvements and Operational Highlights

MOBILE NETWORK MAP SHOWING 2G/3G/4G COVERAGE AREAS



Operational highlights

Subscribers

9,986

thousand

Employees

1,821

Penetration digits:

2G ~ 96%

3G ~ 75%

LTE ~ 35%

ARPU

1,155

KZT

MOU

228

min/month

Churn rate

49.3 %

Smartphone penetration

50%

Financial Highlights

Total revenue

147,037

KZT mln

Service revenue

137,337

KZT mln

EBITDA*

57,989

KZT mln

EBITDA margin

39.4%

Operating income*

33,740

KZT mln

Net Income

16,684

KZT mln

Total CAPEX

51,017

KZT mln

4G/LTE license

26,000

mln

CAPEX / Sales

34.7%

(26,000 frequencies +5,000 roll-out)

4G network roll-out

5,000

KZT mln

*Excluding non-recurring items.

Letter to Shareholders by the Chairman

DEAR SHAREHOLDERS,

2016 was an extremely challenging year for Kcell. The start of the year was characterised by ongoing macroeconomic uncertainty, a tough competitive environment and regulatory change. As a result, we reported steep declines in our revenue and profits. At the same time, however, Kcell implemented strong cost discipline whilst introducing strategic initiatives designed to provide a firm foundation for growth in the business over the longer term.

In the second half of the year we started to see some small but encouraging signs of macroeconomic recovery, along with early signals that consumer price inflation was easing and currency levels were stabilising. However, downward pricing pressure reemerged and the competitive environment remained tough.

Nevertheless, we continued to implement service and technology improvements in order to maintain our leading market position and provide additional value to our customers and our shareholders.

We would like to thank the Government of the Republic of Kazakhstan for their efforts on telecommunication market liberalisation. We share their commitment to maintaining a long-term partnership, ensuring an equitable regulatory framework, and investing in the country's future.

For all operators in Kazakhstan, 2016 started with the active promotion of Mobile Number Portability. This did not significantly affect Kcell's overall customer base but has unlocked the potential for customer growth strategies that Kcell is well placed to leverage.

We would also like to thank every Company employee – some of whom have been with Kcell since the beginning – for their contribution over the years. Thanks are owed to our customers as well. Their patience, loyalty, and support have been vital to Kcell's success today.

In 2016, Kcell commenced the roll-out of a 4G/LTE network. These initiatives were substantially accelerated when, at the end of August, Kcell entered into a 4G/LTE network sharing arrangement with Beeline Kazakhstan. This agreement has enabled us to provide top level service quality whilst reducing the level of capital expenditure required and accelerating the rollout process exponentially.

By the end of December, Kcell had achieved 4G/LTE coverage of 35% of Kazakhstan's population. Our 2017 roll-out initiatives will focus on additional capacity and higher data speeds in the big cities and we will selectively move into smaller cities and suburban areas. Kcell looks forward to further developing the network in the months ahead.

Kcell has sought to facilitate broad inclusion in the mobile digital age by offering smartphone and data bundles that are affordable across income brackets. The Company also placed further emphasis on devising new services and increasing customer satisfaction in 2016. At the same time, we are working to develop a culture of commitment whereby every employee plays a valued role in our delivery, from network monitors to those in administrative functions.

Central to the sustainability of the Company's business is the observance of the highest standards of supervision and accountability. In 2016, Kcell was recognised by the Kazakhstan Stock Exchange for its high levels of transparency and disclosure. The Company continues to develop its corporate governance procedures to ensure that all stakeholders are treated fairly and equitably and will undertake measures to strengthen these procedures further in 2017.

Jan Rudberg
Chairman of the Board of Directors

Business Model: How We Create Value

Input

Financial capital
- Equity
- Debt

Human capital
- More than 1,800 employees and executives

Manufacturing capital
- Network
- IT infrastructure
- Retail chains
- Service centres
- Data centres

Business

Mobile network operator: voice and data services

Retailer: branded stores and servicing centres, online sales platform

Content provider: audio, video, and books sales platforms

Output

Financial capital
- Profit and returns creation
- Dividends
- Taxes

Human capital
- Jobs creation
- Human resources development

Manufacturing capital
- Products
- Services
- Subscriptions

Intellectual capital
- Licences, frequency permits, and other intellectual assets

Social capital
- Subscriptions
- Partnerships
- Brands
- Lifestyle and entertainment communication

Natural capital
- Resources required for network, equipment, offices, and devices
- Electric power

IT provider: cloud computing, data-centric facilities, integration services, marketing, and business solutions

Future opportunities:
Mobile Financial Service (MFS)

Intellectual capital
- Technological development
- Innovative technology, products, services, and solutions

Social capital
- Social capital improvement through increasing access to the internet
- Client relationships and support
- Lifestyle value enhancement through communication

Natural capital
- Resource-efficient and environmentally friendly approaches

Strategy

The Company continues to develop its retail business by opening new stores. The number of exclusive branded stores reached 30 by the end of 2016.

CEO's Report

DEAR STAKEHOLDERS,

2016 was a highly challenging period for Kcell, although at the end of the year we saw early signs of market stabilisation. Overall revenue for the full year declined compared with the previous year, on the back of macroeconomic weakness, and a tough market environment as well as the impact of down-selling, due to speedy conversion from pay-as you-go tariffs to bundled tariffs.

Throughout this difficult time we endeavoured to respond swiftly to external and domestic challenges amid a rapidly changing business environment. At the same time, we maintained a keen focus on the global trend towards digitalization in order to reinforce our leading market position.

In common with all telecommunications companies worldwide, Kcell has come a long way from being simply a mobile operator and has developed into an innovative provider of digital services, such as digital books, music, TV and advanced solutions for enterprise clients. Our strategy to bring this undertaking to full fruition has, of course, started with improvements to our network: its quality, speed, and coverage.

In September, Kcell commenced the roll-out of the 4G/LTE network, and in the four months to year end we achieved coverage of 35% of the population in 13 cities across the country. This achievement was expedited by a strategic network sharing agreement with Beeline Kazakhstan, which we announced at the end of August. The agreement has enabled us to share capital expenditures into 4G/LTE network equipment to improve efficiency while significantly accelerating implementation of the project. It also enables us to provide higher service quality. Both parties are continuing to successfully fulfil their commitments in this mutually beneficial undertaking.

The network roll-out and launch of 4G/LTE in 2016 was made possible by the biggest annual investment spend in our history – over KZT 50 billion, including KZT 31 billion invested solely in the 4G/LTE launch. In addition, we invested in a new convergent billing system.

Kcell's investments into network and business system improvements were funded by borrowings from several supportive banks. Whilst this has impacted the Company's Net Debt/EBITDA ratio, it nevertheless remains at a comfortable level.

The B2B segment has continued to demonstrate growth. In the coming year we will continue to focus on developing and introducing new products and business solutions in order to maintain our leading market position in the B2B segment.

The Company is also continuing to develop its retail business with a program of new store openings. The number of exclusively branded Kcell

stores reached 30 by the end of 2016, proving the strength of this strategic approach. In 2017 Kcell will continue opening new stores in cooperation with Kcell's dealers.

As we move into 2017, there are some positive signs of economic recovery in Kazakhstan, with consumer price inflation easing and indications of growth in the economy. We are hopeful that we will see further market recovery and stabilisation in our financial performance in the year ahead.

We will continue to implement a broad range of service and technology improvements in 2017 in order to maintain our leading market position and provide additional value to our customers and to our shareholders.

Arti Ots
Chief Executive Officer

Key Achievements and Milestones of 2016

JANUARY

- Kcell acquired additional spectrum rights in the 700/800 MHz and 1800Mhz bands in order to boost its nationwide connectivity and prepare for advanced 4G and LTE services, launched later in 2016. Furthermore, the regulator has stated that other operators will also be looking to acquire additional spectrum rights. Kcell bought 2x10MHz airwaves in the 700/800MHz band for KZT 22,000 million (USD 80 million) and an additional 2x10Mhz in the 1800MHz band for KZT 4,000 million (USD 11.7 million).

- Kcell announced the results of its Extraordinary General Meeting of Shareholders ("EGM") held on 6 January 2016. The EGM approved the election of Mr. Peter Lav, representative of the shareholder Sonera Holding B.V., as a member of the Board of Directors of Kcell JSC in place of the retired Mr. Kenneth Berndt Karlberg and the election of Mr. Emil Nilsson, a representative of shareholder Fintur Holdings B.V., as a member of the Board of Directors of Kcell JSC in place of the retired Mr. Erik Hallberg.

MAY

- Kcell announced the results of its Annual General Meeting of Shareholders ("AGM") held on 18 May 2016. The AGM approved the Company's net income of KZT 46,632 million in 2015 and the distribution of 50 percent of this net income as an annual dividend, with the dividend per ordinary share amounting to KZT 116.58, gross (each ordinary share representing one GDR).

- Kcell received an award for its high level of transparency and disclosure from the Kazakhstan Stock Exchange (KASE). Only four companies, including Kcell, of the 130 companies listed in Kazakhstan received the KASE's "Striving Towards Greater Transparency" award in 2016.

AUGUST

- In August 2016, Kcell signed a network sharing agreement with Beeline Kazakhstan, part of VimpelCom, for the joint deployment of 4G/LTE services in Kazakhstan. This strategic partnership enables Kcell to swiftly deploy 4G/LTE services in all major cities in Kazakhstan.

NOVEMBER

- The Extraordinary General Meeting of Shareholders of Kcell JSC held on 4 November 2016 approved the following items:

  - Amendments to the Charter of Kcell JSC regarding the allocation of work between the Board and the CEO.

  - Approval of instructions related to the allocation of work in line with the amendments to the Charter.

Strategy: Transforming for the future growth

Back in mid-2015 a leadership team adopted a "Four Disciplines of Execution" (4DX) methodology as a tool for strategy execution with established transparent performance tracking intranet tools and quarterly follow-up summits. The program is called the Kcell Strategy Execution Program and aims to build a strong execution culture that will help the Company to focus on the most important aspects of the business.

As a result, for 2016 the following focus areas were identified and executed:

1. ENHANCING MARKET POSITION IN CONSUMER SECTOR:

In the consumer sector, Kcell's main focus was to maintain a leadership position and hence to focus on increasing the number of active customers it possesses primarily by launching relevant products / offers, boosting the share of retail customers using bundles, and providing customers with a unique post-paid experience by selling contract phones. As a result, the number of 1-month active customers started increasing in mid-2016 as well as a number of customers using bundles.

2. ENTERPRISE SOLUTIONS AS A STRATEGIC DIRECTION (double revenues from business solutions)

In this segment, the Company has changed its approach and turned from SIM-card sales to business solutions sales as the revenue from solutions shows significantly higher potential when compared to traditional mobile services. Our B2B team has been focused on executing a strategy of new and enhanced revenue streams in the following areas: mobile marketing, M2M (Internet of Things, "IoT"), unified communications, IT, and fixed technologies.

This greater focus on business solutions sales during 2016 resulted in diversification of revenues in the enterprise department. The share of enterprise revenues coming from new business solutions continued to show stable increase throughout 2016.

3. TECHNOLOGY TEAM FACING THE CUSTOMERS (increase customer satisfaction with data quality)

The technology team has historically been oriented towards technical KPIs and stable network performance. In 2016, the team decided to change its focus to customer insights about the network they are operating. Having limited resources, the team was forced to a new and superior level of generating creative solutions in order to bring customers the best possible service. Monthly customer surveys were examined closely in order to understand what areas of the network should be improved.

In 2016, customer satisfaction scores were challenged by two main issues: the stabilisation period after the migration of post-paid subscribers from the old billing system to the new system and the absence of the 4G technologies in the first half of the year that was highly expected by customers. These two factors affected the customers' perception of Kcell's network quality. Regardless of these challenges, the technology team managed to keep Kcell's satisfaction score consistent throughout the year.

When it comes to long-term ambitions and focus, the Company wants to establish a leadership position in the following areas:

STRATEGIC AMBITION 1:

The ambition is to maintain a leadership position in the 'consumer market' using strong dual-brand positioning. The strategic goal is to focus on increasing the active customer base and popularising bundled offers through using tailor-made tariff plans designed to appeal to different segments of the population.

STRATEGIC AMBITION 2:

Be a trendsetter and market leader in 'Digital Content' by entering new areas of the content business, encouraging product convergence, acquiring relevant expertise, and providing a 'best-in-class' kind of customer experience.

STRATEGIC AMBITION 3:

Be a credible partner for customers in 'Financial Services' by establishing an industry standard for mobile payments in Kazakhstan.

STRATEGIC AMBITION 4:

Build customer loyalty by providing post-paid benefits, a unique customer experience in online and physical shopping, and a diversified smartphone line-up that will help to increase Company market share in 'Connected Devices'.

STRATEGIC AMBITION 5:

Maintain a leadership position in the core business of the 'Enterprise Segment' by providing excellence in customer service (NPS) and using a customised (need-based) approach towards offers.

STRATEGIC AMBITION 6:

Win the 'IoT' (M2M) market and become one of the key players in the market using our unique strategic opportunities such as infrastructure and M2M vertical solutions.

STRATEGIC AMBITION 7:

Maintain focus on the development of 'Mobile Marketing' by maximising the number of communication channels available and monetizing the customer base through the deep analysis and research of 'big data'.

Market Review

Due to macroeconomic stabilisation, Kazakhstan's telecommunications market retains considerable middle-to-long-term growth potential, driven by data services and smartphone penetration which are both supported 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.

According to the National Bank of Kazakhstan's report, Brent oil prices have remained above USD 50 per barrel since the 4Q16 compared to the 2016 average level of USD 43 per barrel. The Bank regards the USD 50 price as the base macroeconomic scenario for 2017. Since oil accounts for about 20% of GDP alone, such price development impacts Kazakhstan's economy in a positive way. Thus, according to the Bank, in the 4Q16 real wages have shown growth for the first time since the 2Q15 due to inflation slowdown. Under the base scenario annual inflation is expected to stay within the 6-8% range during 2017 with potential for further decline.

The 2017 annual GDP growth is expected to reach 2%. The potential drivers for growth are consumers' spending supported by the real wages, growth fixed capital investments, and commodities production. The foreign commerce environment shows signs of recovery due to the growing demand for Kazakhstan's goods from its main trading partners – Russia, China, and the European Union – which together account for more than 50% of Kazakhstan's trading turnover. From this point of view, long-term growth potential for Kazakhstan's economy is estimated at a level of 3-4% annually.

Also, according to the European Bank for Reconstruction and Development, Kazakhstan has made strong recent progress in many key areas: 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. The government announced plans to eliminate foreign direct investment limits in the domestic telecoms sector within 30 months of joining the World Trade Organisation. Considering the November 2015 accession, this reform may be implemented by the end of 2017.

REGULATION

The primary regulator of Kazakhstan's mobile telecommunications sector is the Committee on State control in the area of Communication, Information and Mass Media which is part of the Ministry of Information and Communication.

According to BMI's report, the sector's regulator is relatively independent and proactive and maintains a healthy distance from the governing forces in the country while aiming to provide prudent oversight of the sector. The Kazakh government also aims to make the country the main IT portal in Central Asia. To this end, it has endeavoured to liberalise the IT sector, promote internet use, and encourage e-government infrastructure to spur social development. Though its regulatory system remains in a stage of development, Kazakhstan fares better when compared to its immediate neighbours.

In late 2015, the Government of Kazakhstan introduced a technology-neutral approach to the mobile sector, meaning that operators can now use any 2G, 3G, or 4G technology regardless of the spectrum they hold. Such market liberalisation is expected by industry forecasters to accelerate growth in the data services market. The previous technology-specific applications for spectrum licences had impeded the development of 3G/4G networks as well as the emergence of advanced mobile broadband services – issues that had kept mobile ARPUs as low as USD 5 and made Kazakhstan quite unattractive from an investment perspective.

During 2016 all operators faced the mandatory implementation of mobile number portability (MNP), allowing consumers to keep their phone numbers when switching operators. The introduction of MNP is expected to help operator growth strategies; however, it will not contribute to total market growth as MNP involves capturing subscribers from rival players. The MNP implementation itself led to only a moderate subscriber churn rate, while price competition made much more of an impact on subscriber bases.

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 – almost a half of Kazakhs live in rural 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. Notably, BMI has cited a survey of data services costs* 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.

The mobile market in Kazakhstan is relatively saturated with a penetration rate of around 145%. Between the competition having spurred consolidation and the roll-out of 4G by all operators after the removal of regulatory barriers, this market continues to mature.

* Data comparison conducted in 2013. Source: BMI.

According to the State Statistics Agency (SSA) of Kazakhstan, the mobile market ended December 2016 with a total of 25.395 million subscribers, representing a negative year-on-year growth due to saturation in the voice segment. Inactive SIM discounting may continue into the future as operators can hold a significant number of inactive accounts. It is unsurprising that at the current level of penetration the growth rate has begun to slow and that the market has become prone to cycles of net losses of subscribers. According to BMI's report this trend will continue into 2016/2017 and beyond.

According to the SSA, the telecommunications market decreased 0.96% year-on-year in 2016, reaching a value of KZT 677,700 million. The mobile segment accounted for 33.0% of the market, or KZT 223,400 million, while the internet segment totalled 30.5% of the market, or KZT 206,600 million.

Mobile telephone services have outpaced the fixed-line segment in recent years, while the prevalence 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.

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 is the rise in the number of smartphones in the market. According to Kcell's own figures, smartphone penetration reached about 50%, suggesting that there remains considerable room for growth.

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

According to Kcell's data, its LTE network penetration has only reached 35% compared to a 3G penetration ratio of about 75%. The mobile traffic growth rate, which totalled more than 100% in 2016 when compared to 2015, may reasonably be expected to remain high since the 4G network expanded to 13 cities. As the technology-neutral licence allows every operator to offer 4G, and as the roll-out can rely on a relatively well-developed backhaul infrastructure, the LTE penetration target ratio is expected to grow rapidly.

COMPETITIVE LANDSCAPE

A healthy competition reigns in Kazakhstan's mobile market, with foreign firms actively competing around price and innovation. Three main players control about 97% of the market.

Kcell remains a leader in Kazakhstan's mobile telecommunications market. According to BMI, the competition brought about by the low-price strategy pursued by rival operators has meant subscription additions in the low-value segment of the market, which has driven down ARPU for all operators. Since the liberalisation of LTE market, many operators have been attracted by the prospect of 4G/LTE services due to the proven popularity of 3G services. Growth in the mobile broadband service far surpassed growth in fixed broadband services and reflects the level of demand in the market.

It is expected that Kcell's new OTT services will help it to improve market share and average revenue per user (ARPU).

OUTLOOK FOR 2017 AND BEYOND

Mobile data traffic is expected to remain the key driver of revenue growth and profitability for Kazakhstan's mobile sector.

Market risks aside, low data penetration rates and a largely untapped B2B market create a clear path towards growth for Kcell, given its competitive advantages as the leading operator in terms of coverage, LTE network kick-off, and superior customer service.

Key Performance Indicators

Focusing on performance

We use key performance indicators primarily to keep us focused on achieving our strategic objectives and targets.

FINANCIAL INDICATORS

Revenues: KZT 147,037 million, -12.7%

EBITDA: KZT 57,989 million, -29.1%

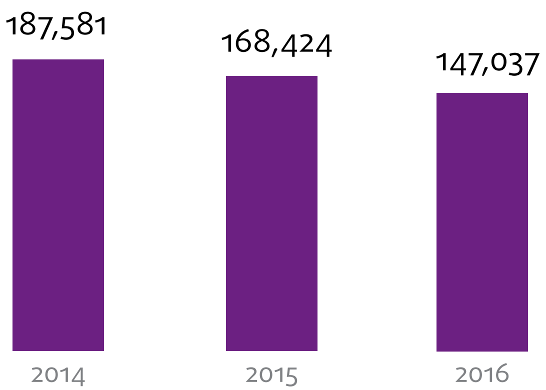
Net income: KZT 16,684, -64.2%

Free cash flow: KZT (-13,293) million

CAPEX: KZT 51,017 million

CAPEX-to-sales ratio (excluding the acquisition of new frequencies): 17.0%

Net debt/EBITDA rate: 1.03



* - Excluding non-recurring items ** - Excluding frequencies

OPERATIONAL INDICATORS

Total subscribers*: 10.0 million, -3.6%

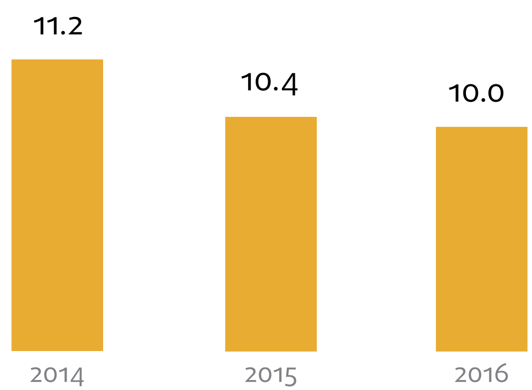
Minutes of usage: 228 minutes per month, +7.5%

Average revenue per user: KZT 1,155, -4.2%

Voice traffic: 22,948 million minutes, -2.5%

Data traffic: 122 million GB, 103.3%

Average revenue per MB: KZT 0.3



* 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 previous three months. The prior period shown here (2014) has been restated for comparability

KZT IN MILLIONS, EXCEPT KEY RATIOS, PER SHARE DATA AND CHANGES	2016	2015	CHANGE (%)
Revenue	**147,037**	168,424	-12.7
of which service revenue	**137,337**	157,288	-12.7
EBITDA excl. non-recurring items	**57,989**	81,787	-29.1
Margin (%)	**39.4**	48.6	
Operating income	**31,041**	52,601	-41.0
Operating income excl. non-recurring items	**33,740**	57,213	-41.0
Net income attributable to owners of the parent company	**16,684**	46,632	-64.2
Earnings per share (KZT)	**83.4**	233.2	-64.2
CAPEX-to-sales (%)	**34.7**	11.0	
Free cash flow	**-13,293**	32,400	

KZT IN MILLIONS, EXCEPT PERCENTAGES	2016	% OF TOTAL	2015	% OF TOTAL
Voice services	**86,634**	58.9	**105,345**	62.5
Data services	**41,339**	28.1	**39,278**	23.4
Value added services	**9,351**	6.4	**12,650**	7.5
Other revenues	**9,713**	6.6	**11,152**	6.6
Total revenues	**147,037**	100.0	**168,424**	100.0

REVENUE, EXPENSES, CASH-FLOW, AND RATIOS COMMENTARIES AND TABLES

REVENUE

Voice services

Revenues from voice services declined by 17.8% to KZT 86,634 million (KZT 105,345 million in 2015). Voice traffic declined by 2.5% to 22,948 million minutes (23,540 million minutes in 2015), while the average revenue per minute of use (ARMU) decreased to KZT 2.5 (KZT 3.2 in 2015).

Interconnection revenue fell by 8.3% to KZT 21,335 million (KZT 23,277 million in 2015), mainly due to a reduced interconnection rate.

Data services

Data revenue increased by 5.2% to KZT 41,339 million (39,278). Data traffic doubled to 121,587,949 GB (59,607,325). Growth in data traffic was partially offset by packages with lower tariffs per MB, which resulted in a decrease in average revenue per MB (ARMB) to KZT 0.3 (KZT 0.7 in 2015).

Value-added services

Revenue from value-added services fell by 26.1 percent to KZT 9,351 million (12,650 million in 2015), reflecting a decline in SMS revenue.

Other revenue

Other revenue decreased to KZT 9,713 million (11,152 million in 2015).

EXPENSES

Cost of sales

The cost of sales grew by 2.1 percent to KZT 91,866 million (KZT 89,932 million in 2015), primarily due to an increase in frequency expenses.

Selling and marketing expenses

Selling and marketing expenses increased by 19.2 percent to KZT 10,988 million (KZT 9,221 million in 2015), mainly as a result of higher staffing costs.

General and administrative expenses

General and administrative expenses increased by 14.3 percent to KZT 14,150 million (KZT 12,381 million in 2015), primarily due to tax provisions.

EARNINGS, FINANCIAL POSITION, AND CASH FLOW

EBITDA, excluding non-recurring items, decreased by 29.1 percent to KZT 57,989 million (KZT 81,787 million in 2015). The EBITDA margin decreased to 39.4 percent (48.6 in 2015).

Net financial items decreased to KZT -8,285 million (KZT 7,811 million), mainly due to interest expenses.

Income tax expense was down 55.9% to KZT 6,073 million (KZT 13,780 million in 2015).

Net income attributable to the owners of the parent company decreased by 64.2% to KZT 16,684 million (KZT 46,632 million in 2015), while earnings per share decreased to KZT 83.4 (KZT 233.2 in 2015).

CAPEX was higher at KZT 51,017 million (KZT 18,531 million in 2015) and the CAPEX-to-sales ratio increased to 34.7% (11.0% in 2015), following the acquisition of new frequencies for KZT 26,000 million. The CAPEX-to-sales ratio, excluding the acquisition of new frequencies, reached 17.0% (11.0% in 2015)

Free cash flow decreased to KZT -13,293 million (KZT 32,400 million in 2015).

Net debt/equity ratio was 78.3% (23.1% in 2015).

Net debt/EBITDA rate was 1.03 (0.24 in 2015).

The equity/assets ratio was 40.1% (48.5% in 2015).

FINANCIAL KEY RATIOS

	2016	2015
Return on equity (%, rolling 12 months)	23.0	54.1
Return on capital employed (%, rolling 12 months)	25.9	69.6
Equity/assets ratio (%)	40.1	48.5
Net debt/equity ratio (%)	78.3	23.1
Net debt/EBITDA rate (multiple, rolling 12 months)	1.03	0.24
Owners’ equity per share (KZT)	363.4	402.2

B2C Review

EXECUTIVE SUMMARY

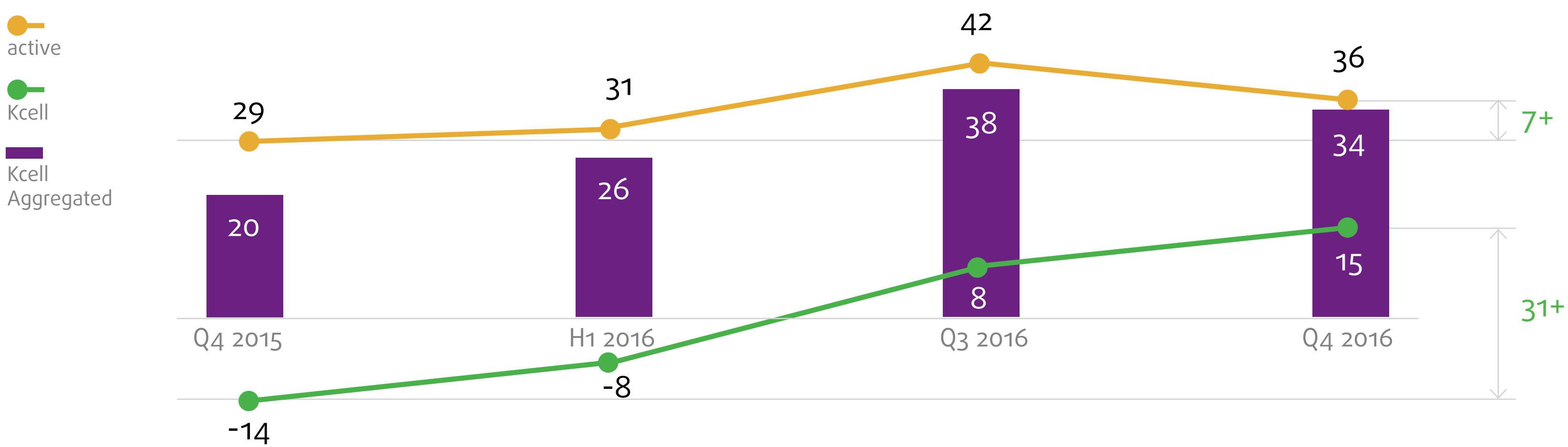
During 2016, the B2C segment has been focusing on the realisation of a commercial turnaround scenario, aiming mainly towards customer base stabilisation.

Thanks to well-timed promotional and marketing campaigns targeted towards mass-market clients throughout the whole year, the churn rate stabilised to a normal level with our customer base standing at 9,986 thousand subscribers.

The Activ brand subscriber base churn was abnormally high due to the flight of customers seeking out cheaper data and voice traffic rather than a higher service quality. Unhealthy market conditions like this got even worse due to the fierce competition from 4G unlimited offers which took place during the year and influenced both of the following segments: the mass one and the high-net-worth individuals. Besides this, the Kcell subscriber base was also affected heavily by the migration of customers to the new billing system in the middle of the year. This move, however, successfully paid back this hindrance by encouraging the Net Promoter Score to shoot up by an impressive 23 points in the second half of the year.

As new customers this year have come mostly for special promotional offers, the revenue they provided the Company with was insufficient to compensate falling reve-

BOTH ACTIV & KCELL WERE SUPPORTING cNPS GROWTH IN 2016

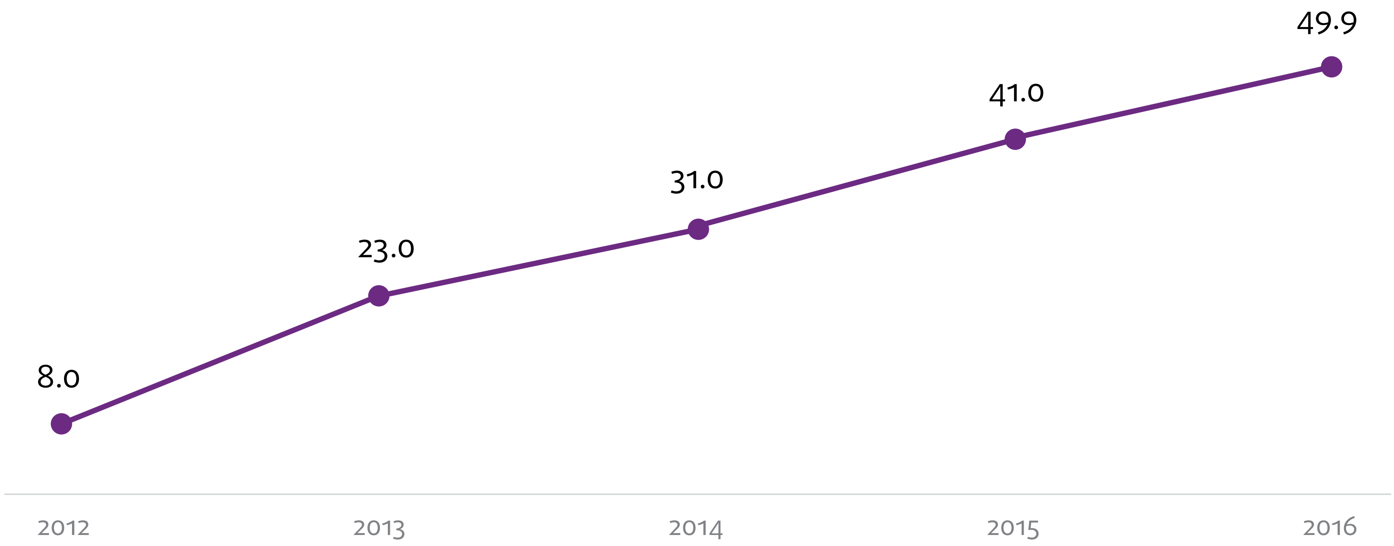


nues from the churn rate of regular clients. The service revenue in 2016, when compared to 2015, has decreased by 12.7%. In order to turn this negative trend around, a revenue recovery project was conducted in Q4 with the main task of positively impacting next year's financials.

The improved performance in smartphone sales during the reporting period should be stressed upon. This was mainly due to the revision of the assortment matrix which was done in August – prior to LTE kick-off –and allowed the improvement of smartphone sales revenue.

The successful launch of the 4G network in September contributed to further smartphone penetration in Kcell's network as well as to the increasing of bundle users; ultimately leading to the strengthening of the ARPU trend.

SMARTPHONE PENETRATION, % (NETWORK)



BRAND STRATEGY

The Kcell Brand Portfolio Optimisation project was conducted in Q416 in order to eliminate confusion between the two brands and ensure they are addressing the market in the most efficient way. Having conducted analyses covering a range of scenarios, it was concluded that a two brand model demonstrates significant advantages over a single brand model and allows the Company to compete far more effectively. The target audiences of each brand as well as their positioning were clarified in terms of their market situation to ensure the Company drives towards its ambitions and strategies for each brand.

Activ brand 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.

Kcell brand offers a wide range of included options as well as a premium service.

PRODUCTS AND SERVICES

ACTIV BRAND

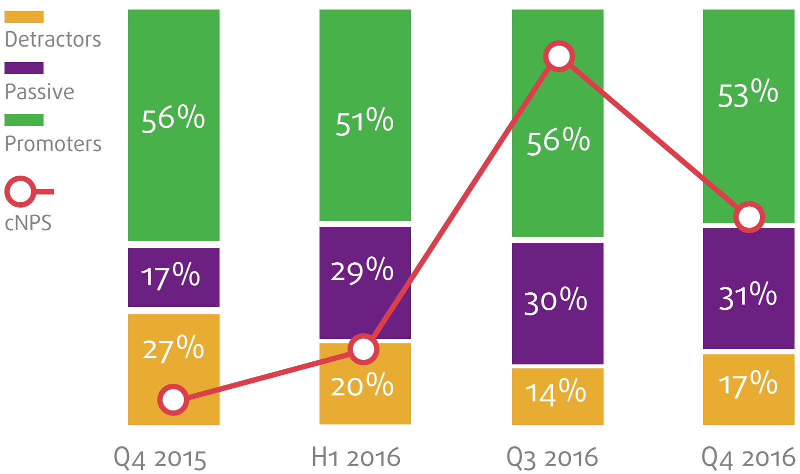
In order to prevent churn and ensure a low entering barrier for newcomers, a new "Conversation" tariff plan with a free on-net calls for just KZT 590 (less than USD 2) per month was launched on 29 April 2016.

Facing the risk of a increasing negative interconnect balance, the "Hello, Kazakhstan" tariff plan was closed to new subscriptions on 27 May 2016. Simultaneously, the new "Active" family plan, with a great focus on data, was introduced and was later used for the 4G launch campaign in September. A positive interconnect balance has been achieved in Q4 as a result of incentive campaigns aimed to switch former "Hello, Kazakhstan" users to the "Active" family tariff.

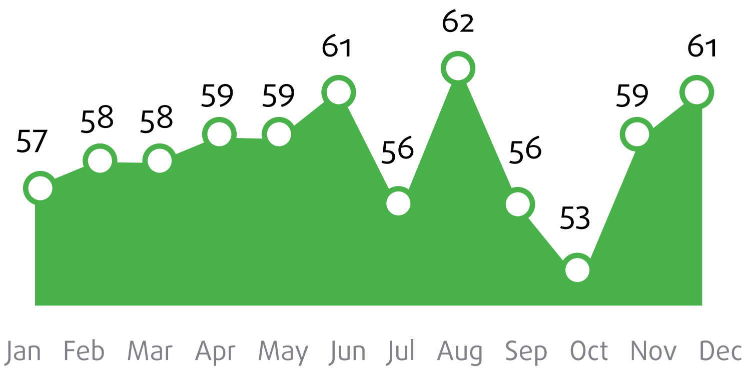
ACTIV BRAND IMPROVEMENTS DURING THE YEAR 2016

Activ grew in all of the differentiators in year 2016 except for TP content where it stayed put at 51%

Activ Composition and cNPS



Activ Transactional NPS



Activ Differentiation Scores Changes YOY

KCELL BRAND

The Kcell brand's main focus has been dedicated to a successful swap into a new billing system which took place in July. However, despite the resulting frozen period in product development, the Company successfully introduced a new "Prestige" tariff plan aimed to unlock the huge potential of the 4G network after the LTE launch.

OTT PARTNERSHIP

Since February 2016 the Company has entered into an OTT communications partnership by launching Mobi Music, Mobi TV, and Bookmate services. These services are available for Activ users as paid options but included for free in Kcell's high-end bundles. This partnership provides great opportunity for the brands' differentiation and for customer loyalty strengthening. It also provides the ability to move towards a revenue generation model.

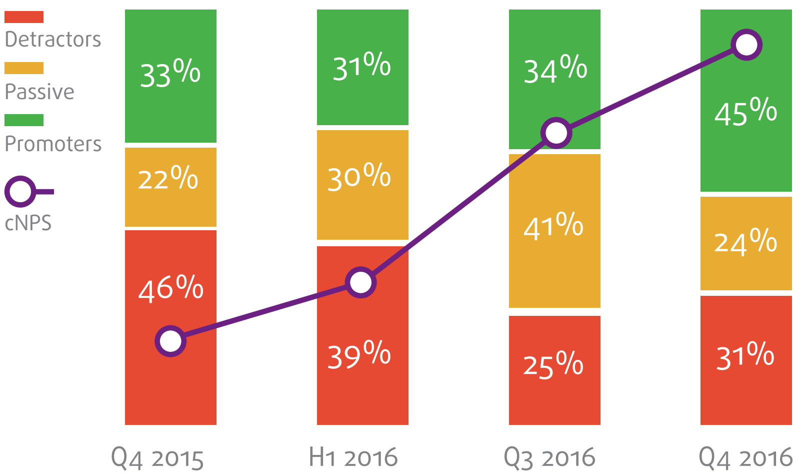
SALES CHANNELS DEVELOPMENT

In 2016, the intended target of doubling non-exclusive sales channels was outperformed. The exclusive sales network was expanded by two new branded Kcell stores in Almaty which led to an increase in the total number of stores to 30.

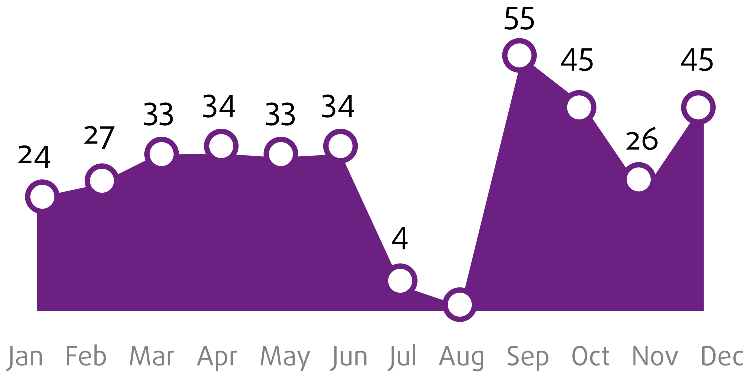
KCELL BRAND IMPROVEMENTS DURING THE YEAR 2016

Though Kcell is the low contributor to cNPS, its development in both tNPS & cNPS in 2016 amazes

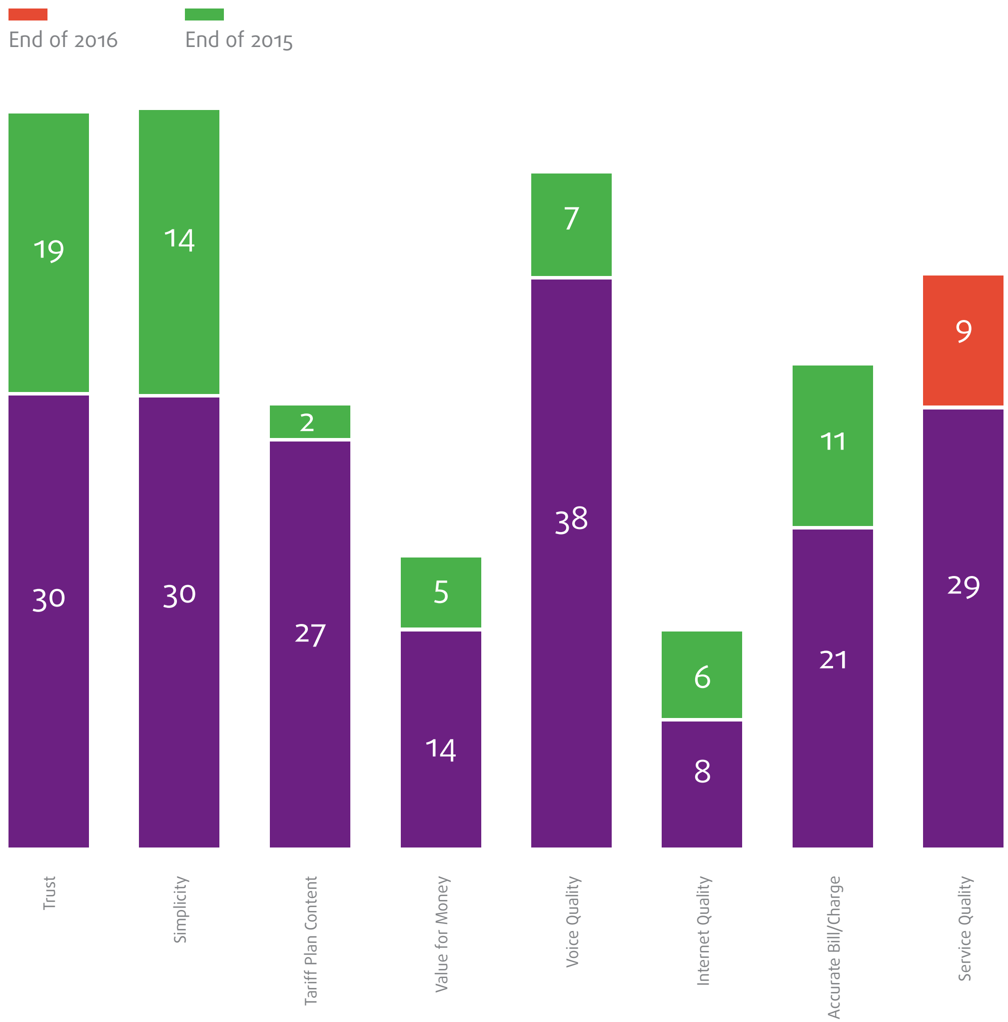
Kcell Composition and cNPS



Kcell Transactional NPS



Kcell Differentiation Scores Changes YOY



B2B Review

The B2B segment demonstrated stable growth when compared to 2015. The total amount of B2B subscriptions is about 240 thousand. Annually B2B revenue has grown by 19.1% compared to 2015.

MOBILE SERVICES

Kcell is the market leader in terms of B2B mobile subscriptions.

The main Kcell driver in the corporate clients mobile service market is the "Carte Blanche" tariffs line. The 4G launch in 2016 increased mobile data usage and smartphone penetration. In the aftermath of this success, Kcell launched some new 4G internet packages in order to increase the "Carte Blanche+" market share further.

The Company plans to develop and introduce to customers a new tariff plan, aiming to increase gross profit. Kcell is also considering the start of a new device campaign for those clients who don't have large enough budgets for premium smartphones. Device packages will include voice, data, and SMS allowances.

MOBILE MARKETING

Through developing new products and enriching expertise in big data analyses, Kcell may help organisations to increase the effectiveness of their marketing while maintaining the utmost confidentiality and security for Kcell customers.

During 2016 Kcell managed to increase its bulk SMS revenue by 201% in comparison with 2015. The Company improved its bulk SMS service with a feature that finds out the current online location of a subscriber and sends him/her a message. This feature is supposed to prevent unwanted messages and guarantees messages relevant to the user's location.

Kcell has launched a mobile marketing project that offers subscribers the ability to make free calls as an advertisement. The project is currently at the stage of testing.

During 2016 Kcell started to offer to organisations aggregated and anonymous device reports.

The Company plans to start sales of an opt-in database that already contains more than 200 thousand subscribers. As one of its possible next steps, Kcell is also considering the development and sales of heat map reports that may help organisations to analyse the effectiveness of their outdoor advertising and to plan distribution of POS. One of Kcell's ultimate goals in the field of mobile marketing is to develop self-care services for all mobile marketing products and to deliver them to the masses.

CONVERGENT COMMUNICATION

Kcell introduced new communication solutions aimed at satisfying the needs of companies by improving the efficiency of business processes and optimising costs.

Kcell already sells the Mobile Office service based on the Virtual PBX platform. In 2016 an outsourcing contact centre service was modified, improving conditions for clients. The Company also has launched a project aimed at improving network quality for business clients using intelligent amplifiers.

The largest banks of the country are connected to Kcell's "Revolving Package" virtual service.

In 2017 Kcell will target an increase of profitability from current convergent services by upgrading PBX services to a new level of intelligent communication with the primary focus being improving self-service.

IT SERVICES

Since 2015 Kcell is successfully cooperating as a partner with security and graphic design vendors such as Kaspersky, Symantec, Kerio, McAfee, Esed, Autodesk, and Adobe. Having been awarded "silver" status in Microsoft's partnership programme in 2015, the Company plans to extend this relationship further by establishing integration with the subscription cloud platform of Microsoft in order to provide cloud services to Kcell corporate clients on monthly basis.

FIXED INTERNET

Kcell provides high-speed fixed internet services, including virtual private networks (VPNs) and distributed denial-of-service (DDoS) protection.

Kcell currently serves 168 fixed internet enterprise clients with 233 connections.

Revenue from fixed internet and VPN in 2016 increased more than 6 times in comparison with 2015. The potential result is more than 350 additional connections.

During 2017 Kcell also plans to optimise fixed internet costs, launch a fixed internet equipment project, and increase revenues from fixed internet and VPN by 50% in comparison with 2016.

Sustainability

Connectivity and technology have a significant impact on society, and, Kcell as one of Kazakhstan's leading companies, Kcell has an important role to play. We believe that we can contribute to spreading ethical values and sustainable practices by adhering to the highest standards of ethical conduct in every interaction, and setting the best example for all stakeholders: investors, customers, employees, partners, suppliers, public organisations and society in general. We seek to contribute to the society where good business and sustainable development are linked with ensuring that everyone is included in the new digital world.

OUR APPROACH

Our approach is based on two elements: the All -In strategy for shared value creation and the Responsible Business programs to ensure sustainable operations and ethical business practices. (You can read more about the All-In strategy in the Corporate Social Responsibility section).

At Kcell, sustainability covers all efforts relating to how we account for our long-term effect on society and the environment. We believe that it is equally important: what we do and how we do it in creating value for our Company and the society as a whole. 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.

RESPONSIBLE BUSINESS

Kcell channels its responsible business efforts into the following areas of focus:

- Anti-bribery and corruption (ABC)
- Responsible procurement
- Human Rights
- Customer privacy
- Freedom of expression
- Environmental responsibility
- Occupational health and safety

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

Building on the solid ethics and compliance framework created in 2013-2014, during 2016 the Ethics and Compliance function continued the work ensuring that the responsible business approach is integrated into all aspects of daily work of the Company. To strengthen the Ethics and Compliance function, and to ensure that the sufficient capacity and knowledge is in place, and that the best practices are implemented in this area, international certification in anti-bribery (TRACE ABC certificates) was obtained by the Ethics and Compliance Officer and DD expert in the reporting period.

The compliance framework was further strengthened by introducing and revising numerous internal guiding documents. Over the year, Kcell implemented the Procurement Policy and the Procurement Handbook, Financial Accounting and Reporting Policy, People Policy, Environmental Policy and Competition Policy. Among other important documents implemented at Kcell in 2016 are Kcell Guidelines on Conflict of Interest, Instruction on Sponsoring and Donations and Business Continuity Management Instruction.

Kcell held four governance, risk, ethics and compliance (GREC) meetings in 2016. Their purpose was 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 these meetings helped coordinate GREC efforts across the organisation.

A new Code of Responsible Business Conduct was launched at the end of 2016. The Code is a tool to raise awareness and engagement regarding ethics, values, dilemmas, culture and leadership. Its chapters not only reflect policies and instructions but also provide practical information on how to interpret the Code requirements. The Code is available online and in printed format in the Kazakh, Russian and English languages. The launch of the Code was complemented by an e-learning program.

ANTI-BRIBERY AND CORRUPTION

Kcell is committed to fighting corruption in all forms and to doing business with the highest sense of transparency and integrity. 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 2016, the Company continued its work to ensure solid anti-bribery and corruption practices throughout our own operations and supply chain.

The year started with the work on first generation self –risk assessment, followed by the updating of ABC Action plan. This self-risk assessment was a logical continuation of the original institutional and operation ABC risk assessment and Action plan of 2013–2014.

The face-to-face anti-bribery and corruption training programme was developed further in 2016. With almost 100% of employees having successfully completed the foundation anti-bribery and corruption training in 2014, Kcell was keen to continue its drive with “Ethical Dilemma Training”. This training while containing theoretical elements, is more practical than the foundation training. In interactive sessions, groups of employees discussed dilemmas based on examples that are similar to the ones they face in their practical work. 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, 545 employees, or 100% of the target group of “high-risk employees” (those dealing with third parties), underwent the new course. In addition, Ethics and Compliance team conducted anti-corruption training with high-risk employees at the Kcell subsidiaries and some third parties – vendors working in areas presenting high-risk type of activity.

In 2016, the Company continued its work on the implementation of the electronic system to log potential or actual conflicts of interest (COI). 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. Kcell implemented its Guidelines on Conflict of Interest, and the Ethics and Compliance team conducted special training on this document and the use of the electronic Conflict of Interest Declaration Register, to the managers of all levels and to the targeted groups for whom the annual declaration of presence or absence of COI is mandatory.

SPEAK-UP LINE

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 Telia Company 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. The service is offered in the Kazakh, Russian, English and 19 other languages.

To promote the Speak-Up line as widely as possible, the information on its availability is included with all training related to the topic of anti-bribery and corruption.

In 2016, there were 25 whistle blow reports registered, the majority came through the Speak-Up line.

RESPONSIBLE PROCUREMENT

Kcell purchases goods and services from thousands of suppliers. Choosing suppliers with sustainable operations is one way for us to create positive impacts that extend beyond our own operation. 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 2016 centred on knowing its suppliers better. During the reported period, Kcell furthered the work on improving a mandatory due diligence process for all vendors seeking to do business with Kcell.

In 2016 the Centralized Procurement Department focused on knowledge dispersion and implementation of the Procurement Policy, Procurement Instruction and Handbook into the daily operations within the department and the Company as a whole. During the reported period, the Centralized Procurement department continued its work on knowing Kcell's suppliers better by strengthening due diligence process through the process flow automation and implementation of the online platform.

In January 2015 as part of a wider "backlog" project by Telia Company aimed at reviewing the existing and past vendors, Kcell began a comprehensive review of all vendors with the contracts that have been in existence for several years , grouping them according to risk profile. In 2016 the work continued with reviewing the site lease vendors. A specially created Compliance Committee – comprising the heads of the Finance, Legal Affairs, Ethics and Compliance, Risk Management and Procurement departments in Kcell –reviewed each high-risk case and approved risk mitigation plans.

HUMAN RIGHTS

In 2016, BSR – an independent not-profit organization, being commissioned by Telia Company, undertook a human rights impact assessment (HRIA) for Kcell, using a methodology based on the UN Guiding Principles on Business and Human Rights. The assessment resulted in a report which specified that Kcell has undertaken a meaningful collection of proactive measures to respect human rights, led by a Kcell management team with a strong commitment to international standards of business conduct. The report provided some recommendations for the following areas: customer privacy, freedom of expression, anti-discrimination and vulnerable groups, and labour rights, based on which an action plan was developed. The implementation of the action plan is reviewed at each GREC meeting.

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.

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Kcell pursues its customer privacy objectives in accordance with a dedicated road map. By the end of 2016, a mandatory e-learning course on Customer Privacy was completed by 97% of the employees. Also a process was established to ensure that all new-comers pass this course. Overall progress in the area is monitored on a regular basis by a specially appointed officer, a privacy governance organisation and GREC meetings.

In 2015, Kcell 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. By the end of 2016 all supplier had signed the agreement.

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.

In 2016 Kcell adopted the Environmental Policy according to which the Company adopted a structured approach to managing key environmental impacts. The Company contributes data about its energy and resource consumption for inclusion in Telia Company sustainability report, in accordance with Global Reporting Initiative requirements. The consolidated information can be found at www.teliacompany.com/en/sustainability/reporting

Social Responsibility

Committed to Making a Difference

Just as positive communication contributes to people's wellbeing; social responsibility is an integral 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 first has been actively involved in various initiatives aimed at improving life for people wherever possible. As a part of Telia Group with a drive to maximize the benefit of our efforts as well as effectively organize our approach, the Company is creating socially responsible projects according to "All In" Group strategies. The Company has identified 3 key areas to target support: Education for All, Digital Entrepreneurship and Innovations, and Healthy and Save Society.

When evaluating potential projects, Kcell seeks to engage with established partners committed to making a difference over the long term 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. Kcell believes that helping people in need and investing in a brighter tomorrow become especially critical in more challenging times.

EDUCATION FOR ALL

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

For example, the "Open University of Kazakhstan", is a project that will be implemented on the basis of the Open EDX platform by offering courses in the national language.

"Open University of Kazakhstan" – is an online platform with free access to video lectures of professors at the country's leading universities. In the first stage, it is planning to launch 10 telecommunications courses. Also available in the portal's public domain will be specialised literature used by developers while preparing these courses. In which case, more than 80% of the lecture material will be presented in the state language. Furthermore, the number of specialised courses can be increased.

The developers of "Open University of Kazakhstan" promise the users a set of the most advanced features – intuitive interface, user-friendly video player (with subtitles in different languages), a personal cabinet of courses for participants, test cases, and notes, as well as profiles of universities and lecturers.

The project itself will be implemented based on the Open EDX platform, developed in tandem by the world's leading universities such as Harvard University and Massachusetts Institute of Technology.

The partner institutions of the Kazakhstan Open University include such respected institutions of higher education, such as KazNITU (named after K. Satbaev), KBTU, Almaty Management University, Suleyman Demirel University, as well as such research institutions as the Institute of Mathematics and Mathematical Modelling and the Institute of Linguistics (named after A. Baitursynov).

In addition, Kcell Academy, a major ongoing educational endeavour, supported numerous student projects. One notable example was the "Purple Boost" contest, at which students made presentations on marketing and PR. Kcell also supported the seventh Republican Student Olympiad at Al-Farabi Kazakh National University, where 22 teams from 11 cities in Kazakhstan were encouraged to innovate and excel in academia.

On March 4, the final round of the second international contest "Zhas Zerde" was held, in which student research papers on marketing and sociologic studies were reviewed. The Company became a partner to this contest within a "Kcell Academy" project scope. 69 student teams from Kazakhstan, Russia, and Ukraine took part in the contest which was held in two stages. The first stage was conducted online to determine which research papers from these three countries would move on to the next round. Students defended their research papers in two sections, "Market studies" and "Sociological studies," and demonstrated important challenges of the modern era. They also framed their studies through various subjects, including: ecological conditions, green technologies, social issues. Brilliant research papers such as "Market Research of Recycling Plastic Waste Market," "Countrywide Brand as Market Study Subject," and "Pharmacoepidemiological Review of Administrating Antibiotics by Children in Outpatient Conditions," and others were presented at the contest.

"Kcell Academy" has been partnering with various universities in Kazakhstan such as Alma University, KBTU, International IT University, Eurasian National University, and others over six years to provide support for various contests, conferences, and research endeavours in student environments.

Bridging the digital divide is the aim of Kcell since 2015 through the Digital Life project.

During this period more than 150 master classes and courses for all social groups, including students and pensioners, were held in 16 cities across Kazakhstan. Representatives of business, culture, and education had the opportunity to get the necessary skills for working with mobile applications by selecting any of the 12 topics available through training. "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" are only a few of the trainings taken by more than 4,000 of Kazakhstanis.

Mobile internet usage is increasing rapidly in Kazakhstan as well as the popularization of smartphone devices. Despite this fact, a huge number of mobile users in Kazakhstan are still using older types of mobile phones. They are existing behind a "digital barrier." Thus, the goal of the Digital Life project is to remove this digital divide by helping those who would like to join the digital world get access to smartphones and mobile applications, thus providing great opportunities for personal and professional development.

During the development of the Digital Life project, the master class on “Mobile Applications for Education” was given to more than 400 students from 19 medical universities and high schools across 16 Kazakhstan cities. They studied at online universities, discovering more about applications in math, chemistry, and biology.

The “Mobile Media Master Class” for journalists and bloggers took place in 12 cities across Kazakhstan and was attended by a total of 254 people. These students were taught how to use their smartphones to mount video files, make “long-read” documents, and retouch photos.

Participants of the “Mobile Applications for Health” master class were trained to use cardiographs, develop a calendar of health practices, use calorie counters, chart medication, and even find affordable medications. This course attracted 322 people in 15 cities across our country and the average age of participants was 30 years old.

In our special course entitled “Grannies and Smartphones” 60 people, age 50 and above, started using a smartphone for the first time. This project was held in 6 cities, including: Almaty, Astana, Karaganda, Shymkent, Atyrau and Aktau. The task was to teach people at the age of 50 and above to easily use smartphones, overcome the “digital divide,” and to provide all the benefits of modern mobile technologies in order to live a life full of bright communication. Therefore, elderly students were given many useful tools such as smartphone installation, Google Play, and AppStore usages. Furthermore, instruction on using e-mail, social media accounts, instant messengers, and social networks was provided. This class was also introduced to applications for health and leisure, such as movies, chess, dating services, etc.

During the first half of 2016, around 800 people took part in our master classes and courses. The project had wide digital media coverage.

DIGITAL ENTREPRENEURSHIP AND INNOVATIONS

Kcell pays particular attention to the efforts of young entrepreneurs and innovators. Partnerships of this kind combine Kcell’s vast IT capabilities with startup mentors to discover prospective teams and support their potential project’s commercialization through the nFactorial Incubator support system. The program fosters IT startups, an integral area of any creative economy.

Our second nFactorial Incubator start-up program, focused on the development of mobile applications, took place in Almaty this summer through the support of Kcell. 120 participants over the course of 10 weeks created and launched 50 Kazakhstani mobile applications in AppStore and Google Play with the goal of repeating successes such as Instagram, MSQRD, and Angry Birds.

nFactorial Incubator was held for the second time this year. The organizers reported that talent can be found all over the world equally, however, opportunities are not as prevalent. Their aim is to increase the opportunities for Kazakhstani and Western youth in IT-education to acquire the experience necessary to creation breakthrough mobile applications. They also seek to make Kazakhstan as a competitive player on the IT map of the world.

Participants of the Incubator, both students and adults, who are ready to change their careers, study during the whole project. Graduates of leading Universities (Princeton, CMU, and LSE), finalists of the World Championships on Programming and Computer Science, representatives from major Companies in Silicon Valley (Instagram, Facebook, and Google) and Kazakhstani entrepreneurs from the Forbes list have all been invited to share their knowledge with our participants. The first month is fully dedicated to theoretical and practical studies as participants clone existing popular applications in order to build upon these successes in their own developments.

The teams, which consist of developers, designers, and marketing specialists, have ambitious goals – not only to create the product, but to promote it in AppStore and GooglePlay so that 10,000 people would like to install it on their smartphones and business representatives would like to purchase it.

The final stage of the Incubator is the Demo Day. On this day the teams launch their projects in AppStore and GooglePlay, as well as present them to users, investors, top management representatives of Kazakhstani companies, mass media, and recruiters.

129 talented developers and marketing specialists from 35 universities and schools all over the world have created 55 mobile applications in 10 weeks. Incubator started on June 6 and wrapped up on August 13, or Demo Day, when all the participants present their mobile applications to the public. More about the applications is available at: demoday.n17r.com.

HEALTHY AND SAVE SOCIETY

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

In the summer 2016, the Special Olympics in Kazakhstan, with which Kcell has been a partner for more than 15 years, organized a Camp Shriver summer sports event. 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 2016 event, which was the fifth in Almaty, was held at the Haileybury international school from June 22 to July 3, 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 along with the Special Olympics, which was established in 1968. Kcell is especially proud of its work with both of these organizations, 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. Kcell has been supporting the Special Olympics since 2000.

Governance

Governance Statement

Kcell is committed to international best practices in corporate governance, as reinforced by its listing on the London Stock Exchange. The Company has established a strong corporate governance system to ensure accountability, transparency, and responsibility throughout every area of the business.

KAZAKHSTAN MODEL CODE

Corporate governance guidelines for Kazakhstan companies are modelled after the Kazakhstan Model Code, which is based on international best practice standards 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 Kazakhstan Model Code and Telia'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 the protection of the rights and interests of all stakeholders. Furthermore, it seeks to increase Kcell's efficiency and market value, while promoting financial stability and profitability.

The high standard of corporate governance that Kcell has set for itself is proven by an award granted during 2016 for honourable transparency and disclosure from the Kazakhstan Stock Exchange.

UK CORPORATE GOVERNANCE CODE

In keeping with Kcell's GDR listing on the London Stock Exchange, the Company is executing obligatory disclosure requirements of UK Listing Authority and is aiming to comply on a voluntary basis with the UK Corporate Governance Code.

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, Code of Ethics, and Conduct and Anti-Corruption Code.
Effective dividend policy	The Company pays dividends in accordance with the law, the Charter, and the relevant resolutions of the General Meeting of Shareholder. Net income is distributed in accordance with the decision of the Annual General Meeting of Shareholders on payment of dividends, while 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, Kcell Code of Ethics and Conduct, and the People Policy.
Environmental protection	The Company considers the need for environmental preservation in conducting its operations and complies with environmental safety standards established by the law, its Code of Ethics, and Conduct and Policy on Environment.
Settlement of corporate disputes	In the event of a corporate dispute, participants can seek resolution through negotiation and other instruments set forth by the law 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 to support its commitment to establishing a strong corporate governance framework. They include the following:

- Corporate Governance Code;
- CEO's Instructions (Version 2);
- Code of Ethics and Conduct;
- Procurement Policy;
- Financial Management Policy;
- Insurance Policy;
- Risk Management Policy;
- Communication Policy;
- Recruitment Policy;
- Remuneration Policy (Version 2);
- Insider Information Policy;
- Insider Trading Policy;
- Security Policy;
- Anti-Corruption Policy;
- Privacy Policy;
- Freedom of Expression in Telecommunications Policy;
- Occupational Health and Safety Policy;
- Supplier Code of Conduct;
- Financial Accounting and Reporting Policy;
- Competition Policy;
- People Policy;
- Policy on Environment.

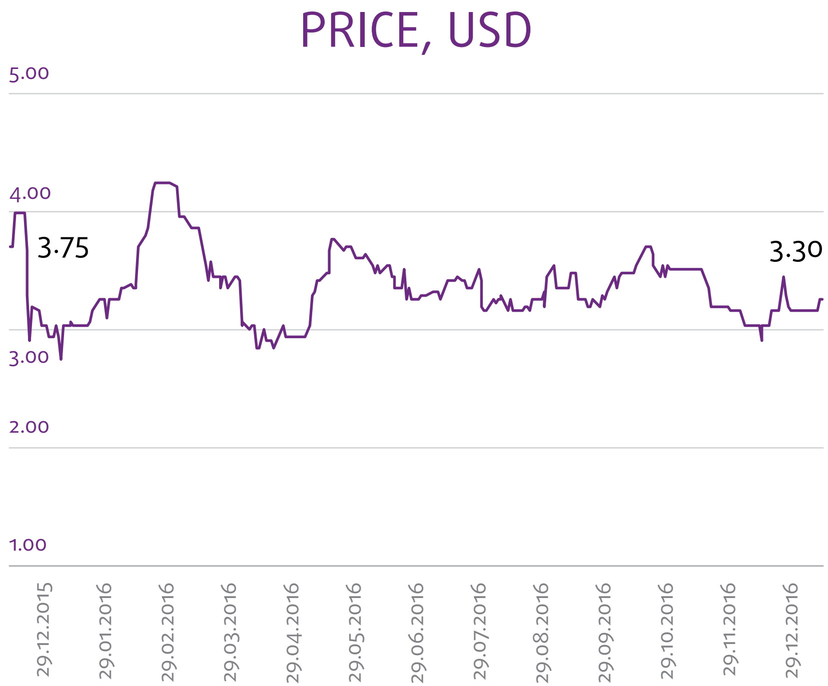
GOVERNING BODIES

Kcell's main governing bodies are:

- The Shareholders at the General Meeting;
- The Board of Directors;
- The CEO, assisted by the executive management team.

Relations with Shareholders

Kcell's equity is represented by 200 million ordinary shares. 25% of them are publicly traded on Kazakhstan Stock Exchange in form of common shares and on London Stock Exchange in form of Global Depository Receipts (GDR). 1 GDR represents 1 common share.



Fintur Holdings B.V. is the largest shareholder, owning 51% stake in Kcell. This organization represents the interests of its two beneficiaries: TeliaSonera group (Telia Company AB), owning 58.55% stake, and Turkcell group, owning 41.45% stake. The second largest shareholder is TeliaSonera Kazakhstan Holdings B.V.—a subsidiary of TeliaSonera group with 24% stake in Kcell.

TeliaSonera group is, therefore, the largest beneficiary of Kcell as of 31 December 2016, effectively owning 61.9% of the shareholder's power, while Turkcell group holds the other 13.1%.

During 2015, Telia Group announced its intention to responsibly exit the Eurasia region by 2019. For Kcell this means that there is a high probability that this major beneficiary will leave. Kcell responded, however, as publicly announced during the 2016 decision of the Turkcell Board of Directors, by submitting a binding offer for all of TeliaSonera's stake, including direct and indirect ownership.

The Kcell Board of Directors is in regular dialogue with the company's major shareholders. Fintur Holding and Sonera Holding are both represented in the Kcell Board of Directors. During 2016, the Kcell Board approved a relationship agreement with Fintur Holding BV. A similar relationship agreement with TeliaSonera has been valid since 2015.

Kcell maintains an active dialogue with investors and investment banks' analysts through the Investor Relations team, a specialised section of the Company's website which is dedicated to shareholders, as well as analysts who provide access to all reports, presentations, and other corporate information.

The Company's annual general meeting is attended by the Chairman of the Board and the company's executives, and is open to all our common shareholders. GDR holders can give voting instructions to the GDR program provider (Deutsche Bank). The average quorum in general meetings of shareholders are about 80%, which represents the high involvement of our shareholders in decision making.

Recent changes to the Company Charter reflect amendments to Republic of Kazakhstan Joint Stock Company Law. This law states: "the right of the shareholders to propose to include additional items on the agenda of the general meeting of shareholders, as provided by the Law; exclusive competence of the general meeting of shareholders to adopt decisions on major transactions which result in alienation of property worth 50 or more % of company's total book value, as provided by the Law; limitation of Board of Directors authorities to adopt major transactions resulting in company alienating the property with the value from 25% up to 50% of the total book value, as provided by the Law."

The 2016 general meeting of shareholders was called three times and reviewed the following issues:

- Two extraordinary meetings dedicated to the issue of appointment of the new members of the Board of Directors who replaced the resigned Directors, as well as amendments to Kcell Charter and Instructions to the CEO.

- Annual meeting dedicated to the issues of the approval of the 2015 Financial Statements, 2015 net income, and dividend distribution.

INVESTOR CALENDAR FOR 2017

January 27	FY 2016 Financial and Operating Report disclosure
April 26	Q1 2017 Financial and Operating Report disclosure
May 24	Annual General Shareholders Meeting
June 20	Investor Day
July 20	Q2 2017 Financial and Operating Report disclosure
June 1 – August 22	Dividend pay-out
October 19	Q3 Financial and Operating Report disclosure

DIVIDEND POLICY

Net income of the Company shall be allocated in accordance to the decision made at the general meeting of shareholders regarding the payment of dividends, which is based on the Company's development and long-term targeted net debt to EBITDA ratio in the range of 0.5–0.9. Unless the Company's shareholders decide otherwise, annual dividends on common shares of the Company shall be at least 70% of the net income of the Company for the previous financial year. When making decisions on payment of dividends, the general meeting of shareholders will take into consideration the proposal of the Company's Board of Directors regarding the amount of dividends that are based on the Company's best interests, cash on hand, cash flow projections, and investment plans in the medium-term perspective, as well as capital market conditions. The Company intends to pay dividends annually in respect to the previous financial year as resolved by the Company's general shareholders' meeting.

Board of Directors

Membership of the Board of Directors

Members of the Board of Directors are elected at the general meeting and 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 the re-election.

To strengthen the independence of the governance structure, the Chairman of the Board and CEO positions are separated and are held by different individuals. The Board is chaired by Jan Rudberg, an independent non-executive director. The CEO, Arti Ots, is not a member of the Board and neither are his management team members.

Kcell Board of Directors consists of three independent non-executive directors and four non-executive directors representing the major shareholders, for a total of seven directors:

Independent:	Fintur Holding representation:	Sonera Holding representation:
Jan Rudberg	Ingrid Stenmark	Peter Lav
William H R Aylward	Douglas Lubbe	
Vladimir Smirnov	Emil Nilsson	

The Company Charter and the law require that at least 30% of the members of theBoard be independent directors.

UK legal advice confirmed that Mr. Rudberg, Mr. Aylward, and Mr. Smirnov are independent in accordance with the UK Corporate Governance Code (section B.1.1).

THE BOARD OF DIRECTORS' RESPONSIBILITY AND ACCOUNTABILITY

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: making decisions on establishing Kcell branches and representative offices, acquiring or disposing of 10% or more of third-party shares, concluding major transactions or transactions with related parties, approving annual budgets; and deciding other issues that exclusively belong to the Board of Directors according to the Company's Charter and the Joint-Stock Company Law of the Republic of Kazakhstan.

During 2016 the Kcell Charter was amended to reflect additional responsibilities of the Board of Directors, such as the approval of material changes to the organisation, changes to the accounting principles, matters of unusual nature or major importance, pricing models.

Currently, the Board has assessed the Company's prospects over the next year, meaning the period over which 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 fulfill its liabilities.

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. 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.

Board of Directors

Jan Rudberg

The 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, as well as an independent director and 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 within Telia AB. He previously served as the 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 has been the Chairman of the Strategic Planning and Personnel and Remuneration committees.

Mr. Aylward has extensive experience working as the 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. He is currently the executive Chairman of ABCO Holdings Limited which is involved in Intelligent Metering Systems, Software, and Data Analytics, as well as the design and manufacturing of sophisticated electronic avionics systems.

From 2011 to 2016 he served as the Chairman and CEO of Alchemy Group, which primarily focused 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 competitive sporting at the international level. A professional cross-country skier since 1976, he won a gold medal at the 1994 Winter Olympics in Lillehammer, was the world champion four times, won the World Cup 30 times, and has twice been a holder of World Cup General. He was also a member of the International Olympic Committee (2000–2002), its Athletes' Commission (1998–2002), and vice-president of 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 meant developing the division's own infrastructure in Kazakhstan, including building a Scania service centre—a €15 million investment. In August of 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 of 2014, he became the Honorary Consul of the Republic of Kazakhstan to the Kingdom of Sweden, having also held the position from 2001–2004.

Ingrid Stenmark

Non-Executive Director (representative of the shareholder Fintur Holdings B.V.)

Ingrid Stenmark has been a member of the Board of Directors since 24 May 2014.

Senior Vice President, Head of CEO Office; Strategy & Responsible Business.

Ingrid Stenmark is responsible for Telia Group Strategy, Risk Management, and overseeing the Internal Audit sector, which reports to the Audit Committee.

Since joining TeliaSonera in 1994, Ingrid Stenmark has held various senior positions in Telia Group, including the Head of Group Regulatory Affairs and acting General Counsel, and remains responsible for the associated Turkcell and MegaFon companies.

In addition, Ms. Stenmark serves as a Board member of PJSC MegaFon.

Ms. Stenmark holds a Master of 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 of 2014. Before 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 the interim managing director at Vodacom Mozambique, successfully seeing off the launch of a third operator shortly after his arrival. He also started a project to overhaul their 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.

Emil Nilsson

Non-Executive Director (representative of the shareholder Fintur Holdings B.V.)

Emil Nilsson was elected as a member of the Board of Directors at Kcell on 6 January 2016. Emil Nilsson started his career at Ericsson in 1996 and held various roles within the company's divisions in Sweden, Brazil, USA, and Austria. His roles included CFO and Acting President of Ericsson Brazil, CFO and Chief Operations Officer of the North America region, and President of Central Europe region. Mr. Nilsson left Ericsson in August of 2012 to become the Executive Vice President and CFO of Sandvik Group in Sweden, a publicly listed company with 50,000 employees. He worked there for slightly more than a year and then decided to fully dedicate himself to his family business, which was founded earlier in February of 2012.

Mr. Nilsson joined TeliaSonera in early 2015 as Vice President and Senior Advisor, and was appointed as the Senior Vice President and Head of the Region of Eurasia in the TeliaSonera Group in October of 2015. Furthermore, since August of 2013, he has been a board member of the Swedish National Teams in European Handball. Emil holds a degree in Finance from the University of Stockholm.

Peter Lav

Non-executive director (representative of the shareholder Sonera Holding B.V.)

Peter Lav was elected as a member of the Board of Directors at Kcell on 6 January 2016. Peter Lav has been employed by Telia Sonera since 2000 and has held several managerial positions in various legal departments within TeliaSonera Group, including: Acting General Counsel Business Area Eurasia (December 2013 – April 2014), General Counsel TeliaSonera International Carrier (February 2011 – December 2013), General Counsel Broadband Wholesale (January 2007 – February 2011), Vice President and General Counsel TeliaSonera International Carrier (February 2004 – January 2007), Legal Counsel TeliaSonera International Carrier and Network Sales within Telia AB (September 2000 – February 2004).

Prior to joining TeliaSonera, he worked at the law firm Lindskog Malmström Advokatfirma and Stockholm City Court. Peter holds a Master of European and Comparative Law from the University of Limburg, the Netherlands, and a Master of Law from the University of Uppsala, Sweden.

2016 ATTENDANCE AT MEETINGS OF THE BOARD

Director	Attendance									
	1	2	3	4	5	6	7	8	9	10
Jan Rudberg	●	●	●	●	●	●	●	●	●	●
William H R Aylward	●	●	●	●	●	●	●	●	●	●
Vladimir Smirnov	●	●	●	●	●	●	●	●	●	●
Ingrid Stenmark	●	●	●	●	●	●	●	●	●	●
Douglas Lubbe	●	●	●	●	●	●	●	●	●	●
Emil Nilsson	●	●	●	●	●	●	●	●	●	●
Peter Lav	●	●	●	●	●	●	●	●	●	○

1 Including attendance via teleconference.

● Attendance ○ Absence

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 to prepare recommendations for the Board of Directors: Strategic Planning Committee, Personnel Remuneration Committee, and Internal Audit Committee and Sustainability Committee.

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	Attendance
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 Peter Lav Emil Nilsson	1/1 1/1 1/1 1/1 1/1 1/1 1/1
Personnel and Remuneration Committee	Makes recommendations to the Company's Board of Directors on qualification requirements for senior management, appointment and dismissal of the CEO and senior management, bonuses and salary for the CEO and members of the leadership team, and internal documents evaluating staff fitness, training, and motivation of employees. Two mandatory meetings are held each year. Two additional meetings of the committee were held during 2016.	William H R Aylward (Chairman) Ingrid Stenmark Emil Nilsson	4/4 4/4 4/4
Internal Audit Committee	Makes recommendations to the Company's Board of Directors on financial statements, internal controls, risk management, and internal and external audits. Four meetings are held each year.	Jan Rudberg (Chairman) Douglas Lubbe Peter Lav	4/4 4/4 3/4
Sustainability Committee	Makes recommendations to the Company's Board of Directors on internal documentation regarding social responsibility, sustainable development of Kcell JSC, as well as Company participation in social projects. Two meetings are held each year.	Vladimir Smirnov (Chairman) Ingrid Stenmark Jan Rudberg	2/2 2/2 2/2

Including attendance via teleconference.
Mr. Peter Lav was appointed as a member of the Audit Committee after the first meeting of the committee took place in 2016.

Internal Audit Committee

The Internal Audit Committee met four times during 2016. It considered significant issues in relation to financial statements, and initiated a series of internal investigations based on management recommendations, whistle-blowing allegations and the findings of the Internal Audit.

The 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 and removal of the external auditor to the General Meeting of Shareholders. Deloitte has been appointed as the Company's auditor since 2014. To protect its independence, Deloitte is not engaged in any non-audit services for Kcell.

Board Activities and Agenda

Kcell uses specialist software that is designed to improve the Board's communications and effectiveness. This provides end-to-end security for its governance and workflow management. The Board of Directors held a total of ten meetings during 2016. Six meetings were conducted in person and four via conference calls. In addition, 46 resolutions were adopted via voting in absentia.

THE BOARD'S ACTIVITIES DURING 2016 INCLUDED:

- Updates on business, commercial, operational, and legal matters, as well as any approvals arising from these topics.
- The 2017 annual operating plan and budget.
- Approval of Objectives for the Company Leadership Team.
- Approvals of major contracts, agreements, and purchases, including the LTE network sharing project with Beeline.
- 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 2015 annual financial statements and approval of quarterly financial reports.
- Convocation of the Extraordinary General Meetings of shareholders on the appointment of the new member of the Board of Directors; amendments to the Charter and Instructions to the CEO.
- Convocation of the 2016 AGM, including dividend proposal.
- Approval of interested-party transactions.
- Election of Board Committee members.
- Approval of write-off warehouse fixed assets.
- Approval of revisions to policies, including Competition Policy, People Policy, Financial Accounting and Reporting Policy, Policy on Environment, and Remuneration Policy.
- Approval of changes to the terms and conditions of loan agreements.

THE BOARD’S AGENDA FOR 2017 IS AS FOLLOWS:

There are five in-person Board meetings scheduled for 2017. In addition to 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, and year-end matters, including the external audit report, annual report, and AGM. They will also address the Company’s strategy, sustainability approach, and the annual operating plan. In addition, ad hoc meetings or conference calls will be held when required for approvals and when there is no scheduled meeting planned.

Board Remuneration

Remuneration is paid to independent directors and to directors who are not employed at Telia or Fintur 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. The amount of remuneration paid to the Board of Directors consists of two parts: a fixed annual remuneration, which depends upon the attendance of meetings by Board members, and an auxiliary annual remuneration for participation in Board committees. The regulation also provides the compensation of expenses incurred by the Board of Directors while 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 Telia: fixed annual remuneration of 75,000 USD; auxiliary annual remuneration for chairing the Board of Directors of USD 25,000; USD 15,000 for participating in the Internal Audit Committee; and USD 6,000 for participating in any other Board committee. These payments remained unchanged in 2015 and 2016.

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 are paid one year after a director takes office.

Executive Management

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

Arti Ots

CEO

Arti Ots became the CEO on 18 December 2014. After receiving regulatory approval, he began work on 9 February 2015.

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

Mr. Ots holds an MBA from Henley Business School.

Trond Moe

Finance Director

Trond Moe became the Director of the Finance Department at Kcell on 27 January 2015.

Before joining Kcell, Mr. Moe served as the 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.

Sasa Lekovic

Technology Department Director

Sasa Lekovic was appointed by Kcell's Board of Directors to the position of Technology Department Director on 1 July 2016.

Mr. Lekovic joined Kcell on 1 September 2015 as Network & Infrastructure Manager in the Technology Department. Since March of 2016, Mr. Lekovic has been the Acting Technology Department Director. Mr. Lekovic continues to lead the technology sector in transforming and implementing strategic company-wide projects.

Prior to joining Kcell Mr. Lekovic worked for Telecom Serbia Group as a Chief Technical Officer and Board Member. Mr. Lekovic has a Master of Science Degree in Electrical Engineering from the University of Belgrade, Serbia, and more than 19 years of experience in the IT and telecommunication industry.

Irina Savina

Consumer Department Director

Irina Savina was appointed to the position of Consumer Department Director on 2 February 2016.

Ms. Savina has more than 15 years of international experience in executive positions in sales and marketing in various companies such as MTS, Velcom, ASBIS, and Procter & Gamble. Prior to joining Kcell, Ms. Savina was the Chief Commercial Officer at Altel.

Ms Savina has an MBA degree in Marketing & Sales Strategy in Telecom business (INSEAD).

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 of 2014 as deputy director of the Procurement and Administration department. He led the drive to centralise the procurement function. Previously, he spent eight years in procurement at Velcom, the first GSM operator in Belarus, and ultimately headed a department.

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

Assya Kalinkina

HR Department Director

Assya Kalinkina was appointed to the position of Human Recourses Department Director on 12 January 2016.

Ms. Kalinkina has more than 15 years of experience in Human Resources in various companies such as Danone Kazakhstan, Derbes Brewery, and Halyk Bank. Prior to joining Kcell, Ms. Kalinkina was the Human Recourses Department Director at Sandoz CIS.

Ms. Kalinkina has a professional degree in Human Resource management from Robert Gordon University, UK.

Risk Management

Like any organization conducting business, Kcell encounters various potential and actual risks. To identify and mitigate these to the greatest extent possible, the Company has established a robust risk management system specially designed to deal with such threats in a planned and coordinated manner. Kcell is committed to continuously improving its risk management methods and processes to ensure that our 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 task 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 is to identify risks rapidly and ensure that all employees take responsibility for 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 establishes risk management as part of daily operations, for example, 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 ongoing.
- 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, as well as 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 are 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. Kcell seeks to mitigate these risks by protecting its leadership in 'strong' regions and increasing market share in these regions 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, or information systems and technologies. Most of them have a low-risk rating and the mitigating actions are already in place as part of the daily risk management procedures.

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 in 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 including credit, foreign-exchange, and interest-rate risk.

CREDIT RISK

Kcell has introduced policies to ensure that the sale of products and services to customers and distributors are made 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 its financial position, past experience, and other factors. The Company's management reviews any ageing analyses of outstanding trade receivables and follows up on o

verdue balances. Customers that fail to settle their liabilities for the 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 were 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 also apply to the banks in which the Company has placed its cash, cash equivalents, and term deposits at the end of the reporting period.

FOREIGN-EXCHANGE RISK

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

INTEREST-RATE RISK

Kcell's income and operating cash flow are largely independent of changes in market interest rates. As of 31 December 2016, 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 drafting legal 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.

Financials

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31 December 2016
and Independent
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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTSFOR THE YEAR ENDED 31 DECEMBER 2016

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 2016, 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 2016 were approved by management on 9 February 2017.

Approved for issue and signed by Arti Ots, Chief Executive Officer and Trond Moe, Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Kcell JSC

Opinion

We have audited the consolidated financial statements of Kcell JSC ("the Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, 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, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

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Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and informing our opinion thereon. We do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit and the outcome of the procedures
Provisions and contingent liabilities	
The Company is currently undergoing a tax audit for the years 2012-2015, which has yet to be finalised. There is a high level of judgement required in estimating the level of provisioning required as a result of the ongoing tax audit. Refer to Note 19 – Contingencies, Commitments and Operating Risks	Our procedures included the following: • where relevant, reading external tax opinions obtained by management; • enquiring with management and reading Group correspondence with tax authorities; • discussing further actions with the Group legal team upon the receipt of tax audit conclusion; • assessing and challenging management's conclusions through understanding precedents set in similar cases. Based on the evidence obtained, whilst noting the inherent uncertainty with such legal, regulatory and tax matters, we determined the level of provisioning as of 31 December 2016 to be appropriate. We also validated the completeness and appropriateness of the related disclosures in Note 19 of the consolidated financial statements.
Physical verification of fixed assets (Assets under construction and Plant and machinery)	
Due to the scale of the territory covered, the Group has a significant amount of fixed assets, particularly assets under construction and Plant and machinery, which have not been physically verified by the Group in prior periods. As of 31 December 2016, the carrying amounts of Assets under construction and advances given and Plant and machinery were 16,711,684 Tenge and 56,402,691 Tenge, respectively (Note 9).	We tested the operating effectiveness of the controls over the physical verification within the fixed assets process, noting no significant exceptions. On a sample basis we performed a verification of fixed assets. Additionally, we have performed the reconciliation of the fixed asset register with on-air reports prepared by the technical department of the Group. No significant issues were noted from our testing.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit and the outcome of the procedures
Assets impairment (Assets under construction and Plant and machinery)	
As discussed in Note 9 to the consolidated financial statements, in prior years, based on management estimates of usage, the Group has written off a significant amount of Plant and machinery and Assets under construction. Given the pace of technological advancements in the sector, we consider asset impairment to be a significant area of judgement.	We tested the operating effectiveness of controls over the impairment assessment process. Our procedures included reviewing Plant and machinery for the existence of impairment indicators, as well as the impairment model used for value in use calculation, including reviewing the future cash flow projections and assessing the methodology used in determination of related input assumptions, such as the growth rate and discount rate applied in the model. No significant issues were noted. In addition, we have reviewed the Assets under construction ageing analysis assessing the appropriateness of management's key assumptions in respect to historical utilization of the Assets under construction. Based on our procedures, we noted no exceptions and consider management's key assumptions to be within a reasonable range.
Capital expenditure (Assets under construction)	
As discussed in Note 9 to the consolidated financial statements, there are a material amount of assets in the course of construction and advances given, which are transferred to other groups of property, plant and equipment as such assets start being used There are a number of areas where management judgement impacts the carrying value of Assets under construction. These include: • the decision to capitalise or expense costs; and • the timeliness of the transfer from assets in the course of construction to the appropriate property classification.	We tested controls in place over the fixed asset cycle, evaluated the appropriateness of capitalisation policies, performed tests of details on costs capitalised, assessed the nature of costs incurred in capital expenditure through testing of amounts recorded and assessing whether the expenditure met capitalisation criteria. In performing these procedures, we challenged the judgements made by management including the nature of underlying costs capitalised as part of the cost of the network roll-out through reviewing third party supporting documentation in relation to the costs incurred. Further, we substantively tested the transfer of assets in the course of construction to the appropriate property classification through reviewing, on a sample basis, supporting documentation detailing the type of asset being constructed and the related asset class in which it had been transferred to on completion, along with the timeliness of the transfer. No significant issues were noted from our testing.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit and the outcome of the procedures
Revenue recognition	
There is an inherent risk around the accuracy and cut-off of revenue recorded given the complexity of systems and the impact of multiple-element arrangements to revenue recognition (tariff structures, the appropriateness of the allocation of the total transaction value between multiple elements in a bundled transaction etc.). The application of revenue recognition accounting standards is complex and involves a number of key judgements and estimates.	We involved our IT specialists to test the operating effectiveness of controls over the customer billing systems. Our tests assessed the controls in place to ensure all services supplied to customers are input into and processed through the billing systems, allowing us to rely on the controls in place within the revenue system. We subsequently applied a combination of substantive analytical procedures and tests of detail to obtain assurance over the validity and completeness of the reported output of these systems. We tested the basis of allocation of total transaction value between multiple elements in a bundled transaction, noting no significant exceptions. We also considered the application of the Group's accounting policies to amounts billed and the accounting implications of allocation of the total transaction value between multiple elements in a bundled transaction to ensure that the Group accounting policies were determined appropriately and applied consistently. Based on our work, we noted no issues on accuracy and cut-off of revenue from multiple-element arrangements recorded in the year.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report including our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the

consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

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

Ivan Mudrichenko
Auditor-performer
Qualification certificate
No. MF-0000415
dated 13 January 2017

Nurlan Bekenov
General Director
Deloitte, LLP

Deloitte, LLP
State license for audit activities
in the Republic of Kazakhstan #0000015,
type MFU-2, issued by the Ministry of Finance
of the Republic of Kazakhstan
dated 13 September 2006

9 February 2017
Almaty, the Republic of Kazakhstan

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(in thousand of Kazakhstani Tenge, unless otherwise stated)

	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	9	95,321,606	94,501,445
Intangible assets	10	42,842,480	16,956,188
Long-term trade receivable	11	1,162,961	397,111
Financial aid receivable from related party	8	-	300,000
Restricted cash		86,419	145,748
Total non-current assets		139,413,466	112,300,492
Current assets			
Inventories		3,587,082	2,801,602
Trade and other receivables	11	18,238,920	13,440,877
Prepaid current income tax		10,575,846	5,114,688
Due from related parties	8	738,983	780,054
Cash and cash equivalents		8,476,653	31,589,007
Total current assets		41,617,484	53,726,228
TOTAL ASSETS		181,030,950	166,026,720
EQUITY			
Share capital	12	33,800,000	33,800,000
Retained earnings		38,880,286	46,646,103
TOTAL EQUITY		72,680,286	80,446,103

	Note	31 December 2016	31 December 2015
LIABILITIES			
Non-current liabilities			
Deferred income tax liability	18	6,012,214	5,037,021
Other non-current liabilities		1,285,482	1,285,482
Borrowings	14	8,000,000	-
Total non-current liabilities		15,297,696	6,322,503
Current liabilities			
Borrowings	14	57,414,639	50,201,227
Trade and other payables	13	26,952,614	18,509,955
Due to related parties	8	1,525,559	1,215,538
Deferred revenue		6,759,535	8,397,228
Taxes payable		400,621	934,166
Total current liabilities		93,052,968	79,258,114
TOTAL LIABILITIES		108,350,664	85,580,617
TOTAL LIABILITIES AND EQUITY		181,030,950	166,026,720

Approved for issue and signed by Arti Ots, Chief Executive Officer and Trond Moe, Chief Financial Officer

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands of Kazakhstani Tenge, unless otherwise stated)

	Note	2016	2015
Revenues	15	147,037,004	168,424,046
Cost of sales	16	(91,865,727)	(89,932,191)
Gross profit		55,171,277	78,491,855
Selling and marketing expenses	16	(10,988,346)	(9,221,036)
General and administrative expenses	16	(14,149,534)	(12,380,999)
Other operating income		2,871,658	2,422,854
Other operating expenses	16	(1,863,772)	(6,711,830)
Operating profit		31,041,283	52,600,844
Finance income	17	2,650,545	13,524,281
Finance costs	17	(10,935,593)	(5,713,217)
Profit before income tax		22,756,235	60,411,908
Income tax expense	18	(6,072,619)	(13,779,583)
Profit and total comprehensive income for the year		16,683,616	46,632,325
Earnings per share (Kazakhstani Tenge), basic and diluted	12	83,42	233,16

Profit and total comprehensive income for both periods are fully attributable to the Group's shareholders.
Approved for issue and signed by Arti Ots, Chief Executive Officer and Trond Moe, Chief Financial Officer

The accompanying notes are an integral part of these consolidated financial statements

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

	Share capital	Retained earnings	Total equity
Balance at 1 January 2015	33,800,000	58,273,778	92,073,778
Profit and total comprehensive income for the year	-	46,632,325	46,632,325
Dividends declared (Note 12)	-	(58,260,000)	(58,260,000)
Balance at 31 December 2015	33,800,000	46,646,103	80,446,103
Profit and total comprehensive income for the year	-	16,683,616	16,683,616
Business combination under common control (Note 3)	-	(1,133,433)	(1,133,433)
Dividends declared (Note 12)	-	(23,316,000)	(23,316,000)
Balance at 31 December 2016	33,800,000	38,880,286	72,680,286

Approved for issue and signed by Arti Ots, Chief Executive Officer and Trond Moe, Chief Financial Officer

The accompanying notes are an integral part of these consolidated financial statements

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

	Note	2016	2015
Cash flows from operating activities			
Profit for the year		16,683,616	46,632,325
Adjustments for:			
Depreciation of property, plant and equipment	9	17,192,050	21,707,948
Amortisation of intangible assets	10	7,036,978	2,866,065
Income tax		(4,474,443)	(3,492,662)
Net foreign exchange gain		(1,206,903)	(11,927,863)
Interest income		(1,316,560)	(376,100)
Impairment of trade receivables	11	1,090,968	692,005
Interest expense		10,283,135	5,493,653
Impairment and loss on disposal of property, plant and equipment	9	9,666	3,976,839
Operating cash flows before working capital changes		45,298,507	65,572,210
Change in working capital and other balances:			
Trade and other receivables		(4,679,352)	(891,549)
Long-term receivables		(765,850)	(397,111)
Due from related parties		41,071	(505,798)
Inventories		(528,205)	(465,538)
Taxes payable		(533,544)	442,947
Trade and other payables		2,030,961	(2,946,663)
Due to related parties		310,021	554,200
Deferred revenues		(1,637,693)	(411,821)
Other		59,413	(700)
Cash generated from operations		39,595,329	60,950,177
Interest paid		(10,364,306)	(5,612,452)
Interest received		1,316,475	376,100

	Note	2016	2015
Net cash generated from operating activities		30,547,498	55,713,825
Cash flows from investing activities			
Purchase of property, plant and equipment		(15,091,050)	(15,985,099)
Purchase of intangible assets		(28,857,944)	(7,328,692)
Cash inflow as a result of acquisition of a subsidiary		108,615	-
Financial aid paid to related party		-	(300,000)
Net cash used in investing activities		(43,840,379)	(23,613,791)
Cash flows from financing activities			
Proceeds from bank borrowings		33,000,000	39,800,000
Repayment of borrowings		(18,000,000)	(14,500,000)
Dividends paid	12	(23,316,000)	(58,260,000)
Purchase of investments in subsidiaries	3	(2,185,000)	-
Net cash used in financing activities		(10,501,000)	(32,960,000)
Net decrease in cash and cash equivalents		(23,793,881)	(859,966)
Effects of exchange rate changes on the balance of cash held in foreign currencies		681,527	12,928,616
Cash and cash equivalents at the beginning of the year		31,589,007	19,520,357
Cash and cash equivalents at the end of the year		8,476,653	31,589,007

Approved for issue and signed by Arti Ots, Chief Executive Officer and Trond Moe, Chief Financial Officer

The accompanying notes are an integral part of these consolidated financial statements.

1. THE GROUP AND ITS OPERATIONS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board for the year ending 31 December 2016 for Kcell JSC ("the Company") and its subsidiaries (together referred to as "the Group").

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

The Company began its commercial operations in 1999 through direct sales and a network of distributors. Prior to 2 February 2012, the Company was owned 51 percent by Fintur Holdings B.V. ("Fintur" or "Parent company") and 49 percent by Kazakhtelecom JSC ("Kazakhtelecom"). Fintur itself is owned jointly by Sonera Holding B.V. ("Sonera") and Turkcell Iletisim Hizmetleri A.S., with holdings of 58.55 percent and 41.45 percent, respectively.

On 2 February 2012, the 49 percent stake in the Company owned by Kazakhtelecom was sold directly to Sonera, a subsidiary of Telia Company.

On 1 July 2012, the General Meeting of the participants of GSM Kazakhstan approved a conversion of the Company from Limited Liability Partnership to Joint Stock Company ("the Conversion"), with 200,000,000 common shares to be transferred to Fintur and Sonera in proportion to their ownership percentage. The General Meeting also approved the Company's change of name to Kcell JSC.

On 27 August 2012, the Ministry of Justice registered the Company as a Joint Stock Company. Under Kazakhstani law, upon the Conversion, retained earnings as of the date of the Conversion became share capital of the Company and ceased to be available for distribution to shareholders.

On 13 December 2012, the Company successfully completed its offering of Global Depositary Receipts on the London Stock Exchange and common shares on the Kazakhstan Stock Exchange. The offering consisted of a sale by Sonera of 50 million shares, which represented 25 percent of the Company's share capital (Note 12).

On 4 May 2016, the 24 percent stake in the Company owned by Sonera was sold directly to TeliaSonera Kazakhstan Holding B.V. ("TeliaSonera Kazakhstan"), a subsidiary of Telia Company. The Company's ultimate parent and controlling party is Telia Company.

The Company owns the following subsidiaries:

	Ownership interest		Voting power	
	2016	2015	2016	2015
KazNet Media LLP (Note 3)	100%	–	100%	–
KT-Telecom LLP	100%	100%	100%	100%
AR-Telecom LLP	100%	100%	100%	100%

Operations

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

In January 2016, the Group paid 14 billion Tenge as the first tranche for LTE radio frequencies. In accordance with the decision made by Kazakhstan's Ministry of Investments and Development ("the MID") in January 2016, the Group had to pay a one-time fee of 4 billion Tenge by 1 February 2016 for 10/10 MHz radio frequency within the 1700/1800 MHz band, and the first tranche of 10 billion Tenge by 1 March 2016 to gain access to 10/10 MHz radio frequency within the 700/800 MHz band. The second tranche for 10/10 MHz radio frequencies within the 700/800 MHz band in the amount of 12 billion Tenge is to be paid by 1 December 2016. The Group paid the second tranche on 30 November 2016. On 1 March 2016, the Group launched LTE in its network on the previously granted frequencies.

The Company's registered address is 100, Samal-2, Almaty, Republic of Kazakhsta.

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 Group 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 "International Accounting Standards" ("IAS") 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

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

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

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These consolidated financial statements have been prepared in accordance with 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 4. 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.

As of 31 December 2016, the principal rate of exchange used for translating foreign currency balances were US Dollar ("USD") 1 = Tenge 333.29 (31 December 2015: USD 1 = Tenge 339.47). 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 to 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 plant and machinery at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

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

II. Depreciation

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

	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 10, 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. On 1 March 2016, the Group launched LTE in its network on the previously granted frequencies. The economic useful life of the 4G license is also 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-1700/1800) was estimated by management to expire in line with the GSM-700/800 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 goods for resale. Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Trade and other receivables

Trade and other 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 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 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 accrual 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 roaming revenues charged to other wireless operators for non-Group subscribers using the Group's network.

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

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

The Group may bundle services and products into one customer offering. Offerings may involve the delivery or performance of multiple products, services, or rights to use assets (multiple deliverables). In some cases, the arrangements include initial installation, initiation, or activation services and involve consideration in the form of a fixed fee or a fixed fee coupled with a continuing payment stream. Telecom equipment is accounted for separately from service where a market for each deliverable exist and if title to the equipment passes to the end-customer. Costs associated with the equipment are 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.

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 Chief Executive Officer. The Group determined the Group's operations as a single reporting segment.

Financial instruments

I. Key measurement terms

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

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

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

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

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

II. Classification of financial assets

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise trade receivables (Note 11), due from related parties (Note 8) 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 13) and due to related parties (Note 8).

IV. Initial recognition of financial instruments

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

V. Derecognition of financial assets

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

3. BUSINESS COMBINATION UNDER COMMON CONTROL

On 26 August 2012, Sonera and the Company entered into a memorandum of understanding ("the MoU"), under which the Company had the right to require Sonera to sell to it, and Sonera had the right to require the Company to acquire from it:

- all participatory interests owned by Sonera in KazNet Media LLP ("KazNet") together with all rights and obligations of Sonera under a framework agreement to buy all the participatory interests in the charter capital of KazNet; and
- 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" in Note 19).

On 20 October 2015, the Company and KT-Telecom (100 percent subsidiary of the Company) signed an agreement ("the Agreement") for the purchase of 100 percent of the participatory interest in KazNet where Sonera 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 amount of the transaction is divided by two tranches. The first tranche comprises a nominal price of 5 million US Dollars; the second tranche equals to the fair market value of the frequencies. If the parties of the Agreement can not agree commercially on the fair value of the frequencies, then the fair value shall be determined by independent appraiser appointed by the parties. The total amount of the transaction shall not exceed 70 million US Dollars.

In accordance with the Agreement, the second tranche shall be paid by the Company within 60 calendar days from the date at which the frequencies are permitted to be used by the Company for 4G/LTE services in Kazakhstan. The Company shall receive the relevant authorisation for the use of the frequencies by 31 December 2025. The second tranche shall not be due and payable if the Company is not authorised to provide 4G/LTE services in Kazakhstan by 31 December 2025. As of 31 December 2016, the Company did not apply for permission to use the frequencies.

In accordance with the Agreement, the completion of the deal is subject to the satisfaction of a list of conditions, including but not limited to, signing of waiver-letters and execution of an amendment to the MoU.

On 15 January 2016, all parties of the Agreement signed waiver-letters according to which all parties confirmed no need for execution of the amendment to the MoU and corresponding satisfaction of all the conditions precedent set forth in the Agreement.

On 4 May 2016, the Company and KT-Telecom signed an amendment to the Agreement for the purchase of a 100% participatory interest in KazNet from Telia Company for 1 US Dollar (the revised first tranche following the amendment). The parties agreed that the control over KazNet is transferred to the Group and thereafter the Group would consolidate KazNet, including its subsidiaries Aksoran and Instaphone, starting from the month after Aksoran repays the 5 million US Dollars of loan principal plus 369 thousand US Dollars of accrued interest on that loan to Sonera.

On 5 May 2016, KazNet repaid a loan due to Sonera in full, thus the Group obtained control over the activity of KazNet, including Aksoran and Instaphone, and consolidated its financial information since June 2016. Since the transfer of ownership in KazNet represents a business combination under common control (with Telia Company being the ultimate parent), the assets and liabilities of the transferred subsidiary were recognised at their historical carrying values per the predecessor owner's financial statements. The financial statements of these companies are not significant for understanding of the consolidated financial statements; as such, the Group consolidated them from the date of control transfer.

The following statement of financial position of KazNet was presented in these consolidated financial statements at the date of receipt of control:

	Combination of the financial statements of KazNet as of consolidation date
Property, plant and equipment	184,562
Intangible assets	61
Total non-current assets	184,623
Inventories	257,275
Trade and other receivables	755,076
Prepaid income tax	11,522
Cash and cash equivalents	108,615
Total current assets	1,132,488
Total assets	1,317,111
Accumulated loss	(1,133,433)
Additional paid-in capital*	946,823
Net loss for the period	(204,032)
Total equity	(390,642)
Borrowings*	1,538,177
Trade and other payables	169,576
Total liabilities	1,707,753
Total liabilities and equity	1,317,111

*Borrowings comprise interest free financial aid received from the Company in the nominal amount of 2,485,000 thousand Tenge. 300,000 thousand Tenge were issued in 2015 and 2,185,000 thousand Tenge were issued during the year ended 31 December 2016. The difference between the nominal amount and fair value was recognised as additional paid-in capital in KazNet separate financial statements. These transactions were eliminated in these consolidated financial statements.

4. 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 56,402,691 thousand Tenge (Note 9) as of 31 December 2016 (2015: 60,736,902 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, 3G license and 4G license is assessed by the management as approximately 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 net deferred tax liability as at 31 December 2016 amounted to 6,012,214 thousand Tenge (as of 31 December 2015: 5,037,021 thousand Tenge) (Note 18).

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. As of 31 December 2016, the Group's net current liabilities are 51,435,484 thousand Tenge. In December 2016, the Group and Eurasian Development Bank entered into a credit agreement to establish and further utilise a credit line of 26 billion Tenge. It has a maturity of 18 months with a possibility to extend it to a further 18 month-period on the terms of the abovementioned agreement (Note 20). 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, available financing, management believes that the Group will continue to operate as a going concern for the foreseeable future.

Business combinations under common control

Also, as described in Note 3, during the year ended 31 December 2016, the Group carried out a business combination under common control. Business combinations involving entities under common control are outside of the scope of IFRS 3, Business Combinations, and there is no other specific IFRS guidance. Accordingly, management has to apply significant judgement to develop an accounting policy that is relevant and reliable in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. The Group accounted for this business combination on a carryover basis, which results in the historical carrying value of assets and liabilities of the acquired entities being combined with that of the Group. The Group consolidates the financial statements of the companies under common control from the date of obtaining control, if the financial statements of these companies do not have a significant impact on the consolidated financial statements, and, respectively, do not affect the users of the consolidated financial statements, otherwise the consolidated financial statements of the Group reflect the effect of the combination, as if it occurred at the beginning of the earliest period presented. Any difference between the amount recorded as share capital issued and the amount recorded for the share capital acquired is adjusted against retained earnings in the consolidated statement of changes in equity.

5. 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 2016.

- IFRS 5: Amendments resulting from September 2014 Annual Improvements to IFRSs;
- IFRS 7: Amendments resulting from September 2014 Annual Improvements to IFRSs.;
- IFRS 11: Amendments regarding the accounting for acquisitions of an interest in a joint operation;
- IFRS 12: Amendments regarding the application of the consolidation exception;
- IFRS 14: Regulatory Deferral Accounts Original issue;
- IAS 1: Amendments resulting from the disclosure initiative;
- IAS 19: Amendments resulting from September 2014 Annual Improvements to IFRSs;
- IAS 27: Amendments reinstating the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements;
- IAS 28: Amendments regarding the application of the consolidation exception;
- IAS 34: Amendments resulting from September 2014 Annual Improvements to IFRSs;
- IAS 38: Amendments regarding the clarification of acceptable methods of depreciation and amortisation;
- Amendments bringing bearer plants into the scope of IAS 16.

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.

6. 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 15 Revenue from Contracts with Customers	1 January 2018, with earlier application permitted
IFRS 9 Financial Instruments	1 January 2018, with earlier application permitted
IFRS 1: Amendments resulting from Annual Improvements 2014–2016 Cycle (removing short-term exemptions)	1 January 2018, with earlier application permitted
IFRS 2: Amendments to clarify the classification and measurement of share-based payment transactions	1 January 2018, with earlier application permitted
IFRS 4: Amendments regarding the interaction of IFRS 4 and IFRS 9	1 January 2018, with earlier application permitted
Clarifications to IFRS 15	1 January 2018, with earlier application permitted
IAS 28: Amendments resulting from Annual Improvements 2014–2016 Cycle (clarifying certain fair value measurements)	1 January 2018, with earlier application permitted
IAS 40: Amendments to clarify transfers or property to, or from, investment property	1 January 2018, with earlier application permitted
IFRS 12: Amendments resulting from Annual Improvements 2014–2016 Cycle (clarifying scope)	1 January 2017, with earlier application permitted
IAS 7: Amendments as result of the Disclosure initiative	1 January 2017, with earlier application permitted
IAS 12: Amendments regarding the recognition of deferred tax assets for unrealised losses	1 January 2017, with earlier application permitted

MIFRS 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 2016, 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 the loss allowance methodology and will perform a detailed assessment in the future to determine the extent.

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The Group is currently in the process of assessing an impact of the new standard on the financial results.

The management will perform an assessment of the impact of the adoption of the standards listed above and will report on the expected impact in the consolidated financial statements of the Group in 2017.

7. SEGMENT INFORMATION

The Group's operations are a single reportable segment.

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

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

8. 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 Group's ultimate controlling party is Telia Company. Telia Company group includes entities under common control and associates of Telia Company. Immediate shareholders are disclosed in the Note 12. The Group's primary transactions with related parties are consulting services, technical assistance and operational support, roaming and interconnect. The Group's transactions with its related parties during the years ended 31 December and related amounts due as of the year-end were as follows:

		2016 г.	2015 г.
Due from related parties	Entities of Telia Company group	738,983	780,054
Financial aid receivable from related party	Entities of Telia Company group	-	300,000
Due to related parties	Entities of Telia Company group	522,766	331,346
Due to related parties	Immediate and ultimate parent	1,002,793	884,192
Revenue	Entities of Telia Company group	1,415,936	1,679,127
Expense	Entities of Telia Company group	5,253,027	5,078,847
Expense	Immediate and ultimate parent	39,095	165,037

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 within one year.

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 19.

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 245,522 thousand Tenge for the year ended 31 December 2016 (2015: 213,591 thousand Tenge). Compensation scheme does not include share-based payments, post-employment or other long-term benefits.

9. PROPERTY, PLANT AND EQUIPMENT

	Property	Plant and machinery	Equipment tools and installations	Assets under construction and advances given	Total
As of 1 January 2015					
Cost	20,789,633	181,370,531	22,336,985	19,028,746	243,525,895
Accumulated depreciation and impairment losses	(3,299,660)	(113,901,795)	(17,369,118)	–	(134,570,573)
Carrying amount as of 1 January 2015	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 of 31 December 2015	16,420,906	60,736,902	6,667,225	10,676,412	94,501,445
Additions	168,635	–	1,014,372	16,654,308	17,837,315
Business combination (Note 3)	–	–	184,562	–	184,562
Transfers	–	10,361,061	257,975	(10,619,036)	–
Disposals (net)	–	–	(9,666)	–	(9,666)
Depreciation charge	(686,233)	(14,695,272)	(1,810,545)	–	(17,192,050)
As at 31 December 2016					
Cost	21,216,911	193,752,896	26,553,990	16,711,684	258,235,481
Accumulated depreciation and impairment losses	(5,313,603)	(137,350,205)	(20,250,067)	–	(162,913,875)
Carrying amount as of 31 December 2016	15,903,308	56,402,691	6,303,923	16,711,684	95,321,606

As at 31 December 2016, the gross carrying value of property, plant and equipment, which has been fully depreciated and still in use, was 95,704,126 thousand Tenge (31 December 2015: 84,786,886 thousand Tenge).

Due to the absence of exact plans on usage the Company had written-off property, plant and equipment in the amount of 29,310 thousand Tenge (31 December 2015: 3,965,245 thousand Tenge). The related impairment of property, plant and equipment charge was included in other operating expenses (Note 16).

10. INTANGIBLE ASSETS

	Software and licenses	Intangible assets in progress	Advances given	Total
As at 1 January 2015				
Cost	38,546,529	–	–	38,546,529
Accumulated depreciation	(26,052,968)	–	–	(26,052,968)
Carrying amount as at 1 January 2015	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 amortisation	(28,919,033)	–	–	(28,919,033)
Carrying amount as at 31 December 2015	12,686,906	3,886,778	382,504	16,956,188
Additions	15,762,033	3,161,176	14,000,000	32,923,209
Business combination (Note 3)	61	–	–	61
Transfers	15,783,873	(1,409,591)	(14,374,282)	–
Amortisation charge	(7,036,978)	–	–	(7,036,978)
As at 31 December 2016				
Cost	73,151,906	5,638,363	8,222	78,798,491
Accumulated depreciation	(35,956,011)	–	–	(35,956,011)
Carrying amount as at 31 December 2016	37,195,895	5,638,363	8,222	42,842,480

Initially, a new billing system, Amdocs, was classified as intangible assets in progress. As of 31 December 2016, Amdocs was partially transferred to software and licenses.

As of 31 December 2016, the carrying amount of the 3G license was 3 billion Tenge (31 December 2015: 3,333,333 thousand Tenge) and its remaining amortisation period was 9 years. As of 31 December 2016, the carrying amount of the 4G license was 24,411,111 thousand Tenge (31 December 2015: nil) and its remaining amortisation period was 14 years. As of 31 December 2016, the gross carrying value of intangible assets, which has been fully amortised and still in use, was 16,668,784 thousand Tenge (31 December 2015: 13,794,254 thousand Tenge).

11. TRADE AND OTHER RECEIVABLES

	31 December 2016	31 December 2015
Trade and other receivables from dealers and distributors	1,280,359	1,665,086
Trade receivables from subscribers	12,955,810	6,652,075
Trade receivables for interconnect services	452,276	1,054,610
Trade receivables from roaming operators	1,895,114	2,863,044
Less: allowance for impairment of trade receivables	(2,839,931)	(2,467,799)
Total financial assets	13,743,628	9,767,016
Less: long term trade receivables from subscribers	(1,162,961)	(397,111)
Total current financial assets	12,580,667	9,369,905
Advances to suppliers	1,456,953	2,564,323
VAT recoverable	2,330,281	–
Prepaid other taxes	454,778	638,512
Deferred expenses	544,379	403,728
Other receivables	871,862	464,409
Total trade and other receivables	18,238,920	13,440,877

Total financial assets are denominated in currencies as follows:

	31 December 2016	31 December 2015
Tenge	11,848,514	6,903,972
US dollar	1,895,114	2,863,044
Total financial assets	13,743,628	9,767,016

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 2016	31 December 2015
Total neither past due nor impaired	11,978,871	6,057,731
Past due but not impaired		
due for 1 month	77,591	522,147
due for 2 months	61,162	800,420
due for 3 months	213,468	143,374
due for 4 to 6 months	941,068	732,277
due for more than 6 months	471,468	1,511,067
Total past due but not impaired	1,764,757	3,709,285
Impaired		
30 to 60 days	56,860	58,435
60 to 90 days	69,496	59,313
90 to 120 days	82,514	97,543
120 to 200 days	232,627	231,181
over 200 days	2,398,434	2,021,327
Total impaired	2,839,931	2,467,799
Allowance for impairment of trade receivables	(2,839,931)	(2,467,799)
Total financial assets	13,743,628	9,767,016

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 6,638,682 thousand Tenge will be fully repaid in 2017.

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

	2016	2015
As at 1 January	2,467,799	2,041,663
Charge for the year	1,090,968	692,005
Receivables written off during the year as uncollectible	(718,836)	(265,869)
As at 31 December	2,839,931	2,467,799

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

12. SHARE CAPITAL AND EARNINGS PER SHARE

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

		31 December 2016		31 December 2015
	Share	Number of shares	Share	Number of shares
Fintur	51 percent	102,000,000	51 percent	102,000,000
TeliaSonera Kazakhstan	24 percent	48,000,000	–	–
Sonera	–	–	24 percent	48,000,000
JSC Central Securities Depositary	23.32 percent	46,636,793	23.31 percent	46,625,346
Single Accumulative Pension Fund	1.14 percent	2,270,950	1.14 percent	2,270,950
Other	0.54 percent	1,092,257	0.55 percent	1,103,704

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:

	2016	2015
Profit for the period attributable to equity shareholders	16,683,616	46,632,325
Weighted average number of common shares	200,000,000	200,000,000
Earnings per share (Kazakhstani Tenge), basic and diluted	83,42	233,16

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 2016 and 31 December 2015 is presented below.

	31 December 2016	31 December 2015
Net assets, excluding intangible assets	29,837,806	63,872,419
Number of common shares in issue	200,000,000	200,000,000
Book value per share (Kazakhstani Tenge)	149,19	319,36

Dividends declared and paid during the years ended 31 December were as follows:	2016	2015
Dividends payable as at 1 January	–	–
Dividends declared during the year	23,316,000	58,260,000
Dividends paid during the year	(23,316,000)	(58,260,000)
Dividends payable as at 31 December	–	–

13. TRADE AND OTHER PAYABLES

	31 December 2016	31 December 2015
Trade payables	21,605,956	17,147,552
Total financial liabilities	21,605,956	17,147,552
Accrued salaries and bonuses to employees	1,276,596	1,179,154
Other payables (Note 19)	4,070,062	183,249
Total trade and other payables	26,952,614	18,509,955

Trade and other payables are denominated in currencies as follows:

	31 December 2016	31 December 2015
US dollar	11,624,078	6,127,865
Tenge	9,512,408	10,645,696
Euro	433,373	361,809
Other	36,097	12,182
Total financial liabilities	21,605,956	17,147,552

14. BORROWINGS

	31 December 2016	31 December 2015
Halyk Bank of Kazakhstan JSC	42,221,389	30,153,333
Alfabank JSC	10,124,500	–
Kazkommertsbank JSC	10,035,000	17,039,667
Altyn Bank JSC (previously – SB HSBC Kazakhstan JSC)	3,033,750	3,008,227
Total borrowings	65,414,639	50,201,227
Including		
Long-term loans	8,000,000	–
Short-term loans – principle amount	57,000,000	50,000,000
Short-term loans – accrued interest	414,639	201,227

The Group's borrowings are denominated in Kazakhstani Tenge. The Group has not entered into any hedging arrangements in respect of interest rate exposures.

The carrying amount of the Group's borrowings approximates their fair value.

The details of the Group's borrowings as at 31 December 2016 are as follows:

Bank name	Date of issue	Maturity date	Nominal interest rate	Outstanding balance	Total borrowings
Halyk Bank of Kazakhstan JSC	13/04/2016	13/04/2017	15.00%	22,165,000	22,165,000
Halyk Bank of Kazakhstan JSC	23/09/2016	20/09/2019	14.50%	12,043,500	12,043,500
Kazkommertsbank JSC	25/09/2016	24/09/2017	18.00%	10,035,000	10,035,000
Halyk Bank of Kazakhstan JSC	28/11/2016	27/11/2017	14.50%	**8,012,889**	8,012,889
Alfabank JSC	08/06/2016	08/06/2017	17.00%	6,076,500	6,076,500
Alfabank JSC	15/07/2016	10/07/2017	16.00%	4,048,000	4,048,000
Altyn Bank JSC	04/10/2016	25/09/2017	15.00%	3,033,750	3,033,750
Total				65,414,639	65,414,639

As at 31 December 2016 and 2015, no assets were pledged under borrowing agreements.

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

15. REVENUES

	2016 г.	2015 г.
Voice service	86,443,705	105,345,069
Data service	41,529,225	39,277,710
Sale of handsets	9,713,475	11,151,550
Value added services	9,350,599	12,649,717
Total revenues	147,037,004	168,424,046

16.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.

	2016 г.	2015 г.
Interconnect fees and expenses	25,663,407	27,718,449
Depreciation and amortization	24,229,028	24,574,013
Network maintenance expenses	15,315,438	13,292,300
Staff costs	11,148,947	9,300,820
Frequency usage charges and taxes other than on income	10,614,327	8,108,801
Cost of SIM card, scratch card, start package sales and handsets	10,118,847	11,101,596
Transmission rent	9,909,019	8,155,332
Sales commissions to dealers and advertising expenses	3,274,185	3,728,797
Other	6,730,409	5,554,118
Total expenses	117,003,607	111,534,226

Amortisation and depreciation by function were as follows:

	2016 г.	2015 г.
Cost of sales	21,826,610	22,100,037
General and administrative expenses	2,402,418	2,473,976
Total depreciation of property, plant and equipment and amortisation of intangible assets	24,229,028	24,574,013

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

	2016 г.	2015 г.
Operational foreign exchange loss	1,349,460	2,394,270
Property, plant and equipment write-off (Note 9)	29,310	3,965,245
Provision for legal cases	–	96,803
Other	485,002	255,512
Total other operating expenses	1,863,772	6,711,830

17. FINANCE INCOME AND FINANCE EXPENSE

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

	2016 г.	2015 г.
Foreign exchange gains	1,333,985	13,148,181
Interest income	1,316,560	376,100
Total finance income	2,650,545	13,524,281

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

	2016 г.	2015 г.
Interest expense	10,283,135	5,493,653
Foreign exchange losses	652,458	219,564
Total finance expense	10,935,593	5,713,217

18. TAXES

Income tax expense comprised the following:

	2016 г.	2015 г.
Current income tax	4,352,334	13,184,612
Deferred income tax	975,193	594,971
Current income tax in respect of prior years	745,092	–
Total income tax expense	6,072,619	13,779,583

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:

	2016 г.	2015 г.
Profit before income tax	22,756,235	60,411,908
Theoretical tax charge at the statutory rate of 20 percent	4,551,247	12,082,382
Non-deductible expenses	776,280	1,697,201
	5,327,527	13,779,583
Adjustments recognised in the current year in relation to the current tax of prior years	745,092	–
Income tax expense	6,072,619	13,779,583

The Group paid income tax in the amount of 10,505,520 thousand Tenge for the year ended 31 December 2016 (2015: 17,272,245 thousand Tenge).

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

	31 December 2015	Charged/ (credited) to profit or loss	31 December 2016
Tax effects of deductible temporary differences			
Other	889,811	268,542	1,158,353
Gross deferred tax asset	889,811	268,542	1,158,353
Tax effect of taxable temporary differences			
Property, plant and equipment and Intangible assets	5,926,832	1,243,735	7,170,567
Gross deferred tax liability	5,926,832	1,243,735	7,170,567
Less offsetting with deferred tax assets	(889,811)	(268,542)	(1,158,353)
Recognised deferred tax liability, net	5,037,021	975,193	6,012,214

Comparative movements for year ended 31 December 2015 is detailed below:

	1 January 2015	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 and Intangible assets	6,635,573	(708,741)	5,926,832
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

19 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Political and economic conditions in the Republic of Kazakhstan

Emerging markets such as the Republic of Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in the Republic of Kazakhstan continue to change rapidly; tax and regulatory frameworks are subject to varying interpretations. The future economic direction of the Republic 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.

Because the Republic of 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. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to a significant decrease in the national export revenue. On 20 August 2015, the Government and the National Bank of the Republic of Kazakhstan announced a transition to a new monetary policy based on a free floating Tenge exchange rate, and cancelled the currency corridor. In 2015 and 2016, the Tenge depreciated significantly against major foreign currencies.

Management of the Group is monitoring developments in the current environment and taking measures it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future. In order to mitigate the risk of recent devaluation the Group has taken all necessary measures by maintaining financing in national currency and converting available cash deposits into foreign currency. However, the impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

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 Company is currently undergoing a tax audit for the years 2012-2015, which commenced in February 2016, the results of which have yet to be finalised. Management of the Company assessed the total value of potential claims and risks related to the tax inspection and accrued a provision in the amount of 3,962,620 thousand Tenge, included in "other payables" (Note 13). Management believes that the amount provided is sufficient to cover any additional tax amounts payable.

The Company's management believes its interpretations of the tax legislation are appropriate and that the Company has justifiable arguments for its tax positions and will dispute the tax assessment results, when provided by the tax authorities, to the fullest extent possible under the legislation of the Republic of Kazakhstan.

Capital expenditure commitments

As of 31 December 2016, the Group has contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totalling 4,514,284 thousand Tenge (31 December 2015: 7,898,620 thousand Tenge).

Non-cancellable service commitments

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

	31 December 2016	31 December 2015
Not later than 1 year	5,489,090	5,374,000
From 1 to 2 years	–	5,455,000
Total non-cancellable commitments	5,489,090	10,829,000

The Group's non-cancellable service agreements are represented by the 2016 and 2017 Telecommunication Services Agreement on use of transparent communication channels and IP VPN network with Kazakhtelecom and fibre optics use agreement for the same period with KazTransCom JSC.

Acquisitions and investments

I. Memorandum of understanding with Sonera

On 26 August 2012, Sonera and the Company entered into a memorandum of understanding ("the Buy and Sell MoU") under which the Company had the right to require Sonera to sell to it, and Sonera had the right to require the Company to acquire from it all participatory interests owned by Sonera in KazNet Media LLP ("KazNet") together with all rights and obligations of Sonera under a framework agreement to buy all the participatory interests in the charter capital of KazNet 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, both Sonera and the Company were entitled to exercise its option at any time beginning nine months after the date of the offering of global depositary receipts and listing on the local stock exchange, which took place on 13 December 2012. The purchase price for the acquisition resulting from the exercise of the option would be the net cost incurred by Sonera in connection with the corresponding investments and acquisition transactions plus interest accrued.

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

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

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

Neither the Put Option nor the Call Option could be exercised without the authorisation of Fintur. In addition there is uncertainty in the timing of required changes in 4G/LTE regulation and accordingly in the valuation of the derivative. On this basis, the Company measured the derivative at the original cost of zero.

On 4 May 2016, the Company obtained control over the activity of KazNet (Note 3).

II. Investment in Rodnik by Sonera

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

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

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

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

Execution of the KazNet option had no effect on the option related to Rodnik.

Anti-monopoly legislation

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

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

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

The standby letter of credit

The standby letter of credit for 10 million US Dollars, within the framework of the general agreement between Kcell JSC and Citibank Kazakhstan JSC, was issued on 23 September 2015. As of 31 December 2016, the credit limit has been decreased to 5.5 million US Dollars. 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 2016, the instrument has been used, the outstanding balance is 650,628 thousand Tenge.

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

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

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

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

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

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

As of 31 December 2016, the total amount returned to subscribers is 2,539,436 thousand Tenge. As of 31 December 2016, the Company accrued a provision in the amount of 116,640 thousand Tenge (31 December 2015: 92,382 thousand Tenge). The Company expects to continue refunding the subscription of fees until the point 2 above is enforced.

20. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

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 2016	31 December 2015
Trade receivables	11	12,580,667	9,369,905
Cash and cash equivalents		8,476,653	31,589,007
Long-term trade receivables		1,162,961	397,111
Due from related parties	8	738,983	780,054
Restricted cash		86,419	145,748
Financial aid receivable from related party	8	–	300,000
Total maximum exposure to credit risk		23,045,683	42,581,825

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

The Group has policies in place to ensure that sales of products and services are made to customers and distributors with an appropriate credit history. If corporate customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer taking into account 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 who 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 11). 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 customer's 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.

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 2016	31 December 2015	31 December 2016	31 December 2015
US Dollar	11,624,078	6,127,865	5,116,232	26,909,960
Euro	433,373	361,809	174,072	31,120
Others	36,097	**12,182**	**50,033**	**24,137**

As of 31 December 2016, if the US Dollar had weakened/strengthened by 10% percent against the Tenge with all other variables holding constant, the after-tax profit for the year ended 31 December 2016 would have been 540,257 thousand Tenge lower/higher (2015: 2,581,258 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 2016 than of 31 December 2015 because of the increased amount of US Dollar denominated cash and cash equivalents of 31 December 2016 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 2016, and as such, management has not presented interest rate sensitivity analysis.

Liquidity risk

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

The table below shows financial liabilities as of 31 December 2016 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate on the reporting date.

The maturity analysis of financial liabilities as of 31 December 2016 is as follows:

	Demand and less than 3 months	From 3 to 12 months	More than 12 months	Total
Liabilities				
Borrowings	2,942,139	57,683,278	10,624,500	71,249,917
Trade payables	21,605,956	–	–	**21,605,956**
Due to related parties	1,525,559	–	–	**1,525,559**
Total future payments	26,073,654	57,683,278	10,624,500	94,381,432

The comparative maturity analysis of financial liabilities as of 31 December 2015 is detailed below:

	Demand and less than 3 month	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

Management believes that the payments of the borrowings and other financial liabilities will be financed by cash flows from operating activities and that the Group will be able to meet its obligations as they fall due. The Company can extend borrowings up to an additional twelve months, subject to consent of the lenders (Note 14). In December 2016, the Group and Eurasian Development Bank entered into a credit agreement to establish and further utilise a credit line of 26 billion Tenge. It had a maturity of 18 months with a possibility to extend it to a further 18 month-period on the terms of the abovementioned agreement.

Fair value of financial instruments

The Group does not carry any financial assets or liabilities at fair value. Management of the Group considers that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their short-term maturities.

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 2016:

	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	4,938,459	4,486,183	452,276
Trade receivables from roaming services	4,548,493	2,653,379	1,895,114

	Gross amounts before off-setting 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)
Total assets subject to offsetting, master netting and similar arrangement	9,486,952	7,139,562	2,347,390
LIABILITIES			
Trade payables for interconnect services	5,235,844	4,486,183	749,661
Trade payables for roaming services	2,653,379	2,653,379	–
Total liabilities subject to offsetting, master netting and similar arrangement	7,889,223	7,139,562	749,661

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

	Gross amounts before off-setting 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

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 consolidated statement of financial position.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Republic of Kazakhstan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore may 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.

22. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue on 9 February 2017.

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