



## **KCELL JSC**

**Condensed Interim Consolidated  
Financial Information**  
for the three and nine months ended  
30 September 2016 (unaudited)

# **KCELL JSC**

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## KCELL JSC

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016

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Management of Kcell JSC (hereinafter – “the Company”) is responsible for the preparation of the condensed interim consolidated financial information of the Company and its subsidiaries (hereinafter jointly “the Group”) that presents fairly the consolidated financial position of the Group as at 30 September 2016, the results of its operations for the three and nine months then ended, changes in equity and cash flows for the nine months then ended, in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting.

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

- Properly selecting and applying accounting policies;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IAS 34 have been followed, subject to any material departures disclosed and explained in the condensed interim consolidated financial information;
- Providing additional disclosures when compliance with the specific requirements in IAS 34 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the consolidated financial position and financial performance of the Group;
- Making an assessment of the Group’s ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group’s transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the condensed interim consolidated financial information complies with IAS 34;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Kazakhstan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

This condensed interim consolidated financial information of the Group for the three and nine months ended 30 September 2016 was approved by management on 14 November 2016.

Approved for issue and signed on behalf of the Management

  
Arti Ofs  
Chief Executive Officer

  
Trond Moe  
Chief Financial Officer

## REPORT ON REVIEW OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

To: Shareholders and Board of Directors of Kcell JSC

### Introduction

We have reviewed the accompanying condensed interim consolidated statement of financial position of Kcell JSC and its subsidiaries as at 30 September 2016 and the related condensed interim consolidated statements of comprehensive income for the three and nine month period then ended, and changes in equity and cash flows for the nine month period then ended, and notes to the condensed interim consolidated financial information. Management is responsible for the preparation and presentation of this condensed interim consolidated financial information in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this condensed interim consolidated financial information based on our review.

### Scope of Review

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

### Conclusion

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



Deloitte, LLP

Almaty, Kazakhstan

14 November 2016

**KCELL JSC**

**CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*(in thousand of Kazakhstani Tenge)*

	Note	30 September 2016 (unaudited)	31 December 2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	94,298,482	94,501,445
Intangible assets	8	41,421,428	16,956,188
Long-term trade receivables	9	927,712	397,111
Financial aid receivable from related party	3, 6	-	300,000
Restricted cash		86,419	145,748
<b>Total non-current assets</b>		<b>136,734,041</b>	<b>112,300,492</b>
<b>Current assets</b>			
Inventories		2,488,018	2,801,602
Trade and other receivables	9	16,893,626	13,440,877
Prepaid current income tax		7,558,386	5,114,688
Due from related parties	6	571,007	780,054
Cash and cash equivalents		20,746,725	31,589,007
<b>Total current assets</b>		<b>48,257,762</b>	<b>53,726,228</b>
<b>TOTAL ASSETS</b>		<b>184,991,803</b>	<b>166,026,720</b>
<b>EQUITY</b>			
Share capital	10	33,800,000	33,800,000
Retained earnings		37,829,654	46,646,103
<b>TOTAL EQUITY</b>		<b>71,629,654</b>	<b>80,446,103</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income tax liability		4,219,048	5,037,021
Other non-current liabilities		1,285,482	1,285,482
Borrowings	12	8,000,000	-
<b>Total non-current liabilities</b>		<b>13,504,530</b>	<b>6,322,503</b>
<b>Current liabilities</b>			
Borrowings	12	57,352,111	50,201,227
Trade and other payables	11	33,762,612	18,509,955
Due to related parties	6	1,440,255	1,215,538
Deferred revenue		6,831,280	8,397,228
Taxes payable		471,361	934,166
<b>Total current liabilities</b>		<b>99,857,619</b>	<b>79,258,114</b>
<b>TOTAL LIABILITIES</b>		<b>113,362,149</b>	<b>85,580,617</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>184,991,803</b>	<b>166,026,720</b>

Approved for issue and signed on behalf of the Management on 14 November 2016

Arti Ots  
Chief Executive Officer

Trond Moe  
Chief Financial Officer

The accompanying notes on pages 7 to 21 are an integral part of this condensed interim consolidated financial information

# KCELL JSC

## CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

	Note	Three months ended 30 September		Nine months ended 30 September	
		2016	2015	2016	2015
Revenue		36,931,206	42,755,679	108,813,734	128,819,866
Cost of sales		(23,455,949)	(24,418,362)	(67,390,033)	(66,989,450)
<b>Gross profit</b>		<b>13,475,257</b>	<b>18,337,317</b>	<b>41,423,701</b>	<b>61,830,416</b>
Selling and marketing expenses		(2,701,194)	(2,346,944)	(7,691,475)	(7,170,710)
General and administrative expenses		(3,029,094)	(3,028,270)	(9,355,378)	(8,945,856)
Other operating income		412,087	918,355	2,173,306	1,593,144
Other operating expenses		(241,854)	(1,030,879)	(1,775,617)	(1,329,951)
<b>Operating profit</b>		<b>7,915,202</b>	<b>12,849,579</b>	<b>24,774,537</b>	<b>45,977,043</b>
Finance income		615,156	8,370,388	2,341,304	8,693,584
Finance costs		(2,936,253)	(1,732,607)	(7,246,495)	(3,742,805)
<b>Profit before income tax</b>		<b>5,594,105</b>	<b>19,487,360</b>	<b>19,869,346</b>	<b>50,927,822</b>
Income tax expense	13	(1,215,679)	(4,375,070)	(4,236,362)	(11,262,145)
<b>Profit and total comprehensive income for the period</b>		<b>4,378,426</b>	<b>15,112,290</b>	<b>15,632,984</b>	<b>39,665,677</b>
<b>Earnings per share (in Kazakhstani Tenge), basic and diluted</b>	10	<b>21.89</b>	<b>75.56</b>	<b>78.16</b>	<b>198.33</b>

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

Approved for issue and signed on behalf of the Management on 14 November 2016

  
Arti Ots  
Chief Executive Officer

  
Trond Moe  
Chief Financial Officer

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**KCELL JSC**

**CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**

*(in thousand of Kazakhstani Tenge)*

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Total equity</u>
<b>Balance at 1 January 2015</b>	<b>33,800,000</b>	<b>58,273,778</b>	<b>92,073,778</b>
Profit and total comprehensive income for the period	-	39,665,677	39,665,677
Dividends declared (Note 10)	-	<u>(58,260,000)</u>	<u>(58,260,000)</u>
<b>Balance at 30 September 2015</b>	<b><u>33,800,000</u></b>	<b><u>39,679,455</u></b>	<b><u>73,479,455</u></b>
<b>Balance at 1 January 2016</b>	<b>33,800,000</b>	<b>46,646,103</b>	<b>80,446,103</b>
Profit and total comprehensive income for the period	-	15,632,984	15,632,984
Business combination under common control (Note 3)	-	(1,133,433)	(1,133,433)
Dividends declared (Note 10)	-	<u>(23,316,000)</u>	<u>(23,316,000)</u>
<b>Balance at 30 September 2016</b>	<b><u>33,800,000</u></b>	<b><u>37,829,654</u></b>	<b><u>71,629,654</u></b>

**Approved for issue and signed on behalf of the Management on 14 November 2016**

\_\_\_\_\_  
**Arti Ots**  
**Chief Executive Officer**

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**Trond Moe**  
**Chief Financial Officer**

The accompanying notes on pages 7 to 21 are an integral part of this condensed interim consolidated financial information

**KCELL JSC**

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

	Note	<b>Nine months ended 30 September</b>	
		<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>			
Profit for the period		15,632,984	39,665,677
Adjustments for:			
Depreciation of property, plant and equipment	7	12,945,652	16,271,653
Amortisation of intangible assets	8	5,153,544	2,149,549
Income tax		(3,250,149)	(1,819,928)
Net foreign exchange difference gain		(819,152)	(8,119,154)
Interest income		(1,079,071)	(156,794)
Impairment of trade receivables		788,359	525,372
Interest expense		6,635,697	3,546,953
Loss on disposal of property, plant and equipment		9,666	21,711
<b>Operating cash flows before working capital changes</b>		<b>36,017,530</b>	<b>52,085,039</b>
Change in working capital and other balances:			
Trade and other receivables		(2,831,032)	(1,614,292)
Long-term receivables			
Due from related parties		209,047	(87,738)
Inventories		570,859	699,684
Taxes payable		(462,805)	783,093
Trade and other payables		942,206	1,900,819
Due to related parties		224,717	(188,491)
Deferred revenues		(1,565,948)	(3,555,357)
Other		(471,271)	(588,536)
<b>Cash generated from operations</b>		<b>32,633,303</b>	<b>49,434,221</b>
Interest paid		(6,979,813)	(3,705,079)
Interest received		1,079,071	156,794
<b>Net cash generated from operating activities</b>		<b>26,732,561</b>	<b>45,885,936</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(10,215,097)	(14,720,531)
Purchase of intangible assets		(17,618,724)	(4,586,735)
Proceeds on the acquisition of a subsidiary	3	108,615	-
<b>Net cash used in investing activities</b>		<b>(27,725,206)</b>	<b>(19,307,266)</b>
<b>Cash flows from financing activities</b>			
Proceeds from bank borrowings		22,000,000	39,800,000
Repayment of borrowings		(7,000,000)	(14,500,000)
Dividends paid	10	(23,316,000)	(40,782,000)
Purchase of investments in a subsidiary	3	(2,185,000)	-
<b>Net cash used in financing activities</b>		<b>(10,501,000)</b>	<b>(15,482,000)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(11,493,645)</b>	<b>11,096,670</b>
Effects of exchange rate changes on the balance of cash held in foreign currencies		651,363	8,340,935
Cash and cash equivalents at the beginning of the period		31,589,007	19,520,357
<b>Cash and cash equivalents at the end of the period</b>		<b>20,746,725</b>	<b>38,957,962</b>

Approved for issue and signed on behalf of the Management on 14 November 2016

Arti Ots  
Chief Executive Officer

Trond Moe  
Chief Financial Officer

The accompanying notes on pages 7 to 21 are an integral part of this condensed interim consolidated financial information



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

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**1 THE GROUP AND ITS OPERATIONS**

This condensed interim consolidated financial information has been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, for the three and nine months ended 30 September 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 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.

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

On 13 December 2012, the Company successfully completed its offering of Global Depositary Receipts on the London Stock Exchange and common shares on the Kazakhstan Stock Exchange. The offering consisted of a sale by Sonera of 50 million shares, which represented 25 percent of the Company's share capital (Note 10).

In January 2016, the Group paid 14 billion Tenge as the first tranche for LTE radio frequencies. In accordance with the decision made by Kazakhstan's Ministry of Investments and Development ("the MID") in January 2016, the Group had to pay a one-time fee of 4 billion Tenge by 1 February 2016 for 10/10 MHz radio frequency within the 1700/1800 MHz band, and the first tranche of 10 billion Tenge by 1 March 2016 to gain access to 10/10 MHz radio frequency within the 700/800 MHz band. The second tranche for 10/10 MHz radio frequencies within the 700/800 MHz band in the amount of 12 billion Tenge is to be paid by 1 December 2016 (Note 11). On 1 March 2016, the Group launched LTE in its network on the previously granted frequencies.

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

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

This condensed interim consolidated financial information for the three and nine months ended 30 September 2016 has been prepared in accordance with IAS 34, *Interim Financial Reporting*. The condensed interim consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which had been prepared in accordance with International Financial Reporting Standards ("IFRS").

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED  
FINANCIAL INFORMATION (CONTINUED)**

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

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***Accounting policies***

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

***Income taxes***

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

***Foreign currency translation***

As at 30 September 2016, the principal rate of exchange of the National Bank of Republic of Kazakhstan used for translating foreign currency balances was US Dollar 1 = Kazakhstani Tenge ("Tenge") 334.93 (31 December 2015: US Dollar 1 = Tenge 339.47).

***New and revised standards***

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

The range of new standards, amendments to the standards and interpretations are effective as at 30 September 2016. The requirements of these amended standards have been considered for preparation of these condensed interim consolidated financial statements.

In the current period, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period beginning on or after 1 January 2016:

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

The adoption of the above mentioned amendments has not led to any changes in the Group's accounting policies. The amendments did not materially affect the condensed interim consolidated financial information of the Group.

**3 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 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 14).

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED  
FINANCIAL INFORMATION (CONTINUED)**

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

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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 Telia Company 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 the nominal price of 5 million US Dollars; the second tranche equals to the fair market value of frequencies. The total amount of the transaction shall not exceed 70 million US Dollars.

In accordance with the Agreement the completion of the deal is subject to satisfaction of a list of conditions, including but not limited to signing of waiver-letters and execution of 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. Parties agreed that the control is transferred to the Group over KazNet and the Group would consolidate KazNet, including Aksoran and Instaphone, starting from the next month after Aksoran repays 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, assets and liabilities of the transferred subsidiary were accounted at their carrying values booked at the predecessor owner's financial statements. Whereas the financial statements of these companies are not significant for understanding of the condensed interim consolidated financial information, the Group included them into consolidation from the date of control transfer.

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

The following statement of financial position of KazNet was presented in this condensed interim consolidated financial information at the date of receipt of control:

	<b>Combination of the financial statements of KazNet as of consolidation date</b>
Property, plant and equipment (Note 7)	184,562
Intangible assets (Note 8)	61
<b>Total non-current assets</b>	<b>184,623</b>
Inventories	257,275
Trade and other receivables	755,076
Prepaid income tax	11,522
Cash and cash equivalents	108,615
<b>Total current assets</b>	<b>1,132,488</b>
<b>Total assets</b>	<b>1,317,111</b>
Accumulated loss	(1,133,433)
Additional paid-in capital*	946,823
Net loss for the period	(204,032)
<b>Total equity</b>	<b>(390,642)</b>
Borrowings*	1,538,177
Trade and other payables	169,576
<b>Total liabilities</b>	<b>1,707,753</b>
<b>Total liabilities and equity</b>	<b>1,317,111</b>

\*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 nine months ended 30 September 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 this condensed interim consolidated financial information.

**4 CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

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

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

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED  
FINANCIAL INFORMATION (CONTINUED)**
*(in thousand of Kazakhstani Tenge, unless otherwise stated)*
***Business combinations under common control***

Also, as described in Note 3, during nine months ended 30 September 2016, the Group exercised 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 carrying value basis, which results in the 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 receipt of 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 condensed interim consolidated statement of changes in equity.

**5 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.

**6 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 10.

The Group's primary transactions with related parties are consulting services, technical assistance and operational support, roaming and interconnect. Amounts due from and due to related parties as at 30 September 2016 and 31 December 2015 were as follows:

		<u>30 September 2016</u>	<u>31 December 2015</u>
Due from related parties	Entities of Telia Company group	571,007	780,054
Financial aid receivable from related party	Entities of Telia Company group	-	300,000
Due to related parties	Entities of Telia Company group	415,369	331,346
Due to related parties	Immediate and ultimate parent	1,024,886	884,192

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

## KCELL JSC

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

The income and expense items with related parties for the three and nine months ended 30 September 2016 and 2015 were as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
Revenues				
Entities of Tella Company group	344,743	439,711	1,110,015	1,318,050
Expenses				
Entities of Tella Company group	(1,136,056)	(1,406,883)	(3,734,255)	(3,564,245)
Expenses				
Immediate and ultimate parent	(16,820)	(24,572)	(35,977)	(54,004)

## 7 PROPERTY, PLANT AND EQUIPMENT

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

	Property	Plant and Machinery	Equipment tools and installations	Assets under construction and advances given	Total
As at 1 January 2015					
Cost	20,789,633	181,370,531	22,336,985	19,028,746	243,525,895
Accumulated depreciation and impairment losses	(3,299,660)	(113,901,795)	(17,369,118)	-	(134,570,573)
<b>Carrying amount</b>	<b>17,489,973</b>	<b>67,468,736</b>	<b>4,967,867</b>	<b>19,028,746</b>	<b>108,955,322</b>
Additions	110,143	1,575,412	1,436,662	3,181,879	6,304,096
Transfers	-	9,216,119	-	(9,216,119)	-
Disposals (net)	-	-	(21,711)	-	(21,711)
Depreciation charge	(991,365)	(14,145,757)	(1,134,531)	-	(16,271,653)
As at 30 September 2015					
Cost	20,899,776	192,162,062	23,511,521	12,994,506	249,567,865
Accumulated depreciation and impairment losses	(4,291,025)	(128,047,552)	(18,263,234)	-	(150,601,811)
<b>Carrying amount</b>	<b>16,608,751</b>	<b>64,114,510</b>	<b>5,248,287</b>	<b>12,994,506</b>	<b>98,966,054</b>
As at 1 January 2016					
Cost	21,048,276	183,391,835	25,182,608	10,676,412	240,299,131
Accumulated depreciation and impairment losses	(4,627,370)	(122,654,933)	(18,515,383)	-	(145,797,686)
<b>Carrying amount</b>	<b>16,420,906</b>	<b>60,736,902</b>	<b>6,667,225</b>	<b>10,676,412</b>	<b>94,501,445</b>
Additions	168,607	-	999,815	11,399,371	12,567,793
Business combination (Note 3)	-	-	184,562	-	184,562
Transfers	-	6,788,427	123,856	(6,912,283)	-
Disposals (net)	-	-	(9,666)	-	(9,666)
Depreciation charge	(531,214)	(11,036,095)	(1,378,343)	-	(12,945,652)
As at 30 September 2016					
Cost	21,216,883	190,180,262	26,481,175	15,163,500	253,041,820
Accumulated depreciation and impairment losses	(5,158,584)	(133,691,028)	(19,893,726)	-	(158,743,338)
<b>Carrying amount</b>	<b>16,058,299</b>	<b>56,489,234</b>	<b>6,587,449</b>	<b>15,163,500</b>	<b>94,298,482</b>

## KCELL JSC

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

As at 30 September 2016, the gross carrying value of property, plant and equipment, which has been fully depreciated and still in use, was 95,204,759 thousand Tenge (31 December 2015: 84,786,886 thousand Tenge).

#### 8 INTANGIBLE ASSETS

	<u>Software and licenses</u>	<u>Intangible assets in progress</u>	<u>Advances given</u>	<u>Total</u>
As at 1 January 2015				
Cost	38,546,529	-	-	38,546,529
Accumulated amortisation	(26,052,968)	-	-	(26,052,968)
<b>Carrying amount</b>	<b><u>12,493,561</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>12,493,561</u></b>
Additions	270,280	757,748	3,558,707	4,586,735
Transfer	-	2,725,152	(2,725,152)	-
Amortisation charge	(2,149,549)	-	-	(2,149,549)
As at 30 September 2015				
Cost	38,816,809	3,482,900	833,555	43,133,264
Accumulated amortisation	(28,202,517)	-	-	(28,202,517)
<b>Carrying amount</b>	<b><u>10,614,292</u></b>	<b><u>3,482,900</u></b>	<b><u>833,555</u></b>	<b><u>14,930,747</u></b>
As at 1 January 2016				
Cost	41,605,939	3,886,778	382,504	45,875,221
Accumulated amortisation	(28,919,033)	-	-	(28,919,033)
<b>Carrying amount</b>	<b><u>12,686,906</u></b>	<b><u>3,886,778</u></b>	<b><u>382,504</u></b>	<b><u>16,956,188</u></b>
Additions	12,568,047	3,050,676	14,000,000	29,618,723
Business combination (Note 3)	61	-	-	61
Transfers	15,761,773	(1,387,491)	(14,374,282)	-
Amortisation charge	(5,153,544)	-	-	(5,153,544)
As at 30 September 2016				
Cost	69,935,820	5,549,963	8,222	75,494,005
Accumulated amortisation	(34,072,577)	-	-	(34,072,577)
<b>Carrying amount</b>	<b><u>35,863,243</u></b>	<b><u>5,549,963</u></b>	<b><u>8,222</u></b>	<b><u>41,421,428</u></b>

Initially, a new billing system, Amdocs, was classified as intangible assets in progress. As of 30 September 2016, Amdocs was partially transferred to software and licenses.

As at 30 September 2016, the carrying amount of the 3G license was 3,083,333 thousand Tenge (31 December 2015: 3,333,333 thousand Tenge) and its remaining amortisation period was 9.5 years. As at 30 September 2016, the gross carrying value of intangible assets, which has been fully amortised and still in use, was 16,292,145 thousand Tenge (31 December 2015: 13,794,254 thousand Tenge).

## KCELL JSC

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

#### 9 TRADE AND OTHER RECEIVABLES

	<u>30 September 2016</u>	<u>31 December 2015</u>
Trade receivables from subscribers	10,802,047	6,652,075
Trade receivables from roaming operators	2,162,118	2,863,044
Trade and other receivables from dealers and distributors	1,199,942	1,665,086
Trade receivables for interconnect services	238,765	1,054,610
Less: allowance for impairment of trade receivables	<u>(2,478,951)</u>	<u>(2,467,799)</u>
<b>Total financial assets</b>	<b>11,923,921</b>	<b>9,767,016</b>
Less: long term trade receivables from subscribers	<u>(927,712)</u>	<u>(397,111)</u>
<b>Total current financial assets</b>	<b>10,996,209</b>	<b>9,369,905</b>
Advances to suppliers	2,318,492	2,564,323
VAT recoverable	1,396,584	-
Deferred expenses	761,574	403,728
Prepaid other taxes	406,479	638,512
Other receivables	<u>1,014,288</u>	<u>464,409</u>
<b>Total trade and other receivables</b>	<b><u>16,893,626</u></b>	<b><u>13,440,877</u></b>

#### 10 SHARE CAPITAL AND EARNINGS PER SHARE

Share capital of the Company as at 30 September 2016 and 31 December 2015 is as follows:

	<u>30 September 2016</u>		<u>31 December 2015</u>	
	<u>Share</u>	<u>Number of shares</u>	<u>Share</u>	<u>Number of shares</u>
Fintur	51 percent	102,000,000	51 percent	102,000,000
TeliaSonera Kazakhstan	24 percent	48,000,000	-	-
Sonera	-	-	24 percent	48,000,000
Central Securities Depository JSC	23.30 percent	46,595,409	23.31 percent	46,625,346
Single Accumulative Pension Fund JSC	1.14 percent	2,270,950	1.14 percent	2,270,950
Other	0.56 percent	1,133,641	0.55 percent	1,103,704

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

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

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>30 September 2016</u>	<u>30 September 2015</u>	<u>30 September 2016</u>	<u>30 September 2015</u>
Profit for the period attributable to equity shareholders	4,378,426	15,112,290	15,632,984	39,665,677
Weighted average number of common shares	<u>200,000,000</u>	<u>200,000,000</u>	<u>200,000,000</u>	<u>200,000,000</u>
<b>Earnings per share (in Kazakhstani Tenge), basic and diluted</b>	<b>21.89</b>	<b>75.56</b>	<b>78.16</b>	<b>198.33</b>

The Group has no dilutive or potentially dilutive securities outstanding.



## KCELL JSC

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

According to the requirements of 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 30 September 2016 and 31 December 2015 is presented below:

	<u>30 September 2016</u>	<u>31 December 2015</u>
Net assets value, excluding intangible assets	30,216,448	63,872,419
Number of common shares in issue	<u>200,000,000</u>	<u>200,000,000</u>
<b>Book value per share (Kazakhstani Tenge)</b>	<b><u>151.08</u></b>	<b><u>319.36</u></b>

Dividends declared and paid during the nine months ended 30 September 2016 and 2015 were as follows:

<b>Dividends payable at 1 January 2015</b>	-
Dividends declared	58,260,000
Dividends paid	<u>(40,782,000)</u>
<b>Dividends payable at 30 September 2015</b>	<b><u>17,478,000</u></b>
<b>Dividends payable at 1 January 2016</b>	-
Dividends declared	23,316,000
Dividends paid	<u>(23,316,000)</u>
<b>Dividends payable at 30 September 2016</b>	<b><u>-</u></b>

#### 11 TRADE AND OTHER PAYABLES

	<u>30 September 2016</u>	<u>31 December 2015</u>
Trade payables	18,957,583	17,147,552
Payable due to the MID (Note 1)	<u>12,000,000</u>	-
<b>Total financial liabilities</b>	<b>30,957,583</b>	<b>17,147,552</b>
Accrued salaries and bonuses to employees	2,092,189	1,179,154
Other payables	<u>712,840</u>	<u>183,249</u>
<b>Total trade and other payables</b>	<b><u>33,762,612</u></b>	<b><u>18,509,955</u></b>

#### 12 BORROWINGS

	<u>30 September 2016</u>	<u>31 December 2015</u>
Halyk Bank of Kazakhstan JSC	42,197,833	30,153,333
Kazkommertsbank JSC	13,039,000	17,039,667
SB AlfaBank JSC	10,115,278	-
Altyn Bank JSC (previously – SB HSBC Kazakhstan JSC)	-	<u>3,008,227</u>
<b>Total borrowings</b>	<b><u>65,352,111</u></b>	<b><u>50,201,227</u></b>
<i>Including</i>		
Long-term loans	8,000,000	-
Short-term loans	<u>57,352,111</u>	<u>50,201,227</u>

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

## KCELL JSC

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

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

The details of the Group's borrowings as at 30 September 2016 are as follows:

<b>Bank name</b>	<b>Date of issue</b>	<b>Maturity date</b>	<b>Nominal interest rate</b>	<b>Outstanding balance</b>	<b>Total borrowings</b>
Halyk Bank of Kazakhstan JSC	14.04.2015	13.04.2017	15.0%	22,155,833	22,155,833
Kazkommertsbank JSC	25.09.2016	26.09.2017	18.0%	13,039,000	13,039,000
Halyk Bank of Kazakhstan JSC	29.12.2014	26.12.2016	15.0%	8,003,333	8,003,333
Halyk Bank of Kazakhstan JSC	23.09.2016	20.09.2019	14.5%	12,038,667	12,038,667
SB AlfaBank JSC	08.06.2016	08.06.2017	17.0%	6,070,833	6,070,833
SB AlfaBank JSC	15.07.2016	10.07.2017	16.0%	4,044,445	4,044,445
<b>Total</b>				<b>65,352,111</b>	<b>65,352,111</b>

No assets were pledged under borrowing agreements.

As at 30 September 2016 and 31 December 2015, the Company was in compliance with financial covenants.

### 13 TAXES

Income tax expense is recognised based on the management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the nine months ended 30 September 2016 is 20 percent (the estimated tax rate for the nine months ended 30 September 2015 was 20 percent). The actual tax rate for 2015 equaled to 22.8%.

### 14 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 in the first quarter of 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.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED  
FINANCIAL INFORMATION (CONTINUED)**
*(in thousand of Kazakhstani Tenge, unless otherwise stated)*
**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 2011-2015, which commenced in February 2016, the results of which have yet to be finalised. 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 law of the Republic of Kazakhstan. Accordingly, as at 30 September 2016, the Group has not provided for any contingent tax liability (31 December 2015: nil).

**Capital expenditure commitments**

As at 30 September 2016, the Group has contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totalling 8,295,855 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:

	<b>30 September 2016</b>	<b>31 December 2015</b>
Not later than 1 year	5,434,750	5,374,000
From 1 to 2 years	1,363,750	5,455,000
<b>Total non-cancellable commitments</b>	<b>6,798,500</b>	<b>10,829,000</b>

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

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

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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 accruals begins when the costs are incurred or the receipts are cashed and ends when the participatory interest are transferred).

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

On 4 May 2016, the Company obtained a control over the activity of KazNet and consolidated its financial information since June 2016 (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 option in relation to KazNet part had no effect on the option in relation to Rodnik part.

***Anti-monopoly legislation***

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

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

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED  
FINANCIAL INFORMATION (CONTINUED)**

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

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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 at 30 September 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 at 30 September 2016, the instrument has been used, and the outstanding balance is 530,352 thousand Tenge.

***Regulatory updates***

New rules of rendering cellular communication services came in to force on 16 June 2015. An operator can only change conditions of communication service tariffs upon a subscribers' consent, notifying subscribers not less than one month before these changes come into effect. There is no impact of these new regulatory rules on the financial performance of the Group as of 30 September 2016. The Company has applied for the amendment of the new rules to the Committee for Communications, Informatization and Information ("the Regulator") who is still in the process of implementing the new rules implementation. In case if the Regulator refuses, the Company will consider applying to the court.

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

In 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 at 30 September 2016, the total amount returned to subscribers is 2,539,436 thousand Tenge. As at 30 September 2016, the Company accrued a provision in the amount of 116,640 thousand Tenge (31 December 2015: 92,382 thousand Tenge), included in "other payables" (Note 11). The Company expects further refunding the subscription of fees until the point 2 above is enforced.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED  
FINANCIAL INFORMATION (CONTINUED)**
*(in thousand of Kazakhstani Tenge, unless otherwise stated)*
**15 FINANCIAL RISK MANAGEMENT**
***Financial risk factors***

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

During the nine months ended 30 September 2016, there have been no changes from the risk management policies disclosed in the Group's annual financial statements for the year ended 31 December 2015.

***Credit risk***

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

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

	Note	<u>30 September 2016</u>	<u>31 December 2015</u>
Cash and cash equivalents		20,746,725	31,589,007
Current trade receivables	9	10,996,209	9,369,905
Due from related parties	6	571,007	780,054
Long-term trade receivables		927,712	397,111
Financial aid receivable from related party	3, 6	-	300,000
Restricted cash		<u>86,419</u>	<u>145,748</u>
<b>Total maximum exposure to credit risk</b>		<b><u>33,328,072</u></b>	<b><u>42,581,825</u></b>

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

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

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

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

The table below shows financial liabilities as at 30 September 2016 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the reporting date.

The maturity analysis of financial liabilities as at 30 September 2016 is as follows:

	<b>Demand and less than 3 months</b>	<b>From 3 to 12 months</b>	<b>More than 12 months</b>	<b>Total</b>
<b>Liabilities</b>				
Borrowings	10,952,334	53,802,222	11,480,000	76,234,556
Trade and other payables	30,957,583	-	-	30,957,583
Due to related parties	1,440,255	-	-	1,440,255
<b>Total future payments</b>	<b>43,350,172</b>	<b>53,802,222</b>	<b>11,480,000</b>	<b>108,632,394</b>

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

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

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

**Fair value of financial instruments**

Management of the Group considers that the carrying amount of financial assets and financial liabilities recorded at amortized cost in the financial statements approximate their fair values.

**16 SUBSEQUENT EVENTS**

On 4 October 2016, the Company extended the terms of its 3 billion Tenge loan from Altynbank JSC for twelve months until 25 September 2017 bearing an annual interest rate of 15% and 0.5% upfront fee. The loan was obtained for the purpose of financing the Company's working capital.