

Kcell JSC

Results for January – March 2014.

Almaty, April 23, 2014 - Kcell Joint Stock Company ("Kcell" or the "Company") (LSE, KASE: KCEL), the leading provider of mobile telecommunications services in Kazakhstan by market share in terms of revenue and subscribers, announces its interim results for January – March 2014.

First quarter

- Revenue increased by 2.4 percent to KZT 44,107 million (43,053).
- EBITDA increased by 8.2 percent to KZT 25,673 million (23,728). The EBITDA margin increased to 58.2 percent (55.1).
- Operating income grew by 10.6 percent to KZT 19,855 million (17,956).
- Net finance cost decreased to KZT 280 million (612).
- Net income increased by 14.5 percent to KZT 15,635 million (13,656).
- Free cash flow rose to KZT 17,988 million (11,026).
- The Company has made subscriber base clean up with the net effect -789 thousand.

Financial highlights

KZT in millions, except key ratios, per share data and changes	Jan-Mar 2014	Jan-Mar 2013	Chg (%)	Jan-Dec 2013
Revenue	44,107	43,053	2.4	187,599
EBITDA	25,673	23,728	8.2	104,727
Margin (%)	58.2	55.1		55.8
Operating income	19,855	17,956	10.6	81,600
Net income attributable to owners of the parent company	15,635	13,656	14.5	63,392
Earnings per share (KZT)	78.18	68.28	14.5	316.96
CAPEX-to-sales (%)	5.4	12.3		12.2
Free cash flow	17,988	11,026		80,743

In this report, comparative figures are provided in parentheses following the operational and financial results and refer to the same item in the first quarter of 2013, unless otherwise stated.

Comments by Ali Agan, CEO

“I am delighted to report a strong set of results for the first quarter of 2014. During the period, we delivered further revenue growth, with demand for data services continuing to increase as we make further progress in the rollout of the 3G network. A decline in voice revenue, in line with global industry trends, was offset by a significant increase in data revenue during the quarter.

We have again delivered strong profitability in a challenging operating environment. The Company has maintained its industry leading EBITDA margin in the face of strong pricing pressure, owing to our continued focus on cost discipline.

We are pleased that the recent court case regarding Daytime Unlimited tariff plan has now resulted in Kcell facing a substantially lower fine than had initially been proposed.

Throughout the current financial year, we will focus on further developing our product and service offering to meet the needs of our customers and drive revenue and subscriber growth.”

CONFERENCE CALL

Kcell will host an analyst conference call on 23 April 2014 at 10:30 UK time / 15:30 Almaty / 13:30 Moscow. The conference will be held in English, audio webcast will be available at:

<http://www.audio-webcast.com/cgi-bin/visitors.ssp?fn=visitor&id=2242>

Dial in details are as follows:

UK Free Call Dial In:	0800 358 5263
Standard International Dial-in:	+44 207 190 1596
Russia Local Call number:	+7 495 662 57 93
USA Free Call Dial-in:	+1 877 941 6013
USA Dial-In:	+1 480 629 9822

Conference ID	4679741
---------------	---------

A presentation will be available on the Company website shortly before the conference call on www.investors.kcell.kz/en

A replay will be available at: <http://kcell230414-live.audio-webcast.com>

Enquiries:**Kcell****Investor Relations**

Irina Shol

Tel: +7 727 2582755 ext. 1205

Investor_relations@kcell.kz**Media**

Natalya Eskova

Tel: +7 727 2582755

Pressa@kcell.kz**International Media**

Instinctif Partners

Tel: +44 207 457 2020

Leonid Fink, Tony Friend,

Kay Larsen, Galyna Kulachek

Review of the first quarter 2014

Revenue

Revenue increased by 2.4 percent to KZT 44,107 million (43,053).

Revenue from voice services decreased by 5.8 percent to KZT 31,366 million (33,289). Data revenue grew by 46.8 percent to KZT 8,326 million (5,673), revenue from value-added services increased by 8.9 percent to KZT 4,274 million (3,923). Other revenue decreased by 15.9 percent to KZT 141 million (168).

KZT in millions, except percentages	Jan-Mar		Jan-Mar	
	2014	% of total	2013	% of total
Voice services	31,366	71.1	33,289	77.3
Data services	8,326	18.9	5,673	13.2
Value added services	4,274	9.7	3,923	9.1
Other revenues	141	0.3	168	0.4
Total revenues	44,107	100	43,053	100

Voice service revenue

Revenue from voice services decreased by 5.8 percent to KZT 31,366 million (33,289). Voice traffic increased by 0.9 percent to 5,576 million minutes (5,524). However, growth in traffic was offset by a decrease in tariffs, which caused ARMU to decrease to KZT 4.3 (4.7).

Outgoing voice revenue decreased by 7.1 percent to KZT 23,963 million (25,807).

Interconnect revenue decreased by 4.5 percent to KZT 5,969 million (6,250). The decrease was driven by a 15 percent reduction of mobile termination rate.

Data service revenue

Data revenue increased by 46.8 percent to KZT 8,326 million (5,673). Data traffic more than doubled to 6,477,665 GB (3,104,833). Growth in data traffic was partially offset by offering of packages with lower tariffs per MB, which led to a decrease in average revenue per MB (ARMB) to KZT 1.3 (1.9).

Value-added service revenue

Revenue from value-added services increased by 8.9 percent to KZT 4,274 million (3,923). The increase was primarily due to an increase in revenue from the provision of content services, such as mobile credit, ring back tones and other information and entertainment services.

Other revenue

Other revenue decreased by 15.9 percent to KZT 141 million (168). The decrease was primarily attributable to the decrease in sales of handsets and USB modems.

EXPENSES

Cost of sales

Cost of sales declined by 0.9 percent to KZT 18,468 million (18,627) primarily due to a decrease in interconnect fees and expenses. This decrease was partially offset by an increase in maintenance expenses caused by increase in the number of base stations.

Selling and marketing expenses

Selling and marketing expenses decreased by 24.4 percent to KZT 2,943 million (3,896). The decline was primarily driven by a decrease in commission for cash collection.

General and administrative expenses

General and administrative expenses decreased by 9.0 percent to KZT 2,402 million (2,641) primarily due to a decrease in depreciation and amortization expenses.

EARNINGS, FINANCIAL POSITION AND CASH FLOW

EBITDA increased by 8.2 percent to KZT 25,673 million (23,728). The EBITDA margin increased to 58.2 percent (55.1).

Net finance cost decreased to KZT 280 million (612), which is related to net interest expenses.

Income tax expense increased by 6.8 percent to KZT 3,940 million (3,688).

Net income attributable to owners of the parent company increased by 14.5 percent to KZT 15,635 million (13,656) and earnings per share increased to KZT 78.2 (68.3).

CAPEX decreased to KZT 2,373 million (5,274) and the CAPEX-to-sales ratio is 5.4 percent (12.3).

Free cash flow increased to KZT 17,988 million (11,026).

Key Milestones 2014

January

- On January 30, 2014, the Company obtained a State Licence to engage in the sale of facilities for cryptographic protection of information. This licence allows selling smartphones and other devices with encrypting functions.
- According to the Memorandum signed by Kcell, KaR-Tel (Vimpelcom) and Mobile Telecom-Service (Tele2) in January 2014, mobile termination rate (MTR) were reduced from KZT 13.02 (excl. VAT) per minute to KZT 11.1 (excl. VAT) per minute.

February

On February 11, 2014, the National Bank of Kazakhstan announced that it would only be supporting the national currency at a new exchange rate of KZT185/USD +/- KZT3. The previous official exchange rate was KZT155.6/USD.

April 23, 2014

Ali Agan
Chief Executive Officer

LEGAL PROCEEDINGS

The Company is party to certain legal proceedings arising in the ordinary course of business.

"Daytime Unlimited" investigation into alleged violations

In September 2013, the ACP initiated investigations into alleged violations by the Company of the anti-monopoly law with respect to the "Daytime Unlimited" service under the Activ brand. In January 2014, the Company received notification of the conclusion of the investigation, in which the ACP claims abuse of the Company's dominant position leading to a violation of customers' rights with a potential fine on the Company of KZT 16 billion. The key findings are based on incorrect charges being applied for the "Daytime Unlimited" service and non-interruption of services when a customer's balance reaches zero.

The Company does not agree with the allegations and applied to Specialized Inter-district Administrative Court of Almaty (SMAS) to limit the fine to be based on the Code of Administrative Offence Article 147 (part 3). On March 7, 2014 SMAS supported ACP claim against the Company.

On March 18, 2014 the ACP sent the Company an Order on cessation and elimination of consequences of violation of the competition laws, pursuant to which it ordered that the Company shall have on or before April 21, 2014: 1) to stop collection of the subscription fee under the tariff plan "Daytime Unlimited" in case of insufficiency of funds on the account; 2) to ensure interruption of connection (radio-telephone conversation or the service of access to the Internet) when the funds on the accounts of subscribers run out; 3) to ensure refund of funds to subscribers, received as a result of failure to interrupt the connection (radiotelephone conversation or the service of access to the Internet) when the funds on the accounts of subscribers run out. The Company intends to challenge this order.

On 28 March 2014 Kcell appealed against the ruling of SMAS regarding the 'Daytime Unlimited' service and failure to disconnect calls on the Kcell network in the Almaty City Court. On 15 April 2014 the Board of Appeals of the Almaty City Court (Board of Appeals) announced its determination. The court has determined to partially grant the complaint, alter the decision of SMAS and, pursuant to Part 3 of art. 147 of Code of Administrative Offence, impose a fine on Kcell in the amount of KZT 325.9 million. However, as at the date of issue of this report the official notification from the Board of Appeals has not yet been received.

"Always Available" investigation into alleged violations

In 2013, certain subscribers of the Company complained on charging for voicemail services provided by the Company but they had not signed for. The Agency of Competition Protection (ACP) made an investigation and the Company can be fined for KZT10.9 billion by the Administrative Court. The Company considered that the amount of fine was excessive as it was calculated from total voice revenues, rather than from specific revenue in question and therefore, the Company filed a petition to the court, which required ACP to reconsider the amount of the fine. The Company provided information on revenues from "Always Available" services for 2012 and 2013 to ACP.

On March 19, 2014, first instance court granted the Company's petition and required ACP to provide more detailed information on claimed violation. The Company expects to receive a new order from ACP with the revised amount of fine. How-

ever, due to lack of clarity in the legislation, the amount of the potential fine is subject to varying interpretations by ACP, including the methodology of calculation and wide range of time period application. Accordingly, management believes that due to this uncertainty, it is not possible to reliably estimate the amount of potential fine.

In addition, on November 27, 2013, ACP issued an order prescribing to eliminate violations of the competition law. According to this order, Kcell is to, by December 27, 2013, cease to provide the Always Available service if no consent of the subscriber has been obtained. On December 26, 2013, Kcell filed an application with Specialized Interdistrict Economic Court of Astana seeking cancellation of the said order. The Company disagrees with the alleged violation and will challenge the position of ACP in court. On March 12, 2014, the Specialized Interdistrict Economic Court of Astana has dismissed the Company's petition. The Company intends to appeal the decision of the Specialized Interdistrict Economic Court of Astana.

This report has not been subject to review by auditors.

The information was submitted for publication at 09:00 ALMT on April 23, 2014.

Financial Information

Interim Report January–June 2014	July 17, 2014
Interim Report January–September 2014	October 17, 2014
Year-end Report January–December 2014	January 29, 2015

Questions regarding the reports:

Kcell JSC
Investor Relations
Timiryazev str. 2g
050013 Almaty
Tel. +7 727 2582755 ext.1205
www.investors.kcell.kz

Definitions

EBITDA: Earnings Before Interest, Tax, Depreciation and Amortization. Equals operating income before depreciation, amortization and impairment losses and before income from associated companies.

CAPEX: Capital expenditures and advances paid for property, plant and equipment as well as software and licenses including investments in tangible and intangible non-current assets, but excluding goodwill and fair value adjustments recognized in acquisitions, and excluding the recording of assets retirement obligations.

ARMB: Average revenue per MB.

Condensed Consolidated Statements of Comprehensive Income

KZT in millions, except per share data, number of shares and changes	Jan-Mar 2014	Jan-Mar 2013	Chg (%)	Jan-Dec 2013
Revenues	44,107	43,053	2.4	187,599
Cost of sales	-18,468	-18,627	-0.9	-79,469
Gross profit	25,639	24,427	5.0	108,130
Selling and marketing expenses	-2,943	-3,896	-24.4	-16,614
General and administrative expenses	-2,402	-2,641	-9.0	-10,017
Other operating income and expenses, net	-439	66		101
Operating income	19,855	17,956	10.6	81,600
Finance costs and other financial items, net	-280	-612		-2,119
Income after financial items	19,575	17,344	12.9	79,481
Income taxes	-3,940	-3,688	6.8	-16,089
Net income	15,635	13,656	14.5	63,392
Other comprehensive income				
Total comprehensive income				
Total comprehensive income attributable to owners of the parent	15,635	13,656	14.5	63,392
Earnings per share (KZT), basic and diluted	78.18	68.28	14.5	316.96
Number of shares (thousands)				
Outstanding at period-end	200,000	200,000		200,000
Weighted average, basic and diluted	200,000	200,000		200,000
EBITDA	25,673	23,728	8.2	104,727
Depreciation, amortization and impairment losses	-5,817	-5,773	0.8	-23,127
Operating income	19,855	17,956	10.6	81,600

Condensed Consolidated Statements of Financial Position

KZT in millions	Mar 31, 2014	Dec 31, 2013
Assets		
Intangible assets	13,076	13,955
Property, plant and equipment	109,537	112,369
Other non-current assets	3,422	3,131
Total non-current assets	126,035	129,455
Inventories	354	499
Trade and other receivables	12,698	10,410
Cash and cash equivalents	35,954	18,916
Total current assets	49,006	29,825
Total assets	175,041	159,280
Equity and liabilities		
Share capital	33,800	33,800
Retained earnings	79,028	63,393
Total equity attributable to owners of the parent	112,828	97,193
Deferred tax liabilities	5,262	5,232
Other long-term liabilities	1,388	1,426
Total non-current liabilities	6,650	6,658
Short-term borrowings	23,526	24,721
Trade payables, and other current liabilities	32,037	30,708
Total current liabilities	55,563	55,429
Total equity and liabilities	175,041	159,280

Condensed Consolidated Statements of Cash Flows

	Jan-Mar 2014	Jan-Mar 2013	Jan-Dec 2013
KZT in millions			
Cash flow before change in working capital	20,849	20,216	90,639
Change in working capital	-313	-3,927	7,417
Cash flow from operating activities	20,536	16,289	98,056
Cash CAPEX	-2,548	-5,263	-17,313
Free cash flow	17,988	11,026	80,743
Total cash flow from investing activities	-2,548	-5,263	-17,313
Cash flow from financing activities	-950	-11,950	-64,902
Cash flow for the period	17,038	-924	15,841
Cash and cash equivalents, opening balance	18,916	3,075	3,075
Cash flow for the period	17,038	-924	15,841
Cash and cash equivalents, closing balance	35,954	2,151	18,916

Condensed Consolidated Statements of Changes in Equity

	Jan-Mar 2014			Jan-Mar 2013		
	Share capital	Retained earnings	Total equity	Share capital	Retained earnings	Total equity
KZT in millions						
Opening balance	33,800	63,393	97,193	33,800	32,403	66,203
Dividends	-	-	-	-	-	-
Total comprehensive income	-	15,635	15,635	-	13,656	13,656
Closing balance	33,800	79,028	112,828	33,800	46,059	79,859

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention as modified by the initial recognition of financial instruments based on fair value. 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 Company’s accounting policies. Actual results could differ from those estimates.

Investments

KZT in millions	Jan-Mar 2014	Jan-Mar 2013	Jan-Dec 2013
CAPEX			
Intangible assets	-	312	1,517
Property, plant and equipment	2,373	4,962	21,332
Total	2,373	5,274	22,849

Related party transactions

For the first quarter ended March 31, 2014, Kcell purchased services for KZT 370 million and sold services for a value of KZT 293 million. Related parties in these transactions were mainly TeliaSonera and its group entities.

Net debt

KZT in millions	Mar 31, 2014	Dec 31, 2013
Long-term and short-term borrowings	23,526	24,721
Less short-term investments, cash and bank	-35,954	-18,916
Net debt	-12,428	5,805

Financial key ratios

	Mar 31, 2014	Dec 31, 2013
Return on equity (% , rolling 12 months)	57.9	65.2
Return on capital employed (% , rolling 12 months)	68.4	76.5
Equity/assets ratio (%)	64.5	61.0
Net debt/equity ratio (%)	-11.0	6.0
Net debt/EBITDA rate (multiple, rolling 12 months)	-0.12	0.06
Owners’ equity per share (KZT)	564.1	486.0

Operational data	Jan-Mar 2014	Jan-Mar 2013	Chg (%)	Jan-Dec 2013
Subscribers, period-end (thousands)	13,492	13,773	-2.0	14,307
Of which prepaid	11,804	12,067	-2.2	12,593
MOU (min/month)	147	149	-0.7	152
ARPU (KZT)	1,057	1,043	1.3	1,106
Churn rate* (%)	56.0	23.1		31.2
Employees, period-end	1,499	1,638	-8.5	1,488

*Churn rate excluding one –off cleansing of data base is 33.3%.

Forward-looking statements

This report contains statements concerning, among other things, Kcell's financial condition and results of operations that are forward-looking in nature. Such statements are not historical facts but, rather, represent Kcell's future expectations. Kcell believes that the expectations reflected in these forward-looking statements are based on reasonable assumptions; however, forward-looking statements involve inherent risks and uncertainties, and a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. Such important factors include, but may not be limited to: Kcell's market position; growth in the telecommunications industry; and the effects of competition and other economic, business, competitive and/or regulatory factors affecting the business of Kcell and the telecommunications industry in general. Forward-looking statements speak only as of the date they were made, and, other than as required by applicable law, Kcell undertakes no obligation to update any of them in light of new information or future events.