Kcell JSC

Q1 2015 Interim Report

Kcell JSC
Results for January – March 2015

Almaty, 21 April 2015 - 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 2015.

First quarter

- Revenue decreased by 2.3 percent to KZT 43,085 million (44,107).
- EBITDA, excluding non-recurring items, decreased by 7.2 percent to KZT 23,817 million (25,673). The EBITDA margin was 55.3 percent (58.2).
- Operating income, excluding non-recurring items, down by 10.8 percent to KZT 17,701 million (19,855).
- Net finance cost increased to KZT 586 million (280).
- Net income decreased by 15.4 percent to KZT 13,234 million (15,635).
- Free cash flow decreased to KZT 3,189 million (17,985).
- During the quarter the subscriber base decreased by 363,000 to 10,829 thousand* subscriptions.

Financial highlights

KZT in millions, except key ratios, per share data and changes	Jan-Mar 2015	Jan-Mar 2014	Chg (%)	Jan-Dec 2014
Revenue	**43,085**	44,107	-2.3	187,581
EBITDA, excl. non-recurring items	**23,817**	25,673	-7.2	105,321
Margin (%)	**55.3**	58.2		56.1
Operating income	**17,374**	19,855	-12.5	75,250
Operating income, excl. non-recurring items	**17,701**	19,855	-10.8	80,132
Net income attributable to owners of the parent company	**13,234**	15,635	-15.4	58,271
Earnings per share (KZT)	**66.2**	78.2	-15.4	291.4
CAPEX-to-sales (%)	**4.9**	5.4		11.2
Free cash flow	**3,189**	17,985		63,744

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 2014, unless otherwise stated.

*The definition of number of mobile prepaid subscriptions has been changed. Prepaid subscriptions are counted if the subscriber has been active during the last three months. Prior periods have been restated for comparability.

Corporate Reg. No. 1201-1910-06-AO,
Registered office: Almaty, Kazakhstan

Comments by Arti Ots, CEO

"In the first quarter of 2015 we have seen continued growth in data services and increased revenue from handset sales driven by demand for smartphones. Voice revenues have declined in the face of intensifying competitive pressure.

We have focused our strategy on leveraging market opportunities that offer long term growth potential, against a backdrop of high mobile penetration in Kazakhstan. These areas of focus include the provision of high quality data capabilities, bundled offers and affordable internet services.

In addition, we launched a new retail strategy during the period, with the opening of our first flagship store in Almaty dedicated to the provision of personal service, offering hands-on experience of our products to customers. At the same time, we are developing new revenue streams from content such as music, video and mobile financial services.

Alongside these consumer-facing initiatives, throughout 2015 we aim to continue to be more attractive to our customers and to drive growth in our business-to-business operations, whilst investing to maintain the quality of our network and ensure the long term sustainability of our business."

Almaty, 21 April 2015

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Arti Ots
CEO

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Review of the first quarter 2015

Revenue

Revenue decreased by 2.3 percent to KZT 43,085 million (44,107).

Revenue from voice services decreased by 15.1 percent to KZT 26,631 million (31,366). Data revenue grew by 15.1 percent to KZT 9,580 million (8,326), revenue from value-added services decreased by 17.1 percent to KZT 3,541 million (4,274). Other revenue increased to KZT 3,333 million (141).

KZT in millions, except percentages	Jan-Mar 2015	% of total	Jan-Mar 2014	% of total
Voice services	**26,631**	61.8	31,366	71.1
Data services	**9,580**	22.2	8,326	18.9
Value added services	**3,541**	8.2	4,274	9.7
Other revenues	**3,333**	7.8	141	0.3
Total revenues	**43,085**	100.0	44,107	100.0

Voice service revenue

Revenue from voice services decreased by 15.1 percent to KZT 26,631 million (31,366). Voice traffic increased by 1.9 percent to 5,683 million minutes (5,576). However, growth in traffic was offset by a decrease in tariffs, which caused ARMU to decrease to KZT 3.5 (4.3).

Outgoing voice revenue decreased by 16.9 percent to KZT 19,920 million (23,963).

Interconnect revenue decreased by 15.7 percent to KZT 5,033 million (5,969). The decrease was mainly driven by a reduction of mobile termination rate.

Data service revenue

Data revenue increased by 15.1 percent to KZT 9,580 million (8,326). Data traffic increased by 63.3 percent to 10,579,282 GB (6,477,665). Growth in data traffic was partly offset by offering packages with lower tariffs per MB, which led to a decrease in average revenue per MB (ARMB) to KZT 0.9 (1.3).

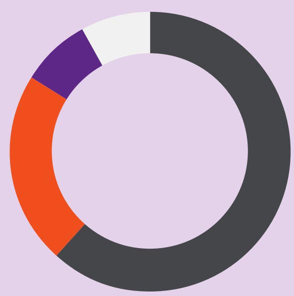
Value-added service revenue

Revenue from value-added services decreased by 17.1 percent to KZT 3,541 million (4,274), largely as a result of declining SMS and MMS revenue. Removing third party unlicensed content to comply with copyright policies was also a contributing factor.

Other revenue

Other revenue rose to KZT 3,333 million (141). This was attributable to higher sales of iPhone, Samsung and Lenovo handsets.

Revenue Breakdown Q1 2015



Expenses

Cost of sales
Cost of sales grew by 14.4 percent to KZT 21,122 million (18,468) primarily due to an increase in cost of goods sold attributable to the cost of handsets.

Selling and marketing expenses
Selling and marketing expenses decreased 27.2 percent to KZT 2,143 million (2,943). The decline was primarily driven by a decrease in commission for cash collection.

General and administrative expenses
General and administrative expenses increased 22.9 percent to KZT 2,951 million (2,402) primarily due to an increase in staff cost and depreciation and amortization expenses.

Earnings, financial position and cash flow

EBITDA, excluding non-recurring items, decreased 7.2 percent to KZT 23,817 million (25,673). The EBITDA margin was 55.3 percent (58.2).

Net finance cost increased to KZT 586 million (280), which is related to net interest expenses.

Income tax expense decreased 9.8 percent to KZT 3,554 million (3,940).

Net income attributable to owners of the parent company decreased 15.4 percent to KZT 13,234 million (15,635) and earnings per share decreased to KZT 66.2 (78.2).

CAPEX decreased to KZT 2,090 million (2,373) and the CAPEX-to-sales ratio to 4.9 percent (5.4).

Free cash flow decreased to KZT 3,189 million (17,985).

Key Milestones 2015

January

- Kcell's Board of Directors approved the Relationship Agreement and Services Agreement between Kcell and Telia Sonera AB (TS). These agreements are designed to regulate the provision of certain corporate services by TS to Kcell, so that Kcell will benefit from TS's strategic guidance whilst maintaining corporate independence. Kcell and TS confirmed that agreements and transactions with any member of the TS Group shall be undertaken on arm's length terms and on a normal commercial basis.
- Mr. Trond Moe was appointed the Company's Finance Director, subject to receiving relevant regulatory authorisation.

February

- Kcell informed about progress in its internal investigation. The investigation has concluded that Kcell has formal grounds to file a report with the General Prosecutor's office of the Republic of Kazakhstan requesting it to commence an investigation into the activities of a number of former employees who allegedly failed to follow the Company's internal policies and procedures. The Board has filed the matter to the relevant criminal authorities. The employees allegedly responsible for these failures are no longer employed by the Company. There remains no indication that any of the matters under investigation will have any material effect on the Company's balance sheet or on the results of its operations.
- The EGM approved an increase in the number of Board members from six to seven. Mr. Douglas Lubbe, a representative of the shareholder Fintur Holdings B.V, has been elected as the seventh member to Kcell's Board of Directors.

March

- Kcell announced the opening of its first Kcell branded Store in Almaty. The Company has changed its retail business model and is setting a new trend in the telecoms market by combining a shop and club to deliver a superior customer experience. The new store concept provides customers with an opportunity to seek advice on different gadgets and various mobile applications from Kcell's store consultants, as well as the ability to test all smartphone features prior to making a purchase. The Company plans to open Kcell Stores in other major cities of Kazakhstan.
- The Board of Directors recommended paying an annual dividend ("Annual Dividend") of 70 percent of the Company's net income for the twelve months ending 31 December 2014 ("the Period"). Additionally, the Board of Directors has recommended the payment of a special dividend ("Special Dividend", together with the Annual Dividend - "the Dividends"), representing 30 percent of the Company's net income for the Period. This recommendation was approved by the AGM on 17 April 2015.
- In total, the proposed Dividends amount to KZT 58,260 million, or KZT 291.30 per share, representing 100 percent of the Company's net income for the full year of 2014.The record date of Shareholders entitled to receive the dividends is 20 April 2015, (01:00 Almaty time). The proposed Annual Dividend will be paid no later than 15 May 2015 and the proposed Special Dividend will be paid no later than 30 October 2015.

April

- Kcell has completed the drawdown of a KZT 22 billion tranche of the approved credit line with Halyk Bank of Kazakhstan JSC. This tranche was obtained under the bank loan agreement signed between Kcell and Halyk Bank of Kazakhstan JSC for KZT 30 billion for working capital financing.

21 April 2015

Arti Ots

Chief Executive Officer

Legal proceedings

"Daytime Unlimited" service

On 5 September 2014, the Order of the Agency of the Republic of Kazakhstan for Competition Protection (ACP) came into force obliging Kcell:

1) to stop collecting subscription fees under the "Daytime Unlimited" service when there are insufficient funds on the account (executed by the Company);
2) to ensure interruption of connection when subscribers' balance reaches zero;
3) to ensure refund to subscribers for charges made in view of non-interruption of their connection when their balance reached zero.

Compliance with the Order requires major technical changes to the billing system; Kcell has, therefore, filed requests to postpone the execution of this Order, but both the ACP and the court have denied the Company's request.

Kcell will, therefore, incur additional expenses. The exact amount is subject to clarification of the ACP order. The Order was not immediately executed. This led to administrative proceedings being brought against Kcell, which resulted in a KZT 3.1 million fine in the court of the first instance. The decision has not come into force, as Kcell has challenged it in the upper court and recently the appellate court reversed the decision.

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The January-March 2015 financial statements have been reviewed by the Kcell external auditors, and their report will be available on the Kcell website from 30 April 2015.

The information was submitted for publication at 09:00 ALMT on 21 April 2015.

Financial Information

Interim Report January-June 2015	17 July 2015
Interim Report January-September 2015	20 October 2015

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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.

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Condensed Consolidated Statements of Comprehensive Income

KZT in millions, except per share data, number of shares and changes	Jan-Mar 2015	Jan-Mar 2014	Chg (%)	Jan-Dec 2014
Revenues	**43,085**	44,107	-2.3	187,581
Cost of sales	**-21,122**	-18,468	14.4	-84,221
Gross profit	**21,963**	25,639	-14.3	103,360
Selling and marketing expenses	**-2,143**	-2,943	-27.2	-11,549
General and administrative expenses	**-2,951**	-2,402	22.9	-10,666
Other operating income and expenses, net	**506**	-439		-5,895
Operating income	**17,374**	19,855	-12.5	75,250
Finance costs and other financial items, net	**-586**	-280		-1,106
Income after financial items	**16,788**	19,575	-14.2	74,145
Income taxes	**-3,554**	-3,940	-9.8	-15,874
Net income	**13,234**	15,635	-15.4	58,271
Other comprehensive income				
Total comprehensive income				
Total comprehensive income attributable to owners of the parent company	**13,234**	15,635	-15.4	58,271
Earnings per share (KZT), basic and diluted	**66.2**	78.2	-15.4	291.4
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	**23,490**	25,673	-8.5	100,440
EBITDA excl. non-recurring items	**23,817**	25,673	-7.2	105,321
Depreciation, amortization and impairment losses	**-6,116**	-5,817	5.1	-25,189
Operating income excl. non-recurring items	**17,701**	19,855	-10.8	80,132

Condensed Consolidated Statements of Financial Position

KZT in millions	**31 Mar 2015**	**31 Dec 2014**
Assets		
Intangible assets	**12,108**	12,494
Property, plant and equipment	**102,900**	108,405
Other non-current assets	**2,583**	695
Total non-current assets	**117,591**	121,594
Inventories	**3,822**	2,336
Trade and other receivables	**18,276**	14,543
Cash and cash equivalents	**22,972**	19,520
Total current assets	**45,070**	36,399
Total assets	**162,661**	157,993
Equity and liabilities		
Share capital	**33,800**	33,800
Retained earnings	**71,508**	58,274
Total equity attributable to owners of the parent company	**105,308**	92,074
Deferred tax liabilities	**4,432**	4,442
Other long-term liabilities	**1,350**	1,376
Total non-current liabilities	**5,782**	5,818
Short-term borrowings	**24,727**	25,020
Trade payables, and other current liabilities	**26,844**	35,081
Total current liabilities	**51,571**	60,101
Total equity and liabilities	**162,661**	157,993

Condensed Consolidated Statements of Cash Flows

KZT in millions	Jan-Mar 2015	Jan-Mar 2014	Jan-Dec 2014
Cash flow before change in working capital	**19,062**	20,709	88,251
Change in working capital	**-7,307**	-176	-4,692
Cash flow from operating activities	**11,755**	20,533	83,559
Cash CAPEX	**-8,566**	-2,548	-19,815
Free cash flow	**3,189**	17,985	63,744
Total cash flow from investing activities	**-8,566**	-2,548	-19,815
Cash flow before financing activities	**3,189**	17,985	63,744
Cash flow from financing activities	**-**	-950	-63,140
Cash flow for the period	**3,189**	17,035	604
Cash and cash equivalents, opening balance	**19,520**	18,916	18,916
Cash flow for the period	**3,189**	17,035	604
Exchange rate difference	**263**	3	-
Cash and cash equivalents, closing balance	**22,972**	35,954	19,520

Condensed Consolidated Statements of Changes in Equity

	Jan-Mar 2015			Jan-Mar 2014		
KZT in millions	Share capital	Retained earnings	Total equity	Share capital	Retained earnings	Total equity
Opening balance	**33,800**	**58,274**	**92,074**	33,800	63,393	97,193
Dividends	**-**	**-**	**-**	-	-	-
Total comprehensive income	**-**	**13,234**	**13,234**	-	15,635	15,635
Closing balance	**33,800**	**71,508**	**105,308**	33,800	79,028	112,828

Basis of preparation

As in the annual accounts for 2014, Kcell's consolidated financial statements of and for the three-month period ended 31 March 2015, have been prepared in accordance with International Financial Reporting Standards (IFRSs). This report has been prepared in accordance with IAS 34 Interim Financial Reporting. The accounting policies adopted are consistent with those of the previous financial year. All amounts in this report are presented in KZT millions, unless otherwise stated. Rounding differences may occur.

Non-recurring items

KZT in millions	Jan-Mar 2015	Jan-Mar 2014	Jan-Dec 2014
Within EBITDA			
Restructuring charges, synergy implementation costs, etc.	327	-	4,881
Total	**327**	**-**	4,881

Investments

KZT in millions	Jan-Mar 2015	Jan-Mar 2014	Jan-Dec 2014
CAPEX			
Intangible assets	333	-	1,832
Property, plant and equipment	1,757	2,373	19,177
Total	**2,090**	2,373	21,009

Related party transactions

For the first quarter ended 31 March 2015, Kcell purchased services for KZT 1,012 million and sold services for a value of KZT 409 million. Related parties in these transactions were mainly TS and its group entities.

Net debt

KZT in millions	31 Mar 2015	31 Dec 2014
Long-term and short-term borrowings	24,727	25,020
Less short-term investments, cash and bank	-22,972	-19,520
Net debt	**1,755**	5,500

Financial key ratios

	31 Mar 2015	31 Dec 2014
Return on equity (%, rolling 12 months)	**56.6**	63.3
Return on capital employed (%, rolling 12 months)	**64.2**	75.7
Equity/assets ratio (%)	**64.7**	58.3
Net debt/equity ratio (%)	**1.7**	6.0
Net debt/EBITDA rate (multiple, rolling 12 months)	**0.02**	0.05
Owners' equity per share (KZT)	**526.5**	460.4

Operational data

	Jan-Mar 2015	Jan-Mar 2014	Chg *(%)*	Jan-Dec 2014
Subscribers, period-end (thousands)	**10,829**	11,236	-3.6	11,192
Of which prepaid*	**9,478**	9,548	-0.7	9,711
MOU (min/month)	**187**	176	6.3	188
ARPU (KZT)	**1,182**	1,259	-6.1	1,315
Churn rate (%)	**47.4**	66.4	-28.6	49.5
Employees, period-end	**1,740**	1,499	16.1	1,736

*The definition of number of mobile prepaid subscriptions has been changed. Prepaid subscriptions are counted if the subscriber has been active during the last three months. Prior periods have been restated for comparability.

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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.