Kcell JSC

Results for January – June 2013.

Almaty, July 17, 2013 - 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 results for the first half of 2013.

Second quarter
- Revenue increased 4.3 percent to KZT 46,271 million (44,383).
- EBITDA, excluding non-recurring items, rose 1.8 percent to KZT 25,508 million (25,064). EBITDA margin of 55.1 percent (56.5).
- Operating income, excluding non-recurring items, 0.9 percent higher at KZT 19,748 million (19,572).
- Net finance cost increased by KZT 577 million to KZT 537 million (40).
- Net income 3.4 percent lower at KZT 15,551 million (16,100).
- Free cash flow increased to KZT 26,581 million (10,216).
- During the quarter the subscriber base rose by 303,410 to 14.1 million.

First half
- Revenue 4.1 percent higher at KZT 89,324 million (85,780).
- EBITDA, excluding non-recurring items, increased 1.5 percent to KZT 49,237 million (48,518). EBITDA margin of 55.1 percent (56.6).
- Operating income, excluding non-recurring items, up 1.5 percent to KZT 37,704 million (37,162).
- Net finance cost increased by KZT 1,228 million to KZT 1,149 million (79).
- Net income down 0.7 percent to KZT 29,207 million (29,425).
- Free cash flow increased to KZT 37,607 million (25,443).

Financial highlights

KZT in millions, except key ratios, per share data and changes	**Apr-Jun 2013**	**Apr-Jun 2012**	***Chg (%)***	**Jan-Jun 2013**	**Jan-Jun 2012**	***Chg (%)***
Revenue	46,271	44,383	*4.3*	89,324	85,780	*4.1*
EBITDA excl. non-recurring items	25,508	25,064	*1.8*	49,237	48,518	*1.5*
Margin (%)	55.1	56.5		55.1	56.6	
Operating income	19,748	20,162	*-2.1*	37,704	36,717	*2.7*
Operating income excl. non-recurring items	19,748	19,572	*0.9*	37,704	37,162	*1.5*
Net income attributable to owners of the parent	15,551	16,100	*-3.4*	29,207	29,425	*-0.7*
Earnings per share (KZT)	77.76	80.50	*-3.4*	146.04	147.12	*-0.7*
CAPEX-to-sales (%)	12.8	27.2		12.5	17.3	
Free cash flow	26,581	10,216		37,607	25,443	

In this report, comparative figures are provided in parentheses following the operational and financial results and refer to the same item in the second quarter of 2012, unless otherwise stated.

Comments by Ali Agan, CEO

“During the second quarter of 2013 we have maintained our strong leadership in the Kazakh mobile telecom market and delivered rapid growth in revenue associated with data services. Our EBITDA margin remains above 55 percent due to our continued focus on effective cost discipline. At the same time, we have further increased our subscriber base to 14.1 million.

We continue to focus on cash generation, whilst ensuring that Kcell maintains its leading position in the Kazakh mobile market and maximises the growth potential offered by data services in line with the strategy we outlined when we listed the Company.

We will endeavour to maintain our market leadership as competition intensifies by focusing on innovation to remain at the forefront of technological developments and ensure that we meet the ever evolving needs of our customers.”

CONFERENCE CALL

Kcell will host an analyst conference call on July 17, 2013 at 11:00 UK time / 16:00 Almaty / 14:00 Moscow. Dial in details are as follows:

UK Free Call Dial In	**0800 694 0257**
Standard International Dial-in	**+44 (0) 1452 555 566**
Russia Free Call number	**81080020972044**
New York Local Call Dial-in	**16315107498**
Conference ID	**17760288**

A replay of the call will be available until July 28, 2013 using the following details:

UK Free Call Dial-In	**0800 953 1533**
UK Local Call Dial-In	**0844 338 6600**
Standard International Dial-In	**+44 (0)1452 550 000**
USA Dial-In	**1 (866) 247-4222**
Replay Access Code	**17760288**

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

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Review of the second quarter 2013

Revenue

Revenue rose 4.3 percent to KZT 46,271 million (44,383).

Revenue from voice services decreased 0.5 percent to KZT 36,151 million (36,320). Data revenue increased 39.7 percent to KZT 5,932 million (4,247) and revenue from value-added services increased 21.2 percent to KZT 4,152 million (3,425). Other revenue decreased 90.9 percent to KZT 36 million (391).

KZT in millions, except percentages	Apr-Jun 2013	% of total	Apr-Jun 2012	% of total
Voice services	36,151	78.1	36,320	81.8
Data services	5,932	12.8	4,247	9.6
Value added services	4,152	9.0	3,425	7.7
Other revenues	36	0.1	391	0.9
Total revenues	**46,271**	**100**	**44,383**	**100**

Voice service revenue

Revenue from voice services was largely unchanged at KZT 36,151 million (36,320). Voice traffic rose 8.8 percent to 5,959 million minutes as a result of an increase in the subscriber base to 14.1 million (11.7). However, growth in traffic and in the number of subscribers was offset by lower tariffs, which resulted in a decline in ARMU to KZT 4.7 (5.3).

Outgoing voice revenue was 2.7 percent lower at KZT 28,018 million (28,792).

Interconnect revenue rose 7.1 percent to KZT 6,850 million (6,397).The increase was driven by a higher volume of incoming calls from other mobile operators' subscribers. This, in turn, resulted from an overall increase in the subscriber base along with attractive off-net tariffs.

Data service revenue

Data revenue was 39.7 percent higher at KZT 5,932 million (4,247). Data traffic increased 118.1 percent to 3,439,688 GB (1,577,104). Growth in data traffic was partially offset by packages with lower tariffs per MB, which led to a decrease in average revenue per MB (ARMB) to KZT 1.7 (2.6).

Value-added service revenue

Revenue from value-added services rose 21.2 percent to KZT 4,152 million (3,425). Innovative and attractive content services, such as "Black and white list", "Money transfer", "Extra balance" and other information and entertainment services, helped boost revenue from value added services.

Other revenue

Other revenue declined 90.9 percent to KZT 36 million (391). The decrease was largely the result of lower sales of handsets and USB modems.

EXPENSES

Cost of sales

Cost of sales rose 5.2 percent to KZT 19,752 million (18,767), primarily due to an increase in interconnect fees and expenses to KZT 6,260 million (5,900), along with higher site rental costs and maintenance expenses resulting from an increase in the number of base stations.

Selling and marketing expenses

Selling and marketing expenses increased by 9.7 percent to KZT 4,229 million (3,855). The rise was driven by an increase in outdoor activities, advertising and sales promotion expenses in an intensely competitive market, which also increased the cost of subscriber retention.

General and administrative expenses

General and administrative expenses increased by 65.4 percent to KZT 2,674 million (1,617), primarily due to a reverse entry of KZT 590 million in the second quarter 2012 in consulting expenses related to the Offering.

EARNINGS, FINANCIAL POSITION AND CASH FLOW

EBITDA, excluding non-recurring items, increased 1.8 percent to KZT 25,508 million (25,064). The EBITDA margin is 55.1 percent (56.5).

Financial items totaled KZT -537 million (40) related to net interest expenses in the second quarter 2013 and net interest income in the second quarter 2012.

Income tax expense decreased by 10.8 percent to KZT 3,660 million (4,102).

Net income attributable to owners of the parent company decreased by 3.4 percent to KZT 15,551 million (16,100) and earnings per share decreased to KZT 77.8 (80.5).

CAPEX decreased to KZT 5,909 million (12,081) and CAPEX-to-sales ratio decreased to 12.8 percent (27.2).

Free cash flow increased to KZT 26,581 million (10,216), primarily due to a decrease in capital expenditures.

Net debt/equity ratio was 77.6 percent (69.4).

Net debt/EBITDA ratio was 0.48 (0.46).

The equity/assets ratio was 44.2 percent (44.2).

Review of the first half of 2013

Revenue

Revenue increased 4.1 percent to KZT 89,324 million (85,780).

Revenue from voice services rose 0.3 percent to KZT 69,440 million (69,239). Data revenue was 38.8 percent higher at KZT 11,604 million (8,359) and revenue from value-added services increased 10.9 percent to KZT 8,076 million (7,284). Other revenue fell 77.3 percent to KZT 204 million (898).

KZT in millions, except percentages	Jan-Jun 2013	% of total	Jan-Jun 2012	% of total
Voice services	69,440	77.8	69,239	80.7
Data services	11,604	13.0	8,359	9.8
Value added services	8,076	9.0	7,284	8.5
Other revenues	204	0.2	898	1.0
Total revenues	**89,324**	**100**	**85,780**	**100**

Voice service revenue

Revenue from voice services was largely flat at KZT 69,440 million (69,239). Voice traffic increased 11.1 percent to 11,482 million minutes (10,332). However, growth in traffic and in the number of subscribers was partially offset by lower tariffs, which caused ARMU to decrease to KZT 4.7 (5.3).

Outgoing voice revenue declined 1.5 percent to KZT 53,825 million (54,641).

Interconnect revenue increased 6.7 percent to KZT 13,100 million (12,276).The increase was driven by growth in the volume of incoming calls from other mobile operators' subscribers. This, in turn, resulted from an overall increase in the total subscriber base and attractive off-net tariffs.

Data service revenue

Data revenue rose 38.8 percent to KZT 11,604 million (8,359). Data traffic increased 119.3 percent to 6,544,520 GB (2,984,386). Growth in data traffic was partially offset by packages with lower tariffs per MB, which resulted in a decrease in average revenue per MB (ARMB) to KZT 1.7 (2.8).

Value-added service revenue

Revenue from value-added services was 10.9 percent higher at KZT 8,076 million (7,284). Information and entertainment services drove value added services revenue up.

Other revenue

Other revenue declined 77.3 percent to KZT 204 million (898). The decrease was primarily attributable to the decrease in sales of handsets and USB modems.

EXPENSES

Cost of sales

Cost of sales rose by 4.0 percent to KZT 38,378 million (36,905), driven largely by an increase in interconnect fees and expenses to KZT 11,729 million (11,116), increased site rental costs and maintenance expenses resulting from an increase in the number sites and base stations.

Selling and marketing expenses

Selling and marketing expenses increased by 12.5 percent to KZT 8,125 million (7,221). The rise was driven by an increase in outdoor activities, advertising and sales promotion expenses in an intensely competitive market, which also increased the cost of subscriber retention.

General and administrative expenses

General and administrative expenses increased by 4.1 percent to KZT 5,315 million (5,104) primarily due to an increase in depreciation expenses.

EARNINGS, FINANCIAL POSITION AND CASH FLOW

EBITDA, excluding non-recurring items, increased 1.5 percent to KZT 49,237 million (48,518). The EBITDA margin is 55.1 percent (56.6).

Financial items totaled KZT -1,149 million (79) related to net interest expenses in first half 2013 and net interest income in first half 2012.

Income tax expense decreased by 0.3 percent to KZT 7,348 million (7,371).

Net income attributable to owners of the parent company decreased by 0.7 percent to KZT 29,207 million (29,425) and earnings per share decreased to KZT 146.0 (147.1).

CAPEX decreased to KZT 11,183 million (14,844) and the CAPEX-to-sales ratio decrease to 12.5 percent (17.3).

Free cash flow increased to KZT 37,607 million (25,443), primarily due to a decrease in capital expenditures.

Net debt/equity ratio was 77.6 percent (69.4).

Net debt/EBITDA ratio was 0.48 (0.46).

The equity/assets ratio was 44.2 percent (44.2).

Key Milestones 2013

Based on the decision of the Committee on Indices and Securities Valuation of January 10, 2013, common shares Kcell JSC were included in the representative list of shares for KASE Index calculation from February 1, 2013.

On February 6, 2013, Veysel Aral, CEO of Kcell and Regional Head of Central Asia, was appointed President of Business area Eurasia. In this role, he succeeds Tero Kivisaari, who has been managing dual roles since his appointment as President of Business area Mobility Services in October 2012.

On March 13, 2013, the Board of Directors of Kcell JSC introduced a function of internal audit in Kcell JSC to perform control over financial and business activity of the Company.

On May 21, 2013, the Board of Directors of Kcell JSC adopted the following decisions:

- To terminate the term of office of the Chief Executive Officer of Kcell JSC Mr. Veysel Aral from June 01, 2013.
- To elect Mr. Ali Agan as the Chief Executive Officer of Kcell JSC with a one year term of office from June 1, 2013, until June 1, 2014.
- Approved contract between Kcell JSC and Halyk Bank Kazakhstan JSC for the credit line in the amount of KZT 26,000 million tenge for the term of 24 months.

On May 24, 2013, at the AGM all of the resolutions proposed to the Annual General Meeting of its shareholders were approved:

- PricewaterhouseCoopers LLP as the auditor for Kcell JSC;
- Company’s annual financial statements for 2012;
- A dividend of KZT 162.01 gross per ordinary share, or approximately USD 1.07 gross per Global Depositary Receipt (“GDR”), for the period from July 1, 2012, to December 31, 2012, to be paid to holders of Kcell shares as at the record date of June 10, 2013.
- The election of William H.R. Aylward as a new member of the Company’s Board and as an Independent Director. Bert Nordberg, Independent Director, has resigned from Kcell’s Board of Directors due to the time pressures of other commitments.

On June 24, 2013, dividends in the amount of KZT 32,402 million were paid on ordinary shares of the Company for the period from July 1, 2012, till December 31, 2012.

July 17, 2013

Ali Agan
Chief Executive Officer

This report has been reviewed by auditors.

The information was submitted for publication at 09:00 ALMT on July 17, 2013.

Financial Information

Interim Report January–September 2013	October 17, 2013
Year-end Report January–December 2013	January 30, 2014
Interim Report January–March 2014	April 23, 2014
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

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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

Condensed Consolidated Statements of Comprehensive Income

KZT in millions, except per share data, number of shares and changes	**Apr-Jun 2013**	**Apr-Jun 2012**	***Chg (%)***	**Jan-Jun 2013**	**Jan-Jun 2012**	***Chg (%)***
Revenues	46,271	44,383	*4.3*	89,324	85,780	*4.1*
Cost of sales	-19,752	-18,767	*5.2*	-38,378	-36,905	*4.0*
Gross profit	**26,519**	**25,616**	***3.5***	**50,946**	**48,875**	***4.2***
Selling and marketing expenses	-4,229	-3,855	*9.7*	-8,125	-7,221	*12.5*
General and administrative expenses	-2,674	-1,617	*65.4*	-5,315	-5,104	*4.1*
Other operating income and expenses, net	132	18		198	167	
Operating income	**19,748**	**20,162**	***-2.1***	**37,704**	**36,717**	***2.7***
Finance costs and other financial items, net	-537	40		-1,149	79	
Income after financial items	**19,211**	**20,202**	***-4.9***	**36,555**	**36,796**	***-0.7***
Income taxes	-3,660	-4,102	*-10.8*	-7,348	-7,371	*-0.3*
Net income	**15,551**	**16,100**	***-3.4***	**29,207**	**29,425**	***-0.7***
Other comprehensive income						
Total comprehensive income						
Total comprehensive income attributable to owners of the parent	15,551	16,100	*-3.4*	29,207	29,425	*-0.7*
Earnings per share (KZT), basic and diluted	77.76	80.50	*-3.4*	146.04	147.12	*-0.7*
Number of shares (thousands)						
Outstanding at period-end	200,000	200,000		200,000	200,000	
Weighted average, basic and diluted	200,000	200,000		200,000	200,000	
EBITDA	25,508	25,654	*-0.6*	49,237	48,072	2.4
EBITDA excl. non-recurring items	25,508	25,064	*1.8*	49,237	48,518	1.5
Depreciation, amortization and impairment losses	-5,760	-5,492	*4.9*	-11,533	-11,355	*1.6*
Operating income excl. non-recurring items	19,748	19,572	*0.9*	37,704	37,162	*1.5*

Condensed Consolidated Statements of Financial Position

KZT in millions	Jun 30, 2013	Dec 31, 2012
Assets		
Intangible assets	14,370	16,140
Property, plant and equipment	111,191	110,337
Other non-current assets	2,761	3,121
Total non-current assets	***128,322***	***129,598***
Inventories	968	978
Trade and other receivables	11,045	15,990
Cash and cash equivalents	2,080	3,075
Total current assets	***14,093***	***20,043***
Total assets	**142,415**	**149,641**
Equity and liabilities		
Share capital	33,800	33,800
Retained earnings	29,208	32,403
Total equity attributable to owners of the parent	***63,008***	***66,203***
Deferred tax liabilities	5,699	5,104
Other long-term liabilities	988	988
Total non-current liabilities	***6,687***	***6,092***
Short-term borrowings	50,992	48,991
Trade payables, and other current liabilities	21,728	28,355
Total current liabilities	***72,720***	***77,346***
Total equity and liabilities	**142,415**	**149,641**

Condensed Consolidated Statements of Cash Flows

KZT in millions	Apr-Jun 2013	Apr-Jun 2012	Jan-Jun 2013	Jan-Jun 2012
Cash flow before change in working capital	22,323	20,614	42,539	39,939
Change in working capital	7,968	1,134	4,041	31
Cash flow from operating activities	**30,291**	**21,748**	**46,580**	**39,970**
Cash CAPEX	-3,710	-11,532	-8,973	-14,527
Free cash flow	***26,581***	***10,216***	***37,607***	***25,443***
Total cash flow from investing activities	**-3,710**	**-11,532**	**-8,973**	**-14,527**
Cash flow before financing activities	***26,581***	***10,216***	***37,607***	***25,443***
Cash flow from financing activities	**-26,652**	**-13,717**	**-38,602**	**-25,933**
Cash flow for the period	**-71**	**-3,501**	**-995**	**-490**
Cash and cash equivalents, opening balance	**2,151**	**4,364**	**3,075**	**1,353**
Cash flow for the period	-71	-3,501	-995	-490
Cash and cash equivalents, closing balance	**2,080**	**863**	**2,080**	**863**

Condensed Consolidated Statements of Changes in Equity

	Jan-Jun 2013			Jan-Jun 2012		
KZT in millions	Share capital	Retained earnings	Total equity	Share capital	Retained earnings	Total equity
Opening balance	33,800	32,403	**66,203**	3,915	116,337	**120,252**
Dividends	-	-32,402	**-32,402**	-	-115,877	**-115,877**
Total comprehensive income	-	29,207	**29,207**	-	29,425	29,425
Closing balance	**33,800**	**29,208**	**63,008**	**3,915**	**29,885**	**33,800**

Basis of preparation

General. These consolidated 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.

New accounting standards. Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after January 1, 2013, or later, and which the Company has not early adopted. For additional information, see corresponding section in auditors' report.

Non-recurring items

KZT in millions	Apr-Jun 2013	Apr-Jun 2012	Jan-Jun 2013	Jan-Jun 2012
Within EBITDA				
Restructuring charges, synergy implementation costs, etc.	-	-590	-	446
Total	**-**	**-590**	**-**	**446**

Investments

KZT in millions	Apr-Jun 2013	Apr-Jun 2012	Jan-Jun 2013	Jan-Jun 2012
CAPEX				
Intangible assets	178	825	490	912
Property, plant and equipment	5,731	11,256	10,693	13,932
Total	**5,909**	**12,081**	**11,183**	**14,844**

Related party transactions

For the six months ended June 30, 2013, Kcell purchased services for KZT 726 million and sold services for a value of KZT 76 million. Related parties in these transactions were mainly TeliaSonera and its group entities, Turkcell, Fintur Holding B.V. and KazTransCom.

Net debt

KZT in millions	Jun 30, 2013	Dec 31, 2012
Long-term and short-term borrowings	50,992	48,991
Less short-term investments, cash and bank	2,080	3,075
Net debt	**48,912**	**45,916**

Financial key ratios

	Jun 30, 2013	Dec 31, 2012
Return on equity (%, rolling 12 months)	96.9	93.4
Return on capital employed (%, rolling 12 months)	110.7	107.0
Equity/assets ratio (%)	44.2	44.2
Net debt/equity ratio (%)	77.6	69.4
Net debt/EBITDA rate (multiple, rolling 12 months)	0.48	0.46
Owners' equity per share (KZT)	315.0	331.0

Contractual obligations

On June 30, 2013, contractual obligations in respect of property, plant and equipment totaled KZT 3,842 million (December 31, 2012: KZT 4,285 million), mostly related to purchase of telecommunications equipment from Ericsson and ZTE Corporation.

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.

Operational data	**Apr-Jun 2013**	**Apr-Jun 2012**	***Chg (%)***	**Jan-Jun 2013**	**Jan-Jun 2012**	***Chg (%)***
Subscribers, period-end (thousands)	14,076	11,691	*20.4*	14,076	11,691	*20.4*
Of which prepaid	12,324	10,068	*22.4*	12,324	10,068	*22.4*
MOU (min/month)	156	176	*-11.3*	152	168	*-9.5*
ARPU (KZT)	1,097	1,277	*-14.1*	1,070	1,250	*-14.4*
Churn rate (%)	30.7	32.4	*-5.3*	26.4	34.1	*-22.6*
Employees, period-end	1,609	1,671	*-3.7*	1,609	1,671	*-3.7*