



Kcell JSC Results for Q2 2017

Kcell JSC Interim Results for January-June 2017

Almaty, 20 July 2017 – 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 – June 2017.

Second quarter

- Net sales decreased by 1.1 percent to KZT 36,027 million (36,413). Service revenue decreased by 1.1 percent to KZT 33,631 million (34,012).
- EBITDA, excluding non-recurring items, declined by 6.0 percent to KZT 13,484 million (14,338). EBITDA margin decreased to 37.4 percent (39.4).
- Operating income, excluding non-recurring items, decreased by 2.1 percent to KZT 7,747 million (7,914).
- Net finance cost increased to KZT 1,961 million (1,834).
- Net income 87.0 percent lower at KZT 600 million (4,630), as a result of a one-off adjustment related to an additional tax provision which was reported as non-recurring item.

- CAPEX-to-sales ratio of 11.0 percent (8.3).
- Free cash flow decreased to KZT 2,456 million (4,534).
- During the quarter, the total number of subscriptions increased by 13 thousand to 9,992 thousand (9,979).

First half

- Net sales 0.5 percent lower at KZT 71,544 million (71,883). Service revenue decreased by 1.3 percent to KZT 66,653 million (67,526).
- EBITDA, excluding non-recurring items, decreased by 9.1 percent to KZT 26,610 million (29,265). EBITDA margin was 37.2 percent (40.7).
- Operating income, excluding non-recurring items, down 12.0 percent to KZT 15,242 million (17,329).
- Net finance cost increased to KZT 4,644 million (2,584).
- Net income down 60.9 percent to KZT 4,399 million (11,255).
- Free cash flow increased to KZT 4,204 million (-8,960).
- The number of subscriptions increased by 244 thousand year-on-year (9,748).

Financial highlights

KZT in millions, except key ratios, per share data and changes	Apr-Jun 2017	Apr-Jun 2016	Chg (%)	Jan-Jun 2017	Jan-Jun 2016	Chg (%)
Net sales	36,027	36,413	-1.1	71,544	71,883	-0.5
<i>of which service revenue</i>	33,631	34,012	-1.1	66,653	67,526	-1.3
EBITDA excl. non-recurring items	13,484	14,338	-6.0	26,610	29,265	-9.1
<i>Margin (%)</i>	37.4	39.4		37.2	40.7	
Operating income	5,074	7,801	-35.0	12,569	16,859	-25.4
Operating income excl. non-recurring items	7,747	7,914	-2.1	15,242	17,329	-12.0
Net income attributable to owners of the parent company	600	4,630	-87.0	4,399	11,255	-60.9
Earnings per share (KZT)	3.0	23.1	-87.0	22.0	56.3	-60.9
CAPEX-to-sales (%)	11.0	8.3		13.8	44.8	
Free cash flow	2,456	4,534		4,204	-8,960	

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 2016, unless otherwise stated.



Comments by Arti Ots, CEO

“In the first half of 2017, we saw continued improving trends in both macroeconomic indicators and the market environment in Kazakhstan. In the domestic telecoms market, as previously reported, ongoing tariff adjustments are starting to give a positive impact, which we expect to see the results of in the second half of the year.

The enterprise segment continues to grow, driven by sales in Business Solutions, which delivered 35 percent growth year-on-year. The further development of OTT entertainment services resulted in an improved revenue trend in Value Added Services, which reported 4.5 percent growth year-on-year. At the end of the quarter, we launched our mobile financial services.

The network sharing agreement we signed last August has significantly contributed to an acceleration of our 4G services, which are now available in seven more cities across the country.

Following a comprehensive tax audit for the period 2012-2015, the tax authority of Kazakhstan made a total claim of KZT 9.0 billion, of which KZT 5.8 billion is for unpaid taxes and KZT 3.2 billion represents fines and penalties for late payment.

Kcell intends to dispute this claim through the available mechanisms, which include court litigation. The Company considers it unlikely that the full amount of the claim will become payable following the appeal process.

We continue to implement strategic cost reduction initiatives in order to ensure that Kcell is well positioned for the future. These include inter-city transmission, further network sharing arrangements and field maintenance. A digital transformation project is targeting customer support and interaction as well as adapting the organization to the new digital reality.



In June, Kcell paid a dividend equivalent to 70 percent of net income to shareholders. We have maintained our market leading position in Kazakhstan through our focus on delivering innovative products and services that meet the ever-evolving requirements of our customers whilst developing our technology and infrastructure, to ensure that we deliver value to our customers and to our shareholders.”

Almaty
20 July 2017



CONFERENCE CALL

Kcell will host an analyst conference call on 20 July 2017 at 9.30 UK time / 14.30 Almaty / 11.30 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=4799>

Dial in details are as follows:

UK Toll Free:	0800 279 7204
Standard International	
Dial-in:	+44 330 336 9412
Russia Toll Free:	8 800 500 9283
Russia Local Call number:	+ 7 495 213 1767
USA Toll Free:	866 564 2842
USA Dial-In:	+1 719 325 2213
Conference ID	4498753

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://kcell200717-live.audio-webcast.com>

Enquiries:

Kcell

Investor Relations

Irina Shol

Tel: +7 727 2582755

ext. 1002

Investor_relations@kcell.kz

Media

Natalya Eskova

Tel: +7 727 2582755

Pressa@kcell.kz

International Media

Instinctif Partners

Kay Larsen

Galyna Kulachek

Adrian Duffield

Tel: +44 207 457 2020



Review of the second quarter 2017

Net sales

Net sales decreased by 1.1 percent to KZT 36,027 million (36,413). Service revenue decreased by 1.1 percent to KZT 33,631 million (34,012).

Revenue from voice services decreased by 7.1 percent to KZT 20,151 million (21,681). Data revenue increased by 8.9 percent to KZT 11,160 million (10,244). Revenue from value-added services increased by 4.5 percent to KZT 2,324 million (2,223). Other revenue increased by 5.6 percent to KZT 2,392 million (2,265).

Voice service revenue

Revenue from voice services decreased by 7.1 percent to KZT 20,151 million (21,681). Voice traffic increased to 5,827 million minutes (5,672). ARMU fell to KZT 2.1 (2.6).

Interconnect revenue was 2.1 percent higher and totaled KZT 5,331 million (5,222). This increase mainly resulted from an offering more off-net minutes in bundled offers.

Data service revenue

Data revenue was 8.9 percent higher at KZT 11,160 million (10,244). Data traffic increased by 57.9 percent to 43,807,161 GB (27,740,525). Growth in data traffic was partially offset by offering packages with lower tariffs per MB, which led to a decrease in average revenue per MB (ARMB) to KZT 0.2 (0.4).

Value-added service revenue

Revenue from value-added services increased by 4.5 percent to KZT 2,324 million (2,223), largely because of introduction of new services.

Other revenue

Other revenue increased by 5.6 percent to KZT 2,392 million (2,265), mainly driven by higher handsets sales.

KZT in millions, except percentages	Apr-Jun 2017	% of total	Apr-Jun 2016	% of total
Voice services	20,151	55.9	21,681	59.6
Data services	11,160	31.0	10,244	28.1
Value added services	2,324	6.5	2,223	6.1
Other revenues	2,392	6.6	2,265	6.2
Total revenues	36,027	100.0	36,413	100.0



EXPENSES

Cost of sales

Cost of sales declined by 4.0 percent to KZT 22,274 million (23,206), primarily due to a decrease in interconnect cost to KZT 5,738 million (6,086).

Selling and marketing expenses

Selling and marketing expenses remained largely stable at KZT 2,449 million (2,478).

General and administrative expenses

General and administrative expenses increased by 92.6 percent to KZT 6,171 million (3,204), primarily due to a one-off adjustment related to an additional tax provision.

EARNINGS, FINANCIAL POSITION AND CASH FLOW

EBITDA, excluding non-recurring items, declined by 6.0 percent to KZT 13,484 million (14,338). EBITDA margin decreased to 37.4 percent (39.4).

Net finance cost grew to KZT 1,961 million (1,834), as a result of an increase in net interest expenses.

Income tax expense increased to KZT 2,513 million (1,337).

Net income attributable to owners of the parent company decreased by 87.0 percent to KZT 600 million (4,630) and earnings per share decreased to KZT 3.0 (23.1).

CAPEX increased to KZT 3,964 million (3,034) and CAPEX-to-sales ratio increased to 11.0 percent (8.3).

Free cash flow was down to KZT 2,456 million (4,534), primarily due to a change in cash CAPEX.



Review of the first half of 2017

Net sales

Net sales were 0.5 percent lower and amounted to KZT 71,544 million (71,883). Service revenue decreased by 1.3 percent to KZT 66,653 million (67,526).

Revenue from voice services declined by 8.3 percent to KZT 39,781 million (43,383). Data revenue was 12.3 percent higher at KZT 22,159 million (19,732). Revenue from value-added services increased by 3.7 percent to KZT 4,715 million (4,547). Other revenue increased by 15.9 percent to KZT 4,889 million (4,220).

Voice service revenue

Revenue from voice services declined by 8.3 percent to KZT 39,781 million (43,383). Voice traffic slightly increased to 11,372 million minutes (11,211). ARMU decrease to KZT 2.2 (2.7).

Interconnect revenue increased by 6.4 percent to KZT 10,583 million (9,949). This increase mainly resulted from an offering more off-net minutes in bundled offers.

Data service revenue

Data revenue was 12.3 percent higher at KZT 22,159 million (19,732). Data traffic increased to 86,128,006 GB (53,016,281). Growth in data traffic was partially offset by offering packages with lower tariffs per MB, which resulted in a decrease in average revenue per MB (ARMB) to KZT 0.3 (0.4).

Value-added service revenue

Revenue from value-added services increased by 3.7 percent to KZT 4,715 million (4,547), largely because of introduction of new services.

Other revenue

Other revenue increased by 15.9 percent to KZT 4,889 million (4,220). The increase was attributable to higher handsets sales.

KZT in millions, except percentages	Jan-Jun 2017	% of total	Jan-Jun 2016	% of total
Voice services	39,781	55.6	43,383	60.3
Data services	22,159	31.0	19,732	27.5
Value added services	4,715	6.6	4,547	6.3
Other revenues	4,889	6.8	4,220	5.9
Total revenues	71,544	100.0	71,883	100.0



EXPENSES

Cost of sales

Cost of sales rose by 2.1 percent to KZT 44,853 million (43,934), driven largely by an increase in cost of goods sold.

Selling and marketing expenses

Selling and marketing expenses were up 1.9 percent to KZT 5,086 million (4,991), primarily driven by an increase in staff cost.

General and administrative expenses

General and administrative expenses increased by 44.6 percent to KZT 9,148 million (6,326), mainly as a result of tax provision.

EARNINGS, FINANCIAL POSITION AND CASH FLOW

EBITDA, excluding non-recurring items, decreased by 9.1 percent to KZT 26,610 million (29,265). The EBITDA margin was 37.2 percent (40.7).

Net finance cost increased to KZT 4,644 million (2,584), which is related to net interest expenses.

Income tax expense increased by 16.8 percent to KZT 3,526 million (3,020).

Net income attributable to owners of the parent company decreased by 60.9 percent to KZT 4,399 million (11,255), while earnings per share fell to KZT 22.0 (56.3).

CAPEX decreased to KZT 9,892 million (32,191 including LTE license) and the CAPEX-to-sales ratio decreased to 13.8 percent (44.8 including LTE license).

Free cash flow increased to KZT 4,204 million (-8,960).

Net debt/equity ratio was 93.6 percent (78.3).

Net debt/EBITDA ratio was 1.28 (1.03).

The equity/assets ratio was 35.5 percent (40.1).



Key Milestones 2017

January

- Kcell became the official mobile operator of the 28th World Winter Universiade. The 28th World Winter Universiade was held in Almaty from 29 January to 8 February 2017. 2000 athletes from 58 countries took part in the Universiade. Kcell provided the high-quality mobile communication signal within sports facilities and launched the single reference contact center to provide the participants and guests of the Universiade with all the necessary background information, including competition schedule and locations of sports facilities.

May

- The AGM held on 24 May 2017, approved the proposal of Kcell Board of Directors to distribute KZT 11,678 million, representing 70 percent of the net income for 2016, as an annual dividend. The total dividend amount equates to a gross figure of KZT 58.39 per ordinary share (each GDR representing one ordinary share). Kcell shareholders registered at the record date of 25 May 2017 were entitled to receive the dividends.
- Other decisions adopted by the AGM include the approval of the Company's Separate and Consolidated Financial Statements for the year ended 31 December 2016, the Independent Auditor's Report, the Instructions relating to allocation of work between the Board and the CEO, and Kcell JSC Charter in the new version. Shareholders were also informed on the amount and structure of remuneration for the members of Board of Directors and Executive Body of the Company. The Board of Directors received no queries from shareholders regarding the performance of the Company and its executives.

June

- The dividends of KZT 58.39 per ordinary share (each GDR representing one ordinary share) were paid in a lump sum by electronic transfer into shareholders' bank accounts.
- Kcell's Board of Directors approved an extension of KZT 10 billion loan under the Master Facility Agreement #82.2090/2016 dated 8 June 2016 between Kcell JSC and Subsidiary Bank Alfa Bank Kazakhstan JSC. The credit line was extended for a term of twelve months.
- Kcell completed a drawdown of a KZT 22 billion tranche under the Term Loan Facility Agreement dated 24 September 2013 between Kcell JSC and Halyk Bank of Kazakhstan JSC. The credit line was extended for a term of 18 months.

ADMINISTRATIVE AND LEGAL UPDATE

Tax audit

In July 2017, the Kazakhstan tax authority completed its comprehensive tax audit for the period between 2012 and 2015. Following the audit, the tax authority made a total claim of KZT 9.0 billion, of which KZT 5.8 billion is for unpaid taxes and KZT 3.2 billion represents fines and penalties for late payment. Kcell intends to dispute this claim through the available mechanisms, which include court litigation. The Company considers it unlikely that the full amount of the claim will become payable following the appeal process.

The Kazakhstan tax authority's claim relates to issues including VAT, CIT and other taxes. Kcell is currently disputing several of the individual findings, including a claim that withholding tax should have been paid in relation to the IPO in 2012, when retained earnings were reinvested in the newly formed joint stock company.



The January-June 2017 financial statements have been reviewed by the Kcell external auditors, and their report will be available on the Kcell website starting from 15 August 2017.

The information was submitted for publication at 09:00 ALMT on 20 July 2017.

Financial Information

Interim Report January–September 2017

19 October 2017

Questions regarding the reports:

Kcell JSC

Investor Relations

Timiryazev str. 2g

050013 Almaty

Tel. +7 727 2582755 ext.1002

Investor_relations@kcell.kz

www.investors.kcell.kz

Definitions

EBITDA: Earnings Before Interest, Tax, Depreciation and Amortisation. Equals operating income before depreciation, amortisation 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 2017	Apr-Jun 2016	Chg (%)	Jan-Jun 2017	Jan-Jun 2016	Chg (%)
Revenues	36,027	36,413	-1.1	71,544	71,883	-0.5
Cost of sales	-22,274	-23,206	-4.0	-44,853	-43,934	2.1
Gross profit	13,753	13,207	4.1	26,690	27,948	-4.5
Selling and marketing expenses	-2,449	-2,478	-1.2	-5,086	-4,991	1.9
General and administrative expenses	-6,171	-3,204	92.6	-9,148	-6,326	44.6
Other operating income and expenses, net	-59	276		113	227	
Operating income	5,074	7,801	-35.0	12,569	16,859	-25.4
Finance costs and other financial items, net	-1,961	-1,834	6.9	-4,644	-2,584	79.7
Income after financial items	3,113	5,967	-47.8	7,925	14,275	-44.5
Income taxes	-2,513	-1,337	87.9	-3,526	-3,020	16.8
Net income	600	4,630	-87.0	4,399	11,255	-60.9
Other comprehensive income						
Total comprehensive income						
	600	4,630	-87.0	4,399	11,255	-60.9
Total comprehensive income attributable to owners of the parent						
	3.0	23.1	-87.0	22.0	56.3	-60.9
Earnings per share (KZT), basic and diluted						
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	10,811	14,225	-24.0	23,937	28,795	-16.9
EBITDA excl. non-recurring items	13,484	14,338	-6.0	26,610	29,265	-9.1
Depreciation, amortization and impairment losses	-5,738	-6,424	-10.7	-11,368	-11,936	-4.8
Operating income excl. non-recurring items	7,747	7,914	-2.1	15,242	17,329	-12.0



Condensed Consolidated Statement of Financial Position

KZT in millions	30 Jun 2017	31 Dec 2016
Assets		
Intangible assets	42,331	42,842
Property, plant and equipment	94,316	95,322
Other non-current assets	86	86
Long-term receivables	1,125	1,163
Total non-current assets	137,858	139,413
Inventories	3,264	3,587
Trade and other receivables	29,120	29,554
Cash and cash equivalents	13,848	8,477
Total current assets	46,232	41,617
Total assets	184,090	181,031
Equity and liabilities		
Share capital	33,800	33,800
Retained earnings	31,601	38,880
Total equity attributable to owners of the parent	65,401	72,680
Long-term borrowings	34,000	8,000
Deferred tax liabilities	4,909	6,012
Other long-term liabilities	1,355	1,285
Total non-current liabilities	40,264	15,298
Short-term borrowings	44,456	57,415
Trade payables, and other current liabilities	33,969	35,638
Total current liabilities	78,425	93,053
Total equity and liabilities	184,090	181,031



Condensed Consolidated Statement of Cash Flows

KZT in millions	Apr-Jun 2017	Apr-Jun 2016	Jan-Jun 2017	Jan-Jun 2016
Cash flow before change in working capital	16,745	11,507	26,620	22,205
Change in working capital	-7,502	-3,274	-10,780	-7,615
Cash flow from operating activities	9,243	8,233	15,840	14,590
Cash CAPEX	-6,787	-3,699	-11,636	-23,550
Free cash flow	2,456	4,534	4,204	-8,960
Cash flow from financing activities	1,322	3,815	1,322	3,815
Cash flow for the period	3,778	8,349	5,526	-5,145
Cash and cash equivalents, opening balance	10,044	19,142	8,477	31,589
Cash flow for the period	3,778	8,349	5,526	-5,145
Exchange rate difference	26	-287	-155	760
Cash and cash equivalents, closing balance	13,848	27,203	13,848	27,203

Condensed Consolidated Statement of Changes in Equity

KZT in millions	Jan-Jun 2017			Jan-Jun 2016		
	Share capital	Retained earnings	Total equity	Share capital	Retained earnings	Total equity
Opening balance	33,800	38,880	72,680	33,800	46,646	80,446
Dividends	–	-11,678	-11,678	–	-23,316	-23,316
Retained earnings of consolidated subsidiaries	–	–	–	–	-1,133	-1,133
Total comprehensive income	–	4,399	4,399	–	11,255	11,255
Closing balance	33,800	31,601	65,401	33,800	33,451	67,251



Basis of preparation

As in the annual accounts for 2016, Kcell's consolidated financial statements of and for the six-month period ended 30 June 2017, 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	Apr-Jun 2017	Apr-Jun 2016	Jan-Jun 2017	Jan-Jun 2016
Within EBITDA				
Restructuring charges, synergy implementation costs, etc.	2,673	113	2,673	470
Total	2,673	113	2,673	470

Investments

KZT in millions	Apr-Jun 2017	Apr-Jun 2016	Jan-Jun 2017	Jan-Jun 2016
CAPEX				
Intangible assets, including LTE license	1,969	552	2,175	26,782
Property, plant and equipment	1,995	2,482	7,717	5,409
Total	3,964	3,034	9,892	32,191

Related party transactions

For the six months ended 30 June 2016, Kcell purchased services for KZT 2,168 million and sold services for a value of KZT 534 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	30 Jun 2017	31 Dec 2016
Long-term and short-term borrowings	78,456	65,415
Less short-term investments, cash and bank	-13,848	-8,477
Net debt	64,608	56,938



Financial key ratios

	30 Jun 2017	31 Dec 2016
Return on equity (% , rolling 12 months)	14.2	23.0
Return on capital employed (% , rolling 12 months)	12.9	25.9
Equity/assets ratio (%)	35.5	40.1
Net debt/equity ratio (%)	93.6	78.3
Net debt/EBITDA rate (multiple, rolling 12 months)	1.28	1.03
Owners' equity per share (KZT)	327.0	363.4

Operational data

	Apr-Jun 2017	Apr-Jun 2016	Chg (%)	Jan-Jun 2017	Jan-Jun 2016	Chg (%)
Subscribers, period-end (thousands)	9,992	9,748	2.5	9,992	9,748	2.5
Of which prepaid	9,054	8,508	6.4	9,054	8,508	6.4
MOU (min/month)	231	229	0.9	226	221	2.0
ARPU (KZT)	1,131	1,159	-2.5	1,122	1,133	-0.9
Churn rate (%)	44.9	44.9		44.2	46.9	
Employees, period-end	1,842	1,813	1.6	1,842	1,813	1.6



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.

