Kcell JSC

Q1 2016 Interim Report

Contents

Kcell JSC
Results for January – March 2016

Almaty, 20 April 2016 - 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 2016.

First quarter

- Net sales decreased by 17.7 percent to KZT 35,470 million (43,085). Service revenue down 15.7 percent to KZT 33,514 million (39,756).
- EBITDA, excluding non-recurring items, decreased by 36.6 percent to KZT 14,928 million (23,554). The EBITDA margin was at 42.1 percent (54.7).
- Operating income, excluding non-recurring items, down 46.0 percent to KZT 9,415 million (17,438).
- Net finance cost increased to KZT 750 million (323).
- Net income decreased by 49.9 percent to KZT 6,625 million (13,234).
- Free cash flow changed to KZT -13,494 million (3,189).
- CAPEX-to-sales ratio was 82.2 percent (4.9). CAPEX-to-sales ratio, excluding KZT 26 billion for new frequencies, was 8.9 percent (4.9).
- During the quarter, the subscriber base decreased by 502 thousand to 9,855 thousand (10,357).

Financial highlights

KZT in millions, except key ratios, per share data and changes	Jan-Mar 2016	Jan-Mar 2015	*Chg (%)*	Jan-Dec 2015
Revenue	35,470	43,085	*-17.7*	168,424
of which service revenue	33,514	39,756	*-15.7*	157,288
EBITDA excl. non-recurring items	14,928	23,554	*-36.6*	81,787
Margin (%)	42.1	54.7		48.6
Operating income	9,058	17,111	-47.1	52,601
Operating income excl. non-recurring items	9,415	17,438	-46.0	57,213
Net income attributable to owners of the parent company	6,625	13,234	*-49.9*	46,632
Earnings per share (KZT)	33.1	66.2	*-49.9*	233.2
CAPEX-to-sales (%)	82.2	4.9		11.0
Free cash flow	-13,494	3,189		32,400

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 2015, unless otherwise stated.

"As expected the first quarter of the current year has been challenging as a result of the tough competitive environment and continued macroeconomic uncertainty. We are not seeing any significant signs of a market recovery, but there have been some indications that the intense downward pressure on pricing we have experienced in recent years is starting to ease.

I am pleased to report that we have launched our first pilot LTE standard zones across Kazakhstan. This will enable us to exploit the growing demand for more data at faster speeds. We have now paid KZT 14 billion for the first tranche of LTE radio frequencies. The remaining amount of KZT 12 billion should be paid by the end of the year.

In light of our medium-term investment plans for the development of the LTE infrastructure and our cash flow projections, the Board decided to curtail the dividend payment for 2015 to 50 per cent of the net income to KZT 116.58 per ordinary share.

We will continue to invest in improving the quality and reach of our network and in product innovation in order to provide attractive tariffs and services and maintain our market leading position."

Almaty, 20 April 2016

Conference call

Kcell will host an analyst conference call on 20 April 2016 at 10:00 UK time / 15:00 Almaty / 12:00 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=3563

Dial in details are as follows:

UK Toll Free:	**0800 279 5736**
Standard International Dial-in:	**+44 20 3427 1901**
Russia Toll Free:	**8 800 500 9312**
Russia Local Call number:	**+7 495 213 0977**
USA Toll Free:	**1 877 280 2342**
USA Dial-In:	**+1 646 254 3364**
Conference ID	**7348606**

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://kcell200416-live.audio-webcast.com

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Review of the first quarter 2016

Net sales

Net sales decreased by 17.7 percent to KZT 35,470 million (43,085). Service revenue fell by 15.7 percent to KZT 33,514 million (39,756).

Revenue from voice services decreased by 18.5 percent to KZT 21,703 million (26,631). Data revenue declined by 1.0 percent to KZT 9,488 million (9,580). Revenue from value-added services decreased by 34.4 percent to KZT 2,324 million (3,541). Other revenue decreased to KZT 1,955 million (3,333).

KZT in millions, except percentages	Jan-Mar 2016	% of total	Jan-Mar 2015	% of total
Voice services	21,703	61.2	26,631	61.8
Data services	9,488	26.8	9,580	22.2
Value added services	2,324	6.5	3,541	8.2
Other revenues	1,955	5.5	3,333	7.8
Total revenues	**35,470**	**100.0**	**43,085**	**100.0**

Voice service revenue

Revenue from voice services decreased by 18.5 percent to KZT 21,703 million (26,631). Voice traffic decreased by 2.5 percent to 5,539 million minutes (5,683), ARMU decrease to KZT 2.7 (3.5).

Interconnect revenue decreased by 6.1 percent to KZT 4,727 million (5,033). The decrease was mainly driven by a reduction of mobile termination rate.

Data service revenue

Data revenue declined by 1.0 percent to KZT 9,488 million (9,580). Data traffic more than doubled year-on-year to 25,275,756 GB (10,579,282). Growth in data traffic was offset by offering of bundled packages with lower tariffs per MB, which led to a decrease in average revenue per MB (ARMB) to KZT 0.4 (0.9).

Value-added service revenue

Revenue from value-added services decreased by 34.4 percent to KZT 2,324 million (3,541), largely as a result of declining SMS revenue.

Other revenue

Other revenue decreased to KZT 1,955 million (3,333). This was attributable to lower handsets sales.

Expenses

Cost of sales
Cost of sales decreased by 1.9 percent to KZT 20,728 million (21,122), primarily due to a decrease in cost of goods sold attributable to the cost of handsets, which, in turn, was offset by an increase in interconnect cost to KZT 5,205 million (4,176).

Selling and marketing expenses
Selling and marketing expenses increased by 17.2 percent to KZT 2,513 million (2,143). This increase was primarily driven by an increase in staff cost.

General and administrative expenses
General and administrative expenses were up 5.8 percent to KZT 3,122 million (2,951), largely due to an increase in mobile tax rate.

Earnings, financial position and cash flow

EBITDA, excluding non-recurring items, decreased by 36.6 percent to KZT 14,928 million (23,554). The EBITDA margin was at 42.1 percent (54.7).

Net finance cost increased to KZT 750 million (323), and was related to net interest expenses.

Income tax expense decreased by 52.7 percent to KZT 1,683 million (3,554).

Net income attributable to owners of the parent company was down 49.9 percent to KZT 6,625 million (13,234) and earnings per share decreased to KZT 33.1 (66.2).

CAPEX increased to KZT 29,157 million (2,090) and the CAPEX-to-sales ratio was 82.2 percent (4.9). This increase is attributable to the acquisition of new frequencies that will enable the Company to rollout LTE services. CAPEX-to-sales ratio, excluding KZT 26 billion for new frequencies, was 8.9 percent (4.9).

Free cash flow changed to KZT -13,494 million (3,189).

Key milestones for the first quarter of 2016

January 2016

- The Ministry for Investments and Development ("the Ministry") announced that it will allocate radio frequencies to enable all existing mobile operators in the Kazakh market to rollout LTE services.

  The Ministry will allocate to Kcell access to 10+10 MHz radio frequency within the 700/800 MHz band on payment of a one-off fee of KZT 22 billion, to be made in two tranches of KZT 10 billion by 1 March 2016 and KZT 12 billion by 1 December 2016.

  The Ministry will also allocate to Kcell access to 10+10 MHz radio frequency within the 1700/1800 MHz band, on payment of a one-off fee of KZT 4 billion by 1 February 2016.

  In addition, the Ministry will permit all existing mobile operators to use the radio frequencies allocated to them in the GSM, DCS-1800 (GSM-1800) UMTS/WCDMA (3G) standards for the provision of LTE (4G) and LTE Advanced services subject to obtaining the respective radio frequency permits in the prescribed manner.

  The Ministry will issue these radio frequency permits to mobile operators in the Kazakh market on condition that they guarantee mobile coverage in communities with 500-plus inhabitants and along the highways and railways of national and regional importance by 31 December 2020.

- Kcell announced the results of its Extraordinary General Meeting of Shareholders ("EGM") held on 6 January 2016.

  The EGM approved the election of Mr. Peter Lav, representative of the shareholder Sonera Holding B.V., as the member of the Board of Directors of Kcell JSC in place of retired Mr. Kenneth Berndt Karlberg; and the election of Mr. Emil Nilsson, representative of shareholder Fintur Holdings B.V., as the member of the Board of Directors of Kcell JSC in place of retired Mr. Erik Hallberg.

February

- Kcell paid KZT 14 billion as the first tranche for LTE radio frequencies.

- Kcell launched its pilot LTE standard (4G) mobile zones in the biggest shopping malls of Astana, Almaty, Shymkent and Aktobe.

April

- The Board of Directors approved a decision to convene the Annual General Meeting of shareholders ("AGM") on 18 May 2016.

  The Board recommended the annual dividend ("Dividend") in the amount of KZT 23,316 million, or KZT 116.58 per ordinary share. This represents 50 percent of the Company's net income for the 12 months ending 31 December 2015 ("the Period").

The Company's dividend policy aims for the distribution of at least 70 percent of the Company's net income for the previous reporting year.

When recommending the payment of a dividend, the Board of Directors has to take into consideration the amount of cash the Company has in hand, its cash flow projections and its investment plans in the medium-term perspective, as well as capital market conditions.

Given the Company's medium-term investment plans for the development of LTE infrastructure and cash flow projections, the Board decided to curtail the dividend payment for 2015 to 50 percent of the net income.

The proposed record date of Shareholders entitled to receive the dividends is 19 May 2016 (01:00 Almaty time). If approved at the AGM on 18 May 2016, the proposed Dividend will be paid starting from 1 August 2016.

Arti Ots
Chief Executive Officer

20 April 2016

Legal proceedings

The “Daytime Unlimited” and failure to disconnect calls on Kcell network

During 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.

The ACP ordered that the Company should comply with the following on or before 21 April 2014:

1) to stop collection of 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;
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 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 is 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 courts system in 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, ACP filed a claim with court seeking for enforcement of the order. On 9 July 2015, the court issued a resolution on satisfying ACP claim to enforce the order, and as a result the Company must now enforce points 2 and 3 in the above ACP order.

In December 2014, the Company accrued a provision in the amount of KZT 1.6 billion covering the refund to subscribers for the period from January 2012 to September 2013.

In compliance with the Order, on 22 July 2015, the Company started refunding its Kcell brand subscribers for the period from January 2012 to September 2013.

In accordance with an agreement reached with the ACP, the Company has started refunding its subscribers for the subsequent period.

As of 1 April 2016, Kcell has returned KZT 2,387 million to its customers. Subsequently, the Company will be refunding its prepaid subscribers for non-interrupted calls and Internet connections until the transition (migration) to Amdocs convergent billing system is completed.

Recovery of lost profits of Paylink LLP

On 29 March 2016, the Specialised Inter-District Economic Court of Almaty ap-proved a partial satisfaction of Paylink LLP’s claim in the amount of KZT 94 million.

Paylink LLP claimed a compensation for the recovery of lost profits in the amount of KZT 196.9 million. The compensation is related to the contract for payment receipts concluded in 2008, which early termination was invalidated by the court in 2014 with resumption of its activities for a period of 57 calendar days.
In addition, according to the court decision in 2014, Paylink LLP is obligated to refund KZT 189.6 million to Kcell JSC.

Kcell JSC plans to appeal against this decision to Almaty City Court and file complaints against the actions of the judge during the court case to the Prosecutor's Office of Almaty, the Almaty City Court and the judicial panel.

The January – March 2016 financial statements have been reviewed by the external auditors, their report will be available on the Kcell website starting from 15 May 2016.

The information was submitted for publication at 09:00 ALMT on 20 April 2016.

Financial information

Interim Report January-June 2016	20 July 2016
Interim Report January-September 2016	21 October 2016

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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	Jan-Mar 2016	Jan-Mar 2015	*Chg (%)*	Jan-Dec 2015
Revenues	35,470	43,085	*-17.7*	168,424
Cost of sales	-20,728	-21,122	*-1.9*	-89,932
Gross profit	**14,741**	**21,963**	***-32.9***	**78,492**
Selling and marketing expenses	-2,513	-2,143	*17.2*	-9,221
General and administrative expenses	-3,122	-2,951	*5.8*	-12,381
Other operating income and expenses, net	-49	243	*-120.1*	-4,289
Operating income	**9,058**	**17,111**	***-47.1***	**52,601**
Finance costs and other financial items, net	-750	-323	*132.0*	7,811
Income after financial items	**8,308**	**16,788**	***-50.5***	**60,412**
Income taxes	-1,683	-3,554	*-52.7*	-13,780
Net income	**6,625**	**13,234**	***-49.9***	**46,632**
Other comprehensive income				
Total comprehensive income				
Total comprehensive income attributable to owners of the parent	6,625	13,234	*-49.9*	46,632
Earnings per share (KZT), basic and diluted	33.1	66.2	*-49.9*	233.2
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	14,571	23,227	*-37.3*	77,175
EBITDA excl. non-recurring items	14,928	23,554	*-36.6*	81,787
Depreciation, amortization and impairment losses	-5,513	-6,116	*-9.9*	-24,574
Operating income excl. non-recurring items	9,415	17,438	*-46.0*	57,213

Condensed Consolidated Statement of Financial Position

KZT in millions	31 Mar 2016	31 Dec 2015
Assets		
Intangible assets	42,051	16,956
Property, plant and equipment	93,041	94,502
Other non-current assets	86	145
Financial aid	300	300
Long-term receivables	771	397
Total non-current assets	**136,249**	**112,301**
Inventories	3,162	2,802
Trade and other receivables	23,366	19,336
Cash and cash equivalents	19,143	31,589
Total current assets	**45,671**	**53,726**
Total assets	**181,920**	**166,027**
Equity and liabilities		
Share capital	33,800	33,800
Retained earnings	53,271	46,646
Total equity attributable to owners of the parent company	**87,071**	**80,446**
Deferred tax liabilities	4,695	5,037
Other long-term liabilities	1,285	1,286
Total non-current liabilities	**5,980**	**6,323**
Short-term borrowings	50,219	50,201
Trade payables and other current liabilities	38,650	29,057
Total current liabilities	**88,869**	**79,258**
Total equity and liabilities	**181,920**	**166,027**

Condensed Consolidated Statement of Cash Flows

KZT in millions	Jan-Mar 2016	Jan-Mar 2015	Jan-Dec 2015
Cash flow before change in working capital	10,698	19,062	65,572
Change in working capital	-4,341	-7,307	-9,858
Cash flow from operating activities	**6,357**	**11,755**	**55,714**
Cash CAPEX	-19,851	-8,566	-23,314
Free cash flow	**-13,494**	**3,189**	**32,400**
Total cash flow from investing activities	**-19,851**	**-8,566**	**-23,314**
Cash flow before financing activities	**-13,494**	**3,189**	**32,400**
Cash flow from financing activities	**-**	**-**	**-33,260**
Cash flow for the period	**-13,494**	**3,189**	**-860**
Cash and cash equivalents, opening balance	**31,589**	**19,520**	**19,520**
Cash flow for the period	-13,494	3,189	-860
Exchange rate difference	1,047	263	12,929
Cash and cash equivalents, closing balance	**19,143**	**22,972**	**31,589**

Condensed Consolidated Statement of Changes in Equity

	Jan-Mar 2016			Jan-Mar 2015		
KZT in millions	Share capital	Retained earnings	Total equity	Share capital	Retained earnings	Total equity
Opening balance	33,800	46,646	**80,446**	33,800	58,274	92,074
Dividends	-	-	**-**	-	-	-
Total comprehensive income	-	6,625	**6,625**	-	13,234	13,234
Closing balance	**33,800**	**53,271**	**87,071**	**33,800**	**71,508**	**105,308**

Basis of preparation

As in the annual accounts for 2015, Kcell's consolidated financial statements of and for the three-month period ended 31 March 2016, 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 2016	Jan-Mar 2015	Jan-Dec 2015
Within EBITDA			
Restructuring charges, synergy implementation costs, etc.	357	327	4,612
Total	**357**	**327**	**4,612**

Investments

KZT in millions	Jan-Mar 2016	Jan-Mar 2015	Jan-Dec 2015
CAPEX			
Intangible assets	26,230	333	7,329
Property, plant and equipment	2,927	1,757	11,202
Total	**29,157**	**2,090**	**18,531**

Related party transactions

For the first quarter ended 31 March 2016, Kcell purchased services for KZT 1,143 million and sold services for a value of KZT 403 million. Related parties in these transactions were mainly TeliaSonera and its group entities, Turkcell and Fintur Holding B.V.

Net debt

KZT in millions	31 Mar 2016	31 Dec 2015
Long-term and short-term borrowings	50,219	50,201
Less short-term investments, cash and bank	-19,143	-31,589
Net debt	**31,076**	**18,612**

Financial key ratios

	31 Mar 2016	31 Dec 2015
Return on equity (%, rolling 12 months)	47.8	54.1
Return on capital employed (%, rolling 12 months)	55.8	69.6
Equity/assets ratio (%)	47.9	48.5
Net debt/equity ratio (%)	35.7	23.1
Net debt/EBITDA rate (multiple, rolling 12 months)	0.45	0.24
Owners' equity per share (KZT)	435.4	402.2

Operational data

	Jan-Mar 2016	Jan-Mar 2015	*Chg (%)*	Jan-Dec 2015
Subscribers, period-end (thousands)	9,855	10,829	-9.0	10,357
Of which prepaid	8,594	9,478	-9.3	9,075
MOU (min/month)	212	187	13.4	212
ARPU (KZT)	1,104	1,186	-7.0	1,206
Churn rate (%)	49.0	45.8		45.1
Employees, period-end	1,809	1,740	4.0	1,830

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.