



# Kcell JSC

Q2 2016 Interim Report

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## Kcell JSC

### Interim results for January – June 2016

**Almaty, 20 July 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 – June 2016.

#### Second quarter

- Net sales decreased by 15.3 percent to KZT 36,413 million (42,980). Service revenue decreased by 15.1 percent to KZT 34,012 million (40,079).
- EBITDA, excluding non-recurring items, declined by 35.4 percent to KZT 14,338 million (22,184). EBITDA margin decreased to 39.4 percent (51.6).
- Operating income, excluding non-recurring items, decreased by 50.7 percent to KZT 7,914 million (16,057).
- Net finance cost increased to KZT 1,834 million (1,405).
- Net income 59.1 percent lower at KZT 4,630 million (11,319).
- Free cash flow decreased to KZT 4,534 million (11,221).
- During the quarter, the total number of subscriptions decreased by 107 thousand.

#### First half

- Net sales 16.5 percent lower at KZT 71,883 million (86,064). Service revenue decreased by 15.4 percent to KZT 67,526 million (79,835).
- EBITDA, excluding non-recurring items, decreased by 36.0 percent to KZT 29,265 million (45,697). EBITDA margin was 40.7 percent (53.1).
- Operating income, excluding non-recurring items, down 48.2 percent to KZT 17,329 million (33,454).
- Net finance cost increased to KZT 2,584 million (1,687).
- Net income down 54.2 percent to KZT 11,255 million (24,553).
- Free cash flow decreased to KZT -8,960 million (14,410).
- The number of subscriptions decreased by 999 thousand from the end of the second quarter of 2015.

#### Financial highlights\*

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 2015, unless otherwise stated.

\*including 6 months adjustment for consolidation of KazNetMedia

KZT in millions, except key ratios, per share data and changes	Apr-Jun 2016	Apr-Jun 2015	Chg (%)	Jan-Jun 2016	Jan-Jun 2015	Chg (%)
Net sales	36,413	42,980	-15.3	71,883	86,064	-16.5
<i>of which service revenue</i>	34,012	40,079	-15.1	67,526	79,835	-15.4
EBITDA excl. non-recurring items	14,338	22,184	-35.4	29,265	45,697	-36.0
<i>Margin (%)</i>	39.4	51.6		40.7	53.1	
Operating income	7,801	16,057	-51.4	16,859	33,127	-49.1
Operating income excl. non-recurring items	7,914	16,057	-50.7	17,329	33,454	-48.2
Net income attributable to owners of the parent	4,630	11,319	-59.1	11,255	24,553	-54.2
Earnings per share (KZT)	23.1	56.6	-59.1	56.3	122.8	-54.2
CAPEX-to-sales (%)	8.3	8.9		44.8	6.9	
Free cash flow	4,534	11,221		-8,960	14,410	

## Comments by Arti Ots, CEO



“The operating environment in the first half of 2016 continued to be characterized by low price levels and macroeconomic uncertainty. However, in the second quarter we started to see some stabilization in market prices and subscriber numbers.

Pricing pressure in the mobile market has now reduced, with the scaling back of unlimited offers and upwards adjustment of pricing at the lower end of the market. This pricing trend helped to halt the decline in subscribers we saw in the first quarter. In May and June the subscriber base stabilised whilst new tariff plans launched in early June and active promotions are now boosting subscribers slightly. Service revenues are also stable in the second quarter, compared to the first quarter of 2016.

During the second quarter, our main focus in B2C was to achieve a turnaround from negative net intake to subscriber growth. In order to prevent churn, we introduced an affordable tariff plan, “Conversation”, aimed at retaining low ARPU customers and attracting new customers who use feature phones or do not consume data. Initiatives introduced in the second quarter to drive takeup included the distribution of promotional packs. The steps we have undertaken have substantially reduced the company's subscriber losses, created the conditions for market share recovery, stabilized revenue and reduced costs.

New subscription to “Hello Kazakhstan” was stopped and replaced with new tariff line. From mid-June, PSTN calls were excluded from our “Hello Kazakhstan” tariff plan, in order to reduce interconnect costs.

We continue to innovate and enhance our technology across all areas of our business. We have significantly upgraded the quality of our network in preparation for the full launch of LTE/4G services and started to convert our customers to a new billing system to enhance efficiency and customer service.

In May, we were proud to receive from the Kazakh Stock Exchange an award recognising our efforts in “Striving towards greater transparency.” We remain committed to a high level of corporate governance whilst seeking to maximize all opportunities to drive value creation, as we invest in improving our products and services to ensure that we maintain our market leading position.”

Almaty, 20 July 2016

## Conference call

Kcell will host an analyst conference call on 20 July 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=3801>

### Dial in details are as follows:

UK Toll Free:	0800 279 5736
Standard International Dial-in:	+44 20 3427 1913
Russia Toll Free:	8 800 500 9311
Russia Local Call number:	+7 495 705 9451
USA Toll Free:	1 877 280 2296
USA Dial-In:	+1 646 254 3388

Conference ID 9715246

A presentation will be available on the Company website shortly before the conference call on [www.investors.kcell.kz/en](http://www.investors.kcell.kz/en)

A replay will be available at: <http://kcell200716-live.audio-webcast.com>

### Enquiries

#### Kcell

#### Investor Relations

Irina Shol

Tel: +7 727 2582755 ext. 1002

[Investor\\_relations@kcell.kz](mailto:Investor_relations@kcell.kz)

#### Media

Natalya Eskova

Tel: +7 727 2582755

[Pressa@kcell.kz](mailto:Pressa@kcell.kz)

#### International Media

#### Instinctif Partners

Kay Larsen / Galyna Kulachek /  
Adrian Duffield

Tel: +44 207 457 2020

## Review of the second quarter 2016

### Net sales

Net sales decreased by 15.3 percent to KZT 36,413 million (42,980). Service revenue fell 15.1 percent to KZT 34,012 million (40,079).

Revenue from voice services decreased by 19.7 percent to KZT 21,681 million (27,013). Data revenue increased by 3.8 percent to KZT 10,244 million (9,873). Revenue from value-added services was down 30.5 percent to KZT 2,223 million (3,198). Other revenue decreased to KZT 2,265 million (2,896).

KZT in millions, except percentages	Apr-Jun 2016	% of total	Apr-Jun 2015	% of total
Voice services	21,681	59.6	27,013	62.9
Data services	10,244	28.1	9,873	23.0
Value added services	2,223	6.1	3,198	7.4
Other revenues	2,265	6.2	2,896	6.7
<b>Total revenues</b>	<b>36,413</b>	<b>100.0</b>	<b>42,980</b>	<b>100.0</b>

#### Voice service revenue

Revenue from voice services decreased by 19.7 percent to KZT 21,681 million (27,013). Voice traffic declined to 5,672 million minutes (5,737). ARMU fell to KZT 2.6 (3.4).

Interconnect revenue was 8.4 percent lower at KZT 5,222 million (5,703). The decrease mainly resulted from a reduction of mobile termination rate (MTR).

#### Data service revenue

Data revenue was 3.8 percent higher at KZT 10,244 million (9,873). Data traffic increased to 27,740,525 GB (11,174,325). 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 0.4 (0.9).

#### Value-added service revenue

Revenue from value-added services was down 30.5 percent to KZT 2,223 million (3,198), largely as a result of declining SMS and MMS revenue.

#### Other revenue

Other revenue decreased to KZT 2,265 million (2,896), reflecting lower handsets sales.

## Expenses

### Cost of sales

Cost of sales rose 8.2 percent to KZT 23,206 million (21,449), primarily due to an increase in interconnect cost to KZT 6,086 million (4,864).

### Selling and marketing expenses

Selling and marketing expenses decreased by 7.6 percent to KZT 2,478 million (2,680). The decrease was primarily driven by lower commissions which were partially offset by an increase in staff cost.

### General and administrative expenses

General and administrative expenses increased by 8.0 percent to KZT 3,204 million (2,966), primarily due to an increase of tax expenses and increase in rent expenses.

## Earnings, financial position and cash flow

**EBITDA**, excluding non-recurring items, decreased by 35.4 percent to KZT 14,338 million (22,184). The EBITDA margin was 39.4 percent (51.6).

**Net finance cost** increased to KZT 1,834 million (1,405), which is related to an increase in net interest expenses.

**Income tax expense** decreased by 59.9 percent to KZT 1,337 million (3,333).

**Net income attributable to owners of the parent company** decreased by 59.1 percent to KZT 4,630 million (11,319) and earnings per share decreased to KZT 23.1 (56.6).

**CAPEX** decreased to KZT 3,034 million (3,845) and CAPEX-to-sales ratio decreased to 8.3 percent (8.9).

**Free cash flow** was down to KZT 4,534 million (11,221), primarily due to a change in working capital.

## Review of the first half 2016

### Net sales

Net sales were down 16.5 percent to KZT 71,883 million (86,064). Service revenue decreased by 15.4 percent to KZT 67,526 million (79,835).

Revenue from voice services declined by 19.1 percent to KZT 43,383 million (53,643). Data revenue was 1.4 percent higher at KZT 19,732 million (19,453). Revenue from value-added services decreased by 32.5 percent to KZT 4,547 million (6,739). Other revenue decreased to KZT 4,220 million (6,229).

KZT in millions, except percentages	Jan-Jun 2016	% of total	Jan-Jun 2015	% of total
Voice services	43,383	60.3	53,643	62.3
Data services	19,732	27.5	19,453	22.6
Value added services	4,547	6.3	6,739	7.8
Other revenues	4,220	5.9	6,229	7.3
<b>Total revenues</b>	<b>71,883</b>	<b>100.0</b>	<b>86,064</b>	<b>100.0</b>

#### Voice service revenue

Revenue from voice services declined by 19.1 percent to KZT 43,383 million (53,643). Voice traffic was stable year-on-year and amounted to 11,211 million minutes (11,420). ARMU decrease to KZT 2.7 (3.5).

Interconnect revenue decreased by 7.3 percent to KZT 9,949 million (10,736). The decrease was mainly driven by a reduction of MTR.

#### Data service revenue

Data revenue was 1.4 percent higher at KZT 19,732 million (19,453). Data traffic increased to 53,016,281 GB (21,753,607). 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 0.4 (0.9).

#### Value-added service revenue

Revenue from value-added services decreased by 32.5 percent to KZT 4,547 million (6,739), largely as a result of declining SMS and MMS revenue.

#### Other revenue

Other revenue decreased to KZT 4,220 million (6,229). The decrease was attributable to lower handsets sales.



## Expenses

### Cost of sales

Cost of sales rose by 3.2 percent to KZT 43,934 million (42,571), driven largely by an increase in interconnect cost.

### Selling and marketing expenses

Selling and marketing expenses were up 3.5 percent to KZT 4,991 million (4,824), primarily driven by an increase in staff cost and higher rent expenses.

### General and administrative expenses

General and administrative expenses increased by 6.9 percent to KZT 6,326 million (5,918), mainly as a result of higher tax expenses and an increase in rent expenses.

## Earnings, financial position and cash flow

**EBITDA**, excluding non-recurring items, decreased by 36.0 percent to KZT 29,265 million (45,697). The EBITDA margin was 40.7 percent (53.1).

**Net finance cost** increased to KZT 2,584 million (1,687), which is related to net interest expenses.

**Income tax expense** decreased by 56.1 percent to KZT 3,020 million (6,887).

**Net income attributable to owners of the parent company** decreased by 54.2 percent to KZT 11,255 million (24,553), while earnings per share fell to KZT 56.3 (122.8).

**CAPEX** grew to KZT 32,191 million (5,935) and the CAPEX-to-sales ratio increased to 44.8 percent (6.9). 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 8.6 percent (6.9).

**Free cash flow** was negative and stood at KZT 8,960 million (14,410), primarily due to a change in working capital and an increase in cash capex.

**Net debt/equity** ratio was 39.6 percent (23.1).

**Net debt/EBITDA** ratio was 0.48 (0.24).

**The equity/assets ratio** was 35.8 percent (48.5).

## Key milestones 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 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 at the AGM, 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.

## May

- Kcell announced the results of its Annual General Meeting of Shareholders (“AGM”) held on 18 May 2016. The AGM has approved the Company’s net income of KZT 46,632 million in 2015 and the distribution of 50 percent of net income as an annual dividend, with the dividend per ordinary share amounting to KZT 116.58, gross (each ordinary share representing one GDR).

Dividends will be paid electronically directly into shareholders’ bank accounts. Kcell shareholders who are registered at the record date of 19 May 2015 (01:00 Almaty time) will be entitled to receive the dividends.

Dividends will be paid in a lump sum, starting 1 August 2016 (09:00 Almaty time).

Other decisions adopted by the AGM include the approval of the Company’s Separate and Consolidated Financial Statements for the year ended 31 December 2015 and the Independent Auditor’s Report. 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.

- Kcell received an award for its high level of transparency and disclosure from the Kazakhstan Stock Exchange (KASE). Four companies, including Kcell, of the 130 companies listed in Kazakhstan received the KASE’s “Striving towards greater transparency” award in 2016.
- Kcell noted that an amendment has been made to the Appendix to State Licence (MTK #DS000270 dated 8 June 1998) for the provision of GSM services (the “Licence”), whereby subparagraph “a” of clause 7.11 of the Licence - *“Licence can be revoked by the court if the Licensee carries out unlicensed activity”* – has been removed.

## June

- Kcell informed that it has entered into a credit line agreement with Subsidiary Bank Alfa Bank JSC for KZT 10 billion for the purpose of financing its working capital. The Company obtained the first tranche of KZT 6 billion of the approved credit line on 8 June 2016.

## Subsequent events

## July

- The Board of Directors decided to change the terms of the Agreement between Kcell JSC and Halyk Bank of Kazakhstan JSC signed on 24 September 2013. The credit facility has been increased to KZT 42 billion from KZT 30 billion, while its term extended until 2 December 2019.
- The Board of Directors decided to increase its USD 15 million credit facility from Citibank Kazakhstan JSC to USD 65 million within the framework of the General Agreement on Contingent Obligations from 17 September 2015.
- Kcell announced that it has extended the terms of its KZT 17 billion loan from Kazkommertsbank JSC for twelve months starting from 25 September 2016. The loan was obtained for the purpose of financing the Company’s working capital.

## 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.

Since the Kcell brand subscribers are being refunded for the services rendered, the Company’s tax liabilities will be reduced.

As of 1 April 2016, Kcell has returned KZT 2,387 million to its customers. The transition (migration) to Amdocs convergent billing system has been started in July 2016.

### 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.

On 22 June 2016, the Company’s appeal over its claim against Paylink LLP for the recovery of lost profits was partially granted by the Almaty City Board of Appeals; decision of the Economic Court of Almaty city from 29 March 2016 was changed and the amount claimed was reduced to KZT 67.1 million, while the state fee was also decreased to KZT 2.0 million. The Company intends to file a cassation appeal against the Board of Appeals’ judgment with the Supreme Court of the Republic of Kazakhstan.

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

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

### Financial information

Interim Report January-September 2016                      21 October 2016

*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](http://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 2016	Apr-Jun 2015	Chg (%)	Jan-Jun 2016	Jan-Jun 2015	Chg (%)
Revenues	36,413	42,980	-15.3	71,883	86,064	-16.5
Cost of sales	-23,206	-21,449	8.2	-43,934	-42,571	3.2
<b>Gross profit</b>	<b>13,207</b>	<b>21,530</b>	<b>-38.7</b>	<b>27,948</b>	<b>43,493</b>	<b>-35.7</b>
Selling and marketing expenses	-2,478	-2,680	-7.6	-4,991	-4,824	3.5
General and administrative expenses	-3,204	-2,966	8.0	-6,326	-5,918	6.9
Other operating income and expenses, net	276	174	58.9	227	376	-39.5
<b>Operating income</b>	<b>7,801</b>	<b>16,057</b>	<b>-51.4</b>	<b>16,859</b>	<b>33,127</b>	<b>-49.1</b>
Finance costs and other financial items, net	-1,834	-1,405	30.5	-2,584	-1,687	53.2
<b>Income after financial items</b>	<b>5,967</b>	<b>14,652</b>	<b>-59.3</b>	<b>14,275</b>	<b>31,440</b>	<b>-54.6</b>
Income taxes	-1,337	-3,333	-59.9	-3,020	-6,887	-56.1
<b>Net income</b>	<b>4,630</b>	<b>11,319</b>	<b>-59.1</b>	<b>11,255</b>	<b>24,553</b>	<b>-54.2</b>
<b>Other comprehensive income</b>						
<b>Total comprehensive income</b>						
Total comprehensive income attributable to owners of the parent	4,630	11,319	-59.1	11,255	24,553	-54.2
Earnings per share (KZT), basic and diluted	23.1	56.6	-59.1	56.3	122.8	-54.2
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	14,225	22,184	-35.9	28,795	45,370	-36.5
EBITDA excl. non-recurring items	14,338	22,184	-35.4	29,265	46,697	-36.0
Depreciation, amortization and impairment losses	-6,424	-6,126	4.9	-11,936	-12,242	-2.5
Operating income excl. non-recurring items	7,914	16,057	-50.7	17,329	33,454	-48.2

\* including KazNetMedia

## Condensed Consolidated Statements of Financial Position\*

KZT in millions	30 Jun 2016	31 Dec 2015
<b>Assets</b>		
Intangible assets	40,490	16,956
Property, plant and equipment	91,417	94,502
Other non-current assets	86	145
Financial aid	–	300
Long-term receivables	975	397
<b>Total non-current assets</b>	<b>132,968</b>	<b>112,301</b>
Inventories	2,321	2,802
Trade and other receivables	25,616	19,336
Cash and cash equivalents	27,203	31,589
<b>Total current assets</b>	<b>55,141</b>	<b>53,726</b>
<b>Total assets</b>	<b>188,109</b>	<b>166,027</b>
<b>Equity and liabilities</b>		
Share capital	33,800	33,800
Retained earnings	33,451	46,646
<b>Total equity attributable to owners of the parent company</b>	<b>67,251</b>	<b>80,446</b>
Deferred tax liabilities	4,693	5,037
Other long-term liabilities	1,285	1,286
<b>Total non-current liabilities</b>	<b>5,979</b>	<b>6,323</b>
Short-term borrowings	56,433	50,201
Trade payables and other current liabilities	58,446	29,057
<b>Total current liabilities</b>	<b>114,879</b>	<b>79,258</b>
<b>Total equity and liabilities</b>	<b>188,109</b>	<b>166,027</b>

\* including KazNetMedia

## Condensed Consolidated Statements of Cash Flows

KZT in millions	Apr-Jun 2016	Apr-Jun 2015	Jan-Jun 2016	Jan-Jun 2015
Cash flow before change in working capital	11,507	17,794	22,205	36,856
Change in working capital	-3,274	-1,418	-7,615	-8,725
<b>Cash flow from operating activities</b>	<b>8,233</b>	<b>16,376</b>	<b>14,590</b>	<b>28,131</b>
Cash CAPEX	-3,699	-5,155	-23,550	-13,721
<i>Free cash flow</i>	<i>4,534</i>	<i>11,221</i>	<i>-8,960</i>	<i>14,410</i>
<b>Total cash flow from investing activities</b>	<b>-3,699</b>	<b>-5,155</b>	<b>-23,550</b>	<b>-13,721</b>
<i>Cash flow before financing activities</i>	<i>4,534</i>	<i>11,221</i>	<i>-8,960</i>	<i>14,410</i>
<b>Cash flow from financing activities</b>	<b>3,815</b>	<b>-18,782</b>	<b>3,815</b>	<b>-18,782</b>
<b>Cash flow for the period</b>	<b>8,349</b>	<b>-7,561</b>	<b>-5,145</b>	<b>-4,372</b>
<b>Cash and cash equivalents, opening balance</b>	<b>19,142</b>	<b>22,972</b>	<b>31,589</b>	<b>19,520</b>
Cash flow for the period	8,349	-7,561	-5,145	-4,372
Exchange rate difference	-287	41	760	304
<b>Cash and cash equivalents, closing balance</b>	<b>27,203</b>	<b>15,452</b>	<b>27,203</b>	<b>15,452</b>

## Condensed Consolidated Statements of Changes in Equity

KZT in millions	Jan-Jun 2016			Jan-Jun 2015		
	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	–	-23,316	-23,316	–	-58,260	-58,260
Retained earnings of consolidated subsidiaries	–	-1,133	-1,133	–	–	–
Total comprehensive income	–	11,255	11,255	–	24,553	24,553
<b>Closing balance</b>	<b>33,800</b>	<b>33,451</b>	<b>67,251</b>	<b>33,800</b>	<b>24,567</b>	<b>58,367</b>



### Basis of preparation

As in the annual accounts for 2015, Kcell's consolidated financial statements of and for the six-month period ended 30 June 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	Apr-Jun 2016	Apr-Jun 2015	Jan-Jun 2016	Jan-Jun 2015
<b>Within EBITDA</b>				
Restructuring charges, synergy implementation costs, etc.	113	–	470	327
<b>Total</b>	<b>113</b>	<b>–</b>	<b>470</b>	<b>327</b>

### Investments

KZT in millions	Apr-Jun 2016	Apr-Jun 2015	Jan-Jun 2016	Jan-Jun 2015
<b>CAPEX</b>				
Intangible assets	552	2,484	26,782	2,817
Property, plant and equipment	2,482	1,361	5,409	3,118
<b>Total</b>	<b>3,034</b>	<b>3,845</b>	<b>32,191</b>	<b>5,935</b>

### Related party transactions

For the six months ended 30 June 2016, Kcell purchased services for KZT 2,617 million and sold services for a value of KZT 765 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 2016	31 Dec 2015
Long-term and short-term borrowings	56,433	50,201
Less short-term investments, cash and bank	-27,203	-31,589
<b>Net debt</b>	<b>29,230</b>	<b>18,612</b>

Financial key ratios

	30 Jun 2016	31 Dec 2015
Return on equity (% , rolling 12 months)	45.1	54.1
Return on capital employed (% , rolling 12 months)	59.1	69.6
Equity/assets ratio (%)	35.8	48.5
Net debt/equity ratio (%)	39.6	23.1
Net debt/EBITDA rate (multiple, rolling 12 months)	0.48	0.24
Owners' equity per share (KZT)	336.3	402.2

Operational data

	Apr-Jun 2016	Apr-Jun 2015	Chg (%)	Jan-Jun 2016	Jan-Jun 2015	Chg (%)
Subscribers, period-end (thousands)	9,748	10,747	-9.3	9,748	10,747	-9.3
Of which prepaid	8,508	9,421	-9.7	8,508	9,421	-9.7
MOU (min/month)	229	198	15.7	221	193	14.5
ARPU (KZT)	1,159	1,227	-5.6	1,133	1,206	-6.1
Churn rate (%)	44.9	39.8	12.8	46.9	42.8	9.6
Employees, period-end	1,813	1,792	1.2	1,813	1,792	1.2

### 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.