



# Q3 2015 Financial Results



# Progress and challenges in Q3



## PROGRESS

- “Hello Kazakhstan” tariff plan was well received – more than 1mln customers
- Development of “Hello Kazakhstan” tariff plan with introduction of caps
- 33,000 net additions to our customer base - the first quarterly increase in subscribers since Q3 2014
- 4 Kcell branded stores were opened, 4 more in the pipeline by the end of 2015
- Kcell were well prepared for currency depreciation
- Continued high demand for mobile handsets
- Increase in smartphone penetration and data usage
- Launch of LTE expected in 2016

## CHALLENGES

- Revenues and earnings impacted by intensified competition and macro weakness
- EBITDA margin declined due to the increase in interconnect expenses



# Key events of Q3 2015

- The Board approved terms for the purchase of the 100 percent participatory interest in KazNet Media LLP by Kcell JSC and KT-Telecom LLP (100 percent subsidiary of Kcell) where TeliaSonera is the seller.
- This agreement replaces the Buy and Sell MoU entered into between TeliaSonera and Kcell on 26 August 2012, as disclosed in the Prospectus, as to the part related to KazNet Media. The part of the said Buy and Sell MoU, which relates to Rodnik (and Kaztranscom) remains unchanged. The Board members nominated by TeliaSonera did not participate in the decision.
- Nominal price of the transaction is USD 5 million plus fair market value of frequencies. The total amount of the transaction will not exceed USD 70 million.
- Majority shareholder TeliaSonera, which holds directly and indirectly 61.9 percent of shares in Kcell, has initiated a process to reduce its presence and over time fully withdraw from Region Eurasia
- The value of the national currency of Kazakhstan, the Tenge, dropped about 45 percent. The exchange rate between the Tenge and US dollar moved from 185 to 270, following the Government's decision to allow a freely floating exchange rate on 20 August 2015



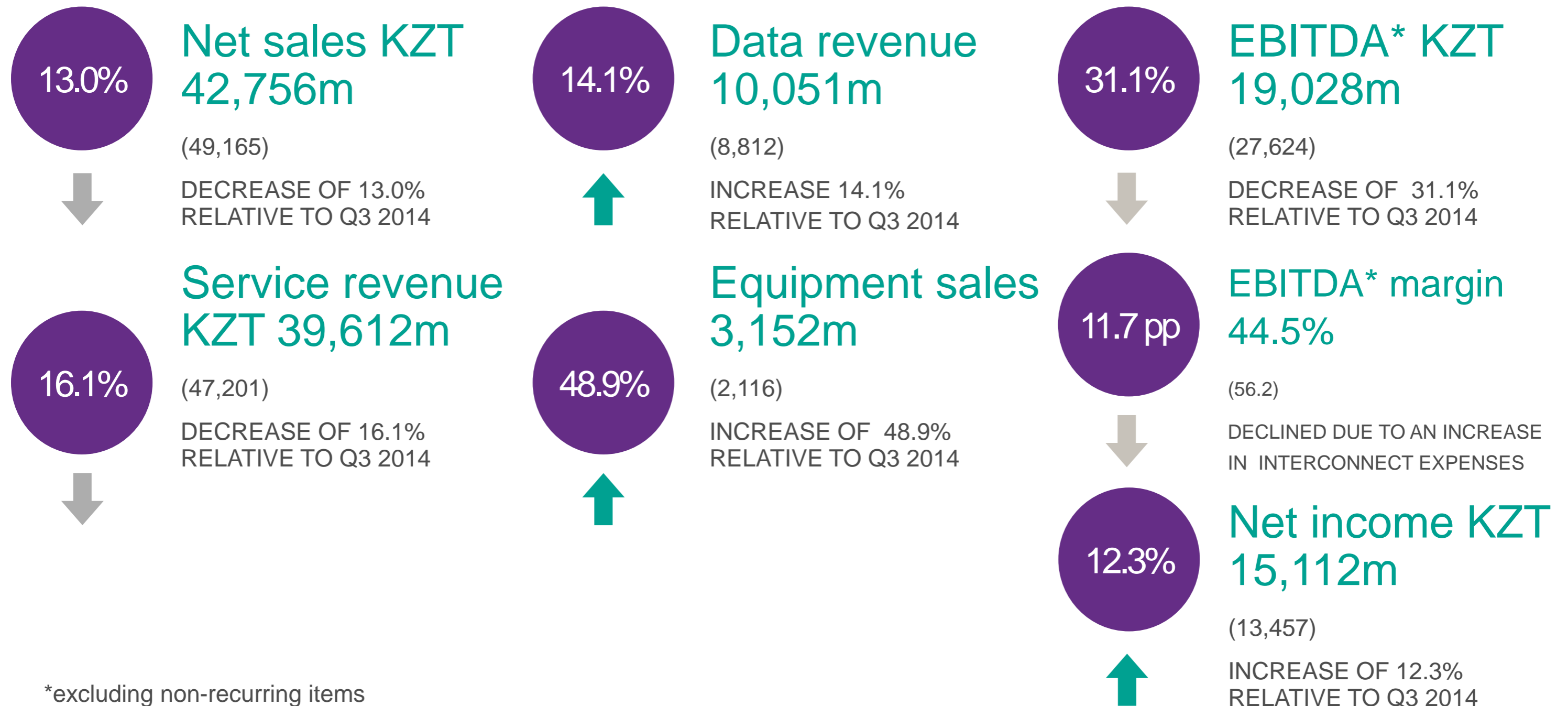
# Key strategic priorities



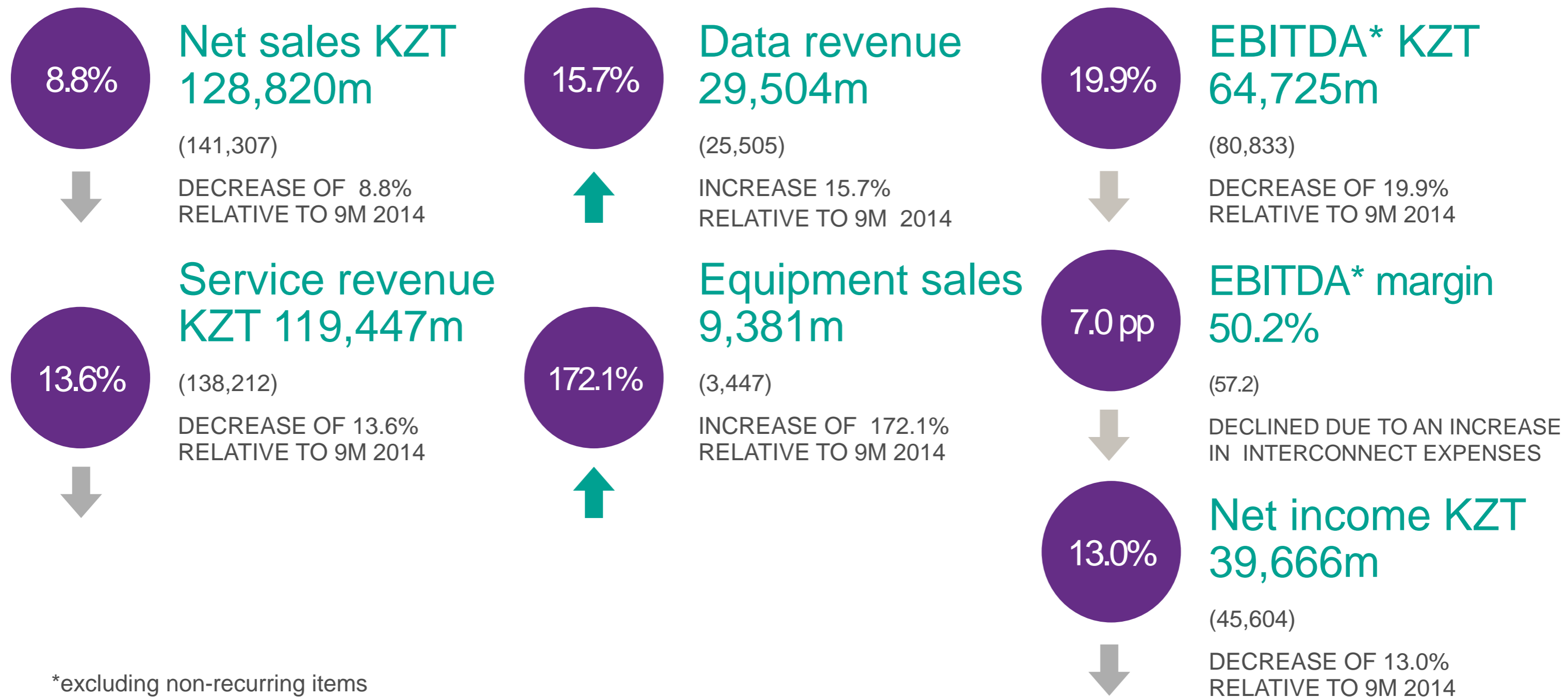
- Protect Company's market leading position in the most valuable, higher ARPU customer segment through bundled offerings and exclusive retail experience
- Continue expanding exclusive branded store concept to convert prepaid to post-paid
- Explore new businesses close to the Core, the OTT products (Music, TV and Movie streaming)
- Expedite B2B solutions pipeline and increase revenue
- Improve data network quality and capacity in urban areas



# Summary of Q3 2015



# Summary of 9 months 2015



# Market trends



- “Hello Kazakhstan” tariff plan has resulted in a market shift
- Significant number of off-net minutes have resulted in a pressure on the cost base
- Launch of new tariffs for Kcell subscribers
- MTR will be reduced from KZT 8.0 to KZT 5.0 starting from 1 January 2016
- Introduction of MNP planned for January 2016



# Innovative “Hello Kazakhstan” tariff plan



Amid intense competition Kcell introduced “Hello Kazakhstan” tariff offering pre-paid data and calls to all networks nationwide



	Fee/ month	all-net, min	Data, Gb day night
<b>Hello KZ 3</b> NATIONAL	1990 KZT	1990	18
<b>Hello KZ 2</b> NATIONAL	1490 KZT	1490	10
<b>Hello KZ 1</b> REGIONAL	1290 KZT	1290	4

### Targets:

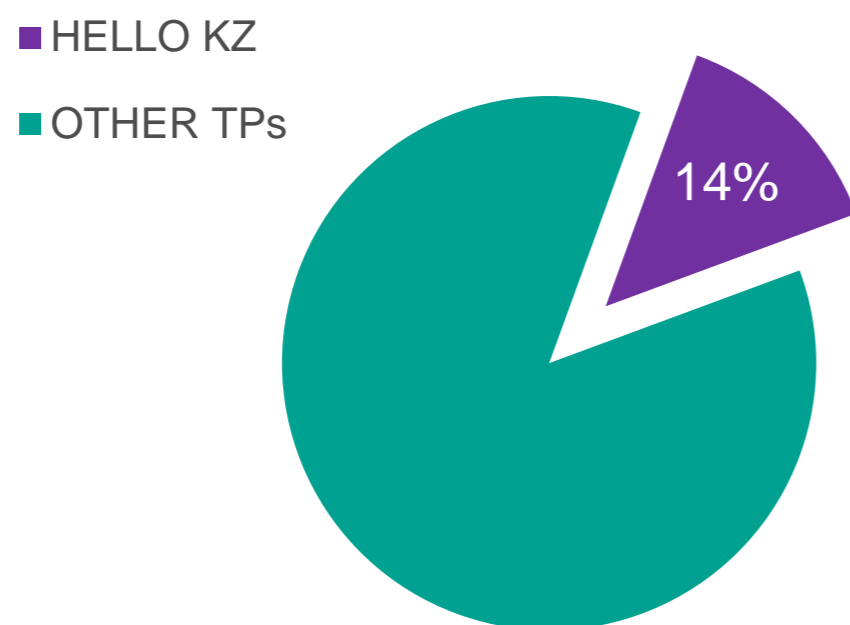
- to secure high-value subscriber segment
- to reduce share of multi-SIM users
- to drive new subscriber acquisition



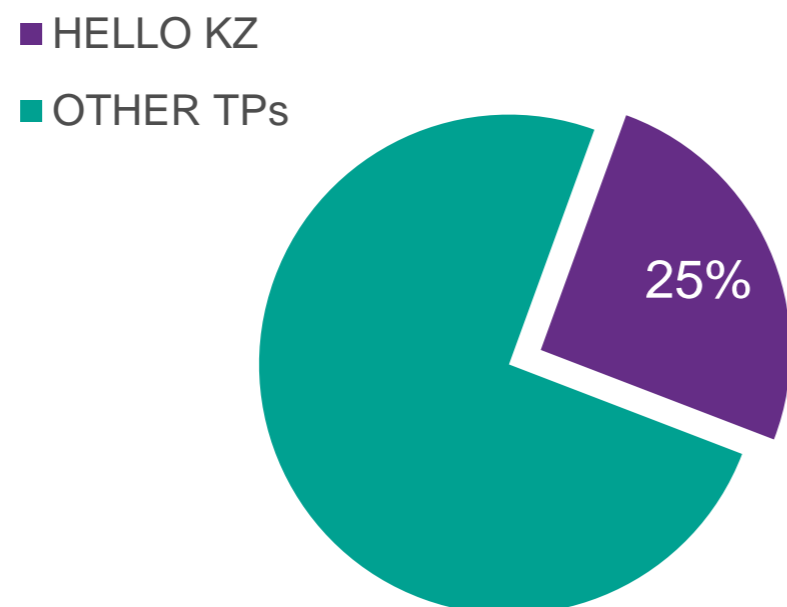


# “Hello Kazakhstan” has become the most popular tariff plan

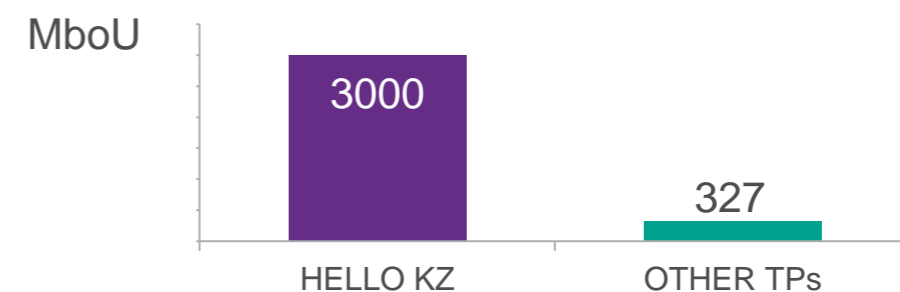
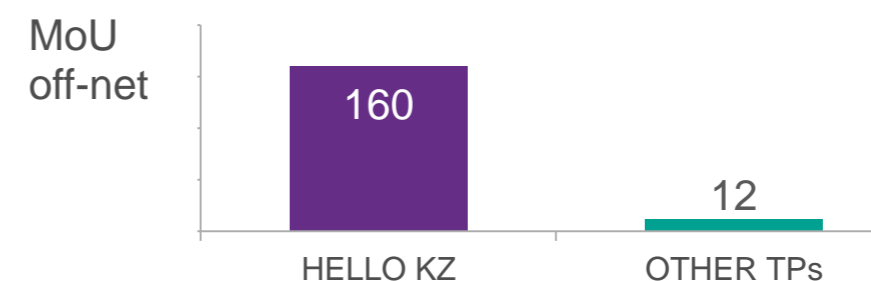
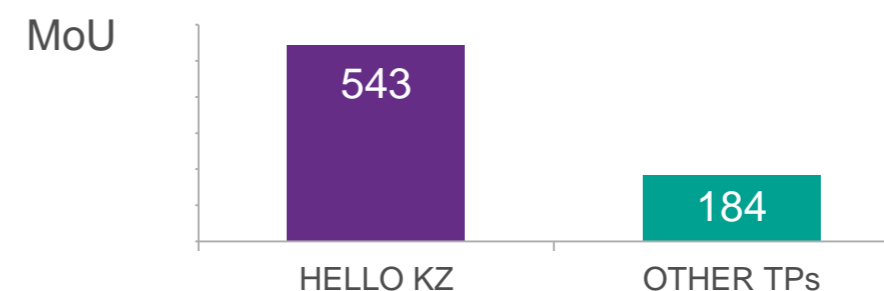
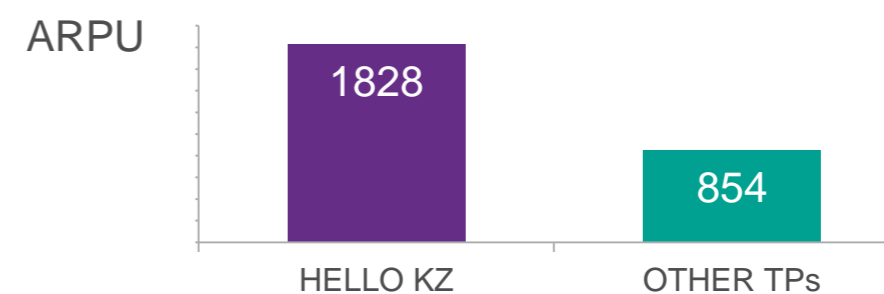
Customer share



Revenue share



Customer profile



# Introduction of caps to Hello Kazakhstan tariff plan

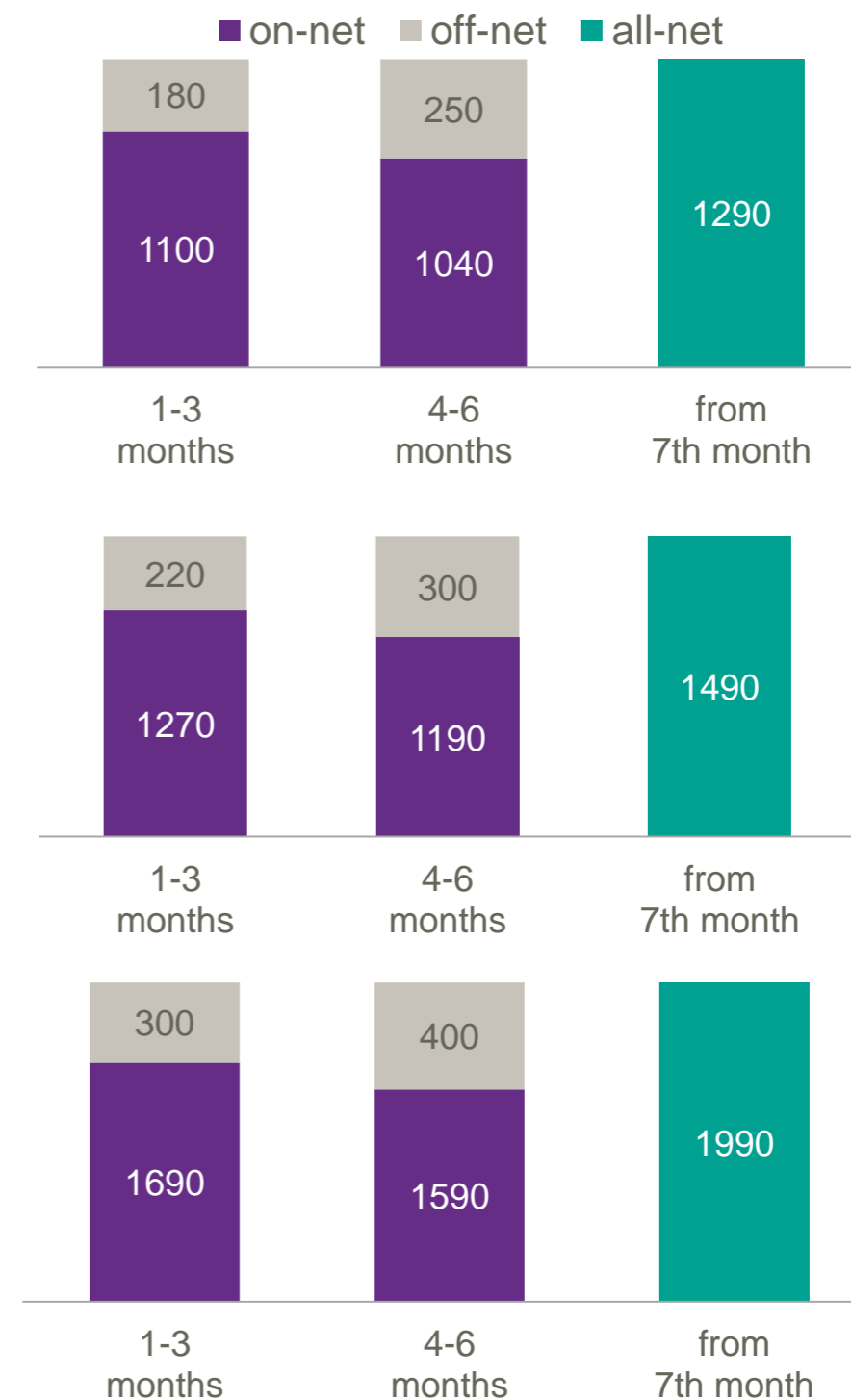
The volume of bonus minutes will be divided into 2 parts: on-net & off-net minutes

The amount of all-net minutes will depend on subscriber's length tenure

**Hello KZ 1 - 1290 all-net min**

**Hello KZ 2 - 1490 all-net min**

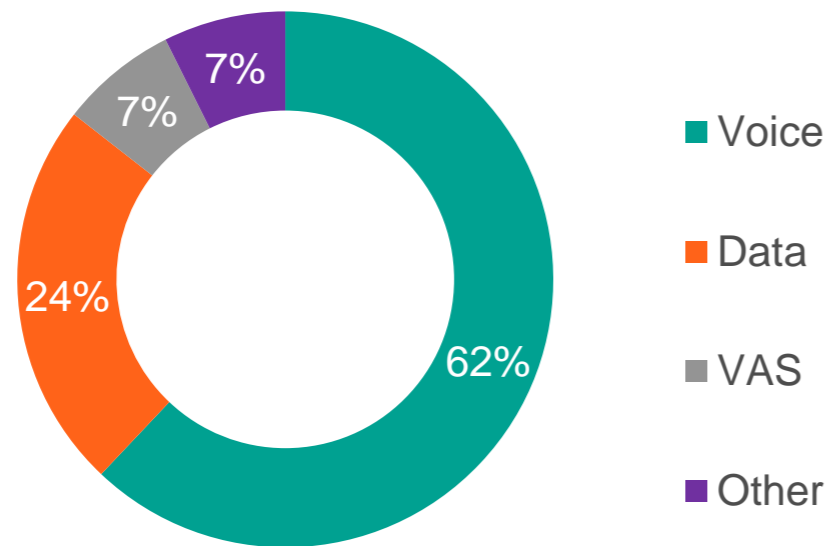
**Hello KZ 3 - 1990 all-net min**



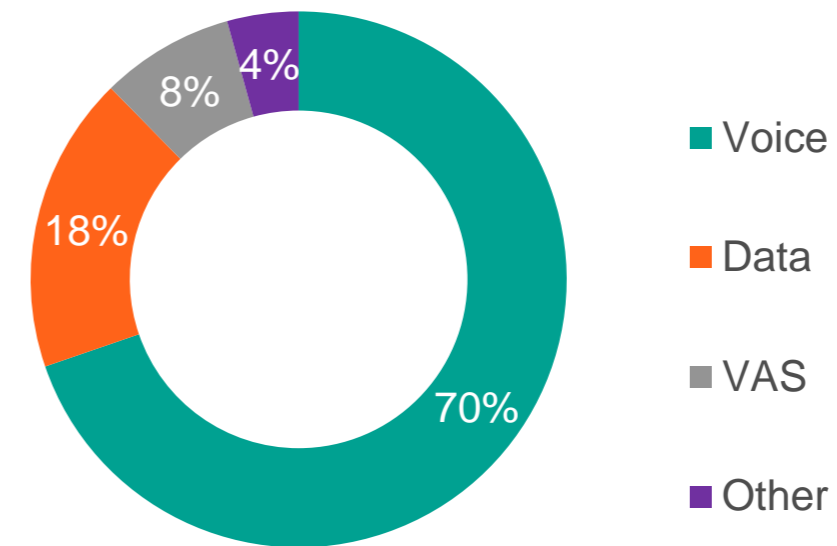
# Revenue split



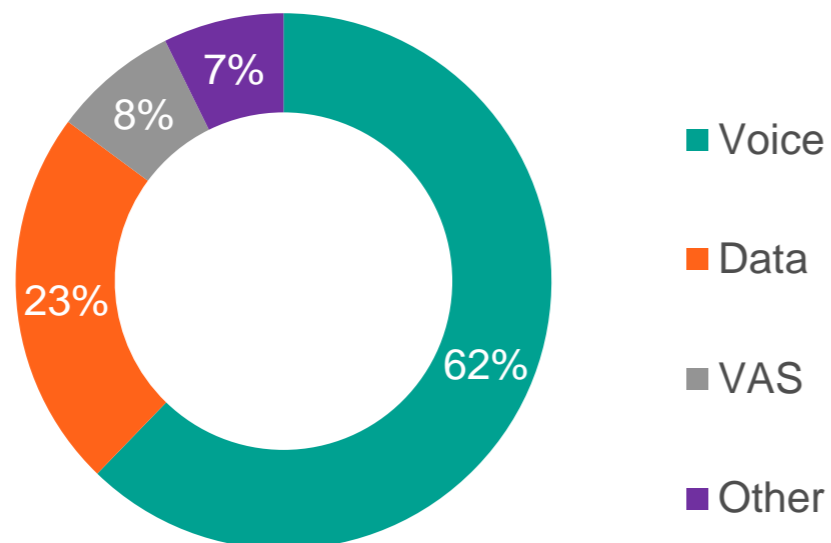
Revenue breakdown Q3 2015



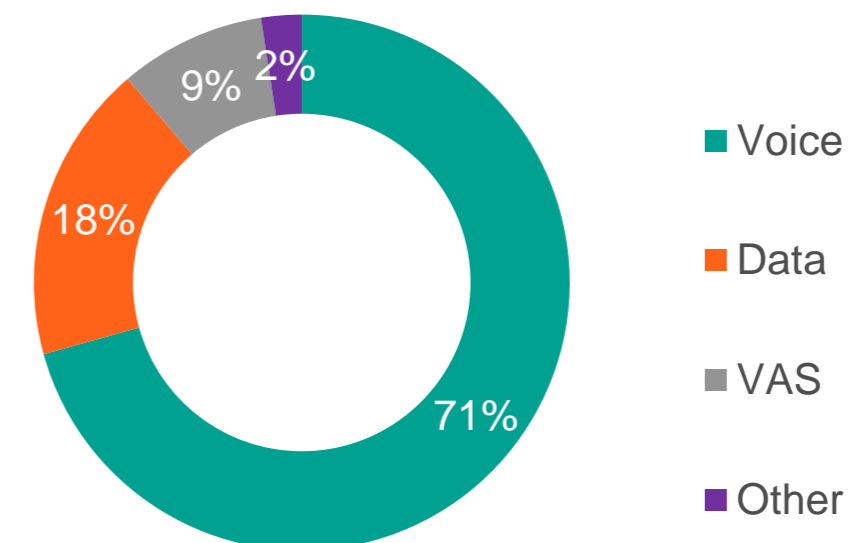
Revenue breakdown Q3 2014



Revenue breakdown 9m 2015



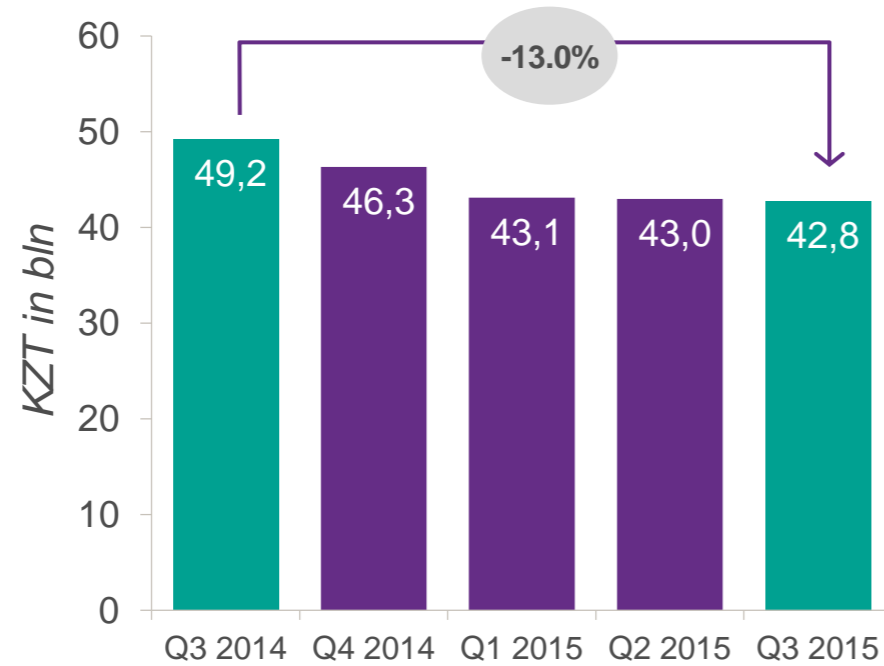
Revenue breakdown 9m 2014



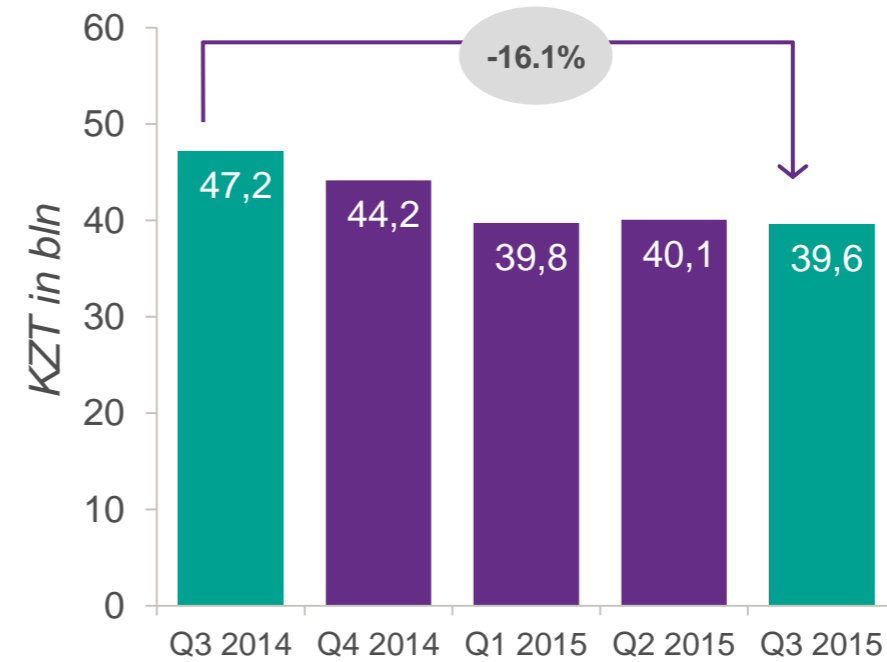
# Revenue trend



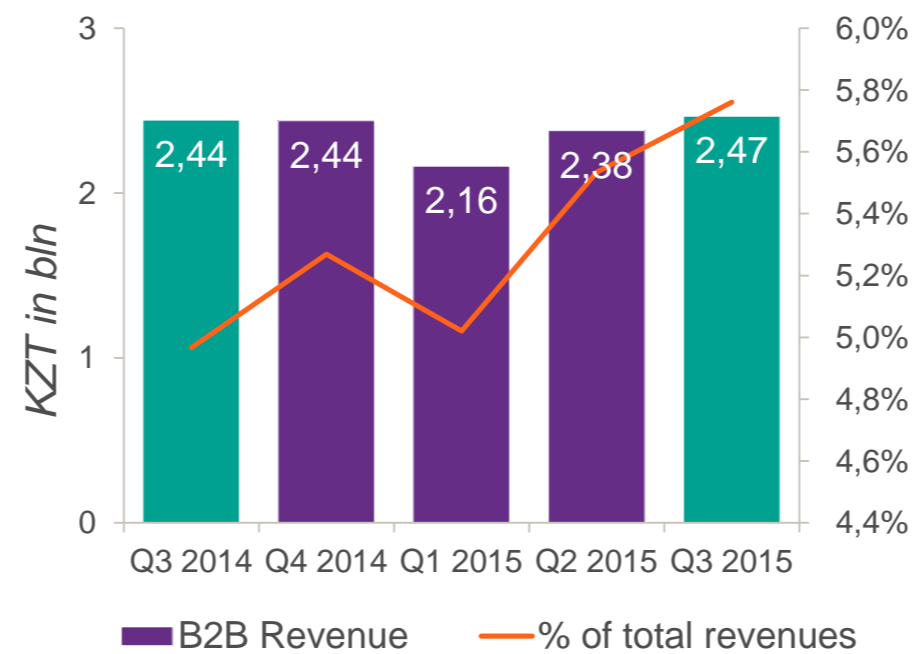
### Net sales



### Service revenue



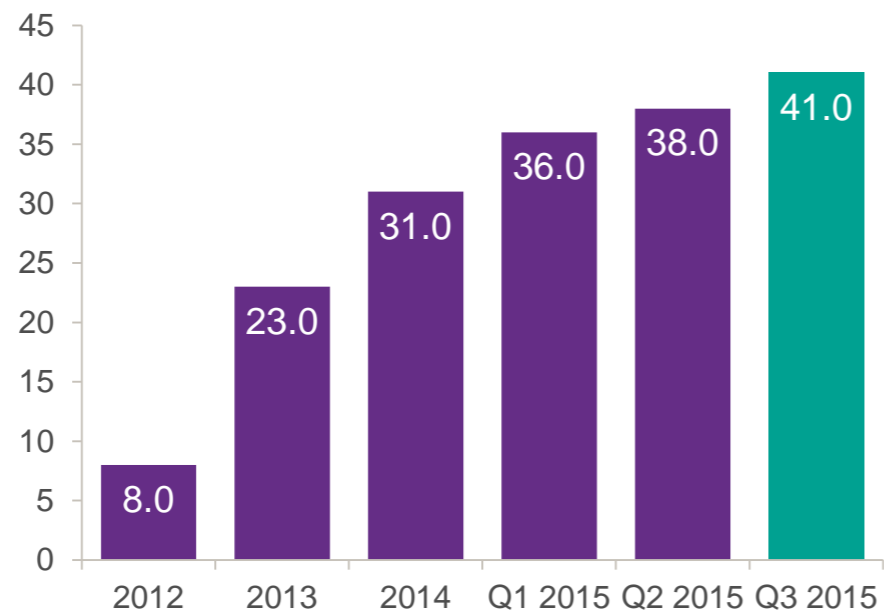
### B2B revenue



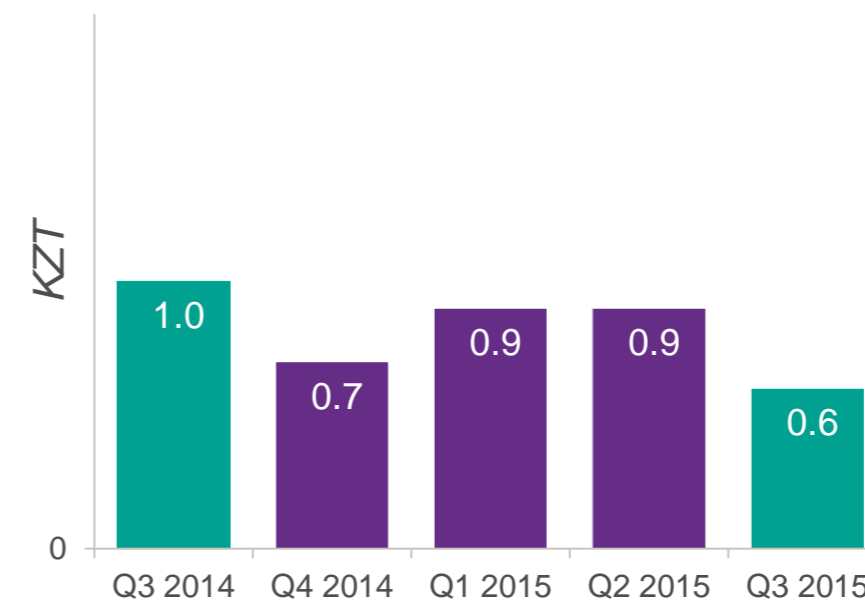
# Data usage and revenues



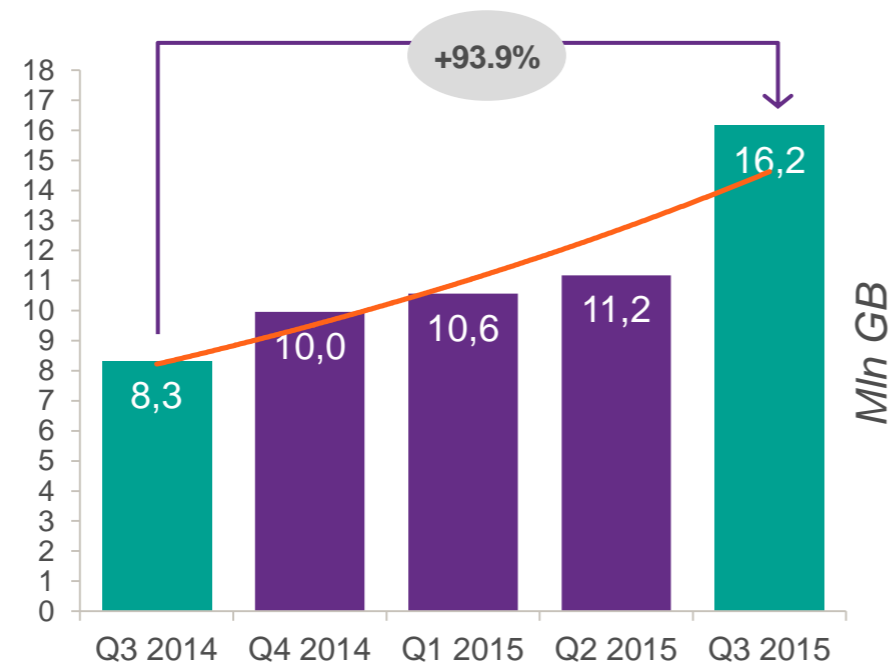
## Smartphone penetration %



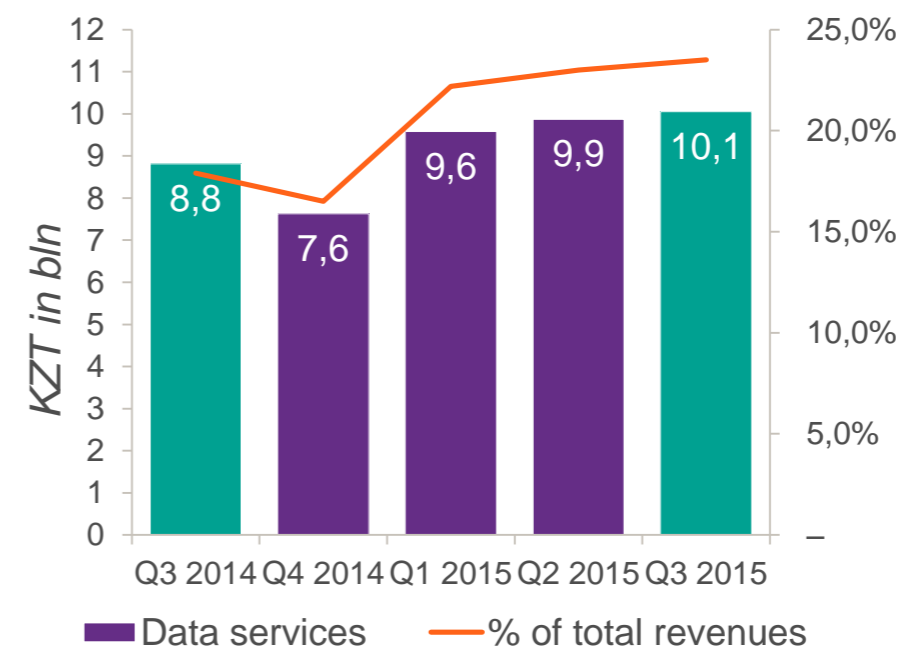
## Average revenue per MB



## Data traffic



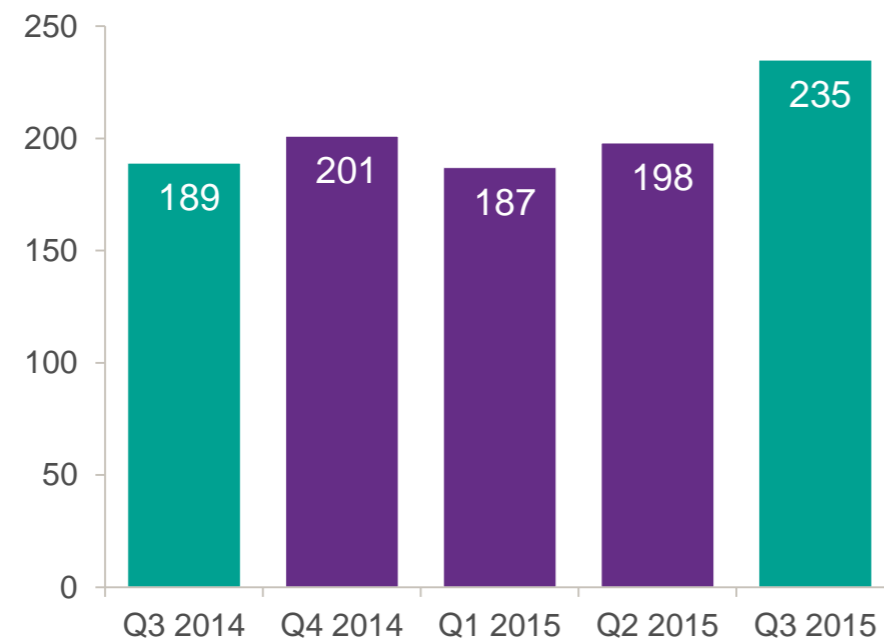
## Data revenue



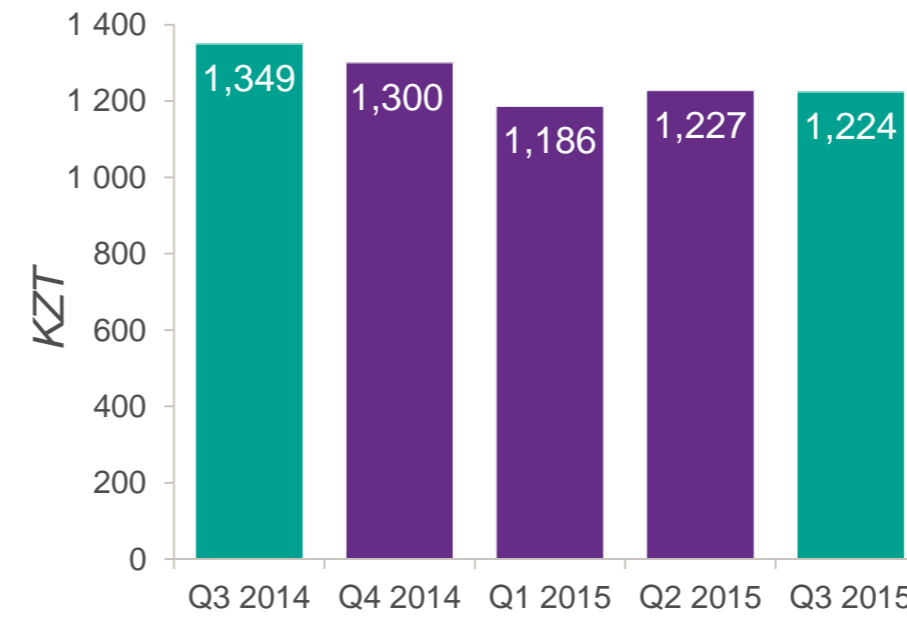
# Operational data



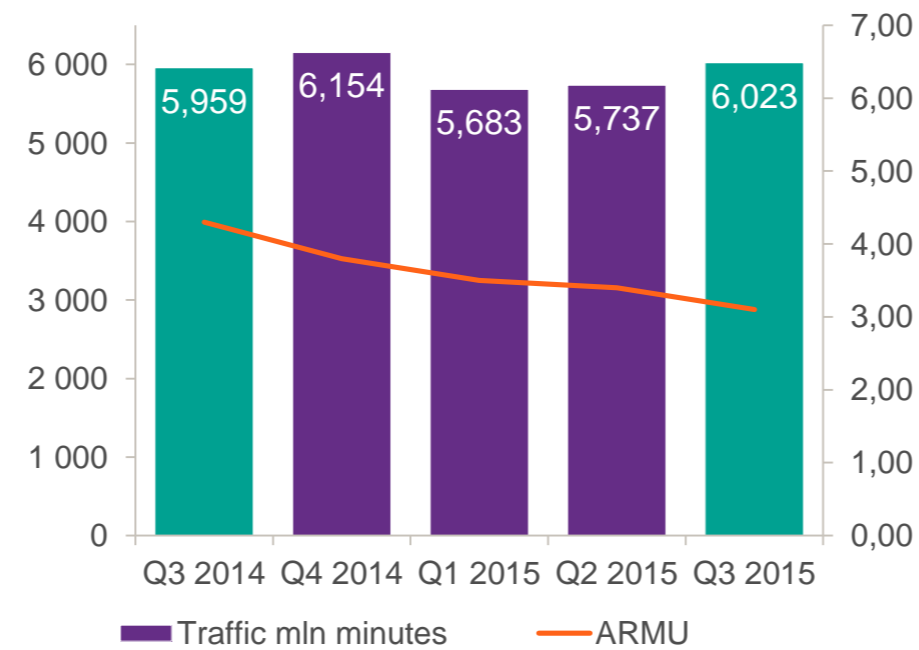
### Minutes of usage (MOU)



### Blended ARPU



### Total traffic & ARMU (KZT)



# Financial highlights



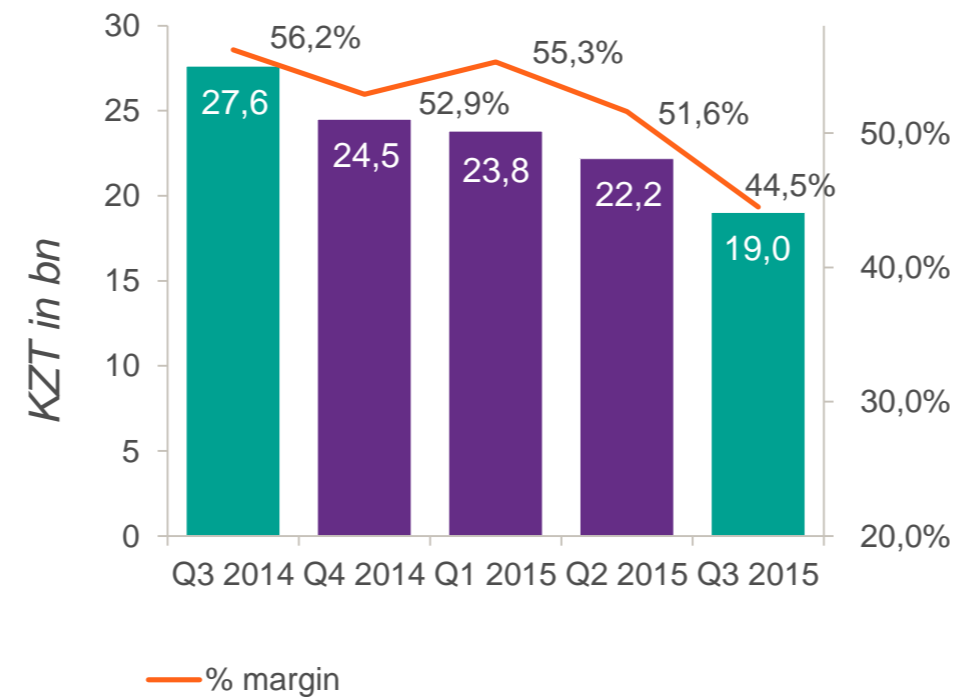
KZT in millions, except per share data, number of shares and changes

	Q3 2015	Q3 2014	Change(%)	9M 2015	9M 2014	Change (%)
Net sales	42,756	49,165	-13.0%	128,820	141,307	-8.8%
of which service revenue	39,612	47,201	-16.1%	119,447	138,212	-13.6%
EBITDA*	19,028	27,624	-31.1%	64,725	80,833	-19.9%
EBITDA margin (%)	44.5	56.2		50.2	57.2	
Operating income	12,849	17,912	-28.3%	45,977	58,800	-21.8%
Operating income*	12,849	21,551	-40.4%	46,304	62,645	-26.1%
Net income	15,112	13,457	12.3%	39,666	45,604	-13.0%
Earnings per share (KZT)	75.6	67.3	12.3%	198.3	228.0	-13.0%
CAPEX to sales (%)	11.5	9.5		8.4	6.3	
<b>Free cash flow</b>	<b>12,169</b>	<b>17,887</b>		<b>26,579</b>	<b>52,088</b>	

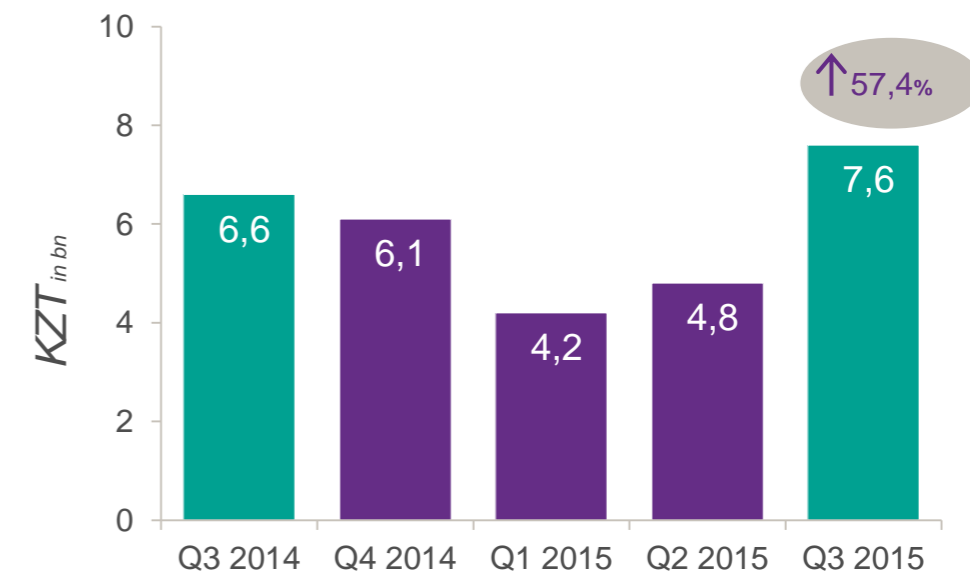
\*excluding non-recurring items

# EBITDA performance

### EBITDA\* development

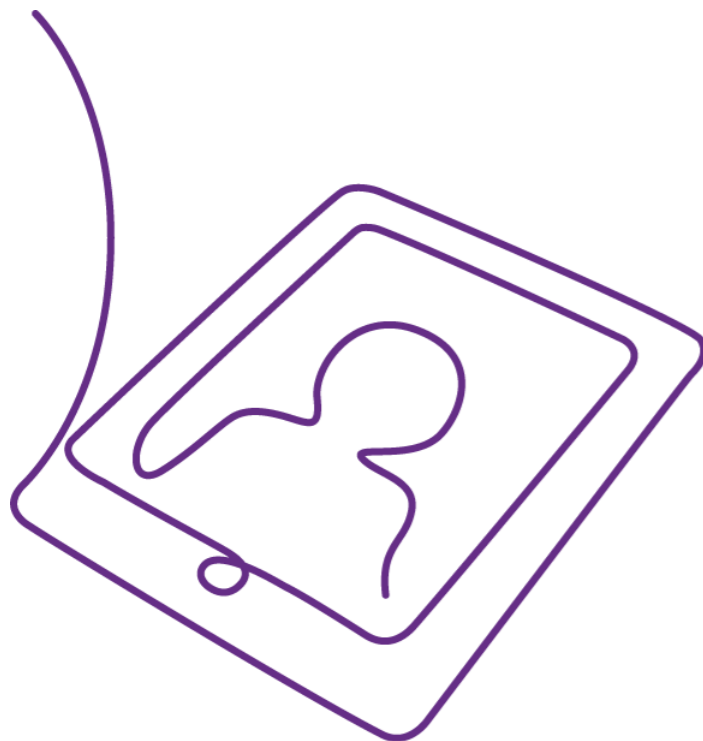


### Interconnect expenses



- EBITDA\* margin Q3 2015 of 44.5% vs. 56.2% in Q3 2014
- EBITDA\* margin 9m 2015 of 50.2% vs. 57.2% in 9m 2014

\*excluding non-recurring items



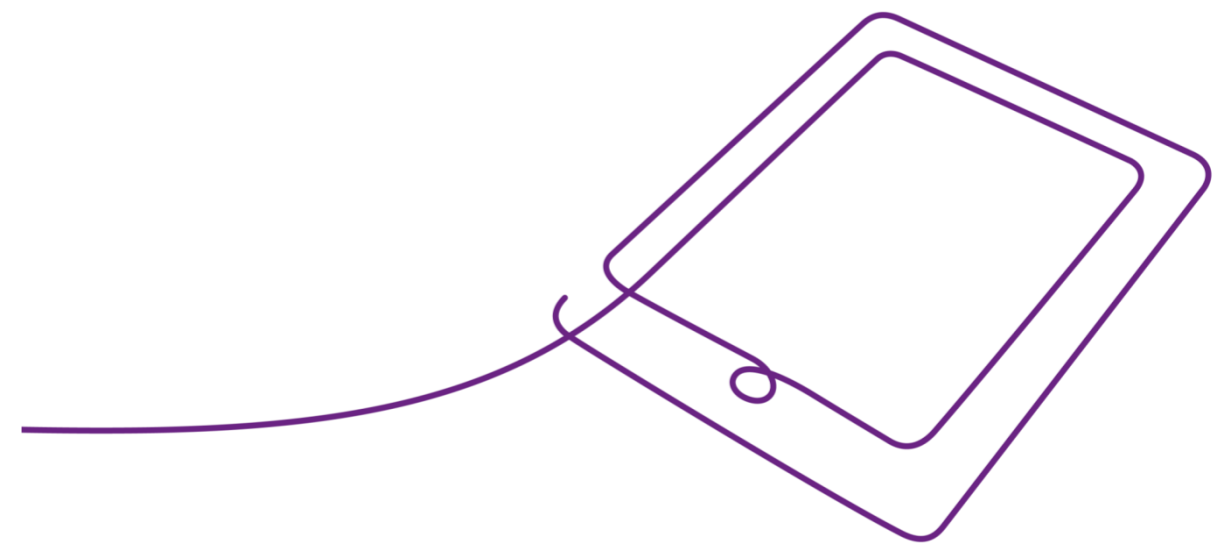
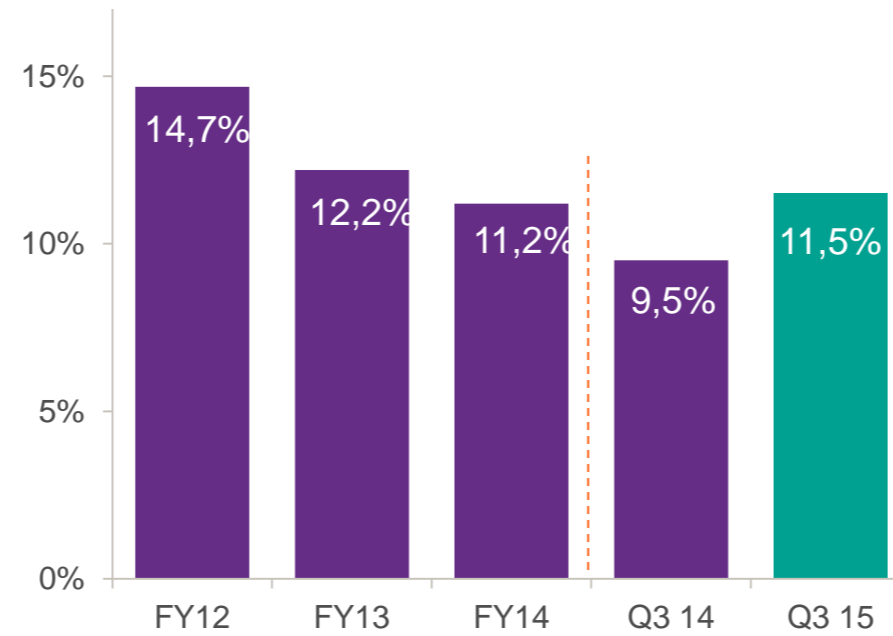


# CAPEX-to-sales ratio



- Focus on network optimisation and quality
- Expanding 3G population coverage
- Migration to convergent billing system planned for Q4 2015

CAPEX-to-sales ratio



# Dividends



- The AGM, which was held on 17 April 2015, approved the “annual dividend” payment, representing 70 percent of the company’s net income for the full year of 2014
- The AGM has also approved the payment of a “Special Dividend”, representing 30 percent of the Company’s net income for 2014
- The Dividends totalled KZT 58,260 million, or KZT 291.30 per ordinary share/GDR
- The record date of shareholders entitled to receive the dividends was 20 April 2015
- The Annual Dividend was paid on 29 April 2015, and the Special Dividend was paid on 8 October 2015

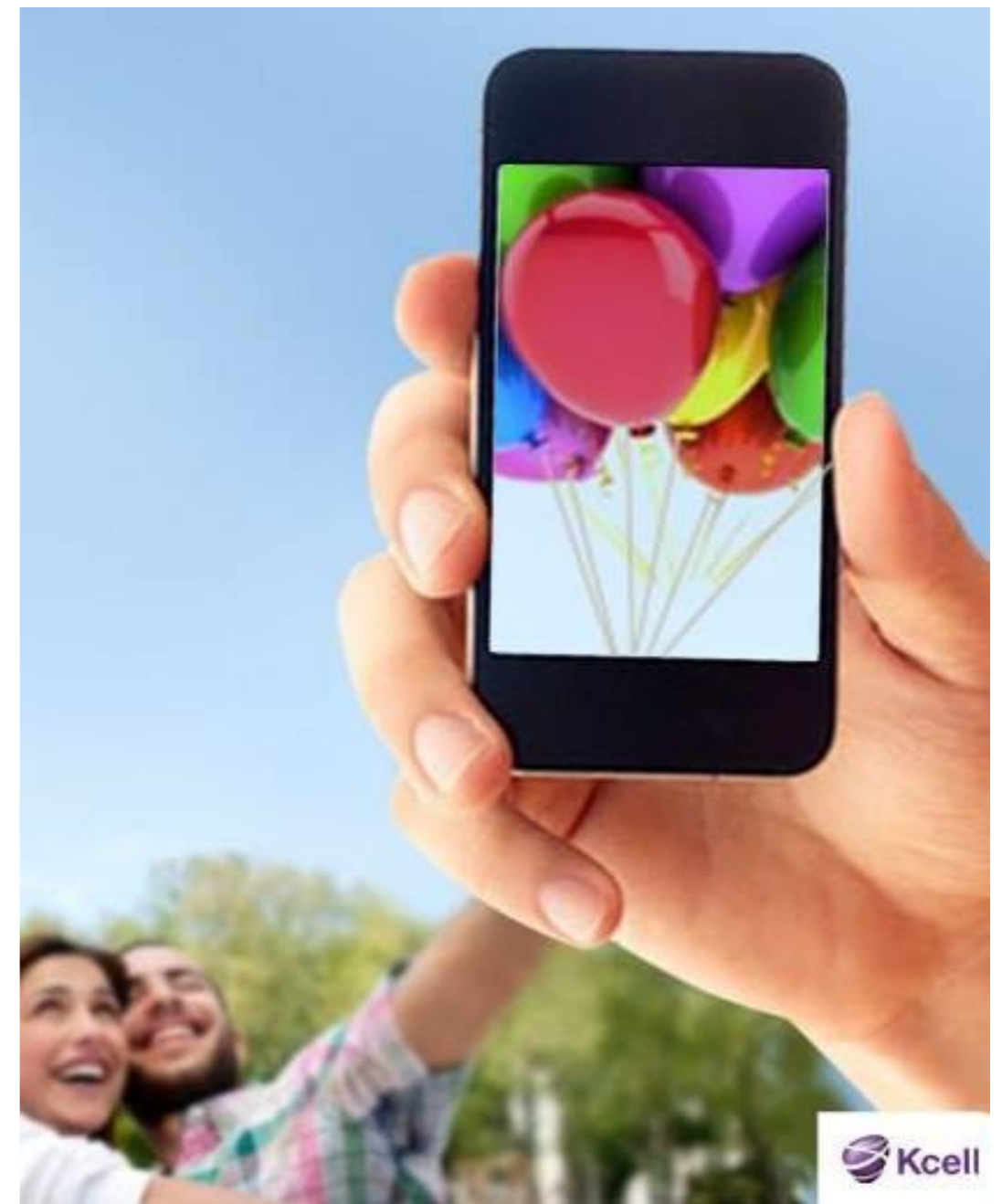


# Legal overview



## UPDATE ON “DAYTIME UNLIMITED”

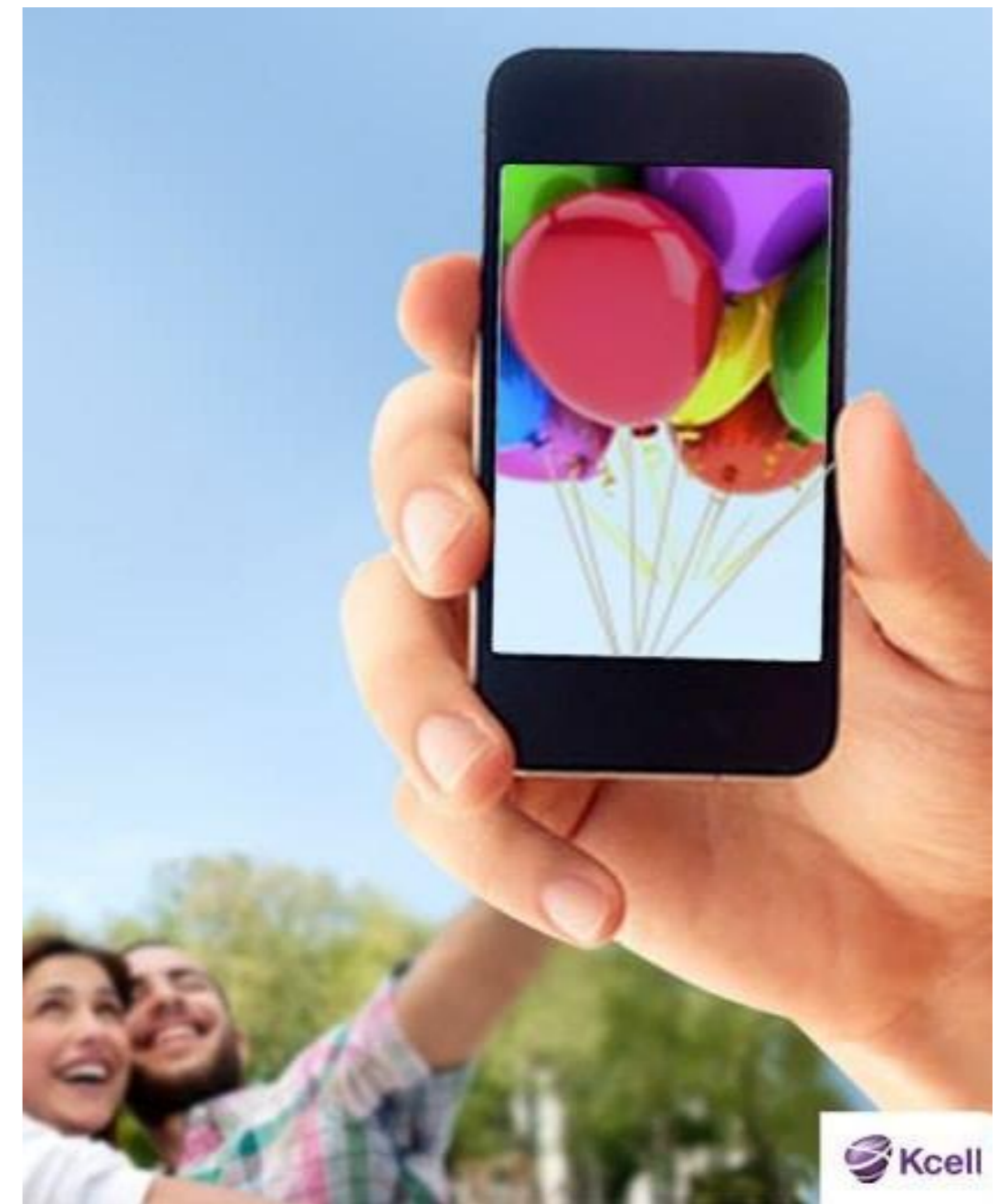
- In compliance with the order on 22 July 2015, the Company started refunding its Kcell brand subscribers for the period from January 2012 to September 2013
- In accordance with an agreement reached with the Agency for Competition Protection of the Republic of Kazakhstan (the “ACP”), the Company has started to refund its subscribers for the subsequent period
- Since Kcell brand subscribers are being refunded for services rendered, the Company's tax liabilities will be reduced



# Legal overview

## ADMINISTRATIVE SANCTIONS

- The Committee for Regulation of Natural Monopolies and Competition Protection under RK Ministry of National Economy has identified signs of violations of dominant position by the Company, namely the partial restriction of international traffic from Kazakhtelecom during the period between March 2013 and December 2014. In accordance with the order of the Almaty City Specialised Interdistrict Administrative Court, an administrative fine of 5 percent of monopoly gain, or KZT 252,660,251, was imposed on Kcell JSC, without confiscation of monopoly gains, under Article 159 Part 3 of the Administrative Offence Code of the Republic of Kazakhstan.
- The order came into force on 16 October 2015. The fine has been paid in full.



# Q&A



# Income statement



KZT in millions, except per share data, number of shares and changes

	Q3 2015	Q3 2014	Change (%)	9m 2015	9m 2014	Change (%)
Revenues	42,756	49,165	-13.0	128,820	141,307	-8.8
Cost of sales	-24,418	-22,271	9.6	-66,989	-61,610	8.7
<b>Gross profit</b>	<b>18,337</b>	<b>26,894</b>	<b>-31.8</b>	<b>61,830</b>	<b>79,698</b>	<b>-22.4</b>
Selling and marketing expenses	-2,347	-2,851	-17.7	-7,171	-8,973	-20.1
General and administrative expenses	-3,028	-2,602	16.4	-8,946	-7,851	13.9
Other operating income and expenses, net	-113	-3,529		263	-4,073	
<b>Operating income</b>	<b>12,849</b>	<b>17,912</b>	<b>-28.3</b>	<b>45,977</b>	<b>58,800</b>	<b>-21.8</b>
Finance costs and other financial items, net	6,638	-245		4,951	-745	
<b>Income after financial items</b>	<b>19,487</b>	<b>17,666</b>	<b>10.3</b>	<b>50,928</b>	<b>58,055</b>	<b>-12.3</b>
Income taxes	-4,375	-4,210	3.9	-11,262	-12,451	-9.6
<b>Net income</b>	<b>15,112</b>	<b>13,457</b>	<b>12.3</b>	<b>39,666</b>	<b>45,604</b>	<b>-13.0</b>
Earnings per share (KZT), basic and diluted	75.5	67.3		198.3	228.0	

# Balance sheet



KZT in millions

## ASSETS

	30 Sep 2015	31 Dec 2014
Intangible assets	14,930	12,494
Property, plant and equipment	98,966	108,955
Other non-current assets	734	145
<b>Total non-current assets</b>	<b>114,630</b>	<b>121,594</b>
Inventories	1,637	2,336
Trade and other receivables	18,029	14,543
Cash and cash equivalents	38,958	19,520
<b>Total current assets</b>	<b>58,624</b>	<b>36,399</b>
<b>Total assets</b>	<b>173,254</b>	<b>157,993</b>

## EQUITY AND LIABILITIES

Share capital	33,800	33,800
Retained earnings	39,680	58,274
<b>Total equity attributable to owners of the parent company</b>	<b>73,480</b>	<b>92,074</b>
Deferred tax liabilities	4,932	4,442
Other long-term liabilities	1,323	1,376
<b>Total non-current liabilities</b>	<b>6,255</b>	<b>5,818</b>
Short-term borrowings	50,162	25,020
Trade payables and other current liabilities	43,357	35,081
<b>Total current liabilities</b>	<b>93,519</b>	<b>60,101</b>
<b>Total equity and liabilities</b>	<b>173,254</b>	<b>157,993</b>

# Statement of cash flows



KZT in millions

	Q3 2015	Q3 2014	9m 2015	9m 2014
Cash flow before change in working capital	15,386	22,956	52,242	68,572
Change in working capital	2,369	2,091	-6,356	-2,954
<b>Cash flow from operating activities</b>	<b>17,755</b>	<b>25,047</b>	<b>45,886</b>	<b>65,618</b>
Cash CAPEX	-5,586	-7,160	-19,307	-13,530
<b>Free Cash Flow</b>	<b>12,169</b>	<b>17,887</b>	<b>26,579</b>	<b>52,088</b>
<b>Cash flow before financing activities</b>	<b>12,169</b>	<b>17,887</b>	<b>26,579</b>	<b>52,088</b>
Cash flow from financing activities	3,300	-3,800	-15,482	-52,112
<b>Cash flow for the period</b>	<b>15,469</b>	<b>14,087</b>	<b>11,097</b>	<b>-24</b>
<b>Cash and cash equivalents, opening balance</b>	<b>15,452</b>	<b>4,805</b>	<b>19,520</b>	<b>18,916</b>
Cash flow for the period	15,469	14,087	11,097	-24
Exchange rate difference	8,037	-	8,341	-
<b>Cash and cash equivalents, closing balance</b>	<b>38,958</b>	<b>18,892</b>	<b>38,958</b>	<b>18,892</b>



# Financial key ratios



	30 Sep 2015	31 Dec 2014
Return on equity*	63.2	63.3
Return on capital employed*	84.0	75.7
Equity/assets ratio	42.4	58.3
Net debt/equity ratio	13.5	6.0
Net debt/EBITDA** rate	0.13	0.05

\*\*Rolling 12 months

\*\*Rolling 12 months, excl. non-recurring items

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# Forward looking statement



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Statements made in this document relating to future status or circumstances, including future performance and other trend projections are forward-looking statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There can be no assurance that actual results will not differ materially from those expressed or implied by these forward-looking statements due to many factors, many of which are outside the control of Kcell.

