

# Year-End Report January-December 2014



# Key Events of Q4 2014

01 Appointment of Arti Ots as CEO and Gary Mitchel Krasny as acting CFO

02 Launch of sales of the most popular iPhone, Samsung and Lenovo smartphone models: iPhone 6, Samsung Note 4, Samsung Alfa, Samsung Galaxy Ace Duos and Lenovo A369i

03 Payment of the Special Dividend of KZT 19,028 million or KZT 95.14 gross per ordinary share

04 KZT 8 bln tranche of the approved credit line with Halyk Bank of Kazakhstan JSC was obtained

# Forth Quarter 2014 Summary

01 Revenue KZT 46,273m  
(49,526)

- ✓ Decrease by 6.6% compared to Q4 2013
- ✓ Excluding one-off adjustment\* decreased by 3.5% compare to Q4 2013

02 EBITDA\*\* KZT 24,489m  
(28,598)

- ✓ Decrease by 14.4% compared to Q4 2013

03 EBITDA\*\* margin 52.9%  
(57.7)

- ✓ Continuous focus on cost efficiency

04 Net income KZT 12,667m  
(18,264)

- ✓ Decrease by 30.6% compared to Q4 2013

05 Subscriber base of  
13,055m (13,064)

- ✓ Net addition of 8,000 subscribers

\*In December 2014, a one-off adjustment of KZT 1.5 billion relating to data revenue for life-long accumulated traffic was classified as deferred revenue.

\*\*excluding non-recurring items

# Full Year 2014 Summary

01 Revenue KZT 187,581m  
(187,599)

- ✓ Stable year-on-year
- ✓ Excluding one-off adjustment\* increase by 0.8% compared to 2013

02 EBITDA\*\* KZT 105,321m  
(104,727)

- ✓ Increase by 0.6% compared to 2013

03 EBITDA\*\* margin 56.1%  
(55.8)

- ✓ Continuous focus on cost efficiency

04 Net income KZT  
58,271m (63,392)

- ✓ Decrease by 8.1% compared to 2013

05 Subscriber base  
of 13,055m (14,307)

- ✓ Net addition of 299,000 subscriptions
- ✓ The number of subscriptions decreased by 1,251 thousand during 2014, due to a clean-up of 1,551 thousand subscriptions - no effect on market share

\*In December 2014, a one-off adjustment of KZT 1.5 billion relating to data revenue for life-long accumulated traffic was classified as deferred revenue.

\*\*excluding non-recurring items



# Clear Strategy Focused on Customer Loyalty through Value Creation

01 Establishment of strong leadership and a culture of responsible business practice to ensure that the business is well placed to maximize all opportunities to drive value creation

02 Data-centric approach

03 Focus on smartphone penetration and increase of data usage

04 Development of B2B business

05 Ensuring superior network quality

# Market Trends

01 Growth opportunities still exist because of untapped data segment

02 Intensifying competition

03 Altel and Tele2 continue with aggressive bundled offerings and subsidized off-net

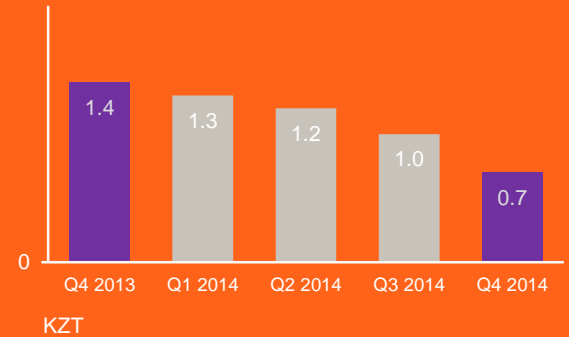
04 Continued pressure from the Regulator and reduction of MTR

05 Introduction of MNP expected in mid-2015

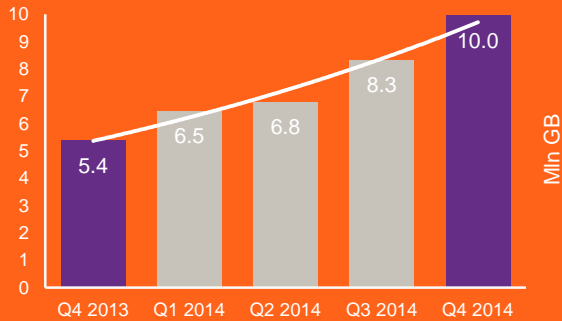
# Data Usage and Revenues

- Accelerated growth of smartphones penetration backed by successful launch of iPhone and other smartphone bundles
- Number of smartphone users has increased by more than 5 times compared to 2011

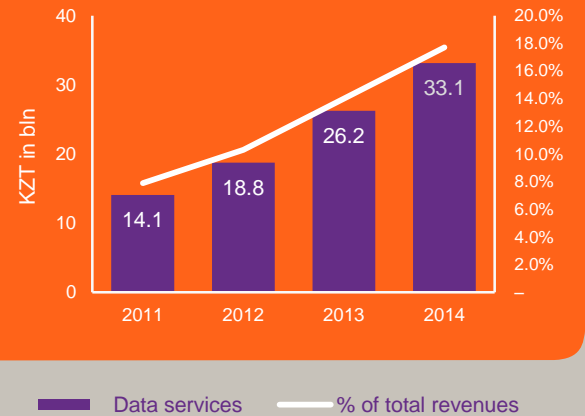
### Average Revenue per MB



### Data Traffic

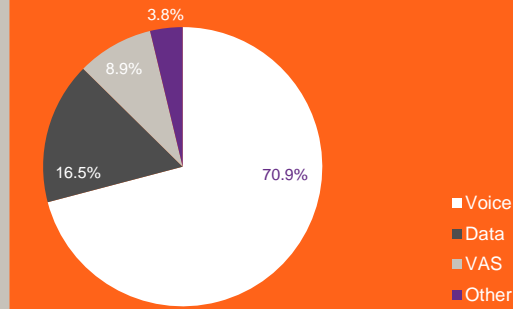


### Data Revenue

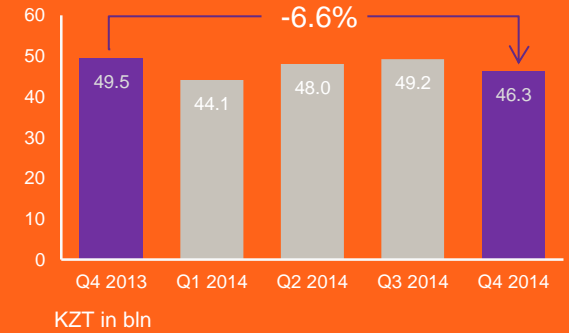


# Revenue Breakdown Q4 2014

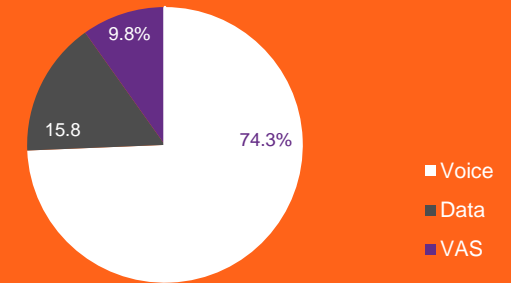
## Revenue Breakdown Q4 2014



## Total Revenue



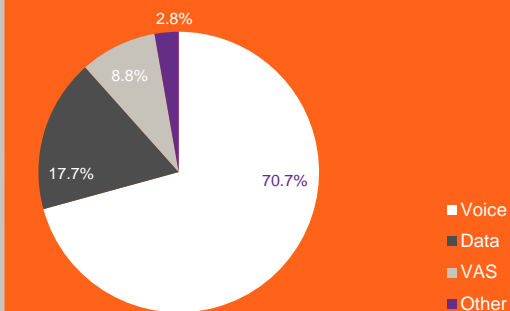
## Revenue Breakdown Q4 2013



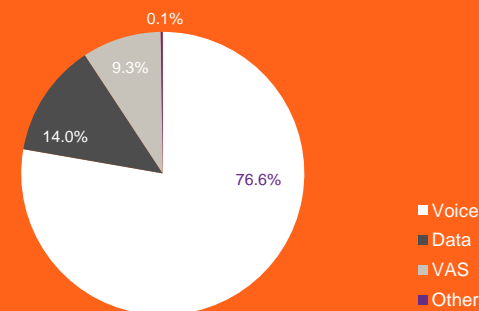


# Data Revenue Shows Solid Growth

## Revenue Breakdown 2014

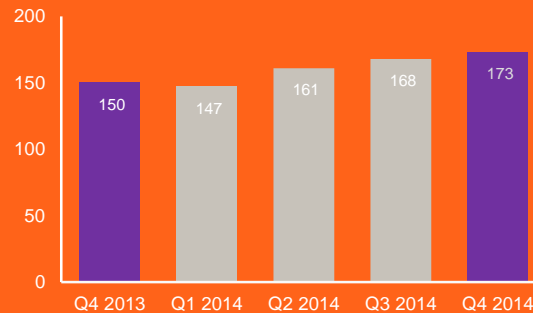


## Revenue Breakdown 2013

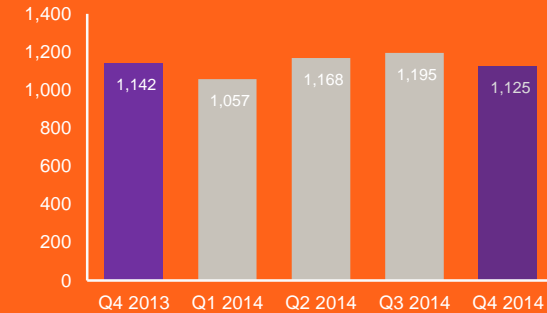


# Voice Revenues

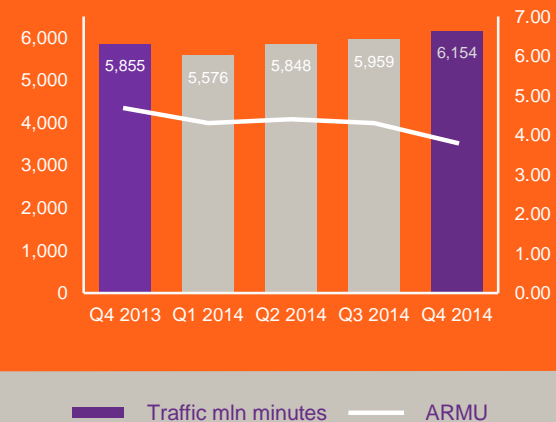
### Minutes of Usage (MOU)



### ARPU



### Total Traffic & ARMU (KZT)



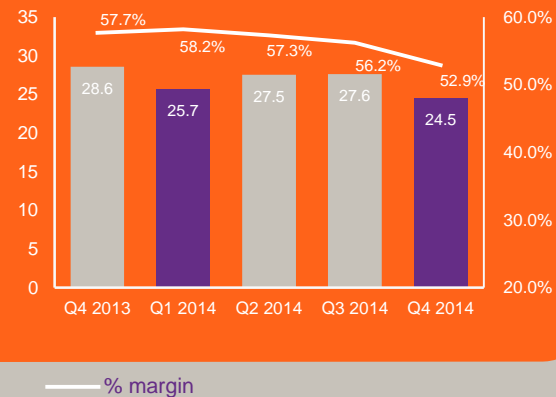
# Q4 and FY 2014 Financial Highlights

<b>KZT in millions, except per share data, number of shares and changes</b>	<b>Q4 2014</b>	<b>Q4 2013</b>	<b>Chg (%)</b>	<b>FY 2014</b>	<b>FY 2013</b>	<b>Chg (%)</b>
Revenues	<b>46,273</b>	49,526	-6.6	<b>187,581</b>	187,599	0.0
EBITDA*	<b>24,489</b>	28,598	-14.4	<b>105,321</b>	104,727	0.6
EBITDA* margin (%)	<b>52.9</b>	57.7		<b>56.1</b>	55.8	
Operating income*	<b>17,487</b>	22,851	-23.5	<b>80,132</b>	81,600	-1.8
Net income	<b>12,667</b>	18,264	-30.6	<b>58,271</b>	63,392	-8.1
Earnings per share (KZT)	<b>63.3</b>	91.3	-30.6	<b>291.4</b>	317.0	-8.1
CAPEX-to-sales (%)	<b>26.1</b>	12.6		<b>11.2</b>	12.2	
Free cash flow	<b>11,656</b>	19,773		<b>63,744</b>	80,743	

\*excluding non-recurring items

# EBITDA Performance

## EBITDA\* Development



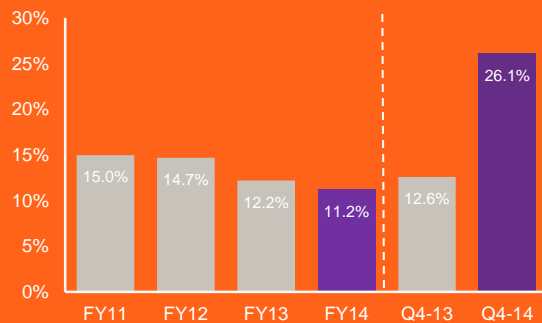
EBITDA\* margin Q4 2014  
of 52.9% vs. 57.7%  
in Q4 2013

EBITDA\* margin 2014  
of 56.1% vs. 55.8% 2013

\*excluding non-recurring items

# CAPEX-to-sales Ratio

CAPEX-to-Sales Ratio



2014 CAPEX-to-sales ratio 11.2 percent, Q4 CAPEX-to-sales ratio 26.1 percent

Focus on continued 3G roll-out and network quality improvement

3G population coverage – approximately 70 percent

# Robust Capital Structure

## Target leverage ratio (Net debt / EBITDA) of 0.5-0.9x

- Net debt / EBITDA of 0.05 (as of 31 Dec 2014)
- Net debt / Equity of 0.06 (as of 31 Dec 2014)

KZT in millions	31 Dec 2014	31 Dec 2013
Cash and equivalents	19,520	18,916
Gross financial debt	25,020	24,721
<b>Net debt/(cash)</b>	<b>5,500</b>	<b>5,805</b>
LTM EBITDA	100,440	104,727
Implied net debt / EBITDA	0.05	0.06
Implied net debt / book value of equity	0.06	0.06
Dividends declared but unpaid	-	-
<b>Adjusted net debt/(cash)</b>	<b>5,500</b>	<b>5,805</b>
Implied adj. net debt / LTM EBITDA	0.05	0.06
Implied adj. net debt / book value of equity	0.06	0.06

# Dividend policy

- **Dividend policy** remains unchanged – to pay out at least 70% of net income for 2014.
- **Dividend amount for 2014**, record date, and payment date to be proposed by the BoD and approved by the AGM in May 2015.

## **The dividends for 2013 were paid in two separate tranches:**

- KZT 44,362 million or KZT 221.81 gross per ordinary share were paid on 27 June 2014; and
- KZT 19,028 million or KZT 95.14 gross per ordinary share were paid during the period of 10 December 2014 - 18 December 2014.

Kcell distributed KZT 63,390 million representing 100 percent of net income for 2013.

# Regulatory overview

## **“Daytime Unlimited” service**

**On 5 September 2014, the order of the Agency of the Republic of Kazakhstan for Competition Protection (ACP) came into force obliging Kcell:**

- to stop collecting subscription fees under the “Daytime Unlimited” service when there are insufficient funds on the account (executed by the Company);
- to ensure interruption of connection when subscribers’ balance reaches zero;
- to ensure refund to subscribers for charges made in view of non-interruption of their connection when their balance reached zero.



# Regulatory overview

Compliance with the Order requires major technical changes of the billing system; Kcell has therefore filed a request to postpone the execution of this order. On 16 October 2014, the court denied this request. The Company is going to file this request with the ACP.

Kcell will, therefore, incur additional expenses. Total revenue gained from continuing to provide services when there are insufficient funds on subscribers' account, amounted to KZT 1.6 billion and was accrued as a provision. The exact amount is to be determined subject to clarification of the ACP order.

# Regulatory overview

## **“Always Available” service**

On 7 August 2014, the Administrative Court upheld the decision of the lower court. This resulted in the Company being brought to administrative responsibility under Article 147, part 3 of the Code of Administrative Offences of the Republic of Kazakhstan. Kcell was consequently issued a fine of KZT 41.8 million, which has been paid.

## **Applicable to both cases:**

Kcell intends to further challenge these cases. However, the ACP, in its turn, may also challenge the amount of fines in court through the prosecution authorities.

# Q&A



# Income Statement

<b>KZT in millions, except per share data, number of shares and changes</b>	<b>Q4 2014</b>	<b>Q4 2013</b>	<b>Chg (%)</b>	<b>YTD 2014</b>	<b>YTD 2013</b>	<b>Chg (%)</b>
Revenues	46,273	49,526	-6.6	187,581	187,599	0.0
Cost of sales	-22,611	-20,337	11.2	-84,221	-79,469	6.0
<b>Gross profit</b>	<b>23,662</b>	<b>29,189</b>	<b>-18.9</b>	<b>103,360</b>	<b>108,130</b>	<b>-4.4</b>
Selling and marketing expenses	-2,575	-4,042	-36.3	-11,549	-16,614	-30.5
General and administrative expenses	-2,815	-2,115	33.1	-10,666	-10,017	6.5
Other operating income and expenses, net	-1,822	-181		-5,895	101	
<b>Operating income</b>	<b>16,450</b>	<b>22,851</b>	<b>-28.0</b>	<b>75,250</b>	<b>81,600</b>	<b>-7.8</b>
Finance costs and other financial items, net	-361	-434		-1,106	-2,119	
<b>Income after financial items</b>	<b>16,089</b>	<b>22,417</b>	<b>-28.2</b>	<b>74,145</b>	<b>79,481</b>	<b>-6.7</b>
Income taxes	-3,423	-4,153	-17.6	-15,874	-16,089	-1.3
<b>Net income</b>	<b>12,667</b>	<b>18,264</b>	<b>-30.6</b>	<b>58,271</b>	<b>63,392</b>	<b>-8.1</b>
Earnings per share (KZT), basic and diluted	63.3	91.3	-30.6	291.4	317.0	-8.1

# Balance Sheet

<b>KZT in millions</b>	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>
<b>Assets</b>		
Intangible assets	12,494	13,955
Property, plant and equipment	108,405	112,369
Other non-current assets	695	3,131
<b>Total non-current assets</b>	<b>121,594</b>	<b>129,455</b>
Inventories	2,336	499
Trade and other receivables	14,543	10,410
Cash and cash equivalents	19,520	18,916
<b>Total current assets</b>	<b>36,399</b>	<b>29,825</b>
<b>Total assets</b>	<b>157,993</b>	<b>159,280</b>
<b>Equity and liabilities</b>		
Share capital	33,800	33,800
Retained earnings	58,274	63,393
<b>Total equity attributable to owners of the parent company</b>	<b>92,074</b>	<b>97,193</b>
Deferred tax liabilities	4,442	5,232
Other long-term liabilities	1,376	1,426
<b>Total non-current liabilities</b>	<b>5,818</b>	<b>6,658</b>
Short-term borrowings	25,020	24,721
Trade payables	26,272	23,361
Other current liabilities	8,809	7,347
<b>Total current liabilities</b>	<b>60,101</b>	<b>55,429</b>
<b>Total equity and liabilities</b>	<b>157,993</b>	<b>159,280</b>

# Statement of Cash Flows

<b>KZT in millions</b>	<b>Q4 2014</b>	<b>Q4 2013</b>	<b>YTD 2014</b>	<b>YTD 2013</b>
Cash flow before change in working capital	20,094	25,923	88,251	90,639
Change in working capital	-2,153	-4,710	-4,692	7,417
<b>Cash flow from operating activities</b>	<b>17,941</b>	<b>21,213</b>	<b>83,559</b>	<b>98,056</b>
Cash CAPEX	-6,285	-1,440	-19,815	-17,313
<b>Free Cash Flow</b>	<b>11,656</b>	<b>19,773</b>	<b>63,744</b>	<b>80,743</b>
<b>Cash flow before financing activities</b>	<b>11,656</b>	<b>19,773</b>	<b>63,744</b>	<b>80,743</b>
Cash flow from financing activities	-11,028	-6,050	-63,140	-64,902
<b>Cash flow for the period</b>	<b>628</b>	<b>13,723</b>	<b>604</b>	<b>15,841</b>
<b>Cash and cash equivalents, opening balance</b>	<b>18,892</b>	<b>5,193</b>	<b>18,916</b>	<b>3,075</b>
Cash flow for the period	628	13,723	604	15,841
<b>Cash and cash equivalents, closing balance</b>	<b>19,520</b>	<b>18,916</b>	<b>19,520</b>	<b>18,916</b>

# Forward Looking Statement

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.

