

# Q2 2015 Financial Results



# Progress and challenges in Q2

- Launch of “Hello Kazakhstan”, a new national wide all-net tariff plan
- Opening of 2 Kcell branded Stores - in Almaty and Astana
- Continued growth of handset sales and data usage
- Discussion with the Regulator on the introduction of technology neutrality including 4G, starting from January 2016

- Significant impact of continued competitive landscape and reduced MTR on service revenue
- Continued fierce competition with highly aggressive bundled offers
- Introduction of new rules on rendering cellular communication services
- Postponement of MNP introduction, although, it's still planned for the end of 2015



# Strategic priorities: build solid foundation for future growth

## Data

- ✓ Branded content development (music, video, MFS)
- ✓ Affordable internet
- ✓ Affordable smartphones
- ✓ Data-centric pricing

## Kcell Store Concept

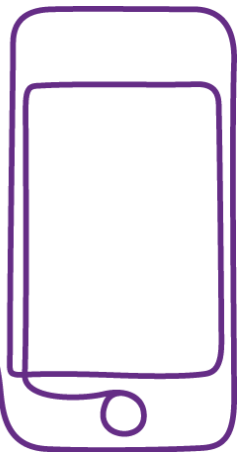
- ✓ Commercial space of a fundamentally new format in Kazakhstan
- ✓ The concept store represents the synergy of the shop and club to deliver superior customer experience
- ✓ A combination of the highest level of service quality and a friendly and welcoming atmosphere
- ✓ New image perception
- ✓ New revenue stream
- ✓ Part of the Customer Retention Programme

## Network Quality

- ✓ Cluster optimisation
- ✓ Coverage
- ✓ Capacity
- ✓ Backbone - Fibre

## B2B Segment

- ✓ Basic B2B
- ✓ Fibre to B2B





3 Kcell stores were opened, 4 more in the pipeline

Mega in Astana

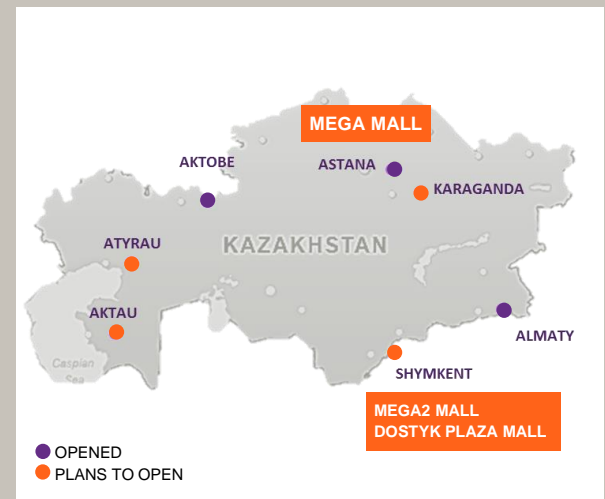


Mega in Almaty



New Kcell Stores will be locating in Shopping and Entertainment Malls with High Visitors Traffic in the most prestigious City Districts

Dostyk Plaza in Almaty



# B2B product portfolio

## B2B +12.6% YoY revenue growth

### PBX



A private branch exchange (PBX) is a telephone exchange for intercommunication between a large number of telephone stations in the organisation

### Fixed internet



Internet access to Internet services such as email and the world wide web for business clients

### Bulk SMS



Bulk Messaging is the dissemination of large numbers of SMS for delivery to mobile devices. It is used by companies from different industries for entertainment, enterprise and mobile marketing purposes

### Short codes



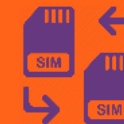
Short codes are special telephone numbers, significantly shorter than full telephone numbers and are widely used for value added services or call centres

### Office 365

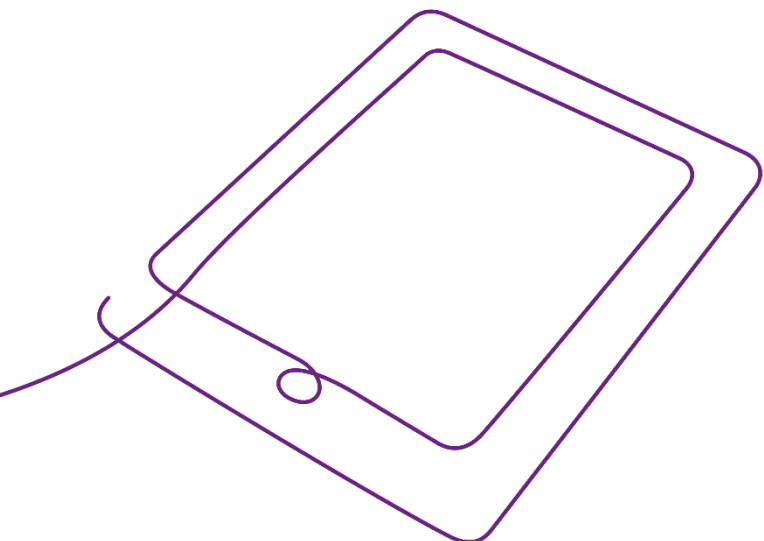


Microsoft Office 365 – a new version of the familiar and convenient MS Office from Kcell. In addition to Word, Excel, PowerPoint and Outlook, Office 365 has access to Exchange and Sharepoint, which were previously available only in the MS Office Corporate Edition

### Tele-marketing Tool



Possibility to change automatically MSISDN by each MSISDN call. Service is used by banks and other financial institute for debt collection



# Summary of Q2 2015



01

Net sales KZT 42,980m  
(48,035)

✓ Decrease of 10.5% relative to Q2 2014

02

Service revenue KZT  
40,079m (46,904)

✓ Decrease of 14.5% relative to Q2 2014

03

Data revenue 9,873m  
(8,368)

✓ Increase 18.0% relative to Q2 2014

04

EBITDA\* KZT 22,184m  
(27,536)

✓ Decrease of 19.4% relative to Q2 2014

05

EBITDA\* margin 51.6%  
(57.3)

✓ Continuous focus on cost efficiency

06

Net income KZT 11,319m  
(16,512)

✓ Decrease of 31.5% relative to Q2 2014

07

Subscribers 10,747m  
(10,829)

✓ Decrease by 82 thousand relative to Q1 2015

\*excluding non-recurring items

# Summary of H1 2015

01

Net sales KZT 86,064m  
(92,142)

✓ Decrease of 6.6% relative to H1 2014

02

Service revenue KZT  
79,835m (91,011)

✓ Decrease of 12.3% relative to H1 2014

03

Data revenue 19,453m  
(16,693)

✓ Increase 16.5% relative to H1 2014

04

EBITDA\* KZT 46,001m  
(53,208)

✓ Decrease of 13.5% relative to H1 2014

05

EBITDA\* margin 53.4%  
(57.7)

✓ Continuous focus on cost efficiency

06

Net income KZT 24,553m  
(32,147)

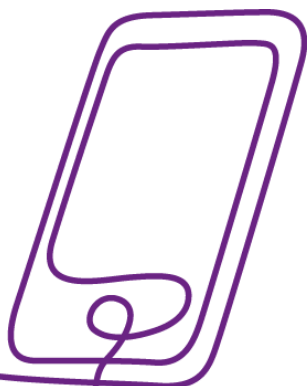
✓ Decrease of 23.6% relative to H1 2014

07

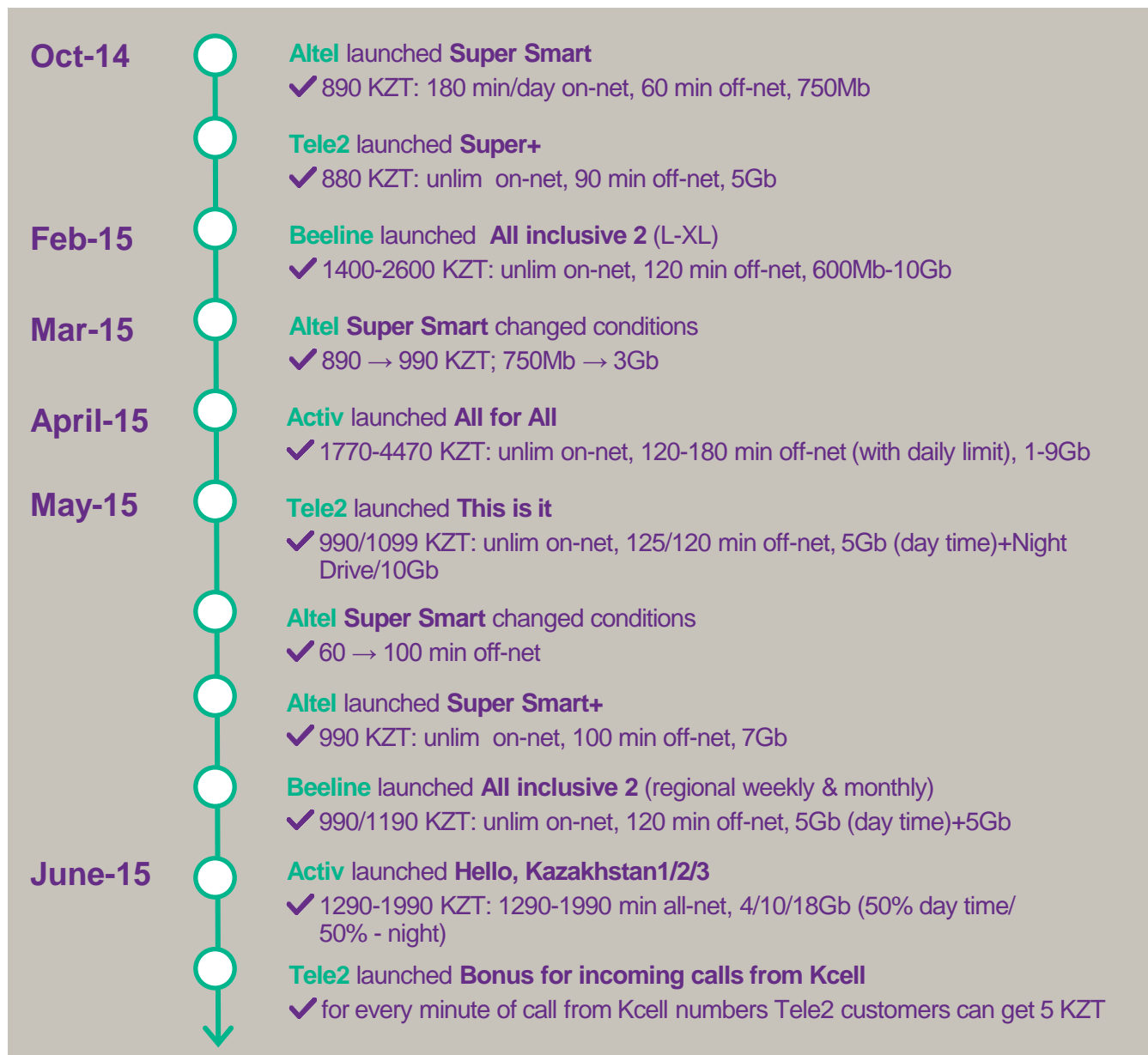
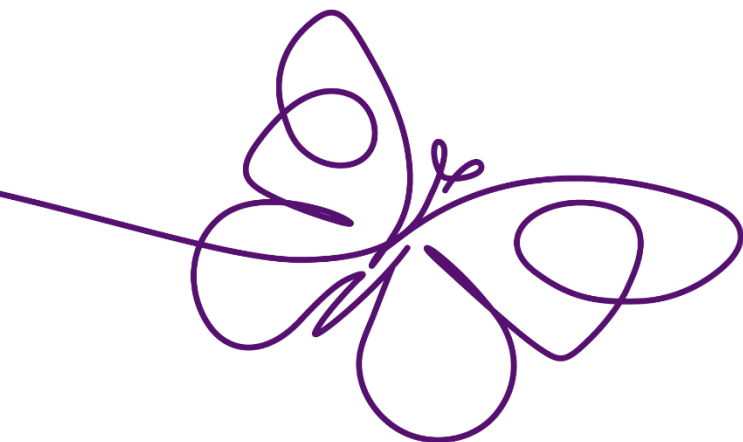
Subscribers 10,747m  
(11,400)

✓ Decrease by 653 thousand relative to Q2 2014

\*excluding non-recurring items



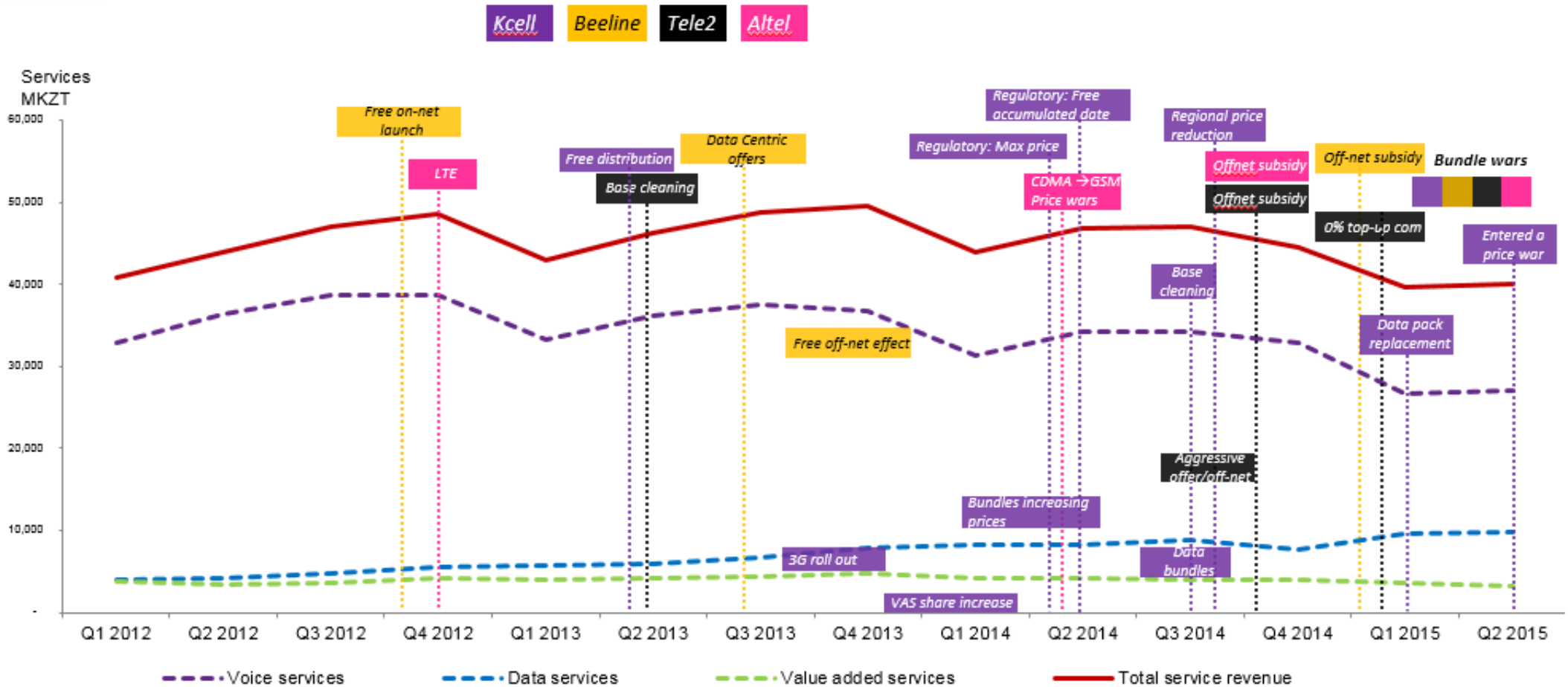
# Price war development



off-net subsidies era

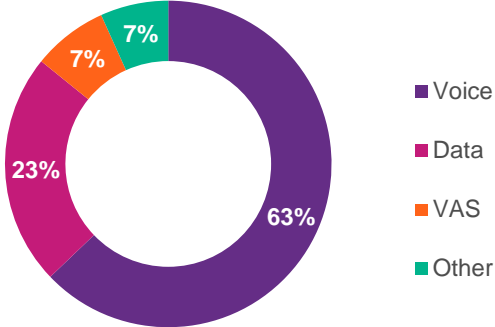


# Kcell's revenue evolution

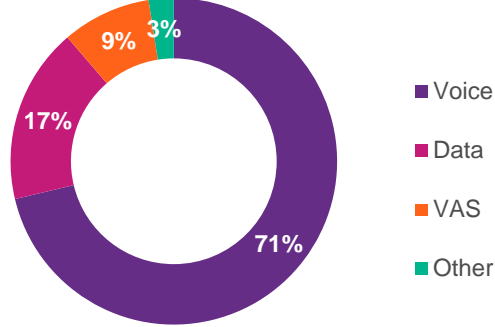


# Revenue split

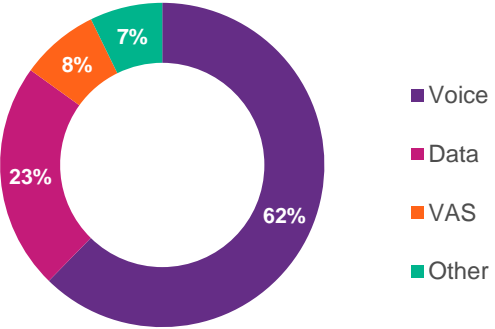
### Revenue Breakdown Q2 2015



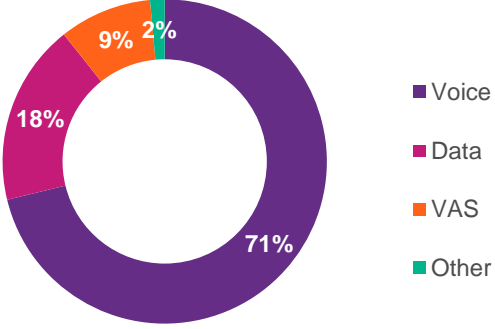
### Revenue Breakdown Q2 2014



### Revenue Breakdown H1 2015

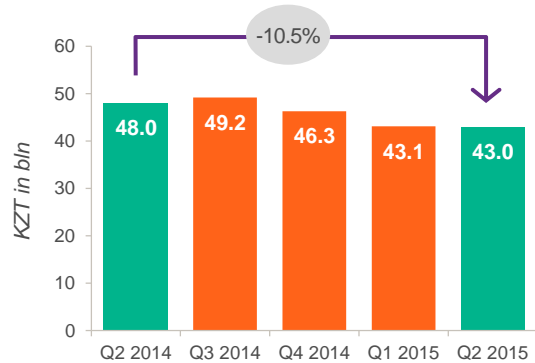


### Revenue Breakdown H1 2014

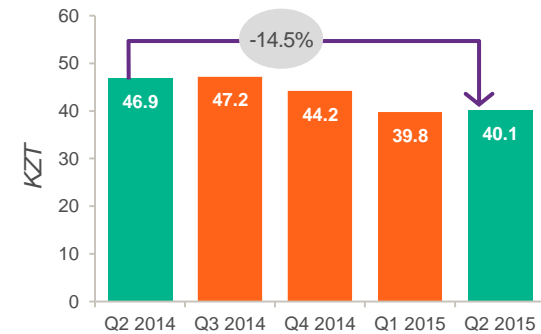


# Revenue Trend

## Net Sales

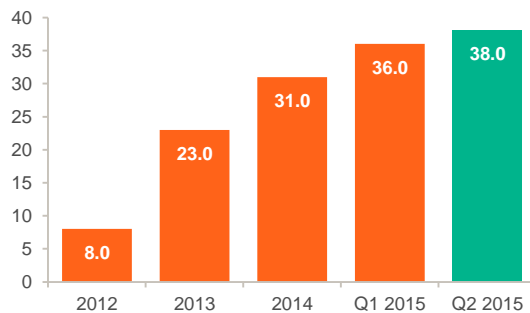


## Service revenue

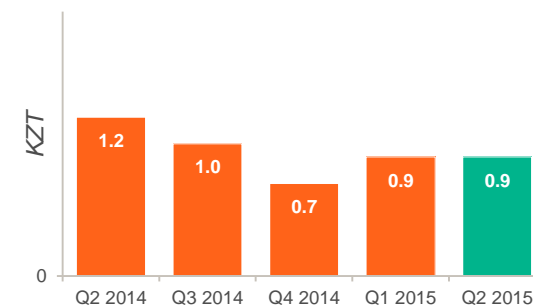


# Data usage and revenues

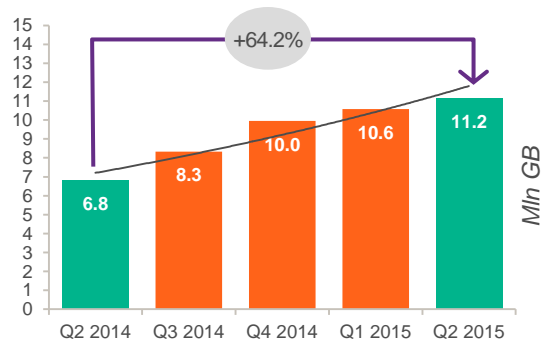
## Smartphone penetration %



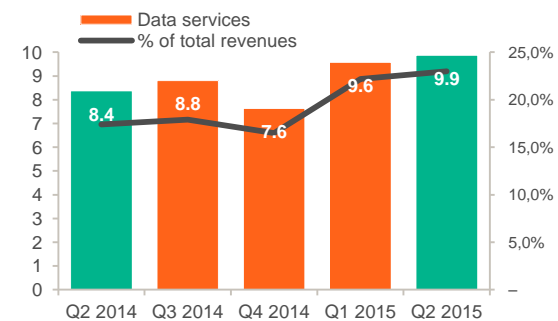
## Average Revenue per MB



## Data Traffic

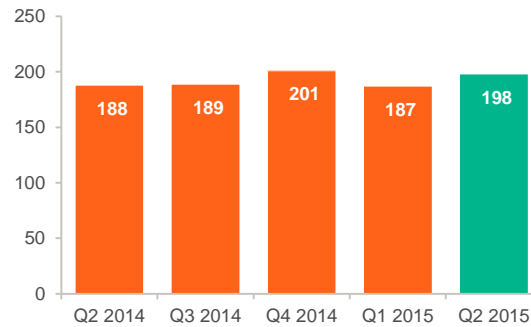


## Data Revenue

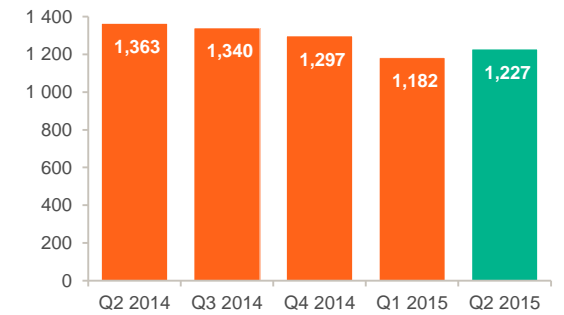


# Operational data

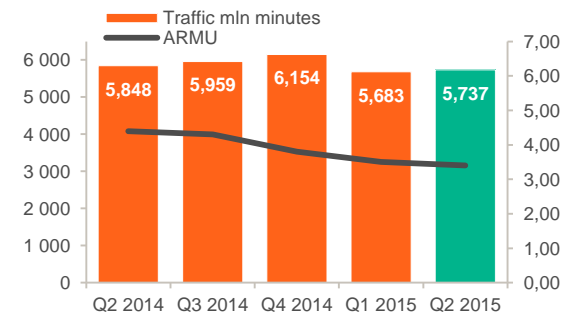
## Minutes of Usage (MOU)



## Blended ARPU



## Total Traffic & ARMU (KZT)





# Financial highlights

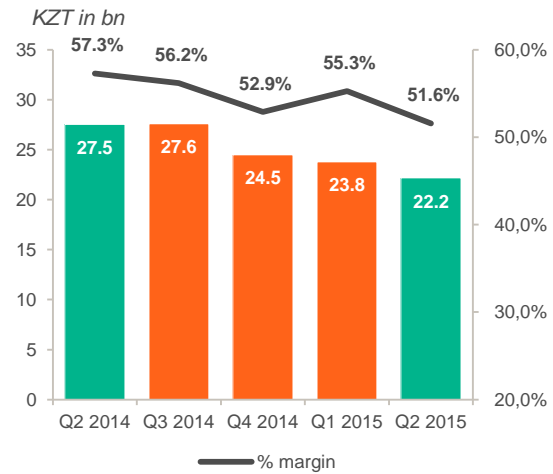
KZT in millions, except per share data, number of shares and changes	Q2 2015	Q2 2014	Chg (%)	H1 2015	H1 2014	Chg (%)
Net Sales	42,980	48,035	-10.5	86,064	92,142	-6.6
of which service revenue	40,079	46,904	-14.5	79,835	91,011	-12.3
EBITDA*	22,184	27,536	-19.4	46,001	53,208	-13.5
EBITDA margin (%)	51.6	57.3		53.4	57.7	
Operating income	16,057	21,033	-23.7	33,432	40,888	-18.2
Operating income*	16,057	21,238	-24.4	33,759	41,093	-17.8
Net income	11,319	16,512	-31.5	24,553	32,147	-23.6
Earnings per share (KZT)	56.6	82.6	-31.5	122.8	160.7	-23.6
CAPEX to sales (%)	8.9	3.9		6.9	4.6	
Free cash flow	11,221	16,213		14,410	34,201	

\*excluding non-recurring items



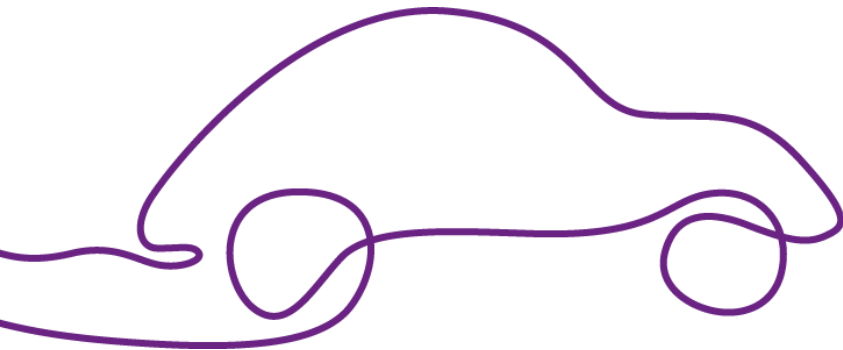
# EBITDA performance

## EBITDA\* Development



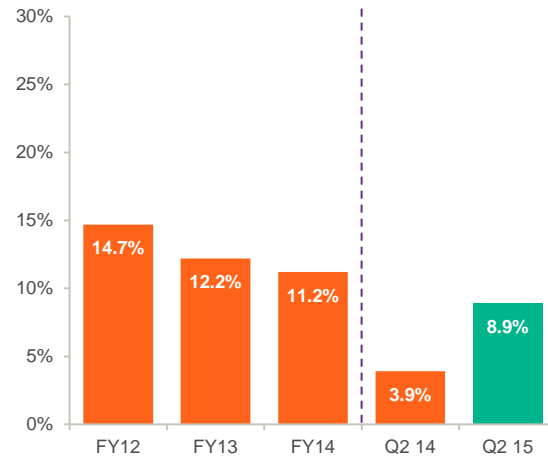
- EBITDA\* margin Q2 2015 of 51.6% vs. 57.3% in Q2 2014
- EBITDA\* margin H1 2015 of 53.4% vs. 57.7% in H1 2014

\*excluding non-recurring items

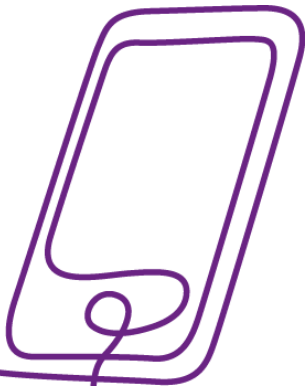


# CAPEX-to-sales ratio

CAPEX-to-sales ratio



- CAPEX-to-sales ratio in H1 2015 was 6.9% vs. 4.6% in H1 2014
- Focus on 3G roll out, network optimisation and quality
- 3G population coverage is more than 70 percent



# 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**, while the Special Dividend will be paid not later than **30 October 2015**.

# Regulatory overview

## The “Daytime Unlimited” and failure to disconnect calls

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.

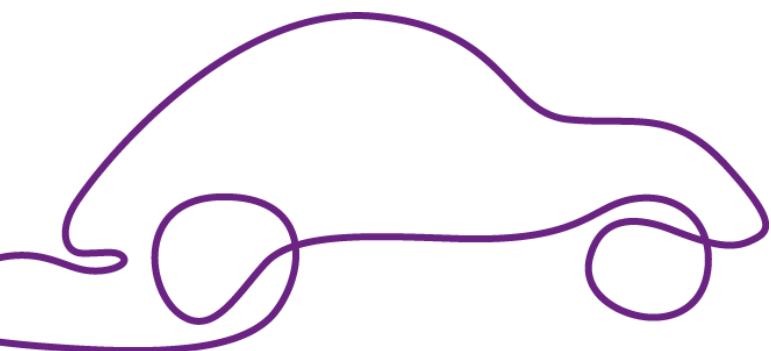
The ACP ordered that the Company should comply with the following on or before 21 April 2014:

- to stop collection of subscription fees under the tariff plan “Daytime Unlimited” in case of insufficiency of funds on a subscriber’s account;
- to ensure interruption of connection (voice or Internet access) when a subscriber’s balance reaches zero;
- 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. Management is currently assessing the additional potential liability for subsequent periods and related provision, as a result of above court resolution.





A close-up photograph of several people's hands holding and pointing at smartphones. The scene is outdoors, with a person in a blue jacket on the left and a person in a grey shirt on the right. A purple rectangular overlay is positioned in the upper right corner, containing the text 'Q&A' in white. The background is blurred, showing a light-colored wall and some greenery.

Q&A

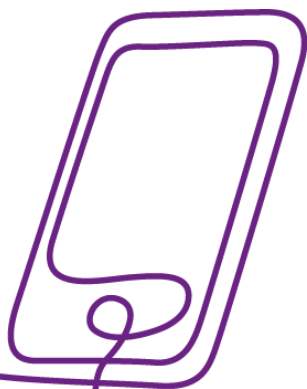
# Income statement

KZT in millions, except per share data, number of shares and changes	Q2 2015	Q2 2014	Chg (%)	H1 2015	H1 2014	Chg (%)
Revenues	42,980	48,035	-10.5	86,064	92,142	-6.6
Cost of sales	-21,449	-20,870	2.8	-42,571	-39,338	8.2
<b>Gross profit</b>	<b>21,530</b>	<b>27,165</b>	<b>-20.7</b>	<b>43,493</b>	<b>52,804</b>	<b>-17.6</b>
Selling and marketing expenses	-2,680	-3,179	-15.7	-4,824	-6,122	-21.2
General and administrative expenses	-2,966	-2,847	4.2	-5,918	-5,249	12.7
Other operating income and expenses, net	174	-106		680	-545	
<b>Operating income</b>	<b>16,057</b>	<b>21,033</b>	<b>-23.7</b>	<b>33,432</b>	<b>40,888</b>	<b>-18.2</b>
Finance costs and other financial items, net	-1,405	-219		-1,991	-499	
<b>Income after financial items</b>	<b>14,652</b>	<b>20,814</b>	<b>-29.6</b>	<b>31,440</b>	<b>40,389</b>	<b>-22.2</b>
Income taxes	-3,333	-4,302	-22.5	-6,887	-8,242	-16.4
<b>Net income</b>	<b>11,319</b>	<b>16,512</b>	<b>-31.5</b>	<b>24,553</b>	<b>32,147</b>	<b>-23.6</b>
Earnings per share (KZT), basic and diluted	56.6	82.6	-31.5	122.8	160.7	-23.6



# Balance sheet

<b>KZT in millions</b>	<b>30 Jun 2015</b>	<b>31 Dec 2014</b>
<b>Assets</b>		
Intangible assets	13,877	12,494
Property, plant and equipment	101,272	108,955
Other non-current assets	492	145
<b>Total non-current assets</b>	<b>115,641</b>	<b>121,594</b>
Inventories	3,300	2,336
Trade and other receivables	18,033	14,543
Cash and cash equivalents	15,452	19,520
<b>Total current assets</b>	<b>36,785</b>	<b>36,399</b>
<b>Total assets</b>	<b>152,426</b>	<b>157,993</b>
<b>Equity and liabilities</b>		
Share capital	33,800	33,800
Retained earnings	24,567	58,274
<b>Total equity attributable to owners of the parent company</b>	<b>58,367</b>	<b>92,074</b>
Deferred tax liabilities	4,271	4,442
Other long-term liabilities	1,362	1,376
<b>Total non-current liabilities</b>	<b>5,633</b>	<b>5,818</b>
Short-term borrowings	47,155	25,020
Trade payables and other current liabilities	41,271	35,081
<b>Total current liabilities</b>	<b>88,426</b>	<b>60,101</b>
<b>Total equity and liabilities</b>	<b>152,426</b>	<b>157,993</b>



# Statement of cash flows

KZT in millions	Q2 2015	Q2 2014	H1 2015	H1 2014
Cash flow before change in working capital	17,794	24,767	36,856	45,616
Change in working capital	-1,418	-4,732	-8,725	-5,045
<b>Cash flow from operating activities</b>	<b>16,376</b>	<b>20,035</b>	<b>28,131</b>	40,571
Cash CAPEX	-5,155	-3,822	-13,721	-6,370
<b>Free Cash Flow</b>	<b>11,221</b>	<b>16,213</b>	<b>14,410</b>	<b>34,201</b>
<b>Cash flow before financing activities</b>	<b>11,221</b>	<b>16,213</b>	<b>14,410</b>	34,201
Cash flow from financing activities	-18,782	-47,362	-18,782	-48,312
<b>Cash flow for the period</b>	<b>-7,561</b>	<b>-31,149</b>	<b>-4,372</b>	<b>-14,111</b>
<b>Cash and cash equivalents, opening balance</b>	<b>22,972</b>	<b>35,954</b>	<b>19,520</b>	<b>18,916</b>
Cash flow for the period	-7,561	-31,149	-4,372	-14,111
Exchange rate difference	41	-	304	-
<b>Cash and cash equivalents, closing balance</b>	<b>15,452</b>	<b>4,805</b>	<b>15,452</b>	<b>4,805</b>

# Financial key ratios

	30 Jun 2015	31 Dec 2014
Return on equity*	67.4	63.3
Return on capital employed*	101.9	75.7
Equity/assets ratio	38.3	58.3
Net debt/equity ratio	42.1	6.0
Net debt/EBITDA** rate	0.34	0.05

\*Rolling 12 months

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



# 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.

