

**Kcell JSC**

**Q1 2018**

**Financial results**



## Kcell JSC Results for January – March 2018

**Almaty, 20 April 2018** – 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 2018.

### First quarter

- Net sales increased by 2.1 percent to KZT 36,386 million (35,632). Service revenue down 1.6 percent to KZT 32,267 million (32,797).
- EBITDA, excluding non-recurring items, increased by 1.5 percent to KZT 13,456 million (13,260). The EBITDA margin was stable at 37.0 percent (37.2).
- Operating income, excluding non-recurring items, down 5.0 percent to KZT 7,246 million (7,630).
- Net finance cost and other financial items decreased to KZT 2,315 million (2,683).
- Net income decreased by 5.0 percent to KZT 3,752 million (3,951).
- CAPEX-to-sales ratio of 7.6 percent (16.6).
- Free cash flow decreased to KZT 1,503 million (1,748).
- During the quarter, the subscriber base remained stable at 9,958 thousand (9,979).

## Financial highlights

KZT in millions, except key ratios, per share data and changes	Jan-Mar 2018	Jan-Mar 2017	Chg (%)	Jan-Dec 2017
Revenue	36,386	35,632	2.1	147,475
<i>of which service revenue</i>	32,267	32,797	-1.6	135,407
EBITDA excl. non-recurring items	13,456	13,260	1.5	57,647
<i>Margin (%)</i>	37.0	37.2		39.1
Operating income	7,246	7,630	-5.0	31,827
Operating income excl. non-recurring items	7,246	7,630	-5.0	34,500
Net income attributable to owners of the parent company	3,752	3,951	-5.0	13,786
Earnings per share (KZT)	18.8	19.8	-5.0	68.9
CAPEX-to-sales (%)	7.6	16.6		14.7
Free cash flow	1,503	1,748	-14.0	10,899

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 2017, unless otherwise stated.

Following the introduction of IFRS 15 for the purposes of the consolidated financial statements for the period ended 31 March 2018, the Company has reviewed the recognition of revenues and has changed its accounting policy. The Company applied IFRS 15 retrospectively using the practical expedient of the standard, under which the date of initial recognition is 1 January 2017. The following report presented with revised figures.



## Comments by Arti Ots, CEO

“During the first quarter of 2018, we have continued to see momentum in the business and have maintained our leading market position. This year has started with substantial price increases by all operators, together with decreasing data and off-net allowances for bundles. We have seen growth in revenue for the period, driven by buoyant handset sales. The enterprise segment has also continued to deliver strong growth, with robust sales of business solutions.

Kcell’s Board of Directors has recommended an annual dividend for 2017 at the 2016 level, amounting to KZT 11,678 million, or KZT 58.39 per ordinary share. This represents 87 percent of the Company’s net income for 2017, in line with Kcell’s dividend policy.

Our bond placing in January has expanded and diversified Kcell’s funding sources, whilst increasing the average term of our financial liabilities and decreasing our funding costs.

We are continuing to focus on rolling out 4G/LTE services and on boosting the quality of our technology and services. We now have 4G coverage across 50 percent of the country. At the same time, our Net Promoter score (NPS), a key measure of customer satisfaction, has increased by almost 10 percentage points, thanks to improved perceptions of the quality of Kcell’s network and products.

Overall, our ongoing digital transformation initiatives are bringing greater efficiency and effectiveness to the Company, as we continue to focus on delivering value to our customers and our shareholders.”

### Almaty

20 April 2018



## CONFERENCE CALL

Kcell will host an analyst conference call on 20 April 2018 at 9:30 London time / 14:30 Almaty / 11:30 Moscow. The conference call will be held in English, audio webcast will be available at <http://www.audio-webcast.com/cgi-bin/visitors.ssp?fn=visitor&id=5537>

### Dial in details are as follows:

UK Toll Free:	0800 358 6377
Standard International	
Dial-in:	+44 330 336 9105
Russia Toll Free:	8 800 500 9283
Russia Local Call number:	+7 495 213 1767
USA Toll Free:	800 263 0877
USA Dial-In:	+1 646 828 8143
Conference ID	5157769

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://kcell200418-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

Tel: +44 207 457 2020

Kay Larsen

Galyna Kulachek

Adrian Duffield



## Review of the first quarter 2018

### Net sales

Net sales increased by 2.1 percent to KZT 36,386 million (35,632). Service revenue decreased by 1.6 percent to KZT 32,267 million (32,797).

Revenue from voice services decreased by 5.3 percent to KZT 18,520 million (19,563). Data revenue increased by 6.1 percent to KZT 11,514 million (10,849). Revenue from value-added services was down 7.1 percent to KZT 2,215 million (2,384). Other revenue grew by 45.9 percent to KZT 4,137 million (2,836).

### Voice service revenue

Revenue from voice services decreased by 5.3 percent to KZT 18,520 million (19,563). Voice traffic was down 7.6 percent to 5,125 million minutes (5,545), while ARMU decrease to KZT 2.1 (2.2).

Interconnect revenue increased by 1.2 percent to KZT 5,313 million (5,252).

### Data service revenue

Data revenue increased by 6.1 percent to KZT 11,514 million (10,849). Data traffic increased by 37.8 percent to 58,311,057 GB (42,320,845). Growth in data traffic was offset by offering bundled packages with lower tariffs per MB, which led to a decrease in average revenue per MB (ARMB) to KZT 0.2 (0.3).

### Value-added service revenue

Revenue from value-added services was down 7.1 percent to KZT 2,215 million (2,384).

### Other revenue

Other revenue grew by 45.9 percent to KZT 4,137 million (2,836), mainly driven by higher handsets sales.

KZT in millions, except percentages	Jan-Mar 2018	% of total	Jan-Mar 2017	% of total
Voice services	18,520	50.9	19,563	54.9
Data services	11,514	31.6	10,849	30.4
Value added services	2,215	6.1	2,384	6.7
Other revenues	4,137	11.4	2,836	8.0
<b>Total revenues</b>	<b>36,386</b>	<b>100.0</b>	<b>35,632</b>	<b>100.0</b>



## EXPENSES

### Cost of sales

Cost of sales rose by 1.8 percent to KZT 22,994 million (22,579), mainly due to higher sales of devices, which, in turn, were offset by improvement in interconnect expenses.

### Selling and marketing expenses

Selling and marketing expenses decreased by 9.4 percent to KZT 2,364 million (2,609). This was primarily driven by a decrease in staff cost.

### General and administrative expenses

General and administrative expenses increased by 37.6 percent to KZT 4,108 million (2,985), mainly due to bad-debt expenses.

## EARNINGS, FINANCIAL POSITION AND CASH FLOW

**EBITDA**, excluding non-recurring items, increased by 1.5 percent to KZT 13,456 million (13,260). The EBITDA margin was 37.0 percent (37.2).

**Net finance cost and other financial items** decreased to KZT 2,315 million (2,683).

**Income tax expense** increased by 18.3 percent to KZT 1,178 million (996).

**Net income attributable to owners of the parent company** was down 5.0 percent to KZT 3,752 million (3,951) and earnings per share decreased to KZT 18.8 (19.8).

**CAPEX** decreased to KZT 2,760 million (5,928) with the CAPEX-to-sales ratio of 7.6 percent (16.6).

**Free cash flow** decreased to KZT 1,503 million (1,748).



## Key milestones for the first quarter of 2018

### January

- Kcell placed its KZT 4.95 billion bonds on the Kazakhstan Stock Exchange (KASE) at a yield of 11.5%. This was the first placement in the programme Kcell announced in December 2017, aimed at expanding and diversifying the Company's funding sources, increasing the average term of Kcell's financial liabilities and decreasing its funding costs.

### February

- Kcell received a unilateral termination notice of a Memorandum of Understanding (MoU) dated 26 August 2012 from Sonera Holding B.V. (Sonera). According to the MoU, Sonera granted Kcell the right to buy all of Sonera's participatory interests in Rodnik Inc LLP, the controlling shareholder of KazTransCom Joint Stock Company (details are available on page 57 «Acquisition and Investments» section of the Kcell Prospectus). As provided by the MoU, such notice terminates the MoU and with it Kcell's obligation to acquire all of Sonera's participatory interests in Rodnik Inc LLP.

## Significant events following the end of the reporting period

### April

- Kcell's Board of Directors recommended an annual dividend for 2017 at the 2016 level, amounting to KZT 11,678 million, or KZT 58.39 per ordinary share. This represents 87 percent of the Company's net income for 2017, in line with Kcell's dividend policy.

## Administrative and legal update

In July 2017, the Kazakhstan tax authority completed its comprehensive tax audit for the period from 2012 and 2015. Following the audit, the tax authority made a total claim of KZT 9.0 billion, of which KZT 5.8 billion is for unpaid taxes and KZT 3.2 billion represents fines and penalties for the late payment. The Company considers it unlikely that the full amount of the claim will become payable following the appeal process.

Kcell submitted administrative appeals to the highest level of Kazakhstan's government and to the Ministry of Finance. In January 2018, Kcell filed an appeal with the Court of First Instance, the claim was dismissed. This ruling, however, has not been enforced yet; the Company will appeal it to the court of higher instance (the Court of Appeal).



The January – March 2018 financial statements are being reviewed by the external auditors, and their report is expected to be available on the Kcell website starting from 15 May 2018.

**The information was submitted for publication at 09:00 ALMT on 20 April 2018.**

---

### Financial Information

Interim Report January-June 2018	20 July 2018
Interim Report January-September 2018	19 October 2018

---

### Questions regarding the reports:

Kcell JSC  
Investor Relations  
Timiryazev str. 2g  
050013 Almaty  
Tel. +7 727 2582755 ext.1002  
[www.investors.kcell.kz](http://www.investors.kcell.kz)

---

### 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 2018	Jan-Mar 2017	Chg (%)	Jan-Dec 2017
Revenues	36,386	35,632	2.1	147,475
Cost of sales	-22,994	-22,579	1.8	-90,107
<b>Gross profit</b>	<b>13,392</b>	<b>13,052</b>	<b>2.6</b>	<b>57,367</b>
Selling and marketing expenses	-2,364	-2,609	-9.4	-10,388
General and administrative expenses	-4,108	-2,985	37.6	-15,561
Other operating income and expenses, net	325	172	89.0	410
<b>Operating income</b>	<b>7,246</b>	<b>7,630</b>	<b>-5.0</b>	<b>31,827</b>
Finance costs and other financial items, net	-2,315	-2,683	-13.7	-9,419
<b>Income after financial items</b>	<b>4,931</b>	<b>4,947</b>	<b>-0.3</b>	<b>22,408</b>
Income taxes	-1,178	-996	18.3	-8,622
<b>Net income</b>	<b>3,752</b>	<b>3,951</b>	<b>-5.0</b>	<b>13,786</b>
<b>Other comprehensive income</b>				
<b>Total comprehensive income</b>				
Total comprehensive income attributable to owners of the parent	<b>3,752</b>	<b>3,951</b>	<b>-5.0</b>	<b>13,786</b>
Earnings per share (KZT), basic and diluted	18.8	19.8	-5.0	68.9
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	13,456	13,260	1.5	54,974
EBITDA excl. non-recurring items	13,456	13,260	1.5	57,647
Depreciation, amortization and impairment losses	-6,210	-5,630	10.3	-23,147
Operating income excl. non-recurring items	7,246	7,630	-5.0	34,500



## Condensed Consolidated Statement of Financial Position

KZT in millions	31 Mar 2018	31 Dec 2017
<b>Assets</b>		
Intangible assets	42,063	43,061
Property, plant and equipment	91,177	93,680
Other non-current assets	344	260
Long-term receivables	2,050	1,617
<b>Total non-current assets</b>	<b>135,635</b>	<b>138,618</b>
Inventories	4,896	3,425
Trade and other receivables	26,707	26,191
Cash and cash equivalents	13,429	12,660
<b>Total current assets</b>	<b>45,033</b>	<b>42,276</b>
<b>Total assets</b>	<b>180,668</b>	<b>180,894</b>
<b>Equity and liabilities</b>		
Share capital	33,800	33,800
Retained earnings	45,584	41,832
<b>Total equity attributable to owners of the parent</b>	<b>79,384</b>	<b>75,632</b>
Long-term borrowings	43,350	12,000
Deferred tax liabilities	4,164	4,667
Other long-term liabilities	1,362	1,355
<b>Total non-current liabilities</b>	<b>48,876</b>	<b>18,022</b>
Short-term borrowings	26,948	58,418
Trade payables, and other current liabilities	25,460	28,822
<b>Total current liabilities</b>	<b>52,408</b>	<b>87,240</b>
<b>Total equity and liabilities</b>	<b>180,668</b>	<b>180,894</b>



## Condensed Consolidated Statement of Cash Flows

KZT in millions	Jan-Mar 2018	Jan-Mar 2017	Jan-Dec 2017
Cash flow before change in working capital	12,329	10,009	51,680
Change in working capital	-6,743	-3,412	-18,197
<b>Cash flow from operating activities</b>	<b>5,586</b>	<b>6,597</b>	<b>33,483</b>
Cash CAPEX	-4,083	-4,849	-22,584
<b>Free cash flow</b>	<b>1,503</b>	<b>1,748</b>	<b>10,899</b>
<b>Cash flow from financing activities</b>	<b>-630</b>	<b>–</b>	<b>-6,678</b>
<b>Cash flow for the period</b>	<b>873</b>	<b>1,748</b>	<b>4,221</b>
<b>Cash and cash equivalents, opening balance</b>	<b>12,659</b>	<b>8,477</b>	<b>8,477</b>
Cash flow for the period	873	1,748	4,221
Exchange rate difference	-103	-181	-38
<b>Cash and cash equivalents, closing balance</b>	<b>13,430</b>	<b>10,044</b>	<b>12,660</b>

## Condensed Consolidated Statement of Changes in Equity

KZT in millions	Jan-Mar 2018			Jan-Mar 2017		
	Share capital	Retained earnings	Total equity	Share capital	Retained earnings	Total equity
Opening balance	33,800	41,832	75,632	33,800	39,724	73,524
Dividends	–	–	–	–	–	–
Total comprehensive income	–	3,752	3,752	–	3,950	3,950
<b>Closing balance</b>	<b>33,800</b>	<b>45,584</b>	<b>79,384</b>	<b>33,800</b>	<b>43,674</b>	<b>77,474</b>



## Basis of preparation

Following the introduction of IFRS 15 for the purposes of the consolidated financial statements for the period ended 31 March 2018, the Company has reviewed the recognition of revenues and has changed its accounting policy. The Company applied IFRS 15 retrospectively using the practical expedient of the standard, under which the date of initial recognition is 1 January 2017. The following report presented with revised figures. The details and quantitative impact of changes in accounting standards will be disclosed in audited financial statements for the period ended 31 March 2018. 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 2018	Jan-Mar 2017	Jan-Dec 2017
<b>Within EBITDA</b>			
Restructuring charges, synergy implementation costs, etc.	–	–	2,673
<b>Total</b>	<b>–</b>	<b>–</b>	<b>2,673</b>

## Investments

KZT in millions	Jan-Mar 2018	Jan-Mar 2017	Jan-Dec 2017
<b>CAPEX</b>			
Intangible assets	109	206	5,981
Property, plant and equipment	2,651	5,722	15,667
<b>Total</b>	<b>2,760</b>	<b>5,928</b>	<b>21,648</b>

## Related party transactions

In the first quarter ended 31 March 2018, Kcell purchased services for KZT 874 million and sold services for a value of KZT 134 million. Related parties in these transactions were mainly Telia Company and its group entities, Turkcell and Fintur Holding B.V.

## Net debt

KZT in millions	31 Mar 2018	31 Dec 2017
Long-term and short-term borrowings	70,298	70,418
Less short-term investments, cash and bank	-13,429	-12,660
<b>Net debt</b>	<b>56,869</b>	<b>57,758</b>



## Financial key ratios

	31 Mar 2018	31 Dec 2017
Return on equity (% , rolling 12 months)	17.5	18.2
Return on capital employed (% , rolling 12 months)	17.5	23.9
Equity/assets ratio (%)	43.9	41.8
Net debt/equity ratio (%)	71.6	76.4
Net debt/EBITDA rate (multiple, rolling 12 months)	1.03	1.05
Owners' equity per share (KZT)	396.9	378.2

## Operational data

	Jan-Mar 2018	Jan-Mar 2017	Chg (%)	Jan-Dec 2017
Subscribers, period-end (thousands)	9,958	9,979	-0.2	10,009
Of which prepaid	9,060	9,029	0.3	9,100
MOU (min/month)	206	220	-6.4	226
ARPU (KZT)	1,090	1,114	-2.2	1,146
Churn rate (%)	34.7	43.4	-20.0	56.1
Employees, period-end	1,883	1,831	2.8	1,921



**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.

