



# **Kcell JSC Investor Day**

Tuesday, 20<sup>th</sup> June 2017

## **Introductions and Agenda**

Arti Ots

*Chief Executive Officer, Kcell JSC*

### **Introductions**

Good morning ladies and gentlemen here in this room, and also we have people joining over webcasts, so a very warm welcome to everybody. My name is Arti Ots, I am the CEO of Kcell. Before we start, I would like to introduce the team who is available for your questions here today.

So, firstly, I would like to introduce our Chairman, Jan Rudberg. Jan has been with us from the IPO, so basically the most experienced person in this room today. I would like to continue with our Head of Consumer segment, Irina Savina; Irina joined us last year, and had been part of a very good turnaround in a company. Moving forward, Irina Shol, our Head of Investor Relations; the person you probably meet the most, and whenever you have questions or comments, she is the one who is taking care of that. Trond Moe, moving forwards, our CFO; also well known to every one of you. The person less known to you is our CTO, Sasa Lekovic; Sasa joined us actually a few years ago, firstly as sort of a Deputy CTO and now taking the full role of the CTO. Last but not least in our room, Vadim Lyu recently joined us and heading the B2B segment, primarily working on the IT business.

We have also a few people left home doing the work, let me introduce them as well. We have Kazbek Shaimov heading our customer channels; Assya Kalinkina heading HR, also joined the beginning of last year; Damir Zhanbakiyev, Head of Legal; and Alexander Prokopovich, Head of Procurement. So, those four people will not be here today, but with their thoughts they are always with us.

### **Agenda**

So, this is a very short introduction of the team. Let me walk you through what we do today here. So, we start off with our Chairman, Jan Rudberg, giving a bit of the perspective about this five-year journey of being a public company and what we have achieved, and what kind of ups and downs we have had. Then I will continue with a bit of the macro overview, what is going on in Kazakhstan and what are the latest trends in the regulatory environment, putting it a bit into context, continuing with Irina and Vadim on the B2B and B2C segments respectively. Then Sasa will give you an overview of the technological developments, and Trond will conclude how it all looks in our finance and other parts.

Please feel free to ask questions; we have a Q&A session at the end in case there are some questions that are being unanswered, but please be active here and also in the webcast, where you can send questions by email, I understand.

Let me give a word for a welcome speech from Jan. So, Jan, please go ahead.

## **Overview of Kcell**

Jan Rudberg

*Chairman, Kcell JSC*

Thank you, Arti, and good morning everyone and welcome to the Kcell Investor Day. Happy to see you here, and thanks very much for joining us this morning. Before you will get the

presentations and an overview of our strategies in the businesses, I would like just to reflect a little bit on the five years that I have been the Chairman of Kcell.

### **Constant change**

As in all businesses, there are ups and downs; we have had ups and downs as well. We have had macroeconomic uncertainty in Kazakhstan, which you all are quite aware of. We have also regulatory challenges that we have gone through; especially in 2016 we had real tailwinds, as they say in the airline industry. On top of these things we have had, of course, a fierce competitive situation in the market.

So, when looking back I can make one conclusion: it is that constant change is something that is in our DNA at Kcell, definitely. We have considerably improved our commercial agility, responding faster to customer demands and customer needs, having bigger ears, listening to what our customers want from us. We have been very careful with our finances. Of course, with a decline of revenues we have had a relentless cost-cutting activity in the company, but we have done it in a very responsible way. We have to think long term; telecommunications are a long-term investment, so we have done that.

We have done management changes; I am very proud to say today that we have a very, very well unified, strong management team in place, working very closely together in a team-oriented approach. Ever since the IPO, I have been very, very keen – and we have as a board – on the governance issues, and we said that even if we have a secondary listing, a GDR listing in London, our ambition is to be really best in class. We look constantly on these compliance issues, looking at if we are complying, or are not complying, and explaining if we are not complying. So, I think the governance issues have been very important for us, and I think today we are in much better shape than we were actually at the IPO. I am very proud to say that we were actually awarded by the Kazakhstan Stock Exchange, the KASE, for compliance and transparency this award.

What have we done more? Well, we have looked through all our key processes in the company, everything; procurement, tender processes, everything. We have spent enormous amounts of effort in training our people in Kcell in a number of areas, so I think we are in a very good shape. Of course, on top of that we have really, on the regulatory side – you will hear more about this later on, about our 4G rollout. So, we have been through constant change.

### **Market stabilisation**

There are always uncertainties, of course, in business, you know that, and we also have uncertainties. However, looking where I stand today, I feel much more comfortable today than I have been actually many years when I look forward. We see an economic recovery; I was recently in Astana talking to key people in government and so forth, and everyone seems to feel that, yes, Kazakhstan is now leading the Eurasian market in terms of economic recovery. However, there are of course always risks, and you are well aware of that.

We also have a market stabilisation. Kazakhstan is huge, the ninth largest country in the world with 17 million population, four players. We have done a consolidation in the market, there are three players, which gives me very, very good hope for the future.

In terms of governance, we have a very, very productive and harmonious co-operation between the board and the management team, which is good. We are seeing in the regulatory improvements, of course.

So, I definitely see light in the tunnel coming through; light is shining in the tunnel. We talked about shareholder value, of course, at the IPO, and you know what happened. I think with both feet on my ground, I can say that I think we will be able to develop and create shareholder value in Kcell.

So, those were my opening words, and I would like to just give the word back to Arti, please.

## **Country and Market Overview**

Arti Ots

*Chief Executive Officer, Kcell*

### **Macroeconomic environment**

Thank you very much, Jan. So, let us kick off then with a bit of the slides. We have built the slides in a way that, when some of our colleagues were not able to join us today, they would read it. So, they are not especially made for presentation, but rather to give a background information around different areas we are considering.

Basically continuing where, Jan, you stopped, we see a stabilisation of the macro environment. If you looked in Kazakhstan, based purely from a numbers point of view, it is one of the best places on Earth to invest. So, firstly, we have a young population; secondly, the population is growing; thirdly, if you look then we have almost the highest income compared to other peers in the region. So, that all makes it a very interesting place for investment. On top from that, Kazakhstan has been progressing four years in a row in the World Bank 'ease of doing business' ranking, and I was surprised to see that Kazakhstan is now on the fairly high 35<sup>th</sup> place in that ranking. I was just looking who are before and after, and actually before, just a few places above, is Switzerland. So, you think of Switzerland and Kazakhstan, you get a smile on your face but it is true; Kazakhstan is progressing on the ease of doing business. For instance, one of the areas that Kazakhstan had progressed the most in this ranking is how the contracts are enforced, and whether you can have a fair court. In that respect, Kazakhstan is already in the very, very high ranking. We as a business can say that, yes, that is how it is. So, if you go to the court against the government companies, or government bodies, if you feel unfairly treated, there is a chance that you win, if you are right. So, that gives me a good comfort personally to run the company in a country like that.

Of course, there are challenges that we cannot overlook. Kazakhstan is still very dependent on oil. Frankly, if you look then, another important area is the close economic operation with Russia, so whatever happens in Russia happens also in Kazakhstan. You see how the exchange rates between the Kazakh tenge and rouble have been basically going in par over the years, and you can almost see the direct correlation there.

When it comes to the foreign investment, then in recent years especially, Kazakhstan's government has put enormous effort on increasing investor confidence on investing in Kazakh companies, and Kcell is definitely one of these examples. If you look who is investing to Kazakhstan, then no wonder the Netherlands is in the first place and the UK is very close by. However, of course we know that a lot of investments are coming through the Dutch entities,

so similarly to our majority shareholder, we can also say we have a Dutch investor, even though through the body. So, this does not give you a direct understanding who is actually behind it.

So, all in all, I would say that the macro environment today is more stable, supportive; the oil price has stabilised; the Kazakh have made a conservative view on oil prices moving forwards, and built a budget on the lower level than the oil prices are today, so that all contributes very much towards our business.

Lastly, I would like to touch the point on the inflation, which is always the key question, and the interest rates. So, the inflation has been, more or less, 10%-ish in the country, and that is something that we feel. So, for a country like Kazakhstan, that is not a bad place to be.

### **Regulatory environment**

Let me also walk you through some of the recent regulatory changes we see in Kazakhstan. As you know, Kazakhstan joined WTO a few years back, and for our industry there is one key date, which is April 2018, where Kazakhstan took a commitment to lift exception of foreign-owned telecommunication companies getting licensed for international traffic. So, in that respect that gives Kcell an opportunity to start dealing directly with foreign operators.

Secondly, we have been talking about the MTRs in number of years. Now second year in a row the MTRs have been stable; there are no current talks around lowering the MTR any longer, and also there are no MVNOs in place.

Recently we released information about the new SORM requirements, and that is true, so there are the new SORM requirements which are tighter than the previous ones. Again, there is nothing surprising in it, and it is all public information, but as a company with a high integrity we always publish information like that. So, we need to effectively comply with the new SORM requirements by the end of this year.

Lastly, I would like to touch upon the mobile number portability, which was a big news in the beginning of last year; by now, around 100,000 subscribers have changed the operator. Kcell, being the biggest operator, is 50,000 in minus, but if you put it into the context of close to 30 million SIM cards, we cannot say that it is the real market maker.

So, all in all, also on the regulatory side there are a number of initiatives going on from Kcell and from our ministry to actually support the market to recover.

### **Strong market fundamentals**

Moving closer to our business, already actually three quarters in a row we can say that we are in a positive track when it comes to subscriber market share. Beeline is not officially publishing the numbers anymore from Q1 this year, so we have the latest here, the Q4 figures; however, our analysis shows that we were increasing the gap also in Q1 2017.

Another important factor that contributes to our business is the smartphone penetration, that has been increasing quarter on quarter, year on year, and we expect that trend to continue with the support of our strategy that Irina will elaborate a little bit later.

Still there is a big potential when it comes to ARPU. We believe that the ARPU and the prices are still depressed in the market, so we feel that there is at least 15–20% uplift potentially available for our market to recover, and that is primarily led by the smartphone penetration.

## **Main strategic business directions**

Now, getting closer to our business finally, what we have defined in Kcell is basically three segments moving forward. When Jan started his speech, he said that the company has changed already quite a bit, and we were very much the prepaid operator five years ago. The world is changing, so we have put a lot of efforts on what we call the mobile urban operator concept, which is effectively having own stores, offering smartphones with OTT services, and on the other side also a B2B market that is growing over 20% year on year in recent years. It is not the traditional way of doing business in B2B, but it is more of the solutions business we do and support our corporate customers.

So, this is a very short introduction from my side, as you normally hear me and Trond speaking, so I will leave, this time, more floor for our colleagues who you do not meet so frequently. I would like to give a word to Irina, our Head of Consumer segment to speak, basically, for the first part, and then she will hand over kindly to our B2B director, Vadim.

## **B2C Segments**

Irina Savina

*Director of Consumer, Kcell JSC*

### **Two well-defined B2C segments**

Thank you Arti, good morning everybody. Let me explain you about the B2C strategy in the market. As Arti has told already, there are two segments dedicated: mobile urban operator, and mobile FMCG operator. Both of them work very well because, generally, customers in Kazakhstan recognise Activ and Kcell as individual operators, despite the fact that we are indeed one company and use one single network. It is a great opportunity for us to capture the highest market share, as different brands talk to different customers.

So, the Kcell brand, historically, is represented in urban areas, with more sophisticated customers who pay attention to a more advanced product and technological innovations. So, we centred the Kcell brand role around the idea of leadership: a leader in the market for product services and of technology, and it is helping us to deliver leadership to our more sophisticated customers.

So, Activ is a strong mass-market brand widely represented in rural regions. Basically, the positioning of Activ is based on the idea of enabling connectivity, driven by the affordable price of the fighter brand.

Having two brands working together, and not blurring the line between one and the other, it is critical to establish which brands talk to which target audience. So, we dedicated a part of our ordinary prestige[?] audience we called 'conscious achievers'; we find another one called 'social trendsetters', who are younger, more modern and also driven by success, status and showing off. So, those two audiences, together with a secondary one called 'emulators', amount to about 30% of the market.

For the Activ brand the target audience contained three relevant segments: 'young explorers', 'life builders' and 'belongers', which together amounted to 60% of the market, driven by affordable price and motivated by good value for money.

So, we also defined the brand value for Kcell: delivering a superior and differentiated customer experience with solutions that meet customers' changing needs. While Activ is providing customers with easy, user friendly products with an accessible way to manage their account.

In order to keep the relevant share of voice of each brand, we use a communication strategy with all available and relevant advertising channels, putting the effort of a more personal approach of Kcell customers.

### **Wide product portfolio to satisfy customers' needs...**

In order to satisfy our customer needs, we developed a wide product portfolio based on different customer groups, usage pattern, spending power and future needs[?]. As Activ customers still make voice calls, and use data for general browsing and social networking, we offer to the them the Activ single-SIM bundle with voice, text and data, allowing Activ customers to benefit from the Kcell network and making sure that this interaction has a positive effect, with an aim of future migration of them to Kcell.

Kcell's product strategy goes beyond the current market offering by developing a strategic partnership with OTT providers and offering to the customer the variety of applications, starting with entertainment media and followed by those that help customers to improve the quality of their life.

We also have the wide range of smartphones, giving customers on both brands the possibility to buy a handset on a contract base.

### **...combined with the best contract phones, which are a great differentiation tool and revenue generator...**

So, this part of our business is very important for us, which also gives us a great differentiation in the market and additional revenue generation. We established the most attractive smartphone portfolio by signing the direct contracts with bestsellers to ensure the best market offer, and actively participating in iconic device pre-order campaigns followed by official launch. Together with continuous life-cycle promotional campaigns in co-operation with vendors, we ensure that our smartphone sales have a high turnover rate, as well as permanent customer flow to our offices. Of course, smartphones are a great tool to drive smartphone penetration within our customer base. At the end of 2016, 50% of our customers use smartphones compared to 41% a year ago.

In terms of market share, it is necessary to say that the smartphone market in Kazakhstan is mostly driven by consumer electronics, which has taken almost 90% of sales of our smartphones. Kcell, with a strong focus on smartphone sales, have taken now 5.2% of market share in revenue, and became the first large mobile operator in this segment. In units, in 2016, we grew almost twice.

So, we also use the smartphones not just to sell them, but also this is a great tool to retain customers and to increase their value. Having almost 20 years history of our clients, we developed our efficient scoring system and allow our customers to buy the smartphone in instalments of six, 12, 18 and 24 months, which we are bundling together with a wide range of bundles. As a result of it, in 2016 the share of contract phones among all phones sold at Kcell retail stores amounted to 90%, while 4G smartphone share reached 85% of all smartphones sold.

Despite the fact that we launched 4G only in September last year, 4G smartphone share among all smartphones in the Kcell network in 2016 increased by 15 percentage points compared to 2015.

Going forward, we continue listening and responding to our customers in order to upgrade their devices when they need and how they need, offering them annual upgrade, trade-in programme or operational leasing, which is also unique in the market. So, we also look for how to enlarge our bundles with appropriate accessories.

### **...and drive data usage...**

Of course, smartphone business is a great tool to drive data usage among customer base, as I already told. So, the 4G launch and the focus on this segment have led to the increasing number of bundle users, whose amount in 2017 reached 45% among all smartphone users. In terms of revenue, their share amounted to 65%, which is double compared to the previous year. However, last year with the introduction of 4G by all operators, all competitors used data as a competitive tool and started offering unlimited free 4G traffic, making it very difficult to grow data revenues under such competitive pressure. As a result of it, the average revenue per megabyte has fallen by 25%. However, Kcell has been able to stay away from this direct competition in data volume, and instead of offering unlimited 3G for bundle users, we offer unlimited access to entertainment media, which help us not only to retain customers in our customer base, but also send a correct signal to the market in order to improve the situation. This signal has been heard, and unlimited 3G offers have been withdrawn from the market by competitors in the beginning of this year.

### **...while promoting strategic adjacencies**

We developed strategic partnerships with OTT providers based on revenue-sharing models since 2016, allowing our customers to stream music, watch TV channels and read ebooks on their smart devices. Our actively-promoted media have led to great Kcell brand equity in the market, and also growing appreciation among Kcell and Activ customers. So, the quantity of OTT users at the end of 2016 became 122,000, and this number is growing.

So, following this success, just recently we launched Mobi Press, with an access for our customers to more than 70 most popular magazines. Also, in a month we are going to launch Mobi Kino, with an access to more than 100,000 movies and TV shows. With pride, I can tell that just recently, just a few weeks ago, we launched a mobile financial service portal; currently available only for Activ users, but as soon as Kcell's new billing system will be finalised, it will be also valid for Kcell customers, with 60 various financial services.

So, continuously, we are focusing on online commerce; big data, which is a new customer analytics tool helping us to capture all customer behaviour within our existing customer base, and using this insight for offering customers more advanced products in order to retain them or increase their value. We also offer a mobile marketing service for our third-party clients, giving them a possibility to send direct advertising of their service to a clearly dedicated opt-in base, which contains now more than 250,000 subscribers. In terms of connected devices, we are about to launch the first GPS tracker for kids; I think that is in one month.

### **Convenient and flexible omnichannel ecosystem**

Of course, OTT growing business greatly captures[?] the revenue of voice and messages, and we know that we have to respond to that. We put our focus also to our strong asset, which



OTT players do not have: it is our full integrated and scaled-up distribution channel, which today contains 30 exclusive points of sale and more than 60,000 non-exclusive shops, driven by third-party distribution. We are also present in large retailers, more than 200 shops where they are not only selling our SIM card but also making some service for our customers, and we have call centres which contain three parts – Activ, Kcell and B2B – which is giving the service for customers who still prefer voice-to-voice communication with us.

As the telecom market in Kazakhstan is fully saturated, with penetration more than 170%, all players in the market have seen reduction of their ability to capture new subscribers. At the same time, we understand that consumers, due to the internet access, evolved by becoming more sophisticated and demanding this product and prices. This new business reality challenges our traditional footprint every single day. In order to respond to this challenge, we are developing and transforming our traditional footprint to an absolutely new one, more flexible in order to meet new customer needs. So, our exclusive points of sale we are gradually to the centres of experience and expertise, where well trained staff, our staff, will give all kinds of information about more advanced products and new technologies to customers who actually need it.

We also work with selected retailers in order to be closer to them, as they are generating now customer flow also to their shops, and first contracts with retailers are on the way. Our integrated call centre means that we want to shift our service based on customer complaints to upsell and cross-sell in a fully integrated team. Also, we want to develop a low-cost sales channel called freelancer, or street sales, which is available in the areas or regions where it is not efficient to have the shops.

So, to date, our websites, Kcell and Activ, have been a more informational source. We understand that now we have to make this transformation to the sales-orientated digital channels, which provide customers with high contacts and boosting both operational and sales for B2C and B2B customers. So, now I am forwarding the word to Vadim.

## **B2B Operations**

Vadim Lyu

*Director of Enterprise, Kcell JSC*

### **Best solutions partner for enterprises...**

Thanks very much, Irina. My name is Vadim, and I will quickly go through our developments and our strategic vision on B2B. I joined Kcell quite recently, but I see that this is a very different and very interesting industry we work on, and there is a lot of stuff to do.

So, when we talk about the Enterprise division of Kcell, we position ourselves as a customer-centric digital business partner. So, we are not just a provider of mobile products; we are a real partner to our clients. We want to be a long term and very reliable partnership; we want to have that in place and we want to have a single point of sale for all the IT and digital products to our clients.

Now, how do we get that? We identified five main key segments for distribution and services, and these are the following. So basically, the first one is something to be proud of, to be honest: it is that we have more than 80 key account representatives, or key people working almost face to face with our clients for large and strategic enterprises. We also have more

than 25 small and medium enterprises' key accounts; they work with, as I say, small and medium as well as SOCO[?]. Then we have, and we constantly develop, our self-service portal, where we can give access to most of our products and services, which is online. We are also really concentrating on customer service; this is vital for B2B business, we believe that. We have a dedicated call centre, as Irina mentioned before, and a really comprehensive CRM system in place, which we constantly develop and improve. We also focus on upsale for IoT and mobile marketing, which are very innovative and we believe that this is the future for B2B and consumers as well.

So, all that effort results in the following fact: that we are number one throughout three operators in Kazakhstan in terms of B2B, as well as B2C; it is not official, but we are getting about 61% of market share as Kcell B2B. You can see on this graph the annual growth of our revenues, and also the share of B2B compared to B2C consumers. So, from 2014–2017 we grew 12%.

**...with a large variety of products to satisfy the demanding client's needs...**

This picture shows, very quickly, how we approach the products. So basically, we do not want to look at our products just as a product; we rather look at what we have in our customers. For every customer, we have different sectors for the business, and we say that we have to provide exceptional products for every sector like this. I will not go through every product, obviously, but I just wanted to mention that another thinking that we have is that we have to concentrate on uniqueness and innovation in our B2B business; for example, we have products like mobile scoring. You can probably guess what it is, right, and nobody in the market has it. Or, we have INFO Port, which is when you have zero balance, you can still call but you have to listen to advertising for 15 seconds; this is also unique and very effective to sell products.

**...and objective to retain the leading position in B2B**

Now, talking about strategy and maybe a bit of future vision, what we are working on is obviously, we are not losing the core whatsoever, right? We are concentrating to cement our core business by high quality of all the products that we provide, then we concentrate on contract phones. This is also something that nobody is providing as we are. We concentrate on longer subscription contracts, and we want to unite our billing system. This is regarding the core. However, also moving forwards towards business solutions where, as I said, we want to be very innovative and we want to be not only a telecom provider but also a digital IT partner, with dedicated customer care and account management, as I mentioned before. Which again, resulted just last month in us getting the numbers that we have 51% of sales on business solutions, so only 49% is now our core business. So, we are really moving towards this.

The way we move towards this, just like I explained before, we identified four main categories of pains, let us say, every customer of ours has. Any client would want to save cost, improve efficiency, boost sales somehow and make sure their business is sustainable, and in every part, we have products for them. This is how we approach to our clients. Then moving towards customer journey, in order to provide all that we have to think of customer experience, of every step of the customer journey. So, this is what we are concentrating on.

**B2B case study – key client example**

Just an example: this is a real example, and I wanted to show you a business case with one of our biggest clients, it is in the banking industry. What we did from 2014, when we started, is that we sat down with the client and we asked them, 'What are the pains? What are the problems you have?' In every sector of their business, like marketing or efficiency or operations, we helped them to be more effective, more efficient, to get the successful results with us. So, our client's success is basically our business; this is what we believe and this is what we promote, and this is how we deal with all the other clients, no matter what size it is. I think that was the last one, and then I give back to Arti.

**Commercial Strategy Focused on Customer Centricity and Customer Value**

Arti Ots

*Chief Executive Officer, Kcell JSC*

Thank you, Irina, thank you Vadim. So, let me summarise this part. We agreed that I would do these summary slides myself, so that you can then glue the whole presentation together.

What Irina and Vadim were talking about, primarily, is how we secure our market position moving forwards. There are a few key facts that I would like to outline. So, firstly, we are market leaders in both segments, in consumer and the business segment. However, we are not sleeping, so we are working in consumer segment with the contract phones, with OTT, with the overall digitalisation of our channels.

In B2B, like Vadim explained, the main focus now, we call it the core business, it is 49%, so what does it mean? So, that does not mean that we have a core business anymore; our core business is business solutions, if you have 51% of the B2B revenues already today from that segment.

Fourthly, OTT services is something that we have been looking how we should find our way. We have decided to be operator-grade OTT service provider; there are plenty of other options available, but operator grade is something that we can do. One important thing to add here is that the benefit for a customer is that we have a zero-rated traffic towards our services, whether music or TV.

Lastly, all of it concludes into becoming then an integrated IT service provider inside the company, and also selling the same solutions then outside, so you see that we address the market in that way.

However, whether we like it or not, we like to say that we are a very commercial company but after all we are just a technology company, and a technology company without a CTO is no technology company. So, I am glad to give a word now to Sasa who will walk you through what is cooking in the kitchen, or like they say, in this Italian boot factory. So, Sasa, please go ahead.

## Network and IT

Sasa Lekovic

*Director of Technology, Kcell JSC*

### Technology snapshot

Thank you, Arti. Good morning from my side. In the next ten minutes, I will try to update you about the current situation from a technology point of view inside of Kcell. This slide shows some basic information about our network infrastructure.

#### *Radio access network*

When we are talking about our radio access network, I want to say that the Kcell network is the largest network in Kazakhstan, with the best coverage and best quality of the service. It is not just good enough to say this; it is also very important to mention that the volume of data processed by this data on a daily basis is much, much bigger in comparison with the two other operators. For example, in Astana, which is the capital of Kazakhstan, from all traffic generated by three operators, 65% is generated on Kcell network.

We are using 2G, 3G, 4G technology. 4G is always newest technology, we started the last year with 4G technology. We are developing LTE using a network-sharing agreement with Beeline, and this project, we recognise it like one of our fastest-implemented projects globally. Everything is finished in nine months, from when we started to negotiate up to implementation.

Inside of this network-sharing agreement, we are using MORAN technology, and in this way we are providing a very efficient way how to decrease CAPEX and OPEX from one side to our company, but from another side to have complete control on quality of our services and also to provide total independence. Because, according to the contract, we have complete independence to do some unilateral development according to our business needs and our business strategy.

In parallel with all these activities, we are also, in the last 1.5 years, modernising our network, and our target is single RAN architecture; we are replacing the separate boxes per technology, 2G or 3G, everything is now in one box, where we have all technology. Also, our plans and concept is to share our network where it is possible, and currently we just started, 1.5 months ago, a project between all operators in Kazakhstan related to the rural coverage. This is a licence obligation to all operators, and if we will do this project standalone it will really cost to us so much, and this is a new sharing project which is coming.

#### *Core and IT*

When we are talking about our core and IT, I want to underline that we really have a very robust core, with fully-implemented geo-redundancy on HLR, HSA, SEFINAR[?], voice, core. At the same time, 1.5 years ago we modernised our packet core, and we implemented a very powerful packet core which is our main business driver for all new products which we are now selling on the Kazakhstan market. This packet core, on a daily basis, is processing around 600–700 terabits.

As in any company, we had some historical things on the IT side, some silos; and also, 1.5 years ago we started a big IT transformation. During last year we modernised the 25 different IT systems, we cleared all these silos and developed one integrated system.

Inside of this IT transformation project, one very specific and very important project is a new convergent billing system. We have finished the migration of post-paid customers on the new billing platform, and the expectation is, one year from now, to finalise the migration of pre-paid customers; in this way, we will have one convergent billing system, which will provide marketing advantage for our company.

In parallel with these things, everybody knows very well that IT is something that is already our future. We are consolidating our data centres and we will have, in the close future, just four database centres at the level of Kazakhstan, with some small micro data centres which will be controlled by these four big ones. To support this consolidation data centre programme, we started to use more and more virtualisation technology. Now in July, we will start with an NFI, a big proof of concept with the main players, and the expectation is from the beginning of next year to start to use NFI.

#### *Transmission*

Transmission, like the blood system of any telecoms operator, is always very important for us, and currently we are leasing intercity and international capacity from the local providers, first place from Kazakhtelecom, and this is the main transmission partner, and the main internet provider is TNS Plus. Our management absolutely are looking forward to resolving this important question for us and to move to the owned or long-term leased intercity and international transmission network.

#### **The largest network with fast deployment of nationwide 4G network**

On this slide, you can see some coverage of 2G, 3G and 4G network, and I will explain a little bit more on the right side of the slide population coverage which we have: on 2G, you can see, 96%; 3G, 73%; in 4G, you can see this difference between us and Beeline on one side and Tele2; we are on 40%, they are on 50%. The reason for that is that we and Beeline, we were awarded our LTE licence last year, but Tele2/Altel company – Altel is daughter company of the government of Kazakhstan's telecom – was awarded 3.5 years ago with the LTE. You can see that in just one year we succeeded to decrease this gap, from nothing, from 0% to 40%; end of this year, we will have already 48% of population coverage.

#### *Spectrum position relative to peers*

For mobile business, an absolutely mandatory instrument is spectrum, and we want to share with you information on where we are with our spectrum. You can see the spectrum resources of our all three operators. Kcell historically, from the beginning of the company, have this specific situation on 900MHz where we have sliced the spectrum, and pretty un-useful for 3G and LTE; we currently use it just for 2G. However, during the last year, during our LTE licence acquisition, we succeeded to get, two times 10MHz, one time on 800, another on 1,800, and we succeed to merge these 10MHz at 1,800 with 500MHz, with 55MHz which we had already for GSM. In this way, we have 15MHz in one block, and this is absolutely very good preparation tomorrow for reforming from 2G to the full LTE, but also tomorrow it will be useful for 5G.

I want to attract your attention on this 25MHz, the white one. 1.5 years ago, Kcell acquired a local company in Kazakhstan; this company was the owner of 25MHz on 2,600, and now we are in the process of a discussion with government, how to transfer this right on Kcell. These 25MHz are really very important for future business, and I just want to underline that in this

way Kcell already secured the future of the mobile business, because with this 25MHz and in combination with other frequencies, we can achieve 1GB bandwidth to our customers.

### **Kazakhstan transmission networks**

This slide shows physical topology of different Kazakhstan transmission providers. As I already mentioned, Kcell are using this capacity: for transportation of voice and signalisation, we are using the services, the transmissions capacity of Kazakhtelecom network; for internet services, we are using TNS Plus. On this slide, you can see different players on the Kazakhstan market, which are owners of the fibre, and the main duty of this management is to resolve this issue and to provide independence of the Kcell in the close future from the transmission point of view. This problem can be resolved in one of four ways: to continue to rent capacity from Kazakhtelecom with an acceptable price which will protect our profitability in the close future, because all of know very well that any year data are growing minimum 100% year over year. The second option is to build our own transmission network, to have our own fibre; it is taking a little bit more time. The third option is to rent fibre from some other providers, and in this way to build, in a short period of time, our own transmission network. The fourth option is to combine option two and option three: to build some part of the fibre by ourselves, to rent some fibre from some other operators, and also to share our own fibre which will build with some other operators.

### **IT snapshot**

A short snapshot about IT: I already mentioned that 1.5 years ago we started with a big transformation project inside of the company, and currently, as the rest of the history[?], ORGA, a pre-paid billing system which will be replaced at the commission one year from now with AMDOCS, which will be one convergent platform. Currently, we are using AMDOCS for post-paid, and one year from now will be just one convergent platform.

Also something that is very important with this convergent billing platform: we will eliminate two different product catalogues, we will have just one product catalogue. Also, we will improve our CRM; partially it is already done through the first phase of our convergent billing. Also, you know that always in any company it is always a big challenge how to integrate a new information system in the existing IT environment, and 1.5 years ago we also developed a new enterprise service bus inside of the house. This enterprise service bus is helping us very easily integrate any additional information systems, and to convert data between different applications without big challenges. In this way, we are decreasing our complexity of integration, also decreasing OPEX.

Something that is also very important: from the last year we implemented workflow engine, because the goal of the company is to increase automatisations of all business processes, and to introduce some kind of internal SLA between all departments and KPIs for any step inside of any business process. We implemented this new workflow engine, and this new workflow engine will help us to be very strict and much more efficient. Already, most important business processes for the Network department are already implemented on this workflow engine, and during this year we will implement for some other departments. This is from my side; I will back over to Arti.

## **Modernising Network/IT and Planning for Transmission Independence**

Arti Ots

*Chief Executive Officer, Kcell JSC*

Thank you, Sasa. So, just again summarising the key points before handing over to Trond, who will say how it all looks in financials then. Unfortunately, only the past view, as we are listed and not giving out the future promises. However, what we can promise is that we will develop further over our 4G, both from a capacity and from a coverage point of view. The idea here is not to cover with any cost anything, but it is more a selected approach where actually the customers with 4G phones are living. Secondly, the big project around the convergent billing; important for our realisation of commercial strategy, moving customers from pre-paid to post-paid seamlessly. Lastly, solving the long-term question of own fibre backbone together with the national licence.

So, these three areas are giving the robust platform for the company moving forward successfully, also hopefully in financial terms. So, Trond will be kind enough to walk you through some of the details you have not seen before; most likely, you will find interesting.

### **Financial Performance**

Trond Moe

*Chief Financial Officer, Kcell JSC*

#### **Improving revenue and interconnect trends**

Good morning everyone, hello. I will take you through some of the longer-term trends, especially on the financial side; not focusing so much on quarterly results, but more targeting where we go in the future.

This slide really shows an important trend of improving financials. As you know, we have had a pretty significant market shock in Kazakhstan with extremely intense competition, which also affected us, where we had a revenue decline last year. However, as you can see, this year-on-year decline of our service revenues has now reversed. You see four quarters in a row, and we are back to almost at the same level now as we were a year ago, so this is very positive. When you split it on data and voice, you see that on data we have an absolute growth in revenues, which is also very good, and even the voice revenue decline is reversing; we are not completely there yet, but we see very clearly the trend is improving, so this is good.

The other major point comparing to last year is the interconnect balance; the difference between what we receive of revenues from other operators, and what we pay to other operators. As you can see, last year we really had problems here, where we paid to other operators more than we received. This trend now also reversed, and we are back in positive interconnect balance in Q1 this year. We believe we will stay here going forwards, so this is very good, what has happened over the last year.

#### **Q1 2017 trading update – cost trends**

Looking to the future a little bit then. We have addressed also our cost base; as Jan mentioned at the beginning, we had a very tough cost-saving programme, so we have done

everything we can do on short-term cost savings. Now we need to address long-term structural costs, and I am going to talk a little bit more on that in the next slides. Just for the background, you see here the net income level has stabilised. We did have a hit in Q4, but this is a provision for a tax audit which we informed about in the quarterly results. Our CAPEX to sales ratio had been fairly stable. CAPEX went up a little bit last year due to the 4G rollout, but we expect it to come back to the previous level again this year. The EBITDA has also been quite stable over the last quarters; Q1 a little bit lower, mostly due to seasonal variations.

Then looking at cost, you see here the main cost drivers that are important for us in the future. Interconnect cost is high, but you see it has been dropping significantly in Q1, and also it is compensated now by interconnect revenues, so we have fairly good control on the interconnected situation now.

The other very big cost item is network maintenance, so we outsource today maintenance of our network to an external partner. We plan to change that; I am going to come back to that.

Then you see transmission rent. Like Sasa just talked about, we are renting the intercity transmission, mainly from Kazakhtelecom; this is a very high-cost item and it is also an insecure cost item, because we are vulnerable here to price increases from the providers, or the biggest provider.

Frequency usage we have put in here just to illustrate that we pay also a little bit more here; difficult to do something about, because it is a government fee we pay as we start using the 4G frequencies.

Then personnel costs, so that is the last big cost item which we also need to address in the future in a little bit smart way. We have cut personnel last year; we cannot do that more without serious consequences, so we need to think differently here and I will come back to it.

### **Seven clear, measurable and structured initiatives to increase efficiency in the near future**

#### *Distribution network development*

We have done now, running, seven different projects, if you like, or initiatives. I can tell you, it keeps us quite busy. First of all, on the distribution network; Irina talked about the importance of differentiating ourselves in the marketplace, so we have built an exclusive sales channel – Kcell-branded, very modern, fashionable – where we sell our contract phones. That is important, because we use our size and our leverage to source mobile phones directly from Apple with exclusive contracts, Samsung and other providers, and we let subscribers get this at zero upfront cost and pay on instalment. So, there is of course some risk, but we do our own scoring, we have full control over bad debt and the service revenues on those types of customers are more than double our other regular subscribers. So, we are focusing on this; it is of course costly to build our own distribution, but now we have the concept and now we are in a position that we can franchise it out, and there are already franchise shops opening now. So, this has become interesting for dealers, and we believe, long term, this is key for us to have success on the revenue side.

#### *Convergent billing*

Convergent billing Sasa already talked about; we are in the middle of changing billing systems. Not a small task; it is a huge task, actually, for a company with ten million



subscribers. We have done the first part on the post-paid side, and now we are about to launch the second phase – which is easier, luckily – on the pre-paid side.

#### *Digital transformation programme*

Thirdly here, what we call the digital transformation programme. This is about improving our structures and business processes on the one side, and on the second side it is about how we interact with customers. So, we want to modernise completely how we interact with customers, moving into the digital world with apps and online sales and so on, and we want to adapt the organisation to focus much more on service provision and in fact less on, maybe, service production. So, this is what this is about. We are targeting savings also here; not directly cutting personnel, but more optimising what we are doing ourselves and what we are outsourcing or doing even with joint ventures with others.

#### *Modernisation project*

Fourthly, a modernisation project. I think Sasa mentioned it, but what we are actually doing is we are modernising our whole telecom network, so not only on the radio access side where we are switching to completely modern 4G radio access stations, but also on the core and on the transmission. We are doing this over a period of several years without increasing CAPEX level, so not a small task, actually. This will future-proof our network for the future. We believe that we must have the most efficient and the lowest-cost production of services in order to have a long-term advantage in the marketplace.

#### *FLM restructuring*

Fifthly, what is called FLM, which is short for field line maintenance. This is addressing our maintenance costs which, as you saw on the former slide, is a big cost item. Today it is outsourced; we have tried to run a tender to see whether we could have more competition in this area, but that has been very difficult. There are not many – or any, really – third-party providers who can do this professionally and with the cost level that we want to do in Kazakhstan, so we have decided to insource it, or take control over it, and possibly also do it together with one or several operators to save cost from scale. This seems absolutely possible to do.

#### *Transmission project*

Then, sixth, transmission: both Arti and Sasa have talked about it. This is all about having a credible alternative to renting from other providers, or not being too dependent on one provider, so we are looking at all options, including building ourselves or a combination of building and leasing. This is the one of these projects that could lead to increased CAPEX level in the future; if we do decide to build ourselves then we may need to incur some investments, but that is not certain yet; we will see what options we will end up with.

#### *Network sharing*

Last but not least, network sharing. We have already launched 4G in a sharing mode with Beeline in Kazakhstan very successfully. I think we have a world record in launching a network-sharing project, so using good consultants, having good teams on both sides we launched this in a matter of just a few months, and it is very successful so far. We have increased our 4G coverage much faster than we could do by ourselves, and we have also increased the capacity.

Now we are looking to expand this. We may move into 2G/3G sharing; we are doing some piloting at the moment to see how that will work. That could lead to further significant long-term cost savings. We are also, in fact, looking at network sharing in rural areas with all three operators, both Beeline and Tele2. We have a licence obligation that came with the 4G spectrum to cover all settlements in Kazakhstan with a population of more than 500, plus roads and railways, and there is no sense in building three parallel networks in such areas. So, we have agreed with the operators, let us do it together; the regulator is fine with that, and we are moving now into technical operations. So, that is it from my side. Arti?

## The Main Drivers Influencing Financial Results

Arti Ots

*Chief Executive Officer, Kcell JSC*

Thank you, Tronds. I will now walk you through some of the drivers, to conclude this presentation, so what we are working and what is important for moving forward to the future.

So, firstly, we are heavily working with our regulator to create more favourable conditions to flexibly change our tariffs. As you probably have noticed, we have done a number of price changes already at the end of last year, and also this year, quite recently. Secondly, an important part of our revenues already is from the contract phones; it is not selling the phones, but FROM the contract phones, so that remains a focus together with enlarging our own branded or franchised sales channel. Moving forwards to B2B: B2B 51% is done, so this is the reason why Vadim joined us from completely another industry: to make, basically, an 80/20 split I hope in some years to come, with a significant contribution to our revenues, so building the B2B solutions where we feel we have a very strong advantage. Solving intercity transmission, that Trond just mentioned, and also addressing the network maintenance and also site costs through the network sharing. So, if we manage to do all these drivers, then I am very proud about the team and the development we have in the company.

However, not to keep you engaged with a PowerPoint only, I am opening up now for questions. We have opportunities here in the room to ask questions from all the colleagues around, plus we have also opportunity to ask questions directly online, so Irina will be then the one who is ready to answer. So, please, questions.

## Q&A

**Maria Sukhanova (Sberbank):** I think I have two questions, first about bundles. You disclosed the share of bundles in your revenues; I was just wondering: the users of those bundles, are they mostly using minutes or it is already data?

Just in general: is the market already data-centric, the pricing in the market, or it is still minutes? Do we have both sides here?

**Arti Ots:** So, firstly, it is people using more data than calling, naturally; and this share is changing, so this also leads to the question of how we calculate the data revenues in that respect. Today, we have an allocation model that is maybe not that aggressive, so we need to see, but it is primarily that people are using data. Also, different operators in different parts of the world – so, this is important for you to look when people say about the data revenue

growth – it is primarily in bundles; like you see, already 65% of revenues are from bundles. It is data-centric: people are buying data, minutes are coming just free of charge.

**Question:** It is great to see that the market share of subscribers is stabilising; how would you characterise the market share trends in data usage, given Kazakhstan is a multi-SIM market? We have heard some other providers mention that they are seeing they are winning some in data, for example; what is the split between data and voice?

**Arti Ots:** We do not have exact market share figures for data, unfortunately, though we understand, for instance, when the customers have a smartphone and they have very small usage on voice only, we expect us to be the second SIM card in the phone. The Kazakh market in that respect is very aggressive also on double-SIM phones. So, out of our smartphone base, around half are the double SIMs, so what we fight for is to be the primary SIM in the slot. In that respect, the bundle share and the bundle revenues are a very important metric to understand.

However, we do not have this data; we know the data volumes, but one of the important characteristics to understand is that, for instance, our colleagues from Tele2/Altel, they have big business on fixed mobile substitution, where they sell very big packages through the routers. That, of course, from a volume point of view gives incomparable data volumes. So, we have seen that we have no business case ourselves to invest in that area, on these price levels, at least at the moment.

Do we have any other questions online? If not, then I would propose to have a small lunch here. It depends where they are in the world; probably you would have either coffee or tea, late night, as we are very global. So, perhaps Jan and myself could do closing remarks.

**Irina Shol:** Sorry, we have one question online.

**Arti Ots:** So, we have a question around the intercity transmission for the future. We hope to get the clarity now within the summer; namely, we should get this clarity in more or less a month's time at the latest, to agree the strategy moving forward. Not to make a big secret, we are of course negotiating with all potential parties; we just have not got to agreement yet. We expect and we would like to create this clarity at the latest within one month, but that I also cannot promise; it very much depends on how we reach these agreements.

One more question: 'It seems that your competitors are rational when it comes to the 4G rollout and network sharing, but still irrational on pricing. Are you seeing an improvement in the aggressive offers of competitors?'

Yes, that is true; Kazakhstan is one of the best markets when it comes to the pricing for customers, and worst when it comes to the operators. We see the rational behaviour from our competition, and at the very moment we do not see the movement of the allowances to any rational levels. It is a bit supported today by the fact that the average consumption is still low, but it is of course shooting to the leg for the future, so this is how the model works today. If we would have a consumption like in Finland on average, then already today no operator would have a business model to support it. So, it is a very temporary game of offering high allowances of 20–30GB for the customers, but quite frankly if the customers would start to use 60–70% of these allowances, that would not be possible to serve and to invest.

So, I hope that we get this market out from these high allowance games, and be also fair and transparent to our customers, saying that, 'Hey guys, we do not really have a model to support these high allowances.' However, up until that, we are competing for our market share and we are not leaving even a bit for our competitors to gain.

Yes, Trond.

**Trond Moe:** Maybe I can just add that we have seen other operators increasing some legacy tariffs, which is allowed today from the regulatory side, and in fact we are also in the process right now of doing exactly the same, so there is some slight movement.

**Arti Ots:** Yes, but not on allowances.

**Trond Moe:** Not on allowances, no.

**Arti Ots:** Yes, so our allowances remain very aggressive. So, the ones who suffer from bad allowances in the US and in the UK, and the bad network quality, are all welcome to come to Kazakhstan and enjoy the good quality with the rock bottom prices until it lasts.

**Irina Shol:** We have no more questions.

**Arti Ots:** No more questions, then I thank you all for coming by. I thank everybody who stayed with us online and, like I said, I give closing remarks to Jan.

## **Closing Remarks**

Jan Rudberg

*Chairman, Kcell JSC*

Thank you very much Arti, and thank you very much for coming. I hope that you, from these presentations, find that there is a very vibrant company. The activity level in the company has never been higher, and it is all through the company. The way that we are actually handling the customers, which is so important; I talked about the commercial agility, the way we respond to new market demands; the way we are actually meeting the customers. I mean, talking about change, we are actually totally changing the distribution system in the companies, we are doing that as well. We also have robust processes, and we are developing the processes. We have never come to the final point; continuous improvement is so important, because in order to be good out there in the market with the customers, you have to have these robust processes. They should be, of course, supported by good technology, good systems, and we are investing a lot of money on that.

Then coming back, of course, to the nerve system, as you have been pointing out. The way we are looking this, I think telcos need to change, they need to be more asset-light. You need to share more resources; you cannot do everything, invent the wheel all over the place. So, where you are absolutely neutral from a competitive viewpoint, you can share resources, but of course you have to be able to compete fiercely for the customer.

So, the management presented to the board a scenario where we could go all the way from network sharing, more or less, to even thinking that longer term, it could be a netco. We can start with the 4G, the 2G, 3G; I am personally very in favour of continuing. We are doing the two pilots, the board will evaluate and see, should we go the next step? We are looking at fibre, what can we do together? That has been very well explained. Finally, we might end up

in the future in sort of a netco with good governance, being able to make considerable savings in the company. I have the figures, and when I see the figures I want to go in that direction. So, thank you very much for joining, and see you again. Thank you.

[END OF TRANSCRIPT]