

Kcell JSC

Interim Results for January – June 2014.

Almaty, 17 July, 2014 - 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 – June 2014.

CONTINUED IMPROVED DEVELOPMENT WITH INCREASED RESULTS

Second quarter

- Revenue increased by 3.8 percent to KZT 48,035 million (46,271).
- EBITDA, excluding non-recurring items, rose by 8.0 percent to KZT 27,536 million (25,508). EBITDA margin increased to 57.3 percent (55.1).
- Operating income, excluding non-recurring items, grew by 7.5 percent to KZT 21,238 million (19,748).
- Net finance cost decreased to KZT 219 million (537).
- Net income 6.2 percent higher at KZT 16,512 million (15,551).
- Free cash flow decreased to KZT 16,213 million (26,581).
- Net addition during the quarter is 154,000 subscriptions. The number of subscriptions decreased by 608,000 during the quarter, due to clean-up of 762,000 subscriptions, no effect on market share.

First half

- Revenue 3.2 percent higher at KZT 92,142 million (89,324).
- EBITDA, excluding non-recurring items, increased 8.1 percent to KZT 53,208 million (49,237). EBITDA margin of 57.7 percent (55.1).
- Operating income, excluding non-recurring items, up 9.0 percent to KZT 41,093 million (37,704).
- Net finance cost decreased to KZT 499 million (1,149).
- Net income up 10.1 percent to KZT 32,147 million (29,207).
- Free cash flow decreased to KZT 34,201 million (37,607).
- Net addition during the first half of the year is 126,930 subscriptions. The number of subscriptions decreased by 1,424,070 during the first half of the year, due to clean-up of 1,551,000 subscriptions, no effect on market share.

Financial highlights

KZT in millions, except key ratios, per share data and changes	Apr-Jun 2014	Apr-Jun 2013	Chg (%)	Jan-Jun 2014	Jan-Jun 2013	Chg (%)
Revenue	48,035	46,271	3.8	92,142	89,324	3.2
EBITDA excl. non-recurring items	27,536	25,508	8.0	53,208	49,237	8.1
Margin (%)	57.3	55.1		57.7	55.1	
Operating income	21,033	19,748	6.5	40,888	37,704	8.4
Operating income excl. non-recurring items	21,238	19,748	7.5	41,093	37,704	9.0
Net income attributable to owners of the parent	16,512	15,551	6.2	32,147	29,207	10.1
Earnings per share (KZT)	82.6	77.8	6.2	160.7	146.0	10.1
CAPEX-to-sales (%)	3.9	12.8		4.6	12.5	
Free cash flow	16,213	26,581		34,201	37,607	

In this report, comparative figures are provided in parentheses following the operational and financial results and refer to the same item in the second quarter of 2013, unless otherwise stated.

Comments by Ali Agan, CEO

“I am delighted to report another strong set of results for the second quarter and first half of 2014, driven by continued growth in revenue from data services, as Kcell continues to deliver on its strategy outlined at the time of its IPO in 2012. Our performance is supported by our leading market share in the face of strong competitive pressure, due to the excellent standard of services and products we provide.

Our EBITDA margin remains at the level of 57.3 percent; we have started iPhone sales later than initially planned. Continued focus on effective cost discipline, enabling us to deliver healthy net income growth despite the adverse macroeconomic backdrop following the devaluation of the tenge in the first quarter of the year. We have also maintained our focus on cash generation, and earlier this year announced a dividend representing 100 percent of the Company’s net income in the full year of 2013, with 70 percent of the dividend paid out in June.

We have now completed the restructuring of the commercial department, optimised headcount; and are transforming Kcell from a pure mobile operator to a service provider. Business sustainability, compliance and governance are key priorities. At our AGM, we introduced some new members to the Board, including a new independent director, Vladimir Smirnov, a former Olympic champion and prominent entrepreneur and business strategist in Sweden. As a result, independent directors now make up half of the Board. At the same time we are continuing to develop technologies, products and services that meet the increasingly sophisticated requirements of our customers and we approach the second half of the year with confidence.”

CONFERENCE CALL

Kcell will host an analyst conference call on 17 July, 2014 at 09:00 UK time / 14:00 Almaty / 12:00 Moscow. The conference will be held in English, audio webcast will be available at

<http://www.audio-webcast.com/cgi-bin/visitors.ssp?fn=visitor&id=2310>

Dial in details are as follows:

UK Free Call Dial In:	0800 358 5256
Standard International Dial-in:	+44 207 190 1595
Russia Local Call number:	+7 495 662 57 93
USA Free Call Dial-in:	+1 877 941 6013
USA Dial-In:	+1 480 629 9822

Conference ID	4690327
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A presentation will be available on the Company website shortly before the conference call on www.investors.kcell.kz/en

A replay will be available at: <http://kcell170714-live.audio-webcast.com>

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Review of the second quarter 2014

Revenue

Revenue rose by 3.8 percent to KZT 48,035 million (46,271).

Revenue from voice services decreased by 5.3 percent to KZT 34,240 million (36,151). Data revenue increased by 41.1 percent to KZT 8,368 million (5,932) and revenue from value-added services grew by 2.0 percent to KZT 4,237 million (4,152). Other revenue increased to KZT 1,190 million (36).

KZT in millions, except percentages	Apr-Jun		Apr-Jun	
	2014	% of total	2013	% of total
Voice services	34,240	71.3	36,151	78.1
Data services	8,368	17.4	5,932	12.8
Value added services	4,237	8.8	4,152	9.0
Other revenues	1,190	2.5	36	0.1
Total revenues	48,035	100	46,271	100

Voice service revenue

Revenue from voice services decreased to KZT 34,240 million (36,151). Voice traffic declined to 5,848 million minutes (5,959).

Outgoing voice revenue was 7.2 percent lower at KZT 26,012 million (28,018).

Interconnect revenue was 3.9 percent lower at KZT 6,586 million (6,850).

Data service revenue

Data revenue was 41.1 percent higher at KZT 8,368 million (5,932). Data traffic increased by 97.8 percent to 6,803,701 GB (3,439,688). Growth in data traffic was partially offset by offering packages with lower tariffs per MB, which led to a decrease in average revenue per MB (ARMB) to KZT 1.2 (1.7).

Value-added service revenue

Revenue from value-added services increased by 2.0 percent to KZT 4,237 million (4,152).

Other revenue

Other revenue increased to KZT 1,190 million (36), due to the sales of iPhone handsets.

EXPENSES

Cost of sales

Cost of sales rose 5.7 percent to KZT 20,870 million (19,752), primarily due to an increase in cost of goods sold attributable to the cost of iPhones.

Selling and marketing expenses

Selling and marketing expenses decreased by 24.8 percent to KZT 3,179 million (4,229). The decrease was primarily driven by lower commissions.

General and administrative expenses

General and administrative expenses increased by 6.5 percent to KZT 2,847 million (2,674), primarily due to an increase of staff cost and taxes.

EARNINGS, FINANCIAL POSITION AND CASH FLOW

EBITDA, excluding non-recurring items, increased 8.0 percent to KZT 27,536 million (25,508). The EBITDA margin is 57.3 percent (55.1).

Net finance cost decreased to KZT 219 million (537), which is related to net interest expenses.

Income tax expense increased by 17.5 percent to KZT 4,302 million (3,660).

Net income attributable to owners of the parent company increased by 6.2 percent to KZT 16,512 million (15,551) and earnings per share increased to KZT 82.6 (77.8).

CAPEX decreased to KZT 1,888 million (5,909) and CAPEX-to-sales ratio decreased to 3.9 percent (12.8).

Free cash flow was down to KZT 16,213 million (26,581), primarily due to a change in working capital.

Net debt/equity ratio was 24.2 percent (6.0).

Net debt/EBITDA ratio was 0.15 (0.06).

The equity/assets ratio was 46.8 percent (61.0).

Review of the first half of 2014

Revenue

Revenue increased by 3.2 percent to KZT 92,142 million (89,324).

Revenue from voice services declined by 5.5 percent to KZT 65,606 million (69,440). Data revenue was 43.9 percent higher at KZT 16,693 million (11,604) and revenue from value-added services increased by 5.4 percent to KZT 8,512 million (8,076). Other revenue increased to KZT 1,331 million (204).

KZT in millions, except percentages	Jan-Jun		Jan-Jun	
	2014	% of total	2013	% of total
Voice services	65,606	71.2	69,440	77.8
Data services	16,693	18.1	11,604	13.0
Value added services	8,512	9.3	8,076	9.0
Other revenues	1,331	1.4	204	0.2
Total revenues	92,142	100	89,324	100

Voice service revenue

Revenue from voice services decreased to KZT 65,606 million (69,440). Voice traffic decreased by 0.5 percent to 11,424 million minutes (11,482). ARMU decrease to KZT 4.4 (4.7).

Outgoing voice revenue declined by 7.2 percent to KZT 49,975 million (53,825).

Interconnect revenue decreased by 4.2 percent to KZT 12,555 million (13,100).

Data service revenue

Data revenue rose by 43.9 percent to KZT 16,693 million (11,604). Data traffic increased by 102.9 percent to 13,281,367 GB (6,544,520). Growth in data traffic was partially offset by offering packages with lower tariffs per MB, which resulted in a decrease in average revenue per MB (ARMB) to KZT 1.2 (1.7).

Value-added service revenue

Revenue from value-added services was 5.4 percent higher at KZT 8,512 million (8,076). Information and entertainment services drove value added services revenue up.

Other revenue

Other revenue increased to KZT 1,331 million (204). The increase was attributable to the sales of iPhone handsets.

EXPENSES

Cost of sales

Cost of sales rose by 2.5 percent to KZT 39,338 million (38,378), driven largely by an increase in amortisation cost and an increase in cost of goods sold attributable to cost of iPhones.

Selling and marketing expenses

Selling and marketing expenses decreased by 24.7 percent to KZT 6,122 million (8,125). The decrease was primarily driven by lower commissions.

General and administrative expenses

General and administrative expenses decreased by 1.2 percent to KZT 5,249 million (5,315) primarily due to a decrease in depreciation expenses, this decrease was partially offset by an increase in staff cost.

EARNINGS, FINANCIAL POSITION AND CASH FLOW

EBITDA, excluding non-recurring items, increased 8.1 percent to KZT 53,208 million (49,237). The EBITDA margin was 57.7 percent (55.1).

Net finance cost decreased to KZT 499 million (1,149) which is related to net interest expenses.

Income tax expense increased by 12.2 percent to KZT 8,242 million (7,348).

Net income attributable to owners of the parent company increased by 10.1 percent to KZT 32,147 million (29,207) and earnings per share increased to KZT 160.7 (146.0).

CAPEX decreased to KZT 4,261 million (11,183) and the CAPEX-to-sales ratio decrease to 4.6 percent (12.5).

Free cash flow declined to KZT 34,201 million (37,607), primarily due to a change in working capital.

Net debt/equity ratio was 24.2 percent (6.0).

Net debt/EBITDA ratio was 0.15 (0.06).

The equity/assets ratio was 46.8 percent (61.0).

Key Milestones 2014

January

- On 30 January 2014, the Company obtained a State Licence to engage in the sale of facilities for cryptographic protection of information. This licence allows selling smartphones and other devices with encrypting functions.

February

- On 11 February 2014, the National Bank of Kazakhstan announced that it would only be supporting the national currency at a new exchange rate of KZT185/USD +/- KZT3. The previous official exchange rate was KZT155.6/USD.

May

- The Company won the Global Telecoms Business (GTB) Innovation Award 2014 in the Consumer Service Innovation category for the 'Great Silk Road' traveler application. The Global Telecoms Business Innovation Awards recognises the most exciting and innovative projects in the telecoms industry.
- Kcell CEO Ali Agan was named the Executive of the Year by the American Chamber of Commerce at the «AmCham Achievements Award 2014». This award is given for outstanding achievements of companies and their executives. In 2013 Kcell demonstrated excellent financial results and reinforced its leading position on the Kazakh mobile market.
- Kcell announced that it has started offering iPhone 5s, the most forward-thinking smartphone in the world, and iPhone 5c, the most colourful iPhone yet.
- The Annual General Meeting of shareholders (AGM), held on 21 May 2014, approved the following composition of Kcell's Board of Directors:
 - Jan Erik Rudberg (Independent Director);
 - William H.R. Aylward (Independent Director);
 - Vladimir Smirnov (Independent Director);
 - Kenneth Berndt Karlberg (Representative of the shareholder Sonera Holding B.V.);
 - Erik Hallberg (Representative of the shareholder Fintur Holdings B.V.);
 - Ingrid Maria Stenmark (Representative of the shareholder Fintur Holdings B.V.).
- The AGM approved the proposal of Kcell's Board of Directors to distribute 70 percent of the net income for 2013 as an Annual Dividend and an additional 30 percent as a Special Dividend. The Company will distribute a total of KZT 63,390 million representing 100 percent of its net income for the period from 1 January 2013 to 31 December 2013.

The total dividend amount will equate to a gross figure of KZT 316.95 per ordinary share (each GDR representing one ordinary share). Kcell shareholders who are registered at the record date of 7 June, 2014 (01:00 Almaty time) will be entitled to receive the dividends.

June

The dividends are paid in two separate tranches:

- KZT 44,362 million or KZT 221.81 gross per ordinary share – were paid on 27 June 2014; and
 - KZT 19,028 million or KZT 95.14 gross per ordinary share – will be paid during the period 10 December 2014 - 31 December 2014.
- The AGM appointed Deloitte LLP as the Company's auditor.

17 July 2014

Ali Agan
Chief Executive Officer

LEGAL PROCEEDINGS

“Daytime Unlimited” service

On 15 April 2014, the Board of Appeals announced its decision. The court decided to partially grant the complaint, and impose a KZT 325.9 million fine on Kcell. The fine has been paid. The Agency for Competition Protection (ACP) may, however, challenge the appellate court decision in prosecution authorities.

On 18 March 2014 ACP issued an Order, pursuant to which Kcell was requested to correct the alleged violations before 21 April 2014, to ensure that it refunds subscribers that lost funds as a result of Kcell’s failure to stop subscribers’ connections when their funds ran out. Kcell appealed this order, which the Court dismissed. The Company has the right to appeal further. The case may lead to additional financial expenses.

“Always Available” service

On 7 July 2014, the administrative Court announced its decision. The Court determined to partially grant the complaint and impose a KZT 41.7 million fine on Kcell. The Court decision has not yet come into force as the Company is going to appeal.

On 27 November 2013, the ACP issued an order on eliminating violations under the “Always Available” service. Kcell challenged the order in the Court, which was then dismissed. The Company once again challenged this decision hence, Court hearings are ongoing. The case may lead to additional financial expenses.

The information was submitted for publication at 09:00 ALMT on 17 July 2014.

Financial Information

Interim Report January–September 2014 17 October 2014

Year-end Report January–December 2014 29 January 2015

Questions regarding the reports:

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Definitions

EBITDA: Earnings Before Interest, Tax, Depreciation and Amortisation. Equals operating income before depreciation, amortisation 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	Apr-Jun 2014	Apr-Jun 2013	Chg (%)	Jan-Jun 2014	Jan-Jun 2013	Chg (%)
Revenues	48,035	46,271	3.8	92,142	89,324	3.2
Cost of sales	-20,870	-19,752	5.7	-39,338	-38,378	2.5
Gross profit	27,165	26,519	2.4	52,804	50,946	3.6
Selling and marketing expenses	-3,179	-4,229	-24.8	-6,122	-8,125	-24.7
General and administrative expenses	-2,847	-2,674	6.5	-5,249	-5,315	-1.2
Other operating income and expenses, net	-106	132		-545	198	
Operating income	21,033	19,748	6.5	40,888	37,704	8.4
Finance costs and other financial items, net	-219	-537		-499	-1,149	
Income after financial items	20,814	19,211	8.3	40,389	36,555	10.5
Income taxes	-4,302	-3,660	17.5	-8,242	-7,348	12.2
Net income	16,512	15,551	6.2	32,147	29,207	10.1
Other comprehensive income						
Total comprehensive income						
Total comprehensive income attributable to owners of the parent	16,512	15,551	6.2	32,147	29,207	10.1
Earnings per share (KZT), basic and diluted	82.6	77.8	6.2	160.7	146.0	10.1
Number of shares (thousands)						
Outstanding at period-end	200,000	200,000		200,000	200,000	
Weighted average, basic and diluted	200,000	200,000		200,000	200,000	
EBITDA	27,331	25,508	7.1	53,003	49,237	7.7
EBITDA excl. non-recurring items	27,536	25,508	8.0	53,208	49,237	8.1
Depreciation, amortization and impairment losses	-6,298	-5,760	9.3	-12,115	-11,533	5.0
Operating income excl. non-recurring items	21,238	19,748	7.5	41,093	37,704	9.0

Condensed Consolidated Statements of Financial Position

KZT in millions	Jun 30, 2014	Dec 31, 2013
Assets		
Intangible assets	13,223	13,955
Property, plant and equipment	105,374	112,369
Other non-current assets	2,873	3,131
Total non-current assets	121,470	129,455
Inventories	2,036	499
Trade and other receivables	12,661	10,410
Cash and cash equivalents	4,805	18,916
Total current assets	19,502	29,825
Total assets	140,972	159,280
Equity and liabilities		
Share capital	33,800	33,800
Retained earnings	32,150	63,393
Total equity attributable to owners of the parent	65,950	97,193
Deferred tax liabilities	5,296	5,232
Other long-term liabilities	1,350	1,426
Total non-current liabilities	6,646	6,658
Short-term borrowings	20,766	24,721
Trade payables	41,349	23,361
Other current liabilities	6,261	7,347
Total current liabilities	68,376	55,429
Total equity and liabilities	140,972	159,280

Condensed Consolidated Statements of Cash Flows

	Apr-Jun 2014	Apr-Jun 2013	Jan-Jun 2014	Jan-Jun 2013
KZT in millions				
Cash flow before change in working capital	24,767	22,323	45,616	42,539
Change in working capital	-4,732	7,968	-5,045	4,041
Cash flow from operating activities	20,035	30,291	40,571	46,580
Cash CAPEX	-3,822	-3,710	-6,370	-8,973
Free cash flow	16,213	26,581	34,201	37,607
Total cash flow from investing activities	-3,822	-3,710	-6,370	-8,973
Cash flow before financing activities	16,213	26,581	34,201	37,607
Cash flow from financing activities	-47,362	-26,652	-48,312	-38,602
Cash flow for the period	-31,149	-71	-14,111	-995
Cash and cash equivalents, opening balance	35,954	2,151	18,916	3,075
Cash flow for the period	-31,149	-71	-14,111	-995
Cash and cash equivalents, closing balance	4,805	2,080	4,805	2,080

Condensed Consolidated Statements of Changes in Equity

	Jan-Jun 2014			Jan-Jun 2013		
	Share capital	Retained earnings	Total equity	Share capital	Retained earnings	Total equity
KZT in millions						
Opening balance	33,800	63,393	97,193	33,800	32,403	66,203
Dividends	-	-63,390	-63,390	-	-32,402	-32,402
Total comprehensive income	-	32,147	32,147	-	29,207	29,207
Closing balance	33,800	32,150	65,950	33,800	29,208	63,008

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention as modified by the initial recognition of financial instruments based on fair value. The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. Actual results could differ from those estimates.

Non-recurring items

	Apr-Jun 2014	Apr-Jun 2013	Jan-Jun 2014	Jan-Jun 2013
KZT in millions				
Within EBITDA				
Restructuring charges, synergy implementation costs, etc.	205	-	205	-
Total	205	-	205	-

Investments

	Apr-Jun 2014	Apr-Jun 2013	Jan-Jun 2014	Jan-Jun 2013
KZT in millions				
CAPEX				
Intangible assets	525	178	525	490
Property, plant and equipment	1,363	5,731	3,736	10,693
Total	1,888	5,909	4,261	11,183

Related party transactions

For the six months ended 30 June 2014, Kcell purchased services for KZT 927 million and sold services for a value of KZT 568 million. Related parties in these transactions were mainly TeliaSonera and its group entities, Turkcell, Fintur Holding B.V. and KazTransCom.

Net debt

	30 Jun 2014	31 Dec 2013
KZT in millions		
Long-term and short-term borrowings	20,766	24,721
Less short-term investments, cash and bank	-4,805	-18,916
Net debt	15,961	5,805

Financial key ratios

	30 Jun 2014	31 Dec 2013
Return on equity (% , rolling 12 months)	81.3	65.2
Return on capital employed (% , rolling 12 months)	114.8	76.5
Equity/assets ratio (%)	46.8	61.0
Net debt/equity ratio (%)	24.2	6.0
Net debt/EBITDA rate (multiple, rolling 12 months)	0.15	0.06
Owners' equity per share (KZT)	329.8	486.0

Contractual obligations

On 30 June 2014, contractual obligations in respect of property, plant and equipment totaled KZT 4,037 million (31 December 2013: KZT 5,809 million), mostly related to purchase of telecommunications equipment from Ericsson and ZTE Corporation.

Operational data

	Apr-Jun 2014	Apr-Jun 2013	Chg (%)	Jan-Jun 2014	Jan-Jun 2013	Chg (%)
Subscribers, period-end (thousands)	12,883	14,076	-8.5	12,883	14,076	-8.5
Of which prepaid	11,237	12,324	-8.8	11,237	12,324	-8.8
MOU (min/month)	161	156	3.1	155	152	2.0
ARPU (KZT)	1,168	1,097	6.5	1,112	1,070	3.9
Churn rate (%)	52.9	30.7	72.2	55.1	26.4	108.7
Employees, period-end	1,690	1,609	5.0	1,690	1,609	5.0

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.