

Kcell JSC

Q3 2018

Financial results



Kcell JSC

Interim Results for January – September 2018

Almaty, 19 October 2018 – Kcell Joint Stock Company ("Kcell" or the "Company") (LSE, KASE: KCEL), the leading provider of mobile telecommunications services in Kazakhstan, announces its interim results for January – September 2018.

Third quarter

- Net sales increased by 3.8 percent to KZT 38,970 million (37,549). Service revenue decreased to KZT 33,668 million (34,695).
- EBITDA, excluding non-recurring items, was stable at KZT 14,593 million (14,626). EBITDA margin of 37.4 percent (39.0).
- Operating income, excluding non-recurring items, decreased by 11.9 percent to KZT 7,875 million (8,943).
- Net financial items decreased to KZT -2,181 million (-2,267).
- Net income decreased by 22.7 percent to KZT 3,007 million (3,889).
- Free cash flow decreased to KZT 3,762 million (3,986).
- During the quarter, the Company's subscriber base declined to 9,234 thousand (10,062). This was due to higher churn of inactive promo SIM cards as a result of the revised strategic priorities - moving from quantity driven distribution to value driven acquisition.

Nine-month period

- Net sales grew by 2.2 percent to KZT 111,659 million (109,262). Service revenue down 2.8 percent to KZT 98,000 million (100,848).
- EBITDA, excluding non-recurring items, decreased by 3.5 percent to KZT 39,974 million (41,427). EBITDA margin of 35.8 percent (37.9).
- Operating income, excluding non-recurring items, down 16.5 percent to KZT 20,354 million (24,376).
- Net financial items decreased to KZT -6,346 million (-6,911).
- Net income increased by 10.3 percent to KZT 9,380 million (8,506).
- Free cash flow decreased to KZT 4,103 million (8,190).
- The number of subscribers decreased by 767 thousand year-on-year (10,001).



Financial highlights

KZT in millions, except key ratios, per share data and changes	Jul-Sep 2018	Jul-Sep 2017	Chg (%)	Jan-Sep 2018	Jan-Sep 2017	Chg (%)
Revenue	38,970	37,549	3.8	111,659	109,262	2.2
<i>of which service revenue</i>	33,668	34,695	-3.0	98,000	100,848	-2.8
EBITDA excl. non-recurring items	14,593	14,626	-0.2	39,974	41,427	-3.5
<i>Margin (%)</i>	37.4	39.0		35.8	37.9	
Operating income	6,932	8,943	-22.5	18,346	21,703	-15.5
Operating income excl. non-recurring items	7,875	8,943	-11.9	20,354	24,376	-16.5
Net income attributable to owners of the parent company	3,007	3,889	-22.7	9,380	8,506	10.3
Earnings per share (KZT)	15.0	19.4	-22.7	46.9	42.5	10.3
CAPEX-to-sales (%)	13.5	9.9		11.6	12.4	
Free cash flow	3,762	3,986		4,103	8,190	

In this report, comparative figures are provided in parentheses following the operational and financial results and refer to the same item in the third quarter of 2017 unless otherwise stated.

Comments by Mansur Khamidov, CEO

“In the third quarter of 2018, our key priority was to shift from ‘volume to value’, focusing on attracting quality customers while moving away from volume driven distribution. As a result, our registered subscriber base declined to 9.2 million, but the number of revenue generating customers remains stable. In addition, the decline had no impact on our revenue market share.

This shift in our strategy will positively impact our subscriber acquisition costs and will, to some extent, enable us to avoid revenue erosion. It is in line with the imposed regulation related to the re-registration of subscribers.

Net sales in the third quarter increased by 3.8 percent driven primarily by handset sales, a rise in B2B business solutions sales as well as improved interconnect revenue. B2C service revenues remain under pressure, with slight improvements in September related to continuous tariff portfolio developments.



In the third quarter of 2018, our key priority was to shift from ‘volume to value’, focusing on attracting quality customers while moving away from volume driven distribution

We continue to make progress to roll out our 4G/LTE network and I am pleased to report that the plan for 2018 has been almost fulfilled. We are also adding additional capacity to our 4G/LTE network across several large urban areas.

It was my great privilege to participate in Kcell’s 20th anniversary celebrations in September this year. We look forward to maintaining our leading market position and providing clear value both to our customers and our shareholders in the years ahead.”

Almaty,
19 October 2018



Conference call

Kcell will host an analyst conference call on 19 October 2018 at 10:00 UK time / 15:00 Almaty / 12:00 Moscow. The conference will be held in English, audio webcast will be available at <https://webcasts.eqs.com/Kcell20181019>

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:	800 458 4121
USA Dial-In:	+1 929 477 0324

Conference ID **4263730**

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

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Review of the third quarter of 2018

Net sales

Net sales increased by 3.8 percent to KZT 38,970 million (37,549). Service revenue decreased by 3.0 percent to KZT 33,668 million (34,695).

Revenue from voice services decreased by 1.3 percent to KZT 20,153 million (20,423). Data revenue increased by 0.6 percent to KZT 11,568 million (11,502). Revenue from value-added services decreased by 21.5 percent to KZT 1,901 million (2,422). Other revenues were up 67.1 percent to KZT 5,348 million (3,201).

Voice service revenue

Revenue from voice services decreased by 1.3 percent to KZT 20,153 million (20,423). Voice traffic was down to 5,279 million minutes (5,748); ARMU fell to KZT 2.1 (2.2).

Interconnect revenue increased by 1.6 percent to KZT 5,482 million (5,395).

Data service revenue

Data revenue increased by 0.6 percent to KZT 11,568 million (11,502). Data traffic increased by 28.7 percent to 64,986,542 GB (50,512,804). Average revenue per MB (ARMB) remained stable at KZT 0.2 (0.2).

Value-added service revenue

Revenue from value-added services decreased by 21.5 percent to KZT 1,901 million (2,422).

Other revenues

Other revenues were up 67.1 percent to KZT 5,348 million (3,201), mainly due to higher handsets sales.

KZT in millions, except percentages	Jul-Sep 2018	% of total	Jul-Sep 2017	% of total
Voice services	20,153	51.7	20,424	54.4
Data services	11,568	29.7	11,502	30.6
Value added services	1,901	4.9	2,422	6.5
Other revenues	5,348	13.7	3,201	8.5
Total revenues	38,970	100.0	37,549	100.0



Expenses

Cost of sales

Cost of sales increased by 13.2 percent to KZT 25,272 million (22,332), primarily due to higher sales of handsets.

Selling and marketing expenses

Selling and marketing expenses decreased by 5.8 percent to KZT 2,558 million (2,716), primarily due to improved distribution process.

General and administrative expenses

General and administrative expenses increased by 17.8 percent to KZT 3,949 million (3,354). This was primarily driven by an increase in bad debt expenses, as well as a provision of KZT 807 million related to the tax claim which was partially offset by the reverse of KZT 672 million provision for the copyright claim as the final court decision was ruled in favour of Kcell.

Earnings, financial position and cash flow

EBITDA, excluding non-recurring items, remained stable at KZT 14,593 million (14,626) with EBITDA margin of 37.4 percent (39.0).

Net financial items decreased to KZT -2,181 million (-2,267).

Income tax expense declined to KZT 1,744 million (2,787).

Net income attributable to owners of the parent company was down 22.7 percent to KZT 3,007 million (3,889). Earnings per share decreased to KZT 15.0 (19.4).

CAPEX increased to KZT 5,274 million (3,707), while CAPEX-to-sales ratio increased to 13.5 percent (9.9).

Free cash flow decreased to KZT 3,762 million (3,986).



Review of the nine-month period of 2018

Net sales

Net sales grew by 2.2 percent to KZT 111,659 million (109,262). Service revenue were down 2.8 percent to KZT 98,000 million (100,848).

Revenue from voice services decreased by 3.7 percent to KZT 57,932 million (60,137). Data revenue was 1.2 percent higher at KZT 33,955 million (33,566). Revenue from value-added services decreased by 15.4 percent to KZT 6,031 million (7,130). Other revenues were up 63.0 percent to KZT 13,741 million (8,429).

Voice service revenue

Revenue from voice services decreased by 3.7 percent to KZT 57,932 million (60,137). Voice traffic was 15,793 million minutes (17,120), while ARMU decreased to KZT 2.1 (2.2).

Interconnect revenue increased by 1.7 percent to KZT 16,246 million (15,978).

Data service revenue

Data revenue was 1.2 percent higher at KZT 33,955 million (33,566). Data traffic increased by 33.8 percent to 182,835,888 GB (136,640,810). Average revenue per MB (ARMB) remained stable at KZT 0.2 (0.2).

Value-added service revenue

Revenue from value-added services decreased by 15.4 percent to KZT 6,031 million (7,130).

Other revenues

Other revenues were up 63.0 percent to KZT 13,741 million (8,429), mainly due to an increase in handset sales.

KZT in millions, except percentages	Jan-Sep 2018	% of total	Jan-Sep 2017	% of total
Voice services	57,932	51.9	60,137	55.0
Data services	33,955	30.4	33,566	30.7
Value added services	6,031	5.4	7,130	6.6
Other revenues	13,741	12.3	8,429	7.7
Total revenues	111,659	100.0	109,262	100.0



Expenses

Cost of sales

Cost of sales increased by 7.4 percent to KZT 72,128 million (67,185), primarily due to higher sales of handsets.

Selling and marketing expenses

Selling and marketing expenses decreased by 2.8 percent to KZT 7,545 million (7,761).

General and administrative expenses

General and administrative expenses increased by 8.5 percent to KZT 13,590 million (12,521), mainly as a result of higher bad debt expenses.

Earnings, financial position and cash flow

EBITDA, excluding non-recurring items, decreased by 3.5 percent to KZT 39,974 million (41,427) with EBITDA margin of 35.8 percent (37.9).

Net financial items were at KZT -6,346 million (-6,911).

Income tax expense decreased by 58.3 percent to KZT 2,620 million (6,287), largely due to a reversal of the corrective adjustment related to the deferred income tax for the prior year, which, in turn, was offset by current income tax expenses.

Net income attributable to owners of the parent company grew by 10.3 percent to KZT 9,380 million (8,506) and earnings per share increased to KZT 46.9 (42.5).

CAPEX decreased to KZT 12,944 million (13,599) with CAPEX-to-sales ratio of 11.6 percent (12.4).

Free cash flow decreased to KZT 4,103 million (8,190).

Net debt/equity ratio was 87.6 percent (76.4).

Net debt/EBITDA ratio was 1.21 (1.05).

The equity/assets ratio was 42.7 percent (41.8).



Key milestones 2018

January

- Kcell placed its KZT 4.95 billion bonds on the Kazakhstan Stock Exchange (KASE) at a yield of 11.5 percent. 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.

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.

May

- The AGM held on 30 May 2018, approved the proposal of Kcell Board of Directors to distribute KZT 11,678 million, representing 87 percent of the net income for 2017, as an annual dividend. The total dividend amount will equate to a gross figure of KZT 58.39 per ordinary share (each GDR representing one ordinary share). Dividends will be paid electronically directly into shareholders' bank accounts. Kcell shareholders registered at the record date of 31 May 2018 are entitled to receive the dividends. Dividends to be paid in a lump sum, starting from 1 August 2018.
- Other decisions adopted by the AGM include the approval of the Company's Separate and Consolidated Financial Statements for the year ended 31 December 2017, the Independent Auditor's Report, and the election of new member of Kcell JSC Board of Directors. Mr. Fredrik Nissen, representative of the shareholder Fintur Holdings B.V., was elected as a member of the Board of Directors of Kcell JSC to replace Mrs. Ingrid Maria Stenmark. Shareholders were also informed on the amount and structure of remuneration for the members of Board of Directors and Executive Body of the Company. In 2017, the Board of Directors received no queries from shareholders regarding the performance of the Company and its executives.

June

- Board of Directors approved an extension of KZT 10 billion loan under the Master Facility Agreement #82.2090/2016 dated 8 June 2016 between Kcell JSC and Subsidiary Bank Alfa Bank Kazakhstan JSC. Under the new agreement, the facility extended until 8 June 2019. The interest rate for new loans within the facility reduced to 12.0 percent p.a. (from 14.5 percent). The commission fee for the changes made to the terms and conditions is set at 1 percent of the total amount.



July

- Kcell announced the appointment of Rainer Rathgeber as Chief Executive Officer (subject to receiving relevant regulatory authorization). Mansur Khamidov, VP, Fintur Markets at Telia Company, assumes the role of CEO during the transition period.
- The Company completed the drawdown of a KZT 10 billion tranche under the Term Loan Facility Agreement dated 24 September 2013 between Kcell JSC and Halyk Bank of Kazakhstan JSC. The term of the loan expires on 16 July 2021 and bears an interest rate of 12.5 percent per annum. Repayment of the main debt in equal installments will start following the grace period (18 months); semi-annual tranches will be made starting from 19 July 2020.
- Kcell made the first coupon payment on bonds as of the record date of 15 July 2018, 4,950 thousand bonds with a face value of KZT 1 thousand each were placed with a coupon rate of 11.5 percent. The total amount of coupon payment amounted to KZT 284,625 thousand.

August

- On 6 August 2018, Kcell won the copyright court case. Further to the announcement on 12 June 2018, the Appellate Judicial Board of Almaty city court upheld Kcell's appeal about alleged infringement of copyrights. The previous decision of the Court of First Instance regarding KZT 672 million compensation was therefore annulled, and the provisions made for this amount were cancelled.
- On 22 August 2018, Kcell announced that 87 percent of the Company's net income for 2017 in the amount of KZT 11,678 million, or KZT 58.39 per ordinary share (each ordinary share representing one GDR), was paid as annual dividend.

September

- On 27 September 2018, the Company announced the liquidation of its subsidiary AR-Telecom.



Administrative and legal update

Tax audit

In July 2017, the Kazakhstan tax authority completed its complex tax audit for the period 2012-2015. Following the audit, the tax authority made a total claim of KZT 9.0 billion.

In January 2018, Kcell disputed the Notification of the tax authority in the First Instance Court and the Kcell appeal was dismissed. In June 2018, the Court of Appeal reviewed the appeal claim and left the unfavorable ruling of the First Instance Court in force. Although the decision is binding, Kcell reserves the right to further appeal it in the Supreme Court.

In the fourth quarter of 2016 and in the second quarter of 2017, the Company made tax provisions of KZT 4.0 billion and KZT 2.8 billion, respectively. In the second quarter of 2018, the Company has made another tax provision of KZT 1.4 billion.

During the reporting period, the Company made a provision for the remaining KZT 0.8 billion.

Copyright claim

In August 2018, Kcell won of copyright court case. Further to the announcement on 12 June 2018, the Appellate Judicial Board of Almaty city court has upheld Kcell's appeal about alleged infringement of copyrights. The previous decision of the Court of First Instance regarding KZT 672 million compensation was therefore annulled, and the provisions made for this amount were reversed.

Administrative update

On 27 September 2018, the Company announced the liquidation of its subsidiary AR-Telecom.



The external auditors are reviewing the January – September 2018 financial statements, and their report will be available on the Kcell website after 15 November 2018.

The information was submitted for publication at 09:00 ALMT on 19 October 2018.

Financial Information

Year-end Report January–December 2018

25 January 2019

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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	Jul-Sep 2018	Jul-Sep 2017	Chg (%)	Jan-Sep 2018	Jan-Sep 2017	Chg (%)
Revenues	38,970	37,549	3.8	111,659	109,262	2.2
Cost of sales	-25,272	-22,332	13.2	-72,128	-67,185	7.4
Gross profit	13,698	15,217	-10.0	39,531	42,077	-6.1
Selling and marketing expenses	-2,558	-2,716	-5.8	-7,545	-7,761	-2.8
General and administrative expenses	-3,949	-3,354	17.8	-13,590	-12,521	8.5
Other operating income and expenses, net	-259	-206	26.1	-49	-93	-46.9
Operating income	6,932	8,943	-22.5	18,346	21,703	-15.5
Finance costs and other financial items, net	-2,181	-2,267	-3.8	-6,346	-6,911	-8.2
Income after financial items	4,751	6,676	-28.8	12,000	14,792	-18.9
Income taxes	-1,744	-2,787	-37.4	-2,620	-6,287	-58.3
Net income	3,007	3,889	-22.7	9,380	8,506	10.3
Other comprehensive income						
Total comprehensive income						
Total comprehensive income attributable to owners of the parent	3,007	3,889	-22.7	9,380	8,506	10.3
Earnings per share (KZT), basic and diluted	15.0	19.4	-22.7	46.9	42.5	10.3
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	13,650	14,626	-6.7	37,966	38,754	-2.0
EBITDA excl. non-recurring items	14,593	14,626	-0.2	39,974	41,427	-3.5
Depreciation, amortization and impairment losses	-6,718	-5,684	18.2	-19,620	-17,051	15.1
Operating income excl. non-recurring items	7,875	8,943	-11.9	20,354	24,376	-16.5



Condensed Consolidated Statement of Financial Position

KZT in millions	30 Sep 2018	31 Dec 2017
Assets		
Intangible assets	41,208	43,061
Property, plant and equipment	88,840	93,680
Other non-current assets	404	260
Long-term receivables	3,131	1,617
Total non-current assets	133,583	138,618
Inventories	3,831	3,425
Trade and other receivables	24,495	26,191
Cash and cash equivalents	9,975	12,660
Total current assets	38,301	42,276
Total assets	171,884	180,894
Equity and liabilities		
Share capital	33,800	33,800
Retained earnings	39,534	41,832
Total equity attributable to owners of the parent	73,334	75,632
Long-term borrowings	42,933	12,000
Deferred tax liabilities	1,906	4,667
Other long-term liabilities	1,362	1,355
Total non-current liabilities	46,201	18,022
Short-term borrowings	32,326	58,418
Trade payables, and other current liabilities	20,023	28,822
Total current liabilities	52,349	87,240
Total equity and liabilities	171,884	180,894



Condensed Consolidated Statement of Cash Flows

KZT in millions	Jul-Sep 2018	Jul-Sep 2017	Jan-Sep 2018	Jan-Sep 2017
Cash flow before change in working capital	16,737	14,067	39,143	36,631
Change in working capital	-7,522	-5,299	-19,420	-12,023
Cash flow from operating activities	9,215	8,768	19,723	24,608
Cash CAPEX	-5,453	-4,782	-15,620	-16,418
Free cash flow	3,762	3,986	4,103	8,190
Cash flow from financing activities	-1,678	-4,000	-6,888	-2,678
Cash flow for the period	2,084	-14	-2,785	5,512
Cash and cash equivalents, opening balance	7,850	13,848	12,660	8,477
Cash flow for the period	2,084	-14	-2,785	5,512
Exchange rate difference	41	239	100	84
Cash and cash equivalents, closing balance	9,975	14,073	9,975	14,073

Condensed Consolidated Statements of Changes in Equity

KZT in millions	Jan-Sep 2018			Jan-Sep 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	–	-11,678	-11,678	-	-11,678	-11,678
Total comprehensive income	–	9,380	9,380	-	8,505	8,505
Closing balance	33,800	39,534	73,334	33,800	36,551	70,351



Basis of preparation

Following the introduction of IFRS 15 for the purposes of the consolidated financial statements for the period ended 30 September 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. All amounts in this report are presented in KZT millions, unless otherwise stated. Rounding differences may occur.

Non-recurring items

KZT in millions	Jul-Sep 2018	Jul-Sep 2017	Jan-Sep 2018	Jan-Sep 2017
Within EBITDA				
Restructuring charges, synergy implementation costs, etc.	943	–	2,008	2,673
Total	943	–	2,008	2,673

Investments

KZT in millions	Jul-Sep 2018	Jul-Sep 2017	Jan-Sep 2018	Jan-Sep 2017
CAPEX				
Intangible assets including LTE license	1,836	643	3,089	2,818
Property, plant and equipment	3,438	3,064	9,855	10,781
Total	5,274	3,707	12,944	13,599

Related party transactions

For the nine months ended 30 September 2018, Kcell purchased services for KZT 1,672 million and sold services for a value of KZT 378 million. Related parties in these transactions were mainly Telia Company and its group entities, Turkcell, Fintur Holding B.V. and KazTransCom.

Net debt

KZT in millions	30 Sep 2018	31 Dec 2017
Long-term and short-term borrowings	75,259	70,418
Less short-term investments, cash and bank	-9,975	-12,660
Net debt	65,284	57,758



Financial key ratios

	30 Sep 2018	31 Dec 2017
Return on equity (% , rolling 12 months)	19.5	18.2
Return on capital employed (% , rolling 12 months)	16.3	23.9
Equity/assets ratio (%)	42.7	41.8
Net debt/equity ratio (%)	87.6	76.4
Net debt/EBITDA rate (multiple, rolling 12 months)	1.21	1.05
Owners' equity per share (KZT)	366.7	378.2

Operational data

	Jul-Sep 2018	Jul-Sep 2017	Chg (%)	Jan-Sep 2018	Jan-Sep 2017	Chg (%)
Subscribers, period-end (thousands)*	9,234	10,001	-7.7	9,234	10,001	-7.7
Of which prepaid	8,335	9,078	-8.2	8,335	9,078	-8.2
MOU (min/month)	223	229	-2.6	215	227	-5.3
ARPU (KZT)	1,189	1,176	1.1	1,120	1,139	-1.7
Churn rate (%)	80.7	62.6		56.0	50.3	
Employees, period-end	1,834	1,841	-0.4	1,834	1,841	-0.4



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.

