Kcell JSC

Q3 2015 Interim Report

Kcell JSC
Results for January – September 2015

Almaty, 20 October 2015 - 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 - September 2015.

Third quarter

- Net sales decreased by 13.0 percent to KZT 42,756 million (49,165). Service revenue down 16.1 percent to KZT 39,612 million (47,201).
- EBITDA, excluding non-recurring items, declined by 31.1 percent to KZT 19,028 million (27,624). EBITDA margin decreased to 44.5 percent (56.2), mainly due to an increase in interconnect costs.
- Operating income, excluding non-recurring items, down 40.4 percent to KZT 12,849 million (21,551).
- Net financial items increased to KZT 6,638 million (-245), mainly due to forex gain.
- Net income increased by 12.3 percent to KZT 15,112 million (13,457).
- Free cash flow decreased to KZT 12,169 million (17,887).
- During the quarter, the Company's customer base rose by 33,000 to 10,780 thousand (10,747).

Nine-month period

- Net sales down 8.8 percent to KZT 128,820 million (141,307). Service revenue down 13.6 percent to KZT 119,447 million (138,212).
- EBITDA, excluding non-recurring items, decreased by 19.9 percent to KZT 64,725 million (80,833). EBITDA margin of 50.2 percent (57.2).
- Operating income, excluding non-recurring items, down 26.1 percent to KZT 46,304 million (62,645).
- Net financial items increased to KZT 4,951 million (-745), mainly due to forex gain.
- Net income declined by 13.0 percent to KZT 39,666 million (45,604).
- Free cash flow decreased to KZT 26,579 million (52,088).

Financial highlights

KZT in millions, except key ratios, per share data and changes	Jul-Sep 2015	Jul-Sep 2014	*Chg (%)*	Jan-Sep 2015	Jan-Sep 2014	*Chg (%)*
Revenue	42,756	49,165	-13.0	128,820	141,307	-8.8
of which service revenue	39,612	47,201	-16.1	119,447	138,212	-13.6
EBITDA excl. non-recurring items	19,028	27,624	-31.1	64,725	80,833	-19.9
Margin (%)	44.5	56.2		50.2	57.2	
Operating income	12,849	17,912	-28.3	45,977	58,800	-21.8
Operating income excl. non-recurring items	12,849	21,551	-40.4	46,304	62,645	-26.1
Net income attributable to owners of the parent company	15,112	13,457	12.3	39,666	45,604	-13.0
Earnings per share (KZT)	75.5	67.3	12.3	198.3	228.0	-13.0
CAPEX-to-sales (%)	11.5	9.5		8.4	6.3	
Free cash flow	12,169	17,887		26,579	52,088	

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 2014 unless otherwise stated.

Comments by Arti Ots, CEO

“Kcell performance in the third quarter of 2015 was impacted not only by intensified competition, but also by a significant fall in the value of the Tenge, which followed the Government decision in August to allow a freely floating exchange rate, and these factors had a clear negative impact on profitability.

Since the third quarter of 2014, the market has been contracting due to competitive pricing, and we have seen a significant decline in our customer base. In the face of these challenges, we opted to add content to our main offerings rather than reduce prices. The feature generating most demand in our market is the ability to make calls to all networks at the same rate.

The “Hello Kazakhstan” tariff plan that we launched in June marked a significant shift for Kcell as the leading operator in the market. The main aim of this launch was to reduce customer decline, protect the existing revenues that were being lost to the competition, reposition the brand in advance of Mobile Number Portability, reduce the impact of double SIM’s and address the significant price gap with competitors.

It has been well received and is clearly striking a chord with our customers, with more than one million registered at the end of September. We have managed to add customers and reverse the negative trends seen over the previous three quarters.

The bundled nature of this offering, including a significant number of calls to other networks, has resulted in higher interconnect costs. This has reduced our EBITDA margin.

The mobile termination rate for calls to other networks will be reduced from current KZT 8.0 to KZT 5.0 as of January 2016.

As of 9 October 2015, we introduced a tiered cap that will allow us to manage the volume of off-net minutes available to customers whilst maintaining the attractiveness of the overall “Hello Kazakhstan” tariff. This was in response to increased usage of off-net minutes.

During the quarter was a significant downward migration of our customers to lower ARPU levels. Whilst this was greater than expected. It is also an indicator that customers could have been ready to churn, and had this materialised, we would have lost all revenues attributable to those customers.

Our majority shareholder TeliaSonera announced in September that it has initiated a process to reduce its presence in Eurasia and over time exit the entire region. Kcell has benefited significantly from TeliaSonera’s expertise and guidance since the IPO in 2012. Kcell now has a clear business strategy in place and robust corporate governance structures.

Kcell will continue to implement its customer centric strategy, providing high quality services and technology excellence to ensure that the market leading position is fully underpinned by high levels of customer satisfaction over the long term.”

Almaty, 20 October 2015

Conference call

Kcell will host an analyst conference call on 20 October 2015 at 12:00 UK time / 17:00 Almaty / 14:00 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=3119

Dial in details are as follows:

UK Toll Free:	**0800 279 4841**
Standard International Dial-in:	**+44 20 3427 1901**
Russia Toll Free:	**8 800 500 9311**
Russia Local Call number:	**+7 499 922 3967**
USA Toll Free:	**1 877 280 2296**
USA Dial-In:	**+1718 971 5738**
Conference ID	**6618994**

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://kcell201015-live.audio-webcast.com

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Review of the third quarter 2015

Net sales

Net sales decreased by 13.0 percent to KZT 42,756 million (49,165). Service revenue fell by 16.1 percent to KZT 39,612 million (47,201).

Revenue from voice services decreased by 22.6 percent to KZT 26,530 million (34,282). Data revenue increased by 14.1 percent to KZT 10,051 million (8,812). Revenue from value-added services decreased by 23.5 percent to KZT 3,023 million (3,955). Other revenue increased by 48.9 percent to KZT 3,152 million (2,116).

KZT in millions, except percentages	Jul-Sep 2015	% of total	Jul-Sep 2014	% of total
Voice services	26,530	62.0	34,282	69.8
Data services	10,051	23.5	8,812	17.9
Value added services	3,023	7.1	3,955	8.0
Other revenues	3,152	7.4	2,116	4.3
Total revenues	**42,756**	**100.0**	**49,165**	**100.0**

Voice service revenue

Revenue from voice services decreased by 22.6 percent to KZT 26,530 million (34,282). Voice traffic increased by 1.0 percent to 6,021 million minutes (5,959), while ARMU fell to KZT 3.1 (4.3).

Interconnect revenue declined by 13.4 percent to KZT 6,023 million (6,955). The decrease was mainly due to a reduced interconnect rate.

Data service revenue

Data revenue was 14.1 percent higher at KZT 10,051 million (8,812). Data traffic increased by 93.9 percent to 16,159,953 GB (8,332,320). Growth in data traffic was partially offset by packages with lower tariffs per MB, which led to a decrease in average revenue per MB (ARMB) to KZT 0.6 (1.0).

Value-added service revenue

Revenue from value-added services decreased by 23.5 percent to KZT 3,023 million (3,955). The decrease was largely a result of declining SMS revenue.

Other revenue

Other revenue increased by 48.9 percent to KZT 3,152 million (2,116), reflecting higher sales of handsets.

Expenses

Cost of sales

Cost of sales rose by 9.6 percent to KZT 24,418 million (22,271), primarily due to an increase in cost of goods sold attributable to the cost of handsets, as well as an increase in interconnect cost by 16.0 percent year-on-year and by 57.4 percent comparing to previous quarter.

Selling and marketing expenses

Selling and marketing expenses decreased by 17.7 percent to KZT 2,347 million (2,851). The decrease was primarily driven by the Company's continued cost reduction initiatives.

General and administrative expenses

General and administrative expenses increased by 16.4 percent to KZT 3,028 million (2,602), primarily due to an increased mobile tax rate.

Earnings, financial position and cash flow

EBITDA, excluding non-recurring items, declined by 31.1percent to KZT 19,028 million (27,624). EBITDA margin decreased to 44.5 percent (56.2).

Net financial items increased to KZT 6,638 million (-245), mainly due to forex gain.

Income tax expense increased by 3.9 percent to KZT 4,375 million (4,210).

Net income attributable to owners of the parent company increased by 12.3 percent to KZT 15,112 million (13,457). Earnings per share increased to KZT 75.6 (67.3).

CAPEX increased to KZT 4,927 million (4,676) and CAPEX-to-sales ratio increased to 11.5 percent (9.5).

Free cash flow decreased to KZT 12,169 million (17,887).

Review of the nine-month period of 2015
Net sales

Net sales down 8.8 percent to KZT 128,820 million (141,307). Service revenue down 13.6 percent to KZT 119,447 million (138,212).

Revenue from voice services decreased by 19.7 percent to KZT 80,173 million (99,888). Data revenue was 15.7 percent higher at KZT 29,504 million (25,505). Revenue from value-added services decreased by 21.7 percent to KZT 9,762 million (12,467). Other revenue rose by 172.1 percent to KZT 9,381 million (3,447).

KZT in millions, except percentages	Jan-Sep 2015	% of total	Jan-Sep 2014	% of total
Voice services	80,173	62.2	99,888	70.7
Data services	29,504	22.9	25,505	18.1
Value added services	9,762	7.6	12,467	8.8
Other revenues	9,381	7.3	3,447	2.4
Total revenues	**128,820**	**100.0**	**141,307**	**100.0**

Voice service revenue

Revenue from voice services decreased by 19.7 percent to KZT 80,173 million (99,888). Voice traffic was up 0.3 percent to 17,441 million minutes (17,383), while ARMU decreased to KZT 3.3 (4.3).

Interconnect revenue was down 14.1 percent to KZT 16,760 million (19,510). The decrease was mainly due to a reduced interconnect rate.

Data service revenue

Data revenue rose by 15.7 percent to KZT 29,504 million (25,505). Data traffic increased by 75.4 percent to 37,913,560 GB (21,613,687). 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 0.8 (1.2).

Value-added service revenue

Revenue from value-added services decreased by 21.7 percent to KZT 9,762 million (12,467), reflecting a decline in the SMS revenue.

Other revenue

Other revenue rose by 172.1 percent to KZT 9,381 million (3,447), mainly due to an increase in handset sales.

Expenses

Cost of sales

Cost of sales rose by 8.7 percent to KZT 66,989 million (61,610), largely due to an increase in cost of goods sold attributable to the cost of handsets.

Selling and marketing expenses

Selling and marketing expenses decreased by 20.1 percent to KZT 7,171 million (8,973). The decrease was primarily driven by the Company's continued cost reduction initiatives.

General and administrative expenses

General and administrative expenses increased by 13.9 percent to KZT 8,946 million (7,851), reflecting an increased mobile tax rate.

Earnings, financial position and cash flow

EBITDA, excluding non-recurring items, decreased by 19.9 percent to KZT 64,725 million (80,833). EBITDA margin of 50.2 percent (57.2).

Net financial items increased to KZT 4,951 million (-745), mainly as a result of forex gain.

Income tax expense decreased by 9.6 percent to KZT 11,262 million (12,451).

Net income attributable to owners of the parent company decreased by 13.0 percent to KZT 39,666 million (45,604) and earnings per share decreased to KZT 198.3 (228.0).

CAPEX increased to KZT 10,862 million (8,937) and the CAPEX-to-sales ratio increased to 8.4 percent (6.3).

Free cash flow decreased to KZT 26,579 million (52,088).

Net debt/equity ratio was 13.5 percent (6.0).

Net debt/EBITDA ratio was 0.13 (0.05).

The equity/assets ratio was 42.4 percent (58.3).

Key milestones 2015

January

- Kcell's Board of Directors approved the Relationship Agreement and Services Agreement between Kcell and TeliaSonera AB (TS). These agreements are designed to regulate the provision of certain corporate services by TS to Kcell, so that Kcell will benefit from TS's strategic guidance whilst maintaining corporate independence. Kcell and TS confirmed that agreements and transactions with any member of the TS Group shall be undertaken on arm's length terms and on a normal commercial basis.
- Mr. Trond Moe was appointed the Company's Finance Director.

February

- Kcell informed about progress in its internal investigation. The investigation has concluded that Kcell has formal grounds to file a report with the General Prosecutor's office of the Republic of Kazakhstan requesting it to commence an investigation into the activities of a number of former employees who allegedly failed to follow the Company's internal policies and procedures. The Board has filed the matter to the relevant criminal authorities. The employees allegedly responsible for these failures are no longer employed by the Company. There remains no indication that any of the matters under investigation will have any material effect on the Company's balance sheet or on the results of its operations.
- The EGM approved an increase in the number of Board members. Mr. Douglas Lubbe, a representative of the shareholder Fintur Holdings B.V, has been elected as a member to Kcell's Board of Directors.

March

- Kcell announced the opening of its first Kcell branded Store in Almaty. The Company has changed its retail business model and is setting a new trend in the telecoms market by combining a shop and club to deliver a superior customer experience. The new store concept provides customers with an opportunity to seek advice on different gadgets and various mobile applications from Kcell's store consultants, as well as the ability to test all smartphone features prior to making a purchase. The Company plans to open Kcell Stores in other major cities of Kazakhstan.

April

- On 17 April 2015, the AGM approved paying an annual dividend ("Annual Dividend") of 70 percent of the Company's net income for the twelve months ending 31 December 2014 ("the Period"). Additionally, the AGM approved the payment of a special dividend ("Special Dividend", together with the Annual Dividend - "the Dividends"), representing 30 percent of the Company's net income for the Period.

  In total, the Dividends amounted to KZT 58,260 million, or KZT 291.30 per share, representing 100 percent of the Company's net income for the full year of 2014.The record date of Shareholders entitled to receive the dividends was 20 April 2015. The Annual Dividend was paid on 29 April 2015 and the proposed Special Dividend was paid on 8 October 2015.

- Kcell has completed the drawdown of a KZT 22 billion tranche of the approved credit line with Halyk Bank of Kazakhstan JSC. This tranche was obtained under the bank loan agreement signed between Kcell and Halyk Bank of Kazakhstan JSC for KZT 30 billion for working capital financing.

May

- Kcell opened its branded Store in Astana. The opening of Kcell Store in Astana is another step towards a large-scale expansion of the Company in Kazakhstan's mobile retail market.

June

- Kcell opened its third branded store in Almaty. The first results of the implementation of a new business model proved that such a retail format is effective and synergistic idea of the store and customer club – well perceived by Kazakhstani people.

September

- Berndt Kenneth Karlberg, Member of the Board of Directors, informed the Kcell Board of Directors of the early termination of his powers with effect from 31 August 2015.
- The Company's majority shareholder TeliaSonera, which holds 61.9 percent of shares in Kcell, has initiated a process to reduce its presence in Eurasia and over time exit the entire region.
- Kcell opened its fourth branded store in Aktobe. The Company is planning to launch four more stores by the end of 2015.
- On 11 September 2015, its Board of Directors approved an extension and increase of the line of credit opened by Altyn Bank JSC, a subsidiary of Halyk Bank JSC, within the framework agreement signed on 24 September 2013. The line of credit to Kcell was increased from KZT 2.2 billion to KZT 3.0 billion for the working capital financing. The KZT 2.2 billion line of credit was also extended for a term of 12 months. On 23 September 2015, Kcell JSC received an additional tranche of KZT 800 million under the above line of credit.
- A standby letter of credit for USD 10 million, within the framework of the General Agreement between Kcell JSC and Citibank Kazakhstan JSC, was issued on 23 September 2015. This instrument has been issued in favor of Apple Distribution International (Ireland) to allow Kcell to extend the term of payment for goods purchased from the Apple Distribution International and will have a positive impact on Kcell's working capital.
- The Board of Directors resolved on 22 September 2015 to enter into a KZT 17 billion credit line agreement with Kazkommertsbank JSC to finance the Company's working capital.

  On 25 September 2015, Kcell JSC received KZT 17 billion under the terms of this credit line.
- On 28 September 2015, the Company repaid a KZT 14.5 billion syndicated loan under agreements with Citibank Kazakhstan JSC and Subsidiary Bank RBS Kazakhstan JSC.

October

- The Board approved terms for the purchase of the 100 percent participatory interest in KazNet Media LLP by Kcell JSC and KT-Telecom LLP (100 percent subsidiary of Kcell) where TeliaSonera is the seller. KazNet Media LLP holds 100 percent of participatory interest in Aksoran LLP and 100 percent of participatory interest in Instaphone LLP – companies holding frequencies possibly eligible for 4G. This agreement replaces the Buy and Sell MoU entered into between TeliaSonera and Kcell on 26 August 2012, as disclosed in the Prospectus, as to the part related to KazNet Media. The part of the said Buy and Sell MoU, which relates to Rodnik (and Kaztranscom) remains unchanged. The Board members nominated by TeliaSonera did not participate in the decision.

  Price of the transaction:
  - 1st tranche - nominal price of USD 5 million plus cash and accounts receivable minus debt and accounts payable on completion date.
  - 2nd tranche – fair market value of frequencies determined by independent appraisers at the time Kcell gets permission to use the frequencies for 4G/LTE services in the manner agreed in the Sale and Purchase Agreement. The formula for calculating fair value: fair value per MHz multiplied by the spectrum times the population of the relevant region.
  - The total amount of the transaction will not exceed USD 70 million.

Legal proceedings

Regulatory overview

The "Daytime Unlimited" and failure to disconnect calls on Kcell network

During 2013, an investigation was initiated by the Agency for Competition Protection of the Republic of Kazakhstan (the "ACP"), in relation to the "Daytime Unlimited" service under the Activ brand and non-interruption of services when a customer's balance reaches zero under the Kcell brand.

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

- to stop collection of subscription fees under the tariff plan "Daytime Unlimited" in case of insufficiency of funds on a subscriber's account;
- to ensure interruption of connection (voice or Internet access) when a subscriber's balance reaches zero;
- to ensure a refund to subscribers, any fees received as a result of failure to interrupt the connection when a subscriber's balance reaches zero.

The Company complied with point 1; however, due to technical limitations of the billing system, the Company is currently unable to implement point 2. However, the Company is in the process of introducing a new billing system that will enable the interruption of the connection.

The Company has challenged the ACP findings and decision through courts system in Kazakhstan, culminating in an appeal to the Supreme Court. On 30 June 2015, the Supreme Court of the Republic of Kazakhstan dismissed the Company's supervisory appeal. On 15 June 2015, the ACP filed a claim with court seeking for enforcement of the order. On 9 July 2015, the court issued a resolution on satisfying the ACP claim to enforce the order, and as a result the Company must now enforce points 2 and 3 in the above ACP order.

In December 2014, the Company accrued a provision in the amount of KZT 1.6 billion covering the refund to subscribers for the period from January 2012 to September 2013.

In compliance with the order, on 22 July 2015, the Company started refunding its Kcell brand subscribers for the period from January 2012 to September 2013.

In accordance with an agreement reached with the ACP, the Company has started refunding its subscribers for the subsequent period.

Since the Kcell brand subscribers are being refunded for the services rendered, the Company's tax liabilities will be reduced.

Administrative sanctions

The Committee for Regulation of Natural Monopolies and Competition Protection under RK Ministry of National Economy has identified signs of violations of dominant position by the Company, namely the partial restriction of international traffic from Kazakhtelecom during the period between March 2013 and December 2014. In accordance with the order of the Almaty

City Specialised Interdistrict Administrative Court, an administrative fine of 5 percent of monopoly gain, or KZT 252,660,251, was imposed on Kcell JSC, without confiscation of monopoly gains, under Article 159 Part 3 of the Administrative Offence Code of the Republic of Kazakhstan.

The order came into force on 16 October 2015.
The fine has been paid in full.

The January - September 2015 financial statements have been reviewed by the Kcell external auditors, and their report will be available on the Kcell website starting from 15 November 2015.

The information was submitted for publication at 09:00 ALMT on 20 October 2015.

Financial information

Year-end Report January–December 2015	29 January 2016
Interim Report January–March 2016	20 April 2016

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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 2015	Jul-Sep 2014	Chg (%)	Jan-Sep 2015	Jan-Sep 2014	Chg (%)
Revenues	42,756	49,165	-13.0	128,820	141,307	-8.8
Cost of sales	-24,418	-22,271	9.6	-66,989	-61,610	8.7
Gross profit	**18,337**	**26,894**	**-31.8**	**61,830**	**79,698**	**-22.4**
Selling and marketing expenses	-2,347	-2,851	-17.7	-7,171	-8,973	-20.1
General and administrative expenses	-3,028	-2,602	16.4	-8,946	-7,851	13.9
Other operating income and expenses, net	-113	-3,529		263	-4,073	
Operating income	**12,849**	**17,912**	**-28.3**	**45,977**	**58,800**	**-21.8**
Finance costs and other financial items, net	6,638	-245		4,951	-745	
Income after financial items	**19,487**	**17,666**	**10.3**	**50,928**	**58,055**	**-12.3**
Income taxes	-4,375	-4,210	3.9	-11,262	-12,451	-9.6
Net income	**15,112**	**13,457**	**12.3**	**39,666**	**45,604**	**-13.0**
Total comprehensive income attributable to owners of the parent	15,112	13,457	12.3	39,666	45,604	-13.0
Earnings per share (KZT), basic and diluted	75.5	67.3	12.3	198.3	228.0	-13.0
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	19,028	23,985	-20.7	64,398	76,988	-16.4
EBITDA excl. non-recurring items	19,028	27,624	-31.1	64,725	80,833	-19.9
Depreciation, amortization and impairment losses	-6,179	-6,073	1.7	-18,421	-18,188	1.3
Operating income excl. non-recurring items	12,849	21,551	-40.4	46,304	62,645	-26.1

Condensed Consolidated Statements of Financial Position

KZT in millions	30 Sep 2015	31 Dec 2014
Assets		
Intangible assets	14,930	12,494
Property, plant and equipment	98,966	108,955
Other non-current assets	734	145
Total non-current assets	**114,630**	**121,594**
Inventories	1,637	2,336
Trade and other receivables	18,029	14,543
Cash and cash equivalents	38,958	19,520
Total current assets	**58,624**	**36,399**
Total assets	**173,254**	**157,993**
Equity and liabilities		
Share capital	33,800	33,800
Retained earnings	39,680	58,274
Total equity attributable to owners of the parent company	**73,480**	**92,074**
Deferred tax liabilities	4,932	4,442
Other long-term liabilities	1,323	1,376
Total non-current liabilities	**6,255**	**5,818**
Short-term borrowings	50,162	25,020
Trade payables and other current liabilities	43,357	35,081
Total current liabilities	**93,519**	**60,101**
Total equity and liabilities	**173,254**	**157,993**

Condensed Consolidated Statements of Cash Flows

KZT in millions	Jul-Sep 2015	Jul-Sep 2014	Jan-Sep 2015	Jan-Sep 2014
Cash flow before change in working capital	15,386	22,956	52,242	68,572
Change in working capital	2,369	2,091	-6,356	-2,954
Cash flow from operating activities	**17,755**	**25,047**	**45,886**	**65,618**
Cash CAPEX	-5,586	-7,160	-19,307	-13,530
Free cash flow	***12,169***	**17,887**	**26,579**	**52,088**
Total cash flow from investing activities	**-5,586**	**-7,160**	**-19,307**	**-13,530**
Cash flow before financing activities	***12,169***	**17,887**	**26,579**	**52,088**
Cash flow from financing activities	**3,300**	**-3,800**	**-15,482**	**-52,112**
Cash flow for the period	**15,469**	**14,087**	**11,097**	**-24**
Cash and cash equivalents, opening balance	**15,452**	**4,805**	**19,520**	**18,916**
Cash flow for the period	15,469	14,087	11,097	-24
Exchange rate difference	8,037	-	8,341	-
Cash and cash equivalents, closing balance	**38,958**	**18,892**	**38,958**	**18,892**

Condensed Consolidated Statements of Changes in Equity

	Jan-Sep 2015			Jan-Sep 2014		
KZT in millions	Share capital	Retained earnings	Total equity	Share capital	Retained earnings	Total equity
Opening balance	33,800	58,274	92,074	33,800	63,393	97,193
Dividends	-	-58,260	-58,260	-	-63,390	-63,390
Total comprehensive income	-	39,666	39,666	-	45,604	45,604
Closing balance	**33,800**	**39,680**	**73,480**	**33,800**	**45,607**	**79,407**

Basis of preparation

As in the annual accounts for 2014, Kcell's consolidated financial statements of and for the nine-month period ended 30 September 2015, have been prepared in accordance with International Financial Reporting Standards (IFRSs). This report has been prepared in accordance with IAS 34 Interim Financial Reporting. The accounting policies adopted are consistent with those of the previous financial year. 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 2015	Jul-Sep 2014	Jan-Sep 2015	Jan-Sep 2014
Within EBITDA				
Restructuring charges, synergy implementation costs, etc.	-	3,639	327	3,844
Total	**-**	**3,639**	**327**	**3,844**

Investments

KZT in millions	Jul-Sep 2015	Jul-Sep 2014	Jan-Sep 2015	Jan-Sep 2014
CAPEX				
Intangible assets	1,770	598	4,587	1,123
Property, plant and equipment	3,157	4,078	6,275	7,814
Total	**4,927**	**4,676**	**10,862**	**8,937**

Related party transactions

For the nine months ended 30 September 2015, Kcell purchased services for KZT 3,618 million and sold services for a value of KZT 1,318 million. Related parties in these transactions were mainly TeliaSonera and its group entities, Turkcell, Fintur Holding B.V. and KazTransCom.

Net debt

KZT in millions	30 Sep 2015	31 Dec 2014
Long-term and short-term borrowings	50,162	25,020
Less short-term investments, cash and bank	-38,958	-19,520
Net debt	**11,204**	**5,500**

Financial key ratios

	30 Sep 2015	31 Dec 2014
Return on equity (%, rolling 12 months)	63.2	63.3
Return on capital employed (%, rolling 12 months)	84.0	75.7
Equity/assets ratio (%)	42.4	58.3
Net debt/equity ratio (%)	13.5	6.0
Net debt/EBITDA rate (multiple, rolling 12 months)	0.13	0.05
Owners' equity per share (KZT)	367.4	460.4

Operational data

	Jul-Sep 2015	Jul-Sep 2014	Chg (%)	Jan-Sep 2015	Jan-Sep 2014	Chg (%)
Subscribers, period-end (thousands)*	10,780	11,662	-7.6	10,780	11,662	-7.6
Of which prepaid	9,481	10,135	-6.5	9,481	10,135	-6.5
MOU (min/month)	235	189	24.3	207	185	11.9
ARPU (KZT)	1,224	1,349	-9.3	1,212	1,329	-8.8
Churn rate (%)	43	36	19.4	43	47	-8.5
Employees, period-end	1,898	1,722	10.2	1,898	1,722	10.2

*In Q1 2015 the definition of number of mobile prepaid subscriptions has been changed. Prepaid subscriptions are counted if the subscriber has been active during the last three months. Prior periods have been restated for comparability.

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.