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# Kcell JSC

Year-end Report January – December 2014

Kcell

Tcell



## Kcell JSC

### Year-end Report January-December 2014.

**Almaty, 29 January 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 results for the financial year ended 31 December 2014.

#### Fourth quarter

- In December 2014, a one-off adjustment of KZT 1.5 billion relating to data revenue for life-long accumulated traffic was classified as deferred revenue. Revenue excluding one-off adjustment decreased by 3.5 percent to KZT 47,792 million (49,526). Revenue including one-off adjustment decreased by 6.6 percent to KZT 46,273 million (49,526).
- EBITDA, excluding non-recurring items, declined by 14.4 percent to KZT 24,489 million (28,598) with EBITDA margin of 52.9 percent (57.7).
- Operating income, excluding non-recurring items, decreased by 23.5 percent to KZT 17,487 million (22,851).
- Net finance cost reduced to KZT 361 million (434).
- Net income decreased by 30.6 percent to KZT 12,667 million (18,264).
- Free cash flow amounted to KZT 11,656 million (19,773).
- Subscriber base amounted to 13,055 thousand (13,064).

#### Full year

- Revenue excluding one-off adjustment increased by 0.8 percent to KZT 189,100 million (187,599). Revenue including one-off adjustment remained stable at KZT 187,581 million (187,599).
- EBITDA, excluding non-recurring items, was up by 0.6 percent to KZT 105,321 million (104,727). The EBITDA margin increased to 56.1 percent (55.8).
- Operating income, excluding non-recurring items, was down 1.8 percent to KZT 80,132 million (81,600).
- Net finance cost decreased to KZT 1,106 million (2,119).
- Net income declined by 8.1 percent to KZT 58,271 million (63,392).
- Free cash flow was down to KZT 63,744 million (80,743).
- Net addition during the reporting year is 299 thousand subscriptions. The total subscriber base decreased to 13,055 thousand (14,307) due to clean-up of 1,551 thousand subscriptions.

## Financial highlights

KZT in millions, except key ratios, per share data and changes	Oct-Dec 2014	Oct-Dec 2013	Chg (%)	Jan-Dec 2014	Jan-Dec 2013	Chg (%)
Revenue	46,273	49,526	-6.6	187,581	187,599	0.0
EBITDA excl. non-recurring items	24,489	28,598	-14.4	105,321	104,727	0.6
Margin (%)	52.9	57.7		56.1	55.8	
Operating income	16,450	22,851	-28.0	75,250	81,600	-7.8
Operating income excl. non-recurring items	17,487	22,851	-23.5	80,132	81,600	-1.8
Net income attributable to owners of the parent company	12,667	18,264	-30.6	58,271	63,392	-8.1
Earnings per share (KZT)	63.3	91.3	-30.6	291.4	317.0	-8.1
CAPEX-to-sales (%)	26.1	12.6		11.2	12.2	
Free cash flow	11,656	19,773		63,744	80,743	

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



**Arti Ots**

Incoming CEO

### Comments by Arti Ots, incoming CEO

“In 2014, Kcell maintained its leading market position in the face of intensifying competition and we have delivered results in line with expectations (excluding one-off items) with total revenue growth of 0.8 percent, an industry leading EBITDA margin of 56.1 percent and a CAPEX-to-sales ratio of 11.2 percent.

We have continued to roll out our 3G services nationally and have driven acceleration in smartphone penetration with the successful launch of the iPhone and other smartphone bundles. We have also introduced a number of attractive data-centric services during the year. These have all been instrumental in further increasing mobile data usage and data revenues.

Kcell has particularly focused on the creation of more widely affordable mobile Internet services. These efforts have resulted in the launch of low-end smartphone bundles - pay-as-you-go "Easy" Internet products aimed at occasional users as well as simplified monthly packages.

In 2015 and beyond we will continue to focus on our existing customer base and on boosting data revenue through the acceleration of smartphone penetration and increasing data consumption, whilst developing our B2B business offering to provide our clients with core business solutions. We will also invest further in our network to maintain and improve the quality of the services we provide. At the same time, the management team is committed to establishing strong leadership and a culture of responsible business practice to ensure that Kcell is well placed to maximize all opportunities to drive long term value creation.”

Almaty, 29 January 2015

## Review of the fourth quarter 2014

### Revenue

Revenue decreased by 6.6 percent to KZT 46,273 million (49,526).

Revenue from voice services decreased by 10.9 percent to KZT 32,808 million (36,822). Data revenue was down 2.6 percent to KZT 7,625 million (7,832). Data revenue excluding one-off adjustment increased by 16.8 percent to KZT 9,144 million (7,832). Revenue from value-added services decreased by 15.8 percent to KZT 4,101 million (4,870). Other revenue increased to KZT 1,739 million (2).

KZT in millions, except percentages	Oct-Dec 2014	% of total	Oct-Dec 2013	% of total
Voice services	32,808	70.9	36,822	74.4
Data services	7,625	16.5	7,832	15.8
Value added services	4,101	8.8	4,870	9.8
Other revenues	1,739	3.8	2	-
<b>Total Revenues</b>	<b>46,273</b>	<b>100.0</b>	<b>49,526</b>	<b>100.0</b>

#### Voice service

Revenue from voice services decreased by 10.9 percent to KZT 32,808 million (36,822). Voice traffic increased by 5.1 percent to 6,154 million minutes (5,855), as a result of an introduction of bundled offers. However, growth in traffic was offset by a decrease in tariffs, which resulted in ARMU falling to KZT 3.8 (4.7).

Outgoing voice revenue decreased by 14.5 percent to KZT 23,395 million (27,352).

Interconnect revenue declined by 8.6 percent to KZT 7,343 million (8,033) mainly as a result of a 15 percent decrease in the interconnect rate. This was partially offset by a higher volume of incoming calls from other mobile operators' subscribers.

#### Data service

Data revenue decreased by 2.6 percent to KZT 7,625 million (7,832). Data revenue excluding one-off adjustment increased by 16.8 percent to KZT 9,144 million (7,832). Data traffic grew by 84.7 percent to 9,962,893 GB (5,393,921). 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 0.7 (1.4);

#### Value-added service

Revenue from value-added services decreased by 15.8 percent to KZT 4,101 million (4,870), largely as a result of declining SMS and MMS revenue. Revenue from the provision of content services, such as ring back tones, mobile credit, and other information and entertainment services, increased by 6.2 percent.

#### Other revenue

Other revenue rose to KZT 1,739 million (2). The increase was mainly attributable to higher sales of iPhone, Samsung and Lenovo handsets.

## Expenses

### Cost of sales

Cost of sales was up 11.2 percent to KZT 22,611 million (20,337), primarily 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 36.3 percent to KZT 2,575 million (4,042), mainly as a result of lower commissions.

### General and administrative expenses

General and administrative expenses increased by 33.1 percent to KZT 2,815 million (2,115), primarily due to an increase in depreciation expenses and staff cost.

## Earnings, financial position and cash flow

**EBITDA**, excluding non-recurring items, decreased by 14.4 percent to KZT 24,489 million (28,598) with EBITDA margin of 52.9 percent (57.7).

**Net finance cost** decreased to KZT 361 million (434), which was related to net interest expenses.

**Income tax expense** declined by 17.6 percent to KZT 3,423 million (4,153).

**Net income attributable to owners of the parent company** was down 30.6 percent to KZT 12,667 million (18,264), while earnings per share decreased to KZT 63.3 (91.3).

**CAPEX** was up to KZT 12,072 million (6,245) and the CAPEX-to-sales ratio increased to 26.1 percent (12.6).

**Free cash flow** decreased to KZT 11,656 million (19,773), primarily due to movements in working capital and an increase in cash CAPEX.

## Review of full year 2014

### Revenues

Revenue remained stable at KZT 187,581 million (187,599).

Revenue from voice services decreased by 7.7 percent to KZT 132,697 million (143,731). Data revenue increased by 26.3 percent at KZT 33,131 million (26,232). Data revenue excluding one-off adjustment grew by 32.1 percent to KZT 34,650 million (26,232). Revenue from value-added services decreased by 4.9 percent to KZT 16,567 million (17,426). Other revenue rose to KZT 5,186 million (210).

KZT in millions, except percentages	Jan-Dec 2014	% of total	Jan-Dec 2013	% of total
Voice services	132,697	70.7	143,731	76.6
Data services	33,131	17.7	26,232	14.0
Value added services	16,567	8.8	17,426	9.3
Other revenues	5,186	2.8	210	0.1
<b>Total Revenues</b>	<b>187,581</b>	<b>100.0</b>	<b>187,599</b>	<b>100.0</b>

#### Voice services

Revenue from voice services decreased by 7.7 percent to KZT 132,697 million (143,731). Voice traffic was up 1.0 percent to 23,538 million minutes (23,311). However, an increase in traffic was partially offset by lower tariffs, which resulted in ARMU falling to KZT 4.2 (4.7).

Outgoing voice revenue decreased by 9.6 percent to KZT 98,734 million (109,272).

Interconnect revenue decreased by 6.8 percent to KZT 26,852 million (28,826), mainly as a result of a 15 percent decrease in interconnect rate. This was partially offset by a higher volume of incoming traffic.

#### Data services

Data revenue was up 26.3 percent to KZT 33,131 million (26,232). Data revenue excluding one-off adjustment increased by 32.1 percent to KZT 34,650 million (26,232). Data traffic grew by 96.0 percent to 31,576,580 GB (16,114,191). Growth in data traffic was partially offset by packages with lower tariffs per MB. This led to a decrease in average revenue per MB (ARMB) to KZT 1.0 (1.6), which, in turn, resulted in higher data ARPU.

#### Value-added services

Revenue from value-added services decreased by 4.9 percent to KZT 16,567 million (17,426), largely as a result of declining SMS and MMS revenue. Revenue from the provision of content services, such as ring back tones, mobile credit, and other information and entertainment services, increased by 20.5 percent.

#### Other revenue

Other revenue increased to KZT 5,186 million (210). This was attributable to higher sales of iPhone, Samsung and Lenovo handsets.

## Expenses

### Cost of sales

Cost of sales grew by 6.0 percent to KZT 84,221 million (79,469), primarily 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 30.5 percent to KZT 11,549 million (16,614), mainly as a result of lower commissions.

### General and administrative expenses

General and administrative expenses increased by 6.5 percent to KZT 10,666 million (10,017) primarily due to an increase in staff cost and depreciation and amortization expenses.

## Earnings, financial position and cash flow

**EBITDA**, excluding non-recurring items, increased by 0.6 percent to KZT 105,321 million (104,727), while the EBITDA margin expanded to 56.1 percent (55.8).

**Net finance cost** decreased to KZT 1,106 million (2,119) and was related to net interest expenses.

**Income tax expense** was down 1.3 percent to KZT 15,874 million (16,089).

**Net income attributable to owners of the parent company** decreased by 8.1 percent to KZT 58,271 million (63,392), while earnings per share decreased to KZT 291.4 (317.0).

**CAPEX** was down to KZT 21,009 million (22,849) and the CAPEX-to-sales ratio decreased to 11.2 percent (12.2).

**Free cash flow** decreased to KZT 63,744 million (80,743), primarily due to movements in working capital and an increase in cash CAPEX.

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

**Net debt/EBITDA rate** was 0.05 (0.06).

**The equity/assets ratio** was 58.3 percent (61.0).



## Key milestones 2014

### January

- 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.

### 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 announced that it has started offering iPhone 5s, the most forward-thinking smartphone in the world, and iPhone 5c, one of the most colourful iPhones 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 Karlberg (Representative of the shareholder Sonera Holding B.V.);
  - Erik Hallberg (Representative of the shareholder Fintur Holdings B.V.);
  - Ingrid 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 shall 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 is equal 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) would be entitled to receive the dividends.
- The AGM appointed Deloitte LLP as the Company’s auditor.

### June

- The Annual Dividend (70 percent of the net income for 2013) was paid on 27 June 2014, in the amount of KZT 44,362 million or KZT 221.81 gross per ordinary share.

### August

- Kcell entered the mobile payment device market and mobile payment terminal market (mPOS). Mobile POS terminals are available in all Kcell service centres throughout Kazakhstan.

## September

- Kcell announced that its Chief Technical Officer Rikard Slunga would be appointed acting Chief Executive Officer, subject to receiving relevant authorisation. Ali Agan informed the Board of Directors that he was leaving the Company on 30 September 2014, to pursue other career opportunities.
- Kcell launched a major rebranding and repositioning campaign for its popular Activ brand. The objective of the campaign is to reinvigorate the brand in order to strengthen subscriber loyalty, drive growth in the mass-market segment and retain leadership in the highly competitive market.
- Kcell reported non-recurring costs of USD 20 million (net amount, including reserves) in the third quarter based on the results of an assessment of value of assets under construction and inventory, performed by an independent external advisor. The write-down has no cash impact.
- Kcell disclosed that internal investigations were underway. The Board of Directors has been made aware that a number of the Company's external supplier contracts were entered into in breach of its own internal policies and procedures. Currently there has been no indication that any of the matters under investigation will have any material effect on the Company's balance sheet or on its operational results. The investigation is ongoing and further announcements will be made in the future if and when necessary.
- A syndicated loan in the amount of KZT 14,500 million has been extended to 28 September 2015. Citibank International Plc is acting as a facility agent under the agreement. The term may be further extended to 26 September 2016. The Company has also extended a separate loan it has with SB HSBC Bank Kazakhstan JSC to 25 September 2015. The loan amount has been reduced from KZT 6,000 million to KZT 2,200 million.
- Chief Financial Officer Baurzhan Ayazbaev informed the Company and the Board of Directors about his intention to resign with immediate effect.

**October**

- Gary Mitchell Krasny was appointed Kcell's Acting Finance Director.

**December**

- Kcell's Board of Directors appointed Arti Ots as Chief Executive Officer subject to receiving relevant regulatory authorisation.
- Kcell launched sales of the SAMSUNG and Lenovo smartphone models.
- The Special Dividend of KZT 19,028 million or KZT 95.14 gross per ordinary share (30 percent of the net income for 2013) was paid during the period of 10 - 18 December 2014.
- Kcell obtained KZT 8 billion tranche of the approved credit line from Halyk Bank of Kazakhstan JSC. This tranche was obtained under the bank loan agreement signed between Kcell JSC and Halyk Bank of Kazakhstan JSC for KZT 30 billion for working capital financing.
- In compliance with regulatory requirements, 178 thousand of unregistered subscribers were deactivated as of 1 December 2014. The Company is seeing some of the subscribers of these deactivated accounts gradually re-registering.

Almaty, 29 January 2015

**Arti Ots**

Incoming CEO

## Legal proceedings

### “Daytime Unlimited” service

On 5 September 2014, the order of the Agency of the Republic of Kazakhstan for Competition Protection (ACP) came into force obliging Kcell:

- 1) to stop collecting subscription fees under the “Daytime Unlimited” service when there are insufficient funds on the account (executed by the Company);
- 2) to ensure interruption of connection when subscribers’ balance reaches zero;
- 3) to ensure refund to subscribers for charges made in view of non-interruption of their connection when their balance reached zero.

Compliance with the Order requires major technical changes of the billing system; Kcell has therefore filed a request to postpone the execution of this order. On 16 October 2014, the court denied this request. The Company has filed this request with the ACP.

Kcell will, therefore, incur additional expenses. Total revenue gained from continuing to provide services when there are insufficient funds on subscribers’ account, amounted to KZT 1.6 billion and was accrued as a provision. The exact amount is to be determined subject to clarification of the ACP order.

### “Always Available” service

On 7 August 2014, the Administrative Court upheld the decision of the lower court. This resulted in the Company being brought to administrative responsibility under Article 147, part 3 of the Code of Administrative Offences of the Republic of Kazakhstan. Kcell was consequently issued a fine of KZT 41.8 million, which has been paid.

#### **Applicable to both cases:**

Kcell intends to further challenge these cases. However, the ACP, in its turn, may also challenge the amount of fines in court through the prosecution authorities.

The information was submitted for publication at 09:00 ALMT on 29 January 2015.

**Financial Information**

Extraordinary General Meeting of shareholders	3 February 2015
Interim Report January-March 2015	21 April 2015
Interim Report January-June 2015	17 July 2015
Interim Report January-September 2015	20 October 2015

**Questions regarding the reports:**

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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	Oct-Dec 2014	Oct-Dec 2013	Chg (%)	Jan-Dec 2014	Jan-Dec 2013	Chg (%)
Revenues	46,273	49,526	-6.6	187,581	187,599	0.0
Cost of sales	-22,611	-20,337	11.2	-84,221	-79,469	6.0
<b>Gross profit</b>	<b>23,662</b>	<b>29,189</b>	<b>-18.9</b>	<b>103,360</b>	<b>108,130</b>	<b>-4.4</b>
Selling and marketing expenses	-2,575	-4,042	-36.3	-11,549	-16,614	-30.5
General and administrative expenses	-2,815	-2,115	33.1	-10,666	-10,017	6.5
Other operating income and expenses, net	-1,822	-181		-5,895	101	
<b>Operating income</b>	<b>16,450</b>	<b>22,851</b>	<b>-28.0</b>	<b>75,250</b>	<b>81,600</b>	<b>-7.8</b>
Finance costs and other financial items, net	-361	-434		-1,106	-2,119	
<b>Income after financial items</b>	<b>16,089</b>	<b>22,417</b>	<b>-28.2</b>	<b>74,145</b>	<b>79,481</b>	<b>-6.7</b>
Income taxes	-3,423	-4,153	-17.6	-15,874	-16,089	-1.3
<b>Net income</b>	<b>12,667</b>	<b>18,264</b>	<b>-30.6</b>	<b>58,271</b>	<b>63,392</b>	<b>-8.1</b>
Total comprehensive income attributable to owners of the parent company	12,667	18,264	-30.6	58,271	63,392	-8.1
Earnings per share (KZT), basic and diluted	63.3	91.3	-30.6	291.4	317.0	-8.1
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	23,452	28,598	-18.0	100,440	104,727	-4.1
EBITDA excl. non-recurring items	24,489	28,598	-14.4	105,321	104,727	0.6
Depreciation, amortization and impairment losses	-7,001	-5,747	21.8	-25,189	-23,127	8.9
Operating income excl. non-recurring items	17,487	22,851	-23.5	80,132	81,600	-1.8

## Condensed consolidated statements of financial position

KZT in millions	31 Dec 2014	31 Dec 2013
<b>Assets</b>		
Intangible assets	12,494	13,955
Property, plant and equipment	108,405	112,369
Other non-current assets	695	3,131
<b>Total non-current assets</b>	<b>121,594</b>	<b>129,455</b>
Inventories	2,336	499
Trade and other receivables	14,543	10,410
Cash and cash equivalents	19,520	18,916
<b>Total current assets</b>	<b>36,399</b>	<b>29,825</b>
<b>Total assets</b>	<b>157,993</b>	<b>159,280</b>
<b>Equity and liabilities</b>		
Share capital	33,800	33,800
Retained earnings	58,274	63,393
<b>Total equity attributable to owners of the parent company</b>	<b>92,074</b>	<b>97,193</b>
Deferred tax liabilities	4,442	5,232
Other long-term liabilities	1,376	1,426
<b>Total non-current liabilities</b>	<b>5,818</b>	<b>6,658</b>
Short-term borrowings	25,020	24,721
Trade payables, and other current liabilities	35,081	30,708
<b>Total current liabilities</b>	<b>60,101</b>	<b>55,429</b>
<b>Total equity and liabilities</b>	<b>157,993</b>	<b>159,280</b>

## Condensed consolidated statements of cash flows

KZT in millions	Oct-Dec 2014	Oct-Dec 2013	Jan-Dec 2014	Jan-Dec 2013
Cash flow before change in working capital	20,094	25,923	88,251	90,639
Change in working capital	-2,153	-4,710	-4,692	7,417
<b>Cash flow from operating activities</b>	<b>17,941</b>	<b>21,213</b>	<b>83,559</b>	<b>98,056</b>
Cash CAPEX	-6,285	-1,440	-19,815	-17,313
<b>Free cash flow</b>	<b>11,656</b>	<b>19,773</b>	<b>63,744</b>	<b>80,743</b>
<b>Total cash flow from investing activities</b>	<b>-6,285</b>	<b>-1,440</b>	<b>-19,815</b>	<b>-17,313</b>
<b>Cash flow before financing activities</b>	<b>11,656</b>	<b>19,773</b>	<b>63,744</b>	<b>80,743</b>
<b>Cash flow from financing activities</b>	<b>-11,028</b>	<b>-6,050</b>	<b>-63,140</b>	<b>-64,902</b>
<b>Cash flow for the period</b>	<b>628</b>	<b>13,723</b>	<b>604</b>	<b>15,841</b>
<b>Cash and cash equivalents, opening balance</b>	<b>18,892</b>	<b>5,193</b>	<b>18,916</b>	<b>3,075</b>
Cash flow for the period	628	13,723	604	15,841
<b>Cash and cash equivalents, closing balance</b>	<b>19,520</b>	<b>18,916</b>	<b>19,520</b>	<b>18,916</b>

## Condensed consolidated statements of changes in equity

KZT in millions	Jan-Dec 2014			Jan-Dec 2013		
	Share capital	Retained earnings	Total equity	Share capital	Retained earnings	Total equity
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	-	58,271	58,271	-	63,392	63,392
<b>Closing balance</b>	<b>33,800</b>	<b>58,274</b>	<b>92,074</b>	<b>33,800</b>	<b>63,393</b>	<b>97,193</b>



## Basis of preparation

As in the annual accounts for 2013, Kcell's consolidated financial statements of and for 2014, have been prepared in accordance with International Financial Reporting Standards (IFRSs). 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	Oct-Dec 2014	Oct-Dec 2013	Jan-Dec 2014	Jan-Dec 2013
<b>Within EBITDA</b>				
Restructuring charges, synergy implementation costs, etc.	1,037	-	4,881	-
<b>Total</b>	<b>1,037</b>	<b>-</b>	<b>4,881</b>	<b>-</b>

## Investments

KZT in millions	Oct-Dec 2014	Oct-Dec 2013	Jan-Dec 2014	Jan-Dec 2013
<b>CAPEX</b>				
Intangible assets	709	622	1,832	1,517
Property, plant and equipment	11,363	5,623	19,177	21,332
<b>Total</b>	<b>12,072</b>	<b>6,245</b>	<b>21,009</b>	<b>22,849</b>

## Related party transactions

For the year ended 31 December 2014, Kcell purchased services for KZT 2,660 million and sold services for a value of KZT 1,363 million. Related parties in these transactions were mainly TeliaSonera and its group entities, Turkcell and Fintur Holding B.V.

## Net debt

KZT in millions	31 Dec 2014	31 Dec 2013
Long-term and short-term borrowings	25,020	24,721
Less short-term investments, cash and bank	-19,520	-18,916
<b>Net debt</b>	<b>5,500</b>	<b>5,805</b>

**Financial key ratios**

	31 Dec 2014	31 Dec 2013
Return on equity (% , rolling 12 months)	63.3	65.2
Return on capital employed (% , rolling 12 months)	75.7	76.5
Equity/assets ratio (%)	58.3	61.0
Net debt/equity ratio (%)	6.0	6.0
Net debt/EBITDA rate (multiple, rolling 12 months)	0.05	0.06
Owners' equity per share (KZT)	460.4	486.0

**Contractual obligations**

On 31 December 2014, contractual obligations in respect of property, plant and equipment totaled KZT 3,048 million (5,809), mostly related to purchase of telecommunications equipment from Ericsson.

Operational data	Oct-Dec 2014	Oct-Dec 2013	Chg (%)	Jan-Dec 2014	Jan-Dec 2013	Chg (%)
Subscribers, period-end (thousands)	13,055	14,307	-8.8	13,055	14,307	-8.8
Of which prepaid	11,574	12,593	-8.1	11,574	12,593	-8.1
MOU (min/month)	173	150	15.3	163	152	7.0
ARPU (KZT)	1,125	1,142	-1.5	1,135	1,106	2.6
Churn rate (%)	35.1	35.1		46.5	31.2	
Employees, period-end	1,736	1,488	16.7	1,736	1,488	16.7

### **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.