KCELL JSC

RESULTS FOR Q1 2017

Kcell

Kcell JSC
Results for January – March 2017

Almaty, 26 April 2017 – 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 – March 2017.

First quarter

- Net sales increased by 0.1 percent to KZT 35,517 million (35,470). Service revenue down 1.5 percent to KZT 33,022 million (33,514).
- EBITDA, excluding non-recurring items, decreased by 12.1 percent to KZT 13,126 million (14,928). The EBITDA margin was at 37.0 percent (42.1).
- Operating income, excluding non-recurring items, down 20.4 percent to KZT 7,496 million (9,415).
- Net finance cost increased to KZT 2,683 million (750).
- Net income decreased by 42.7 percent to KZT 3,799 million (6,625).
- CAPEX-to-sales ratio of 16.7 percent (82.2, 8.9 excluding KZT 26 billion for frequencies).
- Free cash flow increased to KZT 1,748 million (-13,494).
- During the quarter, the subscriber base remained stable quarter-on-quarter at 9,979 thousand, and increased by 124 thousand subscribers year-on-year (9,855).

Financial highlights

KZT in millions, except key ratios, per share data and changes	Jan-Mar 2017	Jan-Mar 2016	Chg (%)	Jan-Dec 2016
Revenue	35,517	35,470	0.1	147,037
of which service revenue	33,022	33,514	-1.5	137,337
EBITDA excl. non-recurring items	13,126	14,928	-12.1	57,989
Margin (%)	37.0	42.1		39.4
Operating income	7,496	9,058	-17.2	31,041
Operating income excl. non-recurring items	7,496	9,415	-20.4	33,740
Net income attributable to owners of the parent company	3,799	6,625	-42.7	16,684
Earnings per share (KZT)	19.0	33.1	-42.7	83.4
CAPEX-to-sales (%)	16.7	82.2		34.7
Free cash flow	1,748	-13,494		-13,293

In this report, comparative figures are provided in parentheses following the operational and financial results and refer to the same item in the first quarter of 2016, unless otherwise stated.

Comments by Arti Ots, CEO

“During the first quarter of 2017, the market started to show signs of improvement as all operators increased pricing and reduced some off-net allowances. Our tariff adjustments contributed to a significant reduction in the service revenue decline, which was just 1.5 percent compared to the same quarter last year. At the same time, we saw growth of almost 100 percent in our high-end contract phone segment, which is sold through our own retail outlets.

We continue to roll out and improve our 4G network, resulting in 22 percent growth in 4G users over the previous quarter, whilst 4G data traffic now accounts for 25 percent of our total data traffic.

Indications of economic growth in Kazakhstan have also continued into 2017, as demonstrated by the appreciation of Kazakhstani tenge.

The Board of Directors has recommended an annual dividend for 2016 in the amount of KZT 11,678 million, or KZT 58.39 per ordinary share. This represents 70 percent of the Company’s net income for 2016, in line with the policy we outlined at the time of our IPO.

We continue to focus on delivering the highest levels of technology and on developing innovative products and services in order to maintain our market leading position and provide value to our customers and our shareholders.”

Almaty
26 April 2017

CONFERENCE CALL

Kcell will host an analyst conference call on 26 April 2017 at 9:00 London time / 14:00 Almaty / 11:00 Moscow. The conference call will be held in English, audio webcast will be available at: http://www.audio-webcast.com/cgi-bin/visitors.ssp?fn=visitor&id=4547

Dial in details are as follows:

UK Toll Free:	0800 279 6840
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:	888 394 8218
USA Dial-In:	+1 719 325 2363
Conference ID	9255694

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://kcell260417-live.audio-webcast.com

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Review of the first quarter 2017

Net Sales

Net sales increased by 0.1 percent to KZT 35,517 million (35,470). Service revenue decreased by 1.5 percent to KZT 33,022 million (33,514).

Revenue from voice services decreased by 9.6 percent to KZT 19,630 million (21,703). Data revenue increased by 15.9 percent to KZT 10,999 million (9,488). Revenue from value-added services was up 2.9 percent to KZT 2,391 million (2,324). Other revenue grew by 27.7 percent to KZT 2,497 million (1,955).

Voice service revenue

Revenue from voice services decreased by 9.6 percent to KZT 19,630 million (21,703). Voice traffic was up 0.1 percent to 5,545 million minutes (5,539), while ARMU decrease to KZT 2.2 (2.7).

Interconnect revenue increased by 11.1 percent to KZT 5,252 million (4,727). This increase mainly resulted from an offering more off-net minutes in bundled offers.

Data service revenue

Data revenue grew by 15.9 percent to KZT 10,999 million (9,488). Data traffic increased by 67.4 percent to 42,320,845 GB (25,275,756). Growth in data traffic was offset by offering of bundled packages with lower tariffs per MB, which led to a decrease in average revenue per MB (ARMB) to KZT 0.3 (0.4).

Value-added service revenue

Revenue from value-added services increased by 2.9 percent to KZT 2,391 million (2,324), largely as a result of introduction of new services.

Other revenue

Other revenue grew by 27.7 percent to KZT 2,497 million (1,955), mainly driven by higher handsets sales.

KZT in millions, except percentages	Jan-Mar 2017	% of total	Jan-Mar 2016	% of total
Voice services	19,630	55.3	21,703	61.2
Data services	10,999	31.0	9,488	26.8
Value added services	2,391	6.7	2,324	6.5
Other revenues	2,497	7.0	1,955	5.5
Total revenues	**35,517**	**100.0**	**35,470**	**100.0**

EXPENSES

Cost of sales

Cost of sales rose by 8.9 percent to KZT 22,579 million (20,728), primarily due to higher network capacity expenses driven by increased traffic volumes, as well as higher interconnect cost of KZT 5,631 million (5,205).

Selling and marketing expenses

Selling and marketing expenses increased by 5.0 percent to KZT 2,637 million (2,513). This was primarily driven by an increase in staff cost.

General and administrative expenses

General and administrative expenses were down 4.7 percent to KZT 2,977 million (3,122).

EARNINGS, FINANCIAL POSITION AND CASH FLOW

EBITDA, excluding non-recurring items, decreased by 12.1 percent to KZT 13,126 million (14,928). The EBITDA margin was 37.0 percent (42.1).

Net financial items increased to KZT 2,683 million (750), and was mainly related to net interest expenses.

Income tax expense decreased by 39.8 percent to KZT 1,013 million (1,683).

Net income attributable to owners of the parent company was down 42.7 percent to KZT 3,799 million (6,625) and earnings per share decreased to KZT 19.0 (33.1).

CAPEX decreased to KZT 5,928 million (29,157) and the CAPEX-to-sales ratio was 16.7 percent (82.2). Last year increase was attributable to the acquisition of new frequencies for KZT 26 billion. CAPEX-to-sales ratio, excluding KZT 26 billion for new frequencies, was 8.9 percent.

Free cash flow increased to KZT 1,748 million (-13,494).

KEY MILESTONES FOR THE FIRST QUARTER OF 2017

January 2016

- Kcell became the official mobile operator of the 28th World Winter Universiade. The 28th World Winter Universiade was held in Almaty from 29 January to 8 February 2017. 2000 athletes from 58 countries took part in the Universiade. Kcell provided the high-quality mobile communication signal within sports facilities and launched the single reference contact center to provide the participants and guests of the Universiade with all the necessary background information, including competition schedule and locations of sports facilities.

April

- The Board of Directors approved a decision to convene the Annual General Meeting of shareholders ("AGM") on 24 May 2017. The Board of Directors has recommended the annual dividend ("Dividend") in the amount of KZT 11,678 million, or KZT 58.39 per ordinary share. This represents 70 percent of the Company's net income for the 12 months ending 31 December 2016 ("the Period").

  The proposed record date of Shareholders entitled to receive the dividends is 25 May 2017 (01:00 Almaty time). If approved at the AGM on 24 May 2017, the proposed Dividend will be paid starting from 1 June 2017.

ADMINISTRATIVE AND LEGAL UPDATE

Tax inspection

The Company is undergoing tax inspection that covers the period of 2011-2015. The tax audit has not been concluded yet and the Company therefore has not received any official claims. At the end of 2016, the Company has made a provision of KZT 3,962 million based on the preliminary assessment.

The January – March 2017 financial statements have been reviewed by the external auditors, their report will be available on the Kcell website starting from 15 May 2017.

The information was submitted for publication at 09:00 ALMT on 26 April 2017.

Financial Information

Interim Report January – June 2017	20 July 2017
Interim Report January – September 2017	19 October 2017

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	Jan-Mar 2017	Jan-Mar 2016	Chg (%)	Jan-Dec 2016
Revenues	35,517	35,470	0.1	147,037
Cost of sales	-22,579	-20,728	8.9	-91,866
Gross profit	**12,938**	**14,741**	**-12.2**	**55,171**
Selling and marketing expenses	-2,637	-2,513	5.0	-10,988
General and administrative expenses	-2,977	-3,122	-4.7	-14,150
Other operating income and expenses, net	172	-49		1,008
Operating income	**7,496**	**9,058**	**-17.2**	**31,041**
Finance costs and other financial items, net	-2,683	-750		-8,285
Income after financial items	**4,813**	**8,308**	**-42.1**	**22,756**
Income taxes	- 1,013	-1,683	-39.8	-6,073
Net income	**3,799**	**6,625**	**-42.7**	**16,684**
Other comprehensive income				
Total comprehensive income				
Total comprehensive income attributable to owners of the parent	3,799	6,625	-42.7	16,684
Earnings per share (KZT), basic and diluted	19.0	33.1	-42.7	83.4
Number of shares (thousands)				
Outstanding at period-end	200,000	200,000		200,000
Weighted average, basic and diluted	200,000	200,000		200,000
EBITDA	13,126	14,571	-9.9	55,290
EBITDA excl. non-recurring items	13,126	14,928	-12.1	57,989
Depreciation, amortization and impairment losses	-5,630	-5,513	2.1	-24,249
Operating income excl. non-recurring items	7,496	9,415	-20.4	33,740

Condensed Consolidated Statement of Financial Position

KZT in millions	31 Mar 2017	31 Dec 2016
Assets		
Intangible assets	41,593	42,842
Property, plant and equipment	96,894	95,322
Other non-current assets	86	86
Long-term receivables	1,106	1,163
Total non-current assets	**139,679**	**139,413**
Inventories	2,848	3,587
Trade and other receivables	32,238	29,554
Cash and cash equivalents	10,044	8,477
Total current assets	**45,130**	**41,617**
Total assets	**184,809**	**181,031**
Equity and liabilities		
Share capital	33,800	33,800
Retained earnings	42,679	38,880
Total equity attributable to owners of the parent	**76,479**	**72,680**
Long-term borrowings	34,000	8,000
Deferred tax liabilities	5,544	6,012
Other long-term liabilities	1,355	1,285
Total non-current liabilities	**40,899**	**15,298**
Short-term borrowings	31,274	57,415
Trade payables, and other current liabilities	36,157	35,638
Total current liabilities	**67,431**	**93,053**
Total equity and liabilities	**184,809**	**181,031**

Condensed Consolidated Statement of Cash Flows

KZT in millions	Jan-Mar 2017	Jan-Mar 2016	Jan-Dec 2016
Cash flow before change in working capital	9,875	10,698	45,299
Change in working capital	-3,278	-4,341	-14,751
Cash flow from operating activities	**6,597**	**6,357**	**30,547**
Cash CAPEX	-4,849	-19,851	-43,840
Free cash flow	**1,748**	**-13,494**	**-13,293**
Cash flow from financing activities	**-**	-	-10,501
Cash flow for the period	**1,748**	**-13,494**	**-23,794**
Cash and cash equivalents, opening balance	**8,477**	**31,589**	**31,589**
Cash flow for the period	1,748	-13,494	-23,794
Exchange rate difference	-181	1,047	682
Cash and cash equivalients, closing balance	**10,044**	**19,143**	**8,477**

Condensed Consolidated Statement of Changes in Equity

	Jan-Mar 2017			Jan-Mar 2016		
KZT in millions	Share capital	Retained earnings	Total equity	**Share capital**	**Retained earnings**	**Total equity**
Opening balance	33,800	38,880	**72,680**	33,800	46,646	**80,446**
Dividends	–	–	**–**	–	–	**–**
Total comprehensive income	–	3,799	**3,799**	–	6,625	**6,625**
Closing balance	**33,800**	**42,679**	**76,479**	**33,800**	**53,271**	**87,071**

Basis of preparation

As in the annual accounts for 2016, Kcell's consolidated financial statements of and for the three-month period ended 31 March 2017, 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	Jan-Mar 2017	Jan-Mar 2016	Jan-Dec 2016
Within EBITDA			
Restructuring charges, synergy implementation costs, etc.	–	357	2,699
Total	**–**	**357**	**2,699**

Investments

KZT in millions	Jan-Mar 2017	Jan-Mar 2016	Jan-Dec 2016
CAPEX			
Intangible assets	206	26,230	32,923
Property, plant and equipment	5,722	2,927	18,094
Total	**5,928**	**29,157**	**51,017**

Related party transactions

For the first quarter ended 31 March 2017, Kcell purchased services for KZT 1,158 million and sold services for a value of KZT 256 million. Related parties in these transactions were mainly Telia Company and its group entities, Turkcell and Fintur Holding B.V.

Net debt

KZT in millions	31 Mar 2017	31 Dec 2016
Long-term and short-term borrowings	65,274	65,415
Less short-term investments, cash and bank	-10,044	-8,477
Net debt	**55,230**	**56,938**

Financial key ratios

	31 Mar 2017	31 Dec 2016
Return on equity (%, rolling 12 months)	18.6	23.0
Return on capital employed (%, rolling 12 months)	16.4	25.9
Equity/assets ratio (%)	41.4	40.1
Net debt/equity ratio (%)	72.2	78.3
Net debt/EBITDA rate (multiple, rolling 12 months)	1.03	1.03
Owners' equity per share (KZT)	382.4	363.4

Operational data

	Jan-Mar 2017	Jan-Mar 2016	Chg (%)	Jan-Dec 2016
Subscribers, period-end (thousands)	9,979	9,855	*1.3*	9,986
Of which prepaid	9,029	8,594	*5.1*	9,049
MOU (min/month)	220	212	*3.8*	228
ARPU (KZT)	1,114	1,104	*1.0*	1,155
Churn rate (%)	43.4	49.0	*-11.4*	49.3
Employees, period-end	1,831	1,809	*1.2*	1,821

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.