

**Kcell JSC**

# **Q4 and 2018 Year-end Report**



## Kcell JSC Year-end Report January-December 2018

**Almaty, 11 March 2019** – Kcell Joint Stock Company ("Kcell" or the "Company") (LSE, KASE: KCEL), the leading provider of mobile telecommunications services in Kazakhstan, announces its results for the financial year ended 31 December 2018.

### Fourth quarter

- Net sales increased by 0.1 percent to KZT 38,254 million (38,212). Service revenue declined by 3.2 percent to KZT 33,469 million (34,559).
- EBITDA, excluding non-recurring items, decreased by 7.8 percent to KZT 14,301 million (15,503) with EBITDA margin of 37.4 percent (40.6).
- Operating income, excluding non-recurring items, decreased by 22.5 percent to KZT 7,289 million (9,408).
- Net finance cost down 2.5 percent to KZT 2,446 million (2,508).
- Net income decreased by 19.8 percent to KZT 3,661 million (4,564).
- Free cash flow increased to KZT 4,216 million (2,710).
- During the quarter, the Company's subscriber base declined to 8,969 thousand customers (9,234).

### Full year

- Net sales increased by 1.5 percent to KZT 149,701 million (147,475). Service revenue down 3.0 percent to KZT 131,373 million (135,407).
- EBITDA, excluding non-recurring items, decreased by 8.3 percent to KZT 50,943 million (55,560) with the EBITDA margin of 34.0 percent (37.7).
- Operating income, excluding non-recurring items, down 25.0 percent to KZT 24,311 million (32,414).
- Net finance cost decreased by 6.7 percent to KZT 8,792 million (9,419).
- Net income decreased by 27.1 percent to KZT 8,531 million (11,699).
- Free cash flow decreased to KZT 8,319 million (10,899).
- During the reporting year, the customer base decreased to 8,969 thousand (10,009). 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.



## Financial highlights

KZT in millions, except key ratios, per share data and changes	Oct-Dec 2018	Oct-Dec 2017	Chg (%)	Jan-Dec 2018	Jan-Dec 2017	Chg (%)
Revenue	38,254	38,212	0.1	149,701	147,475	1.5
of which service revenue	33,469	34,559	-3.2	131,373	135,407	-3.0
EBITDA excl. non-recurring items	14,301	15,503	-7.8	50,943	55,560	-8.3
Margin (%)	37.4	40.6		34.0	37.7	
Operating income	6,975	9,408	-25.9	21,055	29,741	-29.2
Operating income excl. non-recurring items	7,289	9,408	-22.5	24,311	32,414	-25.0
Net income attributable to owners of the parent company	3,661	4,564	-19.8	8,531	11,699	-27.1
Earnings per share (KZT)	18.3	22.8	-19.8	42.7	58.5	-27.1
CAPEX-to-sales (%)	16.5	21.1		12.9	14.7	
Free cash flow	4,216	2,710	55.6	8,319	10,899	-23.7

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 of 2017, unless otherwise stated. Hereinafter - 2017 figures are restated.

*In the process of preparing the consolidated financial statements for the year ended 31 December 2018, the management of the Company identified significant irregularities in the accounting methodology applied in the previously issued financial statements for the years ended 31 December 2017 and 31 December 2016.*

*In the previously issued consolidated financial statements for the years ended 31 December 2017 and 31 December 2016 the Company did not recognise expenses related to interconnect fees due to certain third-party suppliers.*

*The effects of the corrections of errors and retrospective restatement of the consolidated financial statements for 2016 and 2017 are disclosed in Note 5 of IFRS audited financial statements for the year ended 31 December 2018.*

*The management of the Company identified certain errors related to the reconciliation of current income tax expense recognised in the consolidated financial statements for the years ended 31 December 2012, 2013, 2014 and 2015 with the Company's actual income tax returns for the years then ended.*



## Comments by Kaspars Kukelis, CEO

“In 2018, Kcell delivered further steady growth, with an increase of 1.5 percent in net sales. This was largely driven by stronger B2B revenue from Business Solutions and handset sales.

We have now fully reviewed the significant irregularities in the Company’s accounting methodology that were identified in February and today we are presenting our restated accounts. We can confirm that there are no prior periods cash implications and that the underlying performance of the Company remains broadly unchanged.

We continue to improve the levels of service we provide in order to promote customer loyalty and we are proud to report that our Net Promoter Score for our B2B offering almost doubled in 2018. This can to a large extent be attributed to our renewed customer-centric approach and the development and delivery of bespoke Business Solutions. In addition, the expansion of our 4G/LTE coverage has significantly improved the quality of our services. Kcell’s 4G/LTE services now cover 61.9 percent of the population.

In the fourth quarter of 2018, JSC Kazakhtelecom became the majority shareholder in Kcell, after acquiring the 75 percent stake that been held by Telia Company and Fintur B.V. since our IPO in 2012.

We are delighted to join the Kazakhtelecom Group and we are excited by the potential opportunities and economies of scale that will in due course result from this relationship. We look forward to combining our strategic and operational expertise with the largest Kazakh telecommunications operator in order to optimise the clear synergies.



We will continue to observe the highest standards of international governance, which were put in place at the time of our IPO. At the same time, we aim to further strengthen the effective corporate culture that we have built, based on European principles of business ethics and compliance, introducing the best practices implemented by the new major shareholder of the Company.

At the EGM, on 25 January 2019, a new Board of Directors was elected. Three directors are representatives of our shareholders, whilst four are independent directors. The new Board has extensive experience in the telecommunications and financial sectors and is committed to further promoting best practice corporate governance at Kcell.

I am delighted to take the role of CEO as Kcell enters the new phase of its development. The digital transformation of our operations is progressing well, bringing greater efficiencies and further improving the level of service we can offer. In the year ahead, we will remain focused maintaining our leading market position and delivering the highest levels of value to our customers and our shareholders.”

11 March 2019



## Conference call

Kcell will host an analyst conference call on 11 March 2019 at 11:00 UK time / 14:00 Moscow / 17:00 Almaty. The conference will be held in English, audio webcast will be available at: <https://webcasts.eqs.com/kcell20190311>

### Dial in details are as follows:

UK Toll Free:	<b>0800 279 7204</b>
Standard International	
Dial-in:	<b>+44 330 336 9411</b>
Russia Toll Free:	<b>8 10 8002 8675011</b>
Russia Local Call	
number:	<b>+7 495 646 9190</b>
USA Toll Free:	<b>800 458 4121</b>
USA Dial-In:	<b>+1 929 477 0324</b>
Conference ID	<b>1983030</b>

A presentation will be available on the Company website shortly before the conference call on [www.investors.kcell.kz/en](http://www.investors.kcell.kz/en)

### Enquiries:

#### Kcell

#### Investor Relations

Irina Shol

Tel: +7 727 2582755

ext. 1002

[Investor\\_relations@kcell.kz](mailto:Investor_relations@kcell.kz)

#### Media

Natalya Eskova

Tel: +7 727 2582755

ext. 1902

[Pressa@kcell.kz](mailto:Pressa@kcell.kz)

#### International Media

#### Instinctif Partners

Tel: +44 207 457 2020

Kay Larsen

Galyna Kulachek



## Review of the fourth quarter 2018

### Net sales

Net sales increased by 0.1 percent to KZT 38,254 million (38,212). Service revenue decreased by 3.2 percent to KZT 33,469 million (34,559).

Revenue from voice and other services fell by 1.7 percent to KZT 19,583 million (19,913). Data revenue increased by 0.7 percent to KZT 12,057 million (11,975). Revenue from value-added services decreased by 28.0 percent to KZT 1,923 million (2,671). Handset sales increased by 28.4 percent to KZT 4,691 million (3,653).

### Voice and other services

Revenue from voice and other services fell by 1.7 percent to KZT 19,583 million (19,913). Voice traffic decreased by 7.5 percent to 5,141 million minutes (5,558), while ARMU remained stable at KZT 2.1 (2.1).

Interconnect revenue declined by 4.0 percent to KZT 5,347 million (5,571).

### Data service

Data revenue increased by 0.7 percent to KZT 12,057 million (11,975). Data traffic grew by 34.5 percent to 75,362,294 GB (56,050,712). 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 0.16 (0.21).

### Value-added service

Revenue from value-added services decreased by 28.0 percent to KZT 1,923 million (2,671).

### Handset sales

Handset sales increased by 28.4 percent to KZT 4,691 million (3,653).

KZT in millions, except percentages	Oct-Dec 2018	% of total	Oct-Dec 2017	% of total
Voice and other services	19,583	51.2	19,913	52.1
Data services	12,057	31.5	11,975	31.3
Value added services	1,923	5.0	2,671	7.0
Handset sales	4,691	12.3	3,653	9.6
<b>Total revenues</b>	<b>38,254</b>	<b>100.0</b>	<b>38,212</b>	<b>100.0</b>



## Expenses

### Cost of sales

Cost of sales increased by 4.3 percent to KZT 24,649 million (23,638), mainly due to recognised expenses related to interconnection charges and higher handset sales.

### Selling and marketing expenses

Selling and marketing expenses decreased by 14.0 percent to KZT 2,260 million (2,628), largely as a result of an improved distribution process.

### General and administrative expenses

General and administrative expenses increased by 39.3 percent to KZT 4,237 million (3,041), primarily due to additionally accrued taxes and penalties, as well as higher consulting expenses and staff cost.

## Earnings, financial position and cash flow

**EBITDA**, excluding non-recurring items, decreased by 7.8 percent to KZT 14,301 million (15,503) with an EBITDA margin of 37.4 percent (40.6).

**Net finance cost** decreased by 2.5 percent to KZT 2,446 million (2,508).

**Income tax expense** decreased by 62.8 percent to KZT 869 million (2,335).

**Net income attributable to owners of the parent company** decreased to KZT 3,661 million (4,564), while earnings per share declined to KZT 18.3 (22.8).

**CAPEX** decreased to KZT 6,296 million (8,049) with CAPEX-to-sales ratio of 16.5 percent (21.1).

**Free cash flow** improved during the reporting period and amounted to KZT 4,216 million (2,710).



## Review of full year 2018

### Net sales

Net sales increased by 1.5 percent to KZT 149,701 million (147,475). Service revenue was down 3.0 percent to KZT 131,373 million (135,407).

Revenue from voice and other services fell by 3.2 percent to KZT 77,515 million (80,050). Data revenue increased by 0.6 percent to KZT 45,800 million (45,541). Revenue from value-added services decreased by 18.9 percent to KZT 7,954 million (9,802). Handset sales were up 52.6 percent to KZT 18,432 million (12,082).

### Voice and other services

Revenue from voice and other services decreased by 3.2 percent to KZT 77,515 million (80,050). Voice traffic decreased by 7.7 percent to 20,934 million minutes (22,678); ARMU remained at KZT 2.1 (2.1).

Interconnect revenue remained stable at KZT 21,593 million (21,549).

### Data services

Data revenue increased by 0.6 percent to KZT 45,800 million (45,541). Data traffic increased by 34.0 percent to 258,198,182 GB (192,691,522). Growth in data traffic was partially offset by packages with lower tariffs per MB, which resulted in a decrease in average revenue per MB (ARMB) to KZT 0.18 (0.23).

### Value-added services

Revenue from value-added services decreased by 18.9 percent to KZT 7,954 million (9,802).

### Handset sales

Handset sales increased by 52.6 percent to KZT 18,432 million (12,082).

KZT in millions, except percentages	Jan-Dec 2018	% of total	Jan-Dec 2017	% of total
Voice and other services	77,515	51.8	80,050	54.3
Data services	45,800	30.6	45,541	30.9
Value added services	7,954	5.3	9,802	6.6
Handset sales	18,432	12.3	12,082	8.2
<b>Total revenues</b>	<b>149,701</b>	<b>100.0</b>	<b>147,475</b>	<b>100.0</b>





## Expenses

### Cost of sales

Cost of sales increased by 7.9 percent to KZT 99,431 million (92,194), primarily due to recognised expenses related to interconnection charges and higher handset sales.

### Selling and marketing expenses

Selling and marketing expenses decreased by 5.6 percent to KZT 9,805 million (10,388), reflecting the improved distribution process.

### General and administrative expenses

General and administrative expenses increased by 23.6 percent to KZT 19,227 million (15,561), primarily due to additionally accrued taxes and penalties, as well as higher consulting expenses and staff cost.

## Earnings, financial position and cash flow

**EBITDA**, excluding non-recurring items, decreased by 8.3 percent to KZT 50,943 million (55,560), with the EBITDA margin of 34.0 percent (37.7).

**Net finance cost** fell to KZT 8,792 million (9,419).

**Income tax expense** decreased by 56.7 percent to KZT 3,732 million (8,622).

**Net income attributable to owners of the parent company** decreased by 27.1 percent to KZT 8,531 million (11,699), while earnings per share were down to KZT 42.7 (58.5).

**CAPEX** amounted to KZT 19,240 million (21,648) and CAPEX-to-sales ratio decreased to 12.9 percent (14.7).

**Free cash flow** decreased to KZT 8,319 million (10,899).

**Net debt/equity ratio** was 89.2 percent (81.9).

**Net debt/EBITDA rate** was 1.27 (1.09).

**The equity/assets ratio** was 40.7 percent (39.4).



## 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 payout amounted to a gross figure of KZT 58.39 per ordinary share (each GDR representing one ordinary share).
- 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 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 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.

## November

- On 21 November 2018, the Company notified that Mansur Khamidov continues in the role of Chief Executive Officer. Further to the announcement on 27 July 2018 of his appointment as CEO, Mr. Rainer Rathgeber decided not to assume the role for personal reasons.

## December

- On 12 December 2018, Telia Company and Fintur Holdings B.V. (Fintur), jointly owned by Telia Company and Turkcell, agreed to sell their 75 percent holding in Kcell JSC, to the telecom operator Kazakhtelecom JSC. On 21 December 2018, the Company announced completion of the transfer of 75 percent of ordinary shares in Kcell JSC to the account of Kazakhtelecom JSC.
- On 21 December 2018, the Company notified that the Board of Directors has decided to convene the Extraordinary General Meeting of Shareholders of Kcell JSC on 25 January 2019 at 11:00 AM (Almaty time) at the following address: 2G, Timiryazev street, Almaty 050013, Republic of Kazakhstan.
- On 24 December 2018, the Board of Directors of Kcell adopted the decision to terminate the authority of Mansur Khamidov as Chief Executive Officer of Kcell JSC, and appoint Damir Zhanbakiev as Chief Executive Officer of Kcell JSC, effective from 24 December 2018. Damir Zhanbakiev will hold the position of the Company's CEO until a decision is made by the Board of Directors on the election of a new Chief Executive Officer.
- On 28 December 2018, the Company announced that the Non-Executive Directors who were representatives of shareholders Fintur Holdings B.V. and TeliaSonera Kazakhstan Holding B.V. – Douglas Lubbe, Emil Nilsson, Fredrik Nissen and Peter Lav – notified the Company of their resignation as Members of the Board of Directors of Kcell JSC effective from 21 December 2018.



## Significant events following the end of the reporting period

### January 2019

- The Extraordinary General Meeting of Shareholders held on 25 January 2019, adopted the following decisions:

- To terminate the authorities of the following members of Kcell JSC Board of Directors:
  - Jan Erik Rudberg (Independent Director);
  - William H.R. Aylward (Independent Director);
  - Vladimir Smirnov (Independent Director).
- To elect the Company's new Board of Directors consisting of the following members:
  - Alexey Buyanov (Independent Director);
  - Rashit Makhat (Independent Director);
  - Dinara Inkarbekova (Independent Director);
  - Vladimir Popov (Independent Director);
  - Kuanyshbek Yessekeyev (representative of shareholder Kazakhtelecom JSC);
  - Yerulan Kussainov (representative of shareholder Kazakhtelecom JSC);
  - Timur Turlov (representative of shareholder Freedom Finance JSC).
- To determine the term of the office for Kcell JSC Board of Directors before a decision on the Board appointments is made by the General Meeting of Shareholders of Kcell JSC.

- On 28 January 2019, the Board of Directors has adopted the decision to terminate the authority of Damir Zhanbakiev as Chief Executive Officer of Kcell JSC, and appoint Kaspars Kukelis as Chief Executive Officer of Kcell JSC, effective from 29 January 2019.

### February 2019

- Kcell undertook a bond placement on the Kazakhstan Stock Exchange, in which bonds to the value of KZT 16.8 billion were placed with investors at a yield of 11.5 percent. This was the second placement in the programme Kcell announced in December 2017.



## Administrative tax 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 reserved 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 third quarter, the Company made a provision for the remaining KZT 0.8 billion.

In November 2018, the Company filed a petition to the cassation instance of the Supreme Court of Almaty. In December 2018, the petition was dismissed by the Resolution of the Supreme Court of the Republic of Kazakhstan.

In January 2019, Kcell appealed to Chairman of the Supreme Court with a view to re-appeal to the cassation instance of the Supreme Court.

### Administrative update

In October 2018, the Committee on Regulation of Natural Monopolies, Protection of Competition and Consumer Rights of the Ministry of National Economy of the Republic of Kazakhstan (“Committee”) initiated administrative proceedings against Kcell for an alleged administrative violation related to the abuse of its dominant position in 2017. The potential fine, which can be imposed by the court, constitutes approximately KZT 2 billion.

According to the Committee, the violation resulted in the establishment of different prices for Kcell’s mobile Internet access service with a data allowance, when the data allowance was exceeded or the monthly subscription fee was not timely paid.

The results of investigation were approved by the Order of Committee dated 18 October 2018. The Committee also issued the Prescription on the elimination of violation for the Company ordering, inter alia, to return to Kcell brand subscribers all fees charged in 2017 when the monthly data allowance was exceeded and when the monthly subscription fee for mobile Internet access services had not been paid.

On 25 October 2018, Kcell filed an appeal against these decisions in the Specialised Interdistrict Economic Court of Astana.

On 6 November 2018, the Specialised Interdistrict Administrative Court of Almaty ruled to postpone the consideration of the Administrative Offense until such consideration of the civil case is finalised.

On 29 November 2018, the Astana City Specialised Interdistrict Economic Court ruled to terminate the consideration of this case. This ruling was appealed by Kcell.

On 23 January 2019, the Astana City Court upheld the ruling of the Astana City Specialised Interdistrict Economic Court. Kcell appealed this ruling in the Supreme Court of Republic of Kazakhstan.

On 25 February 2019, the Company challenged the Conclusion on the results of investigation to the Specialised Interdistrict Economic Court of Astana.

On 26 February 2019, following its suspension, the administrative case was resumed. However, it was suspended again to consider a civil case regarding the appeal of the Conclusion on the results of investigation.



The information was submitted for publication at 09:00 ALMT on 11 March 2019.

---

### Financial Information

Interim Report January-March 2019	26 April 2019
Interim Report January-June 2019	26 July 2019
Interim Report January-September 2019	25 October 2019

---

### Questions regarding the reports:

Kcell JSC  
Investor Relations  
Timiryazev str. 2g  
050013 Almaty  
Tel. +7 727 2582755 ext.1002

[Investor\\_relations@kcell.kz](mailto:Investor_relations@kcell.kz)

[www.investors.kcell.kz](http://www.investors.kcell.kz)

---

### 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 2018	Oct-Dec 2017	Chg (%)	Jan-Dec 2018	Jan-Dec 2017	Chg (%)
Revenues	38,254	38,212	0.1	149,701	147,475	1.5
Cost of sales	-24,649	-23,638	4.3	-99,431	-92,194	7.9
<b>Gross profit</b>	<b>13,605</b>	<b>14,574</b>	<b>-6.6</b>	<b>50,269</b>	<b>55,281</b>	<b>-9.1</b>
Selling and marketing expenses	-2,260	-2,628	-14.0	-9,805	-10,388	-5.6
General and administrative expenses	-4,237	-3,041	39.3	-19,227	-15,561	23.6
Other operating income and expenses, net	-133	502	-126.5	-182	410	-144.5
<b>Operating income</b>	<b>6,975</b>	<b>9,408</b>	<b>-25.9</b>	<b>21,055</b>	<b>29,741</b>	<b>-29.2</b>
Finance costs and other financial items, net	-2,446	-2,508	-2.5	-8,792	-9,419	-6.7
<b>Income after financial items</b>	<b>4,531</b>	<b>6,900</b>	<b>-34.3</b>	<b>12,263</b>	<b>20,321</b>	<b>-39.7</b>
Income taxes	-869	-2,335	-62.8	-3,732	-8,622	-56.7
<b>Net income</b>	<b>3,661</b>	<b>4,564</b>	<b>-19.8</b>	<b>8,531</b>	<b>11,699</b>	<b>-27.1</b>
Total comprehensive income attributable to owners of the parent company	3,661	4,564	-19.8	8,531	11,699	-27.1
Earnings per share (KZT), basic and diluted	18.3	22.8	-19.8	42.7	58.5	-27.1
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	13,987	15,503	-9.8	47,687	52,887	-9.8
EBITDA excl. non-recurring items	14,301	15,503	-7.8	50,943	55,560	-8.3
Depreciation, amortization and impairment losses	-7,012	-6,096	15.0	-26,632	-23,147	15.1
Operating income excl. non-recurring items	7,289	9,408	-22.5	24,311	32,414	-25.0



## Condensed Consolidated Statement of Financial Position

KZT in millions	31 Dec 2018	31 Dec 2017
<b>Assets</b>		
Intangible assets	40,606	43,061
Property, plant and equipment	88,676	93,680
Other non-current assets	425	260
Long-term receivables	3,010	1,617
<b>Total non-current assets</b>	<b>132,717</b>	<b>138,618</b>
Inventories	4,728	3,425
Trade and other receivables	23,599	24,276
Cash and cash equivalents	6,029	12,660
<b>Total current assets</b>	<b>34,356</b>	<b>40,361</b>
<b>Total assets</b>	<b>167,073</b>	<b>178,978</b>
<b>Equity and liabilities</b>		
Share capital	33,800	33,800
Retained earnings	34,275	36,739
<b>Total equity attributable to owners of the parent</b>	<b>68,075</b>	<b>70,539</b>
Long-term borrowings	14,936	12,000
Deferred tax liabilities	1,504	4,667
Other long-term liabilities	1,362	1,355
<b>Total non-current liabilities</b>	<b>17,802</b>	<b>18,022</b>
Short-term borrowings	51,783	58,418
Trade payables, and other current liabilities	29,413	31,999
<b>Total current liabilities</b>	<b>81,196</b>	<b>90,417</b>
<b>Total equity and liabilities</b>	<b>167,073</b>	<b>178,978</b>





## Condensed Consolidated Statement of Cash Flows

KZT in millions	Oct-Dec 2018	Oct-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
Cash flow before change in working capital	13,296	14,334	48,172	49,594
Change in working capital	-5,448	-5,457	-20,602	-16,110
<b>Cash flow from operating activities</b>	<b>7,848</b>	<b>8,877</b>	<b>27,570</b>	<b>33,483</b>
Cash CAPEX	-3,632	-6,166	-19,251	-22,584
<b>Free cash flow</b>	<b>4,216</b>	<b>2,710</b>	<b>8,319</b>	<b>10,899</b>
<b>Cash flow from financing activities</b>	<b>-8,210</b>	<b>-4,000</b>	<b>-15,098</b>	<b>-6,678</b>
<b>Cash flow for the period</b>	<b>-3,994</b>	<b>-1,289</b>	<b>-6,779</b>	<b>4,221</b>
<b>Cash and cash equivalents, opening balance</b>	<b>9,975</b>	<b>14,074</b>	<b>12,660</b>	<b>8,477</b>
Cash flow for the period	-3,994	-1,289	-6,779	4,221
Exchange rate difference	48	-125	148	-38
<b>Cash and cash equivalents, closing balance</b>	<b>6,029</b>	<b>12,660</b>	<b>6,029</b>	<b>12,660</b>

## Condensed Consolidated Statements of Changes in Equity

KZT in millions	Jan-Dec 2018			Jan-Dec 2017		
	Share capital	Retained earnings	Total equity	Share capital	Retained earnings	Total equity
Opening balance	33,800	36,739	70,539	33,800	38,880	72,680
Dividends	-	-11,678	-11,678	-	-11,678	-11,678
Impact of adopting IFRS 9 and 15	-	683	683	-	844	844
Corrections of errors	-	-	-	-	-3,006	-3,006
Total comprehensive income	-	8,531	8,531	-	11,699	11,699
<b>Closing balance</b>	<b>33,800</b>	<b>34,275</b>	<b>68,075</b>	<b>33,800</b>	<b>36,739</b>	<b>70,539</b>



## Basis of preparation

In the process of preparing the consolidated financial statements for the year ended 31 December 2018 the management of the Company identified certain errors in the previously issued financial statements for the years ended 31 December 2017 and 31 December 2016.

The management of the Company identified certain errors related to the reconciliation of current income tax expense recognised in the consolidated financial statements for the years ended 31 December 2012, 2013, 2014 and 2015 with the Company's actual income tax returns for the years then ended.

In the previously issued consolidated financial statements for the years ended 31 December 2017 and 31 December 2016 the Company did not recognise expenses related to interconnect fees due to certain third party suppliers.

The effects of the corrections of errors and retrospective restatement of the consolidated financial statements for 2016 and 2017 are disclosed in Note 5 of International Financial Reporting Standards (IFRS) audited financial statements for the year ended 31 December 2018.

Kcell's consolidated financial statements as of the end of 2018, have been prepared in accordance with IFRS. In the consolidated financial statements for the year ended 31 December 2018, a retrospective adjustment for the impact of IFRS 15 in the period of initial application is made. The Company applied IFRS 15 using the full retrospective method with adjustments to all periods presented.

In the current year, the Company has applied IFRS 9 Financial Instruments that is mandatorily effective for an accounting period that begins on or after 1 January 2018. In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39, the effect was not material.

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 2018	Oct-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
<b>Within EBITDA</b>				
Restructuring charges, synergy implementation costs, etc.	314	-	3,256	2,673
<b>Total</b>	<b>314</b>	<b>-</b>	<b>3,256</b>	<b>2,673</b>

## Investments

KZT in millions	Oct-Dec 2018	Oct-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
<b>CAPEX</b>				
Intangible assets	1,868	3,163	4,957	5,981
Property, plant and equipment	4,428	4,886	14,283	15,667
<b>Total</b>	<b>6,296</b>	<b>8,049</b>	<b>19,240</b>	<b>21,648</b>

## Related party transactions



For the year ended 31 December 2018, Kcell purchased services for KZT 2,166 million and sold services for KZT 608 million. Related parties in these transactions were mainly Telia and its group entities, Turkcell and Fintur Holding B.V. and group companies of the Sovereign Wealth Fund Samruk-Kazyna.

### Net debt

KZT in millions	31 Dec 2018	31 Dec 2017
Long-term and short-term borrowings	66,719	70,418
Less short-term investments, cash and bank	-6,029	-12,660
<b>Net debt</b>	<b>60,690</b>	<b>57,758</b>

### Financial key ratios

	31 Dec 2018	31 Dec 2017
Return on equity (% , rolling 12 months)	12.5	16.6
Return on capital employed (% , rolling 12 months)	14.3	22.9
Equity/assets ratio (%)	40.7	39.4
Net debt/equity ratio (%)	89.2	81.9
Net debt/EBITDA rate (rolling 12 months)	1.27	1.09
Owners' equity per share (KZT)	340.4	352.7

### Operational data

	Oct-Dec 2018	Oct-Dec 2017	Chg (%)	Jan-Dec 2018	Jan-Dec 2017	Chg (%)
Subscribers, period-end (thousands)	8,969	10,009	-10.4	8,969	10,009	-10.4
Of which prepaid	8,062	9,100	-11.4	8,062	9,100	-11.4
MOU (min/month)	227	222	2.3	218	226	-3.2
ARPU (KZT)	1,243	1,167	6.5	1,150	1,146	0.3
Churn rate (%)	54.1	73.5		55.5	56.1	
Employees, period-end	1,826	1,853	-1.5	1,826	1,853	-1.5



**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.

