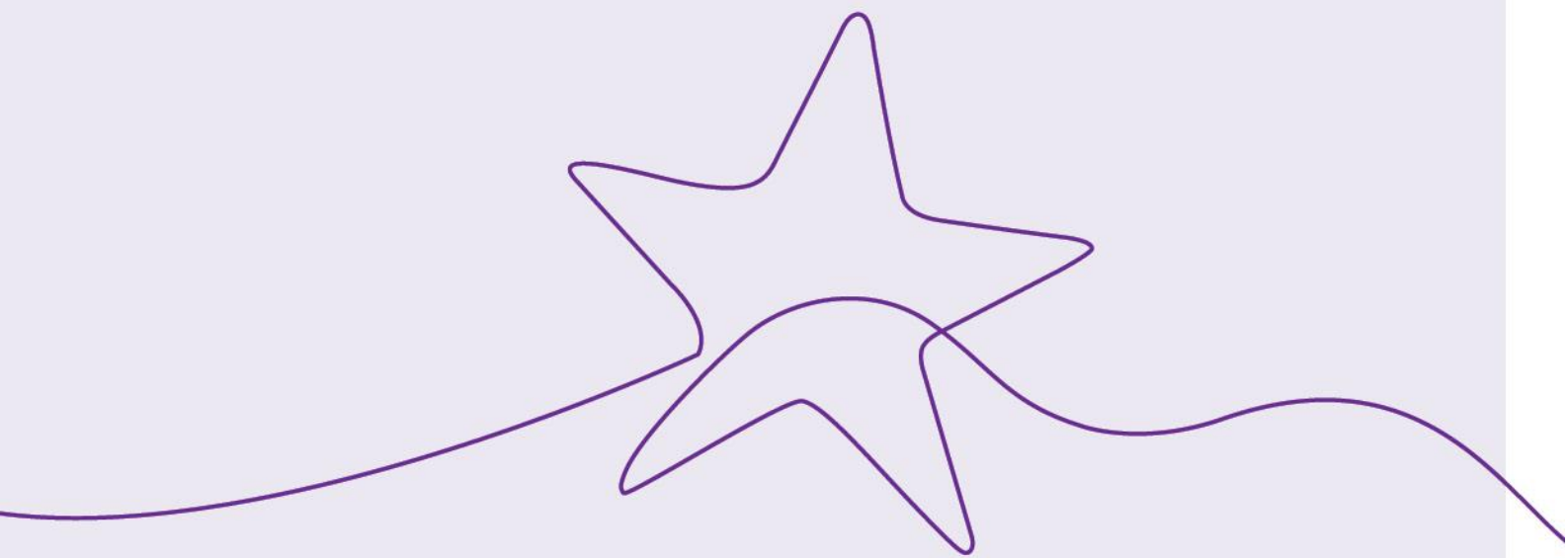


Kcell

Kcell JSC

Q4 and 2019
Year-end Report



Kcell JSC

Results for January – December 2019

Almaty, 19 March 2020 – Kcell Joint Stock Company ("Kcell" or the "Company") (LSE, KASE: KCEL; AIX: KCEL, KCEL.Y), the leading provider of mobile telecommunications services in Kazakhstan, announces its financial results for the year ended 31 December 2019.

Fourth quarter

- Net sales increased by 11.1 percent to KZT 42,487 million (38,254). Service revenue increased by 5.8 percent to KZT 35,510 million (33,562).
- EBITDA, excluding non-recurring items, grew by 8.6 percent to KZT 15,536 million (14,301). EBITDA margin was 36.6 percent (37.4).
- Operating income, excluding non-recurring items, increased by 16.7 percent to KZT 8,662 million (7,423).
- Net finance cost was KZT 2,489 million (2,493).
- Net income increased by 39.1 percent to KZT 5,091 million (3,661).
- CAPEX-to-sales ratio of 33.0 percent (16.5).
- Free cash was KZT 3,525 million (4,217).
- During the quarter, the total number of subscriptions decreased to 8,275 thousand (8,440).

Full year

- Net sales up 4.6 percent to KZT 156,657 million (149,701). Service revenue increased by 4.8 percent to KZT 137,564 million (131,269).
- EBITDA, excluding non-recurring items, increased by 24.7 percent to KZT 63,533 million (50,943). EBITDA margin was 40.6 percent (34.0).
- Operating income, excluding non-recurring items, up 36.3 percent to KZT 33,393 million (24,493).
- Net finance cost increased by 12.8 percent to KZT 10,085 million (8,941).
- Net income increased by 18.6 percent to KZT 10,117 million (8,531). As a result of the termination of the Network Sharing Agreement with KaR-Tel LLP, the Company's net income was negatively affected by a KZT 14,552 million penalty, but it was positively affected by reversal of tax accrual in the amount of KZT 5,816 million.
- CAPEX-to-sales ratio of 12.9 percent (12.9).
- Free cash flow increased to KZT 16,443 million (8,320).
- During the year the number of subscribers decreased to 8,275 thousand (8,969), as a result of moving from quantity driven distribution to value driven acquisition.

Financial highlights

KZT in millions, except key ratios, per share data and changes	Oct-Dec 2019	Oct-Dec 2018	Chg (%)	Jan-Dec 2019	Jan-Dec 2018	Chg (%)
Net sales	42,487	38,254	11.1	156,657	149,701	4.6
of which service revenue	35,510	33,562	5.8	137,564	131,269	4.8
EBITDA excl. non-recurring items	15,536	14,301	8.6	63,533	50,943	24.7
Margin (%)	36.6	37.4		40.6	34.0	
Operating income	9,410	7,109	32.4	22,814	21,237	7.4
Operating income excl. non-recurring items	8,662	7,423	16.7	33,393	24,493	36.3
Net income/loss	5,091	3,661	39.1	10,117	8,531	18.6
Earnings per share (KZT)	25.5	18.3	39.1	50.6	42.7	18.6
CAPEX-to-sales (%)	33.0	16.5		12.9	12.9	
Free cash flow	3,525	4,217		16,443	8,320	

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 full year 2018, unless otherwise stated.

Comments by Kaspars Kukelis, Chairman of the Management Board, CEO

“2019 marked a clear turnaround for Kcell with revenue rising 4.6 percent, for the first improvement in our key financial indicators in five years. Service revenue showed similar momentum, posting an increase of 4.8 percent, which was, in turn, driven by a substantial increase in ARPU of 15.5 percent.

This level of revenue growth, allied with strong cost control and optimisation, brought a significant increase in EBITDA, which grew by 24.7 percent excluding non-recurring expenses, and by 13.8 percent, excluding the application of IFRS 16 accounting standards.

Revenue growth also continued in the B2B segment, which reported a 16.2 percent increase, boosting the share of total revenue by the corporate segment to 12 percent. Handset sales also continued to show growth, rising 3.6 percent during the year, supported by the launch of an on-line store.

In 2019, Kcell launched its new strategy aimed at driving growth and leveraging developments in the ownership structure of the Group. The strategy is focused on ensuring Kcell maintains market leadership across all business areas, whilst driving the monetisation of data and exploiting synergies across the entire Group.



We see strong financial and operational opportunities in further network and infrastructure sharing initiatives and have also launched our first convergent product with Kazakhtelecom. We are also developing unique and pioneering propositions such as electronic SIMs (eSIMs) that further underscore our technology leadership whilst improving the cost base.

We enter 2020 with confidence and look forward to maintaining the momentum we have delivered in the past year. We will continue to leverage synergies with Kazakhtelecom along with driving fiscal discipline and maintaining our clear focus on developing innovative, high quality products and services in order to provide value to all our stakeholders.”

Almaty

19 March 2020

Conference call

Kcell will host an analyst conference call on 19 March 2020 at 11:00 London time / 14:00 Moscow / 17:00 Almaty. The conference will be held in English, audio webcast will be available at <https://webcasts.eqs.com/kcell20200319>

Dial in details are as follows:

UK Toll Free:	0800 279 7204
Standard International Dial-in:	+44 330 336 9411
Russia Toll Free:	8 10 8002 8675011
Russia Local Call number:	+7 495 646 9190
USA Toll Free:	888 204 4368
USA Dial-In:	+1 929 477 0402

Conference ID **9719253**

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

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Kay Larsen

Galyna Kulachek

Review of the fourth quarter of 2019

Net sales

Net sales increased by 11.1 percent to KZT 42,487 million (38,254). Service revenue increased by 5.8 percent to KZT 35,510 million (33,562).

Voice and other services

Revenue from voice and other services increased by 2.8 percent to KZT 20,137 million (19,585).

Enterprise revenue increased by 13.6 percent to KZT 5,335 million (4,696).

Data service revenue

Data revenue increased by 13.6 percent to KZT 13,694 million (12,056).

Value-added service revenue

Revenue from value-added services decreased by 12.5 percent to KZT 1,682 million (1,922).

Handset sales

Revenue from the sale of mobile devices up 48.7 percent to KZT 6,975 million (4,691).

KZT in millions, except percentages	Oct-Dec 2019	% of total	Oct-Dec 2018	% of total
Voice and other services	20,137	47.4	19,585	51.2
Data services	13,694	32.2	12,056	31.5
Value added services	1,682	4.0	1,922	5.0
Handset sales	6,975	16.4	4,691	12.3
Total revenues	42,487	100.0	38,254	100.0

Expenses

Cost of sales

Cost of sales grew by 6.9 percent to KZT 28,937 million (27,074), mainly due to an increase in sales of devices.

Selling and marketing expenses

Selling and marketing expenses increased by 65.8 percent to KZT 1,199 million (723), largely as a result of higher marketing expenses.

General and administrative expenses

General and administrative expenses decreased by 18.7 percent to KZT 2,830 million (3,481). This was mainly due to lower tax expenses where comparative data for the fourth quarter of 2018 included an additional tax reserve in the amount of KZT 479 million.

Earnings, financial position and cash flow

EBITDA, excluding non-recurring items, increased by 8.6 percent to KZT 15,536 million (14,301). EBITDA margin was 36.6 percent (37.4).

Net finance cost was KZT 2,489 million (2,493).

Income tax expense increased to KZT 1,827 million (869).

Net income grew to KZT 5,091 million (3,661), while earnings per share increased to KZT 25.5 (18.3).

CAPEX increased to KZT 14,042 million (6,296) and CAPEX-to-sales ratio was up 33.0 percent (16.5).

Free cash flow decreased to KZT 3,525 million (4,217).

Review of full year 2019

Net sales

Net sales up 4.6 percent to KZT 156,657 million (149,701). Service revenue increased by 4.8 percent to KZT 137,564 million (131,269).

Revenue growth was driven by a number of factors including improved pay as you go (PAYG) billing for bundled offers, the introduction of new tariff plans with unlimited access to social networks, increasing number of subscribers transitioning to new offers with enlarged content. In addition, the number of fixed contract subscribers with higher ARPU has risen, as a result of an increase in the number of devices sold.

Voice and other services

Revenue from voice and other services increased by 1.5 percent KZT 78,689 million (77,515).

Enterprise revenue increased by 16.2 percent to KZT 18,616 million (16,021).

Data service revenue

Data revenue increased by 12.3 percent to KZT 51,430 million (45,800).

Value-added service revenue

Revenue from value-added services decreased by 6.4 percent to KZT 7,447 million (7,954).

Handset sales

Handset sales increased by 3.6 percent to KZT 19,091 million (18,432).

KZT in millions, except percentages	Jan-Dec 2019	% of total	Jan-Dec 2018	% of total
Voice and other services	78,689	50.2	77,515	51.8
Data services	51,430	32.8	45,800	30.6
Value added services	7,447	4.8	7,954	5.3
Handset sales	19,091	12.2	18,432	12.3
Total revenues	156,657	100.0	149,701	100.0

Expenses

Cost of sales

Cost of sales remained at the level of 2018 at KZT 109,195 million (109,433).

Selling and marketing expenses

Selling and marketing expenses were down 5.3 percent to KZT 2,887 million (3,050).

General and administrative expenses

General and administrative expenses decreased by 36.6 percent to KZT 8,925 million (14,075). This was mainly due to lower tax expenses as comparative data for 2018 included an additional tax reserve in the amount of KZT 4.0 billion.

Earnings, financial position and cash flow

EBITDA, excluding non-recurring items, increased by 24.7 percent to KZT 63,533 million (50,943). The EBITDA margin was 40.6 percent (34.0).

Net finance cost increased by 12.8 percent to KZT 10,085 million (8,941).

Income tax expense amounted to KZT 2,753 million (3,732). This decrease reflects the recognition of a deferred tax asset on the tax loss carried forward following the accrual of a fine for the termination of the Network Sharing Agreement with KaR-Tel LLP.

Net income amounted to KZT 10,117 million (8,531), while earnings per share was KZT 50.6 (42.7).

CAPEX amounted to KZT 20,200 million (19,240) and the CAPEX-to-sales ratio remained 12.9 percent (12.9).

Free cash flow increased to KZT 16,443 million (8,320).

Key milestones 2019

January

- The Extraordinary General Meeting of Shareholders held on 25 January 2019, adopted the following decisions:
 1. 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).
 2. 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).
 3. 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

- On 28 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 an 11.5 percent yield. This was the second placement in the programme Kcell announced in December 2017.

March

- The Board of Directors approved the extension of the loan agreement with Eurasian Development Bank. The credit line limit has been increased to KZT 34 billion with lower interest rate of 11.5

percent, while its term extended until 20 June 2024.

- The Board of Directors has recommended the annual dividend in the amount of KZT 5,972 million, or KZT 29.86 per ordinary share and per Global Depositary Receipt (GDR). This represents 70 percent of the Company's net income for the 12 months ended 31 December 2018. The proposed record date of shareholders entitled to receive the dividends is the first Sunday following the date of the Company's Annual General Meeting of shareholders (00:00 Almaty time). The proposed date for the dividend payment is the next working day after the date of compiling a list of shareholders entitled to receive dividends; and within eighty days from the proposed dividend payment date. The dividend amount, the proposed record date of shareholders entitled to receive dividends, and the proposed date of commencement of dividend payment are subject to the AGM's approval.

April

- Kcell received a written notice from KaR-Tel LLP terminating its cooperation under the Network Sharing Agreement in Kazakhstan dated 29 August 2016.

The termination follows a change in control of Kcell after Kazakhtelecom JSC acquired 75 percent of Kcell's shares. This has resulted in a termination penalty of KZT 14,552 million.

- The Company announced that its Board of Directors approved a decision to convene the Annual General Meeting of Shareholders ("AGM") on 29 May 2019.
- The Company announced appointment of Bunyod Ramatov as Chief Financial Officer, effective from 2 May 2019.

May

- The AGM held on 29 May 2019 approved the proposal of Kcell Board of Directors to distribute KZT 5,972 million, representing 70 percent of the net income for 2018, as an annual dividend. The total dividend amount will equate to KZT 29.86 per ordinary share (each GDR representing one ordinary share).

- Other decisions adopted by the AGM include:
 - The approval of the Charter of Kcell JSC in the new edition.
 - The invalidation of the Instruction relating to allocation of work between Kcell JSC Board of Directors and the CEO.
 - The approval of Kcell JSC Annual Financial Statements for 2018.
 - The approval of Ernst & Young LLP as Kcell JSC external auditor during 2019-2021.
 - The approval of the Policy on the remuneration and reimbursement of expenses to the Independent directors of the Kcell JSC Board of Directors.
 - The approval of amendments to the Methodology for determining the value of Kcell JSC shares in the event Kcell JSC repurchases them on an over-the-counter market, by presenting it in a new edition.

June

On 19 June 2019, the Board of Directors adopted the following decisions:

- The Management Board of Kcell JSC shall be comprised of three members, including Chairman of the Management Board and two members of the Management Board.
- The term of office of the Chairman and members of the Management Board shall be one year.
- The following persons shall be appointed as the Chairman and members of the Management Board:
 - Kaspars Kukelis, Chief Executive Officer – Chairman of the Management Board;
 - Askar Yesserkegenov, Chief Technical Director – member of the Management Board;
 - Sergey Yeltsov, Chief Legal Officer – member of the Management Board.
- On 27 June 2019, Fitch Ratings affirmed Kcell JSC's Long-Term Issuer Default Rating (IDR) at 'BB' and assigned Positive outlook, mirroring that of the Company's parent, Kazakhtelecom JSC.

July

- On 12 July 2019, Yerulan Kussainov, a Non-Executive Director and a representative of Kazakhtelecom JSC, notified the Company of his intention to resign from the Company's Board of Directors effective from 19 July 2019.
- On 25 July 2019, Kcell JSC and AB "Bank of China Kazakhstan" JSC signed an Agreement for

the provision of a revolving credit line in the amount of KZT 9.5 billion. The term of the credit line is 36 months with a fixed interest rate of 10.5 percent per annum.

August

- On 8 August 2019, the Company paid the annual dividend in the amount of KZT 5,972 million, or KZT 29.86 per ordinary share (each ordinary share representing one GDR), which represents 70 percent of the Company's net income for 2018.

November

On 18 November 2019, the Board of Directors adopted the following decisions:

- Approval of the quantitative composition of the Management Board of Kcell JSC - 4 persons, including the Chairman of the Management Board and three members of the Management Board;
- Appointment of Hikmatulla Nasritdinhodjaev as Chief Commercial Officer of Kcell JSC effective from 18 November 2019.
- Election of Hikmatulla Nasritdinhodjaev as a member of the Management Board starting from 18 November 2019.
- Approval of the term of office of Hikmatulla Nasritdinhodjaev as Chief Commercial Officer, member of the Management Board of Kcell JSC - one year from the election date.

New composition of the Management Board of Kcell JSC:

- Kaspars Kukelis – Chairman of the Management Board, Chief Executive Officer;
- Askar Yesserkegenov – member of the Management Board, Chief Technical Officer;
- Sergey Yeltsov – member of the Management Board, Chief Legal Officer;
- Hikmatulla Nasritdinhodjaev – member of the Management Board, Chief Commercial Officer.
- Approval of the following changes to the loan agreement with Eurasian Development Bank:
 - Term extension - 90 months until 20 June 2024;
 - Increase of the credit line limit from KZT 34 billion to KZT 38.142 billion;

- Loan availability period set until 31 December 2020;
- Net debt/EBTDA (on a quarterly basis) should not exceed 3.0 starting from 1 January 2019.

Significant events following the end of the reporting period

January 2020

- Extraordinary General Meeting of Shareholders (“EGM”) held on 15 January 2020, adopted the following decisions:
 1. To determine the number of members of Kcell JSC Counting commission - three people and elect the following employees of Kcell JSC as members of the Counting commission for the period ending 1 June 2021:
 - Irina Shol – Chairperson of the counting commission
 - Diana Bratenkova
 - Tatyana Barelko
 2. To approve a new edition of Kcell JSC Corporate Governance Code.
 3. To approve Kcell JSC Dividend Policy.
 4. To elect Jere Calmes as a member of Kcell JSC Board of Directors, Independent Director. To set the term of office for Jere Calmes, Kcell JSC member of the Board of Directors, effective from the election date and until the expiration of the term of office of the current Kcell JSC Board of Directors, set forth by the Extraordinary General Meeting of Shareholders on 25 January 2019. To determine the annual fixed remuneration and the annual additional remuneration for Jere Calmes, Kcell JSC member of the Board of Directors, in the amount provided in the resolution of the Annual General Meeting of Shareholders dated 29 May 2019. To set the terms for payment of remuneration and compensation of expenses for Jere Calmes, Kcell JSC member of the Board of Directors, in accordance with the Policy on remuneration and reimbursement of expenses of Independent members of the Board of Directors of Kcell JSC for performing their duties, approved by the Annual General Meeting of Shareholders on 29 May 2019.

February 2020

- On 6 February 2020, Kcell’s ordinary shares and global depositary receipts (GDRs) were admitted to the Astana International Exchange (AIX) Official List. The trading commenced on 7 February 2020. Kcell shares are traded under the ticker “KCEL”, while the Company’s GDRs are traded under the ticker “KCEL.Y” with quotation and settlements in tenge and US dollars, and are fully fungible between London Stock Exchange, Kazakhstan Stock Exchange and AIX.

March 2020

- On 4 March 2020 Kcell and KaR-Tel signed the Frequency Sharing Agreement, according to which KaR-Tel has a right to share 5 MHz radio frequency within the 1725-1730 MHz band and 1820-1825 MHz band.

The agreement was reached in accordance with the Order of the Committee on Regulation of Natural Monopolies and Protection of Competition dated 10 July 2018, “On Granting Consent to Economic Concentration” at the request of Kazakhtelecom JSC (the “Order”). Under the terms of the Order, Kazakhtelecom JSC must ensure the sharing of radio frequency spectrum to other participants of the telecom market for the provision of cellular services that are not included in the Group of Kazakhtelecom JSC.

Administrative, tax and legal update

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 a Notice to Comply ordering the Company to, inter alia, 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 Report 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 the 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.

On 4 March 2019, the Astana City Specialised Interdistrict Economic Court refused to accept the application for appeal against the results of Investigation. The Civil Division of the Astana City Court ruled 2 May 2019 to uphold the above ruling of the Astana City Specialised Interdistrict Economic Court.

On 18 March 2019, the judge of the Supreme Court Board for Civil Cases of Kazakhstan ruled that the Company’s petition to review judicial acts of the First Instance and Appellate Court under cassation procedure was submitted for consideration in judicial proceedings by the Supreme Court Board for Civil Cases.

On 19 March 2019, the Specialised Administrative Court of Almaty ruled to suspend consideration of the Administrative Offense Report until the resolution of a civil case.

The Supreme Court Board for Civil Cases of the Republic of Kazakhstan ruled on 14 May 2019 to reverse the ruling of the Astana City Specialised Interdistrict Economic Court dated 29 November 2018 and ruling of the Civil Division of the Astana City Court dated 23 January 2019 as they pertain to the discontinuation of proceedings on invalidation and cancellation of the Notice to Comply. In this particular part, the case was submitted to the Specialised Interdistrict Economic Court of Nur-Sultan for consideration on the merits by another panel of judges.

The Specialised Interdistrict Economic Court of Nur-Sultan ruled on 17 July 2019 to cancel the Notice to Comply #13 dated 22 October 2018. The judgement has not yet entered into force and may be appealed within one month from the date it was delivered.

On 17 July 2019, the Specialised Interdistrict Economic Court of Nur-Sultan invalidated and set aside the Order.

The Company appealed the Specialised Interdistrict Economic Court's decision based on the fact that the court had failed to assess the circumstances that are significant to the case. In its appeal, the Company sought to uphold the operative part of the decision and to change its reasoning part.

The Committee and the Prosecutor involved in the case also appealed against the Specialised Interdistrict Economic Court decision seeking to cancel the court decision and issue a new judgement rejecting the Company's claims.

On 4 October 2019, the Nur-Sultan City Civil Court ruled to uphold the decision of the first instance court, the appeal of Kcell JSC was satisfied and the reasoning part of the decision was supplemented by the conclusions presented in the decision.

On 25 October 2019, Specialised Interdistrict Economic Court of Almaty issued the resolution to cancel administrative proceedings due to the lack of offense. However, the Committee has the right to appeal within 180 days after announcement of the resolution. As of 31 December 2019, the Committee has not yet appealed. The appeal deadline will expire in April 2020. The Company's management believes that as of 31 December 2019 the probability of outflow of cash is remote.

On 27 December 2019, the Company received a notification from the Committee on Regulation and Protection of Competition of the Ministry of National Economy of the Republic of Kazakhstan ("Committee") prescribing that the Company should bring its existing and legacy mobile phone plans in line with Rules for provision of mobile services ("Rules"), namely to set a calendar month as default billing cycle, as follows from the definition of the term "accounting period". According to the Committee, by establishing a one-day, a weekly, a 28-day or a 30-day billing cycle on mobile phone plans, the Company breaches article 174.1 of the Business Code of the Republic of Kazakhstan. The Committee also sees the reduction of billing cycle as possible abuse of the dominant position through violation of the rights of consumers. The Company sent a letter to the Ministry of National Economy ("MNE") discussing the Committee's wrong interpretation of the provisions of the Rules and requesting to suspend the Notice until amendments to the Rules come into force. As at 31 December 2019, no response from the MNE has been received. The management of the Company believes that the Committee's claims against the

Company are not supported and any outflow of economic resources related to the above matter is possible.

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, of which KZT 5.8 billion is for unpaid taxes and KZT 3.2 billion represents fines and penalties for late payment.

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 upheld the unfavorable ruling of the First Instance Court in force. Although the decision was binding, Kcell reserved the right to further appeal it in the Supreme Court.

The Company made tax provisions of KZT 9.0 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 the Chairman of the Supreme Court with a view to re-appeal to the cassation instance of the Supreme Court.

In February 2019, Kcell again appealed to the Supreme Court of the Republic of Kazakhstan with a petition for review.

On 23 July 2019, the Supreme Court considered the petition, granted the petition and overturned the decision of the Specialised Inter-District Economic Court and the Court of Appeal in respect of an unjustified additional assessment of Withholding Tax (WHT) for a non-resident (Sonera Holding B.V.) as a result of the reorganisation of a legal entity; and an unjustified additional assessment of WHT and VAT for non-residents for remote technical support services. With regard to the remaining contested issues, the decision of the Specialised Inter-District Economic Court and the Court of Appeal was upheld.

As a result of the Supreme Court decision, the KZT 9.0 billion provision for taxes, penalties and fines reduced in total by KZT 5.8 billion, comprising KZT

3.0 billion for unpaid taxes and a KZT 2.8 billion reduction of fines and penalties due to the expiration of the limitation period.

Financial statements for January-December 2019 has been audited by the external auditors and their report will be available on the Kcell website on 19 March 2020.

The information was submitted for publication on 19 March 2020.

Financial Calendar

Interim Report January – March 2020	29 April 2020
Interim Report January – June 2020	30 July 2020
Interim Report January – September 2020	30 October 2020

Definitions

EBITDA - Earnings Before Interest, Tax, Depreciation and Amortisation. Equals operating income before depreciation, amortisation 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.

IFRS 16 Leases - introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The amortization of the right-of-use asset and the accumulation of interest on a financial liability replace lease payments recognized as rental expenses in profit or loss.

Condensed Consolidated Statements of Comprehensive Income

KZT in millions, except per share data, number of shares and changes	Oct-Dec 2019	Oct-Dec 2018	Chg (%)	Jan-Dec 2019	Jan-Dec 2018	Chg (%)
Revenues	42,487	38,254	11.1	156,657	149,701	4.6
Cost of sales	-28,937	-27,074	6.9	-109,195	-109,433	-0.2
Gross profit	13,550	11,180	21.2	47,462	40,268	17.9
Selling and marketing expenses	-1,199	-723	65.8	-2,887	-3,050	-5.3
General and administrative expenses	-2,830	-3,481	-18.7	-8,925	-14,075	-36.6
Penalty expenses	-	-	-	-14,552	-	-
Reversal of tax and related fine	747	-	-	5,816	-	-
Impairment of assets	-858	133	-747.4	-4,100	-1,906	115.1
Operating income/loss	9,410	7,109	32.4	22,814	21,237	7.4
Other operating income and expenses, net	165	-133	-223.9	191	-183	-204.9
Finance income and expenses, net	-2,489	-2,493	-0.1	-10,085	-8,941	12.8
Net forex gain/loss	-167	47	-455.4	-50	149	-133.8
Profit/loss before income tax	6,919	4,530	52.7	12,870	12,263	5.0
Income tax benefit/expense	-1,827	-869	110.3	-2,753	-3,732	-26.2
Net income/loss	5,091	3,661	39.1	10,117	8,531	18.6
Other comprehensive income	-	-	-	-	-	-
Other comprehensive income/loss	5,091	3,661	39.1	10,117	8,531	18.6
Earnings per share (KZT), basic and diluted	25.5	18.3	683.2	50.6	42.7	18.6
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	16,284	13,987	16.4	52,954	47,687	11.0
EBITDA excl. non-recurring items	15,536	14,301	8.6	63,533	50,943	24.7
Depreciation, amortization and impairment losses	-6,709	-7,012	-4.3	-29,948	-26,632	12.5
Operating income excl. non-recurring items	8,662	7,423	16.7	33,393	24,493	36.3

Condensed Consolidated Statement of Financial Position

KZT in millions	31 Dec 2019	31 Dec 2018
Assets		
Intangible assets	38,820	40,115
Property, plant and equipment	82,283	88,437
Advances paid for non-current assets	233	729
Right to use assets	23,067	-
Other non-current assets	242	425
Deferred tax assets	1,378	-
Long-term receivables	1,117	3,010
Total non-current assets	147,141	132,717
Inventories	6,636	4,728
Trade and other receivables	15,647	13,787
Other current financial assets	1,371	1,011
Other current assets	6,734	5,276
Financial assets held for trading	4,965	-
Cash and cash equivalents	8,825	6,029
Total current assets	44,178	30,831
Total assets	191,319	163,547
Equity and liabilities		
Share capital	33,800	33,800
Retained earnings	37,771	34,275
Total equity attributable to owners of the parent	71,571	68,075
Long-term borrowings	55,548	14,936
Long-term lease liabilities	21,620	-
Deferred tax liabilities	1,248	1,504
Other long-term liabilities	1,970	1,362
Total non-current liabilities	80,386	17,802
Short-term borrowings	6,384	51,783
Trade payables, and other current liabilities	24,534	18,675
Long-term lease liabilities	3,198	-
Deferred revenues	4,149	3,772
Income tax and other taxes payables	1,097	3,440
Total current liabilities	39,362	77,670
Total equity and liabilities	191,319	163,547

Condensed Consolidated Statement of Cash Flows

KZT in millions	Oct-Dec 2019	Oct-Dec 2018	Jan-Dec 2019	Jan-Dec 2018
Cash flow before change in working capital	16,435	14,171	51,269	50,161
Change in working capital	-10,134	-6,323	-16,643	-22,591
Cash flow from operating activities	6,301	7,848	34,626	27,571
Cash CAPEX	-2,776	-3,631	-18,183	-19,251
Free cash flow	3,525	4,217	16,443	8,320
Cash flow from financing activities	-3,311	-8,210	-13,597	-15,098
Cash flow for the period	214	-3,993	2,846	-6,778
Cash and cash equivalents, opening balance	8,778	9,975	6,029	12,660
Cash flow for the period	214	-3,993	2,846	-6,778
Exchange rate difference	-167	47	-50	147
Cash and cash equivalents, closing balance	8,825	6,029	8,825	6,029

Condensed Consolidated Statements of Changes in Equity

KZT in millions	Jan-Dec 2019			Jan-Dec 2018		
	Share capital	Retained earnings	Total equity	Share capital	Retained earnings	Total equity
Opening balance	33,800	34,275	68,075	33,800	37,422	71,222
Dividends	-	-5,972	-5,972	-	-11,678	-11,678
Impact of adopting IFRS 16	-	-649	-649	-	-	-
Total comprehensive income	-	10,117	10,117	-	8,531	8,531
Closing balance	33,800	37,771	71,571	33,800	34,275	68,075

Basis of preparation

These consolidated financial statements of the Company for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards (hereinafter, "IFRS"), as issued by International Accounting Standard Board (hereinafter, "IASB").

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements.

The Company applied the retrospective modified accounting method of IAS 16, recognising the cumulative effect of the initial application of the new standard as an adjustment to the opening retained earnings at the date of initial application of 1 January 2019.

Certain amounts in the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year ended 31 December 2018 were reclassified to conform with the presentation adopted in the consolidated statements for the year ended 31 December 2019. The Company changed the presentation of its consolidated financial statements as new presentation provides information that is more relevant to users of the consolidated financial statements.

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 2019	Oct-Dec 2018	Jan-Dec 2019	Jan-Dec 2018
Within EBITDA				
Non-recurring items	-748	314	10,579	3,256
Total	-748	314	10,579	3,256

Investments

KZT in millions	Oct-Dec 2019	Oct-Dec 2018	Jan-Dec 2019	Jan-Dec 2018
CAPEX				
Intangible assets including LTE license	5 365	1 868	8 094	4 957
Property, plant and equipment	8 678	4 428	12 106	14 283
Total	14 042	6 296	20 200	19 240

Related party transactions

For the year ended 31 December 2019, Kcell purchased services for KZT 19,759 million and sold services for a value of KZT 12,175 million. Related parties in these transactions were mainly Kazakhtelecom JSC and its group entities.

Net debt

KZT in millions	31 Dec 2019	31 Dec 2018
Long-term and short-term borrowings	61,932	66,719
Less short-term investments, cash and bank	-8,825	-6,029
Net debt	53,107	60,690

Financial key ratios

	31 Dec 2019	31 Dec 2018
Return on equity (% , rolling 12 months)	14.1	12.5
Return on capital employed (% , rolling 12 months)	15.1	24.7
Equity/assets ratio (%)	37.4	41.6
Net debt/equity ratio (%)	74.2	89.2
Net debt/EBITDA rate (multiple, rolling 12 months)	0.84	1.2
Owners' equity per share (KZT)	357.9	340.4

Operational data

	Oct-Dec 2019	Oct-Dec 2018	Chg (%)	Jan-Dec 2019	Jan-Dec 2018	Chg (%)
Subscribers, period-end (thousands)*	8,275	8,969	-7.7	8,275	8,969	-7.7
Of which prepaid	7,312	8,062	-9.3	7,312	8,062	-9.3
MOU (min/month)	227	227		228	218	4.5
ARPU (KZT)	1,417	1,257	12.7	1,334	1,154	15.5
Churn rate (%)	45.7	54.1		44.5	55.5	
Employees, period-end	1,950	1,826	6.8	1,950	1,826	6.8

Forward-looking statements

This report may contain 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.