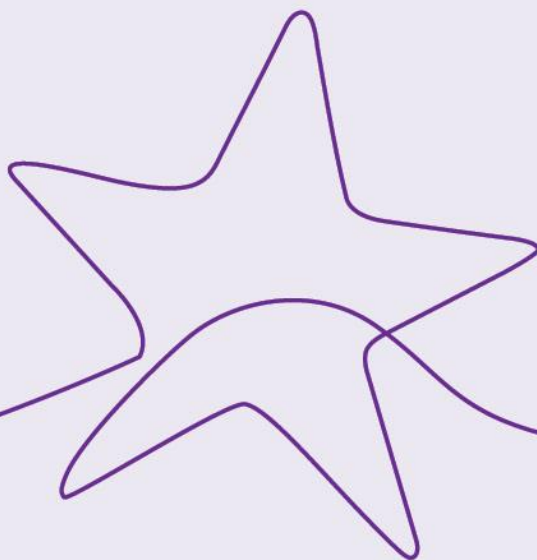


Kcell

Q1 2020

Financial results



Kcell JSC Results for January – March 2020

Almaty, 29 April 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 interim results for January – March 2020.

First quarter

- Net sales increased by 13.9 percent to KZT 40,062 million (35,180). Service revenue up 9.4 percent to KZT 34,620 million (31,654).
- EBITDA, excluding non-recurring items, increased by 13.6 percent to KZT 15,846 million (13,952). The EBITDA margin was 39.6 percent (39.7).
- Operating income, excluding non-recurring items, grew by 30.8 percent to KZT 8,098 million (6,192).
- Net finance cost increased by 12.1 percent to KZT 2,309 million (2,059).
- Net income was KZT 5,354 million compared to a net loss of KZT 8,751 million in the first quarter 2019 due to the termination of the Network Sharing Agreement by KaR-Tel LLP, resulting in a KZT 14,552 million penalty reported as a non-recurring item.
- CAPEX-to-sales ratio of 6.5 percent (6.1).
- Free cash flow decreased to KZT 3,112 million (7,268).
- During the quarter, the subscriber base declined by 283 thousand to 7,992 thousand (8,275), 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	Jan-Mar 2020	Jan-Mar 2019	Chg (%)	Jan-Dec 2019
Revenue	40,062	35,180	13.9	156,657
<i>of which service revenue</i>	34,620	31,654	9.4	137,564
EBITDA excl. non-recurring items	15,846	13,952	13.6	63,533
<i>Margin (%)</i>	39.6	39.7		40.6
Operating income	8,203	-8,360		22,814
Operating income excl. non-recurring items	8,098	6,192	30.8	33,393
Net income attributable to owners of the parent company	5,354	-8,751		10,117
Earnings per share (KZT)	26.8	-43.8		50.6
CAPEX-to-sales (%)	6.5	6.1		12.9
Free cash flow	3,112	7,268	-57.2	16,443

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 2019, unless otherwise stated.

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

“Since the start of 2020 we have entered unprecedented and extremely challenging times that have impacted the entire global community. Since 16 March 2020 Kazakhstan has been operating under emergency measures, including quarantine in major cities. This situation has highlighted the key role of communications infrastructure in supporting and enhancing economic activity, social cohesion and public mental health, and Kcell has undertaken a range of initiatives in order to support our key frontline workers as well as our society as a whole.

Whilst government measures to combat the Covid-19 pandemic impacted the second half of March, our financial performance during the first quarter was very robust, on the back of a strong 2019. Net sales increased by 13.9 percent to KZT 40,062 million, whilst service revenue rose 9.4 percent to KZT 34,620 million. Enterprise revenue growth was notably strong, up 34.0 percent to KZT 5,263 million, driven by strong demand for business solutions.

Profitability also increased with EBITDA, excluding non-recurring items, rising 13.6 percent to KZT 15,846 million, whilst the EBITDA margin was broadly stable at 39.6 percent.

ARPU rose 18.9 percent, boosted by the improved quality of our subscriber base as a growing number migrated to new offers with expanded content. This included a higher number of subscribers with fixed contracts, due to increasing volumes of devices sold through our online shops.

Handset sales grew 54.3 percent, with improved stock management processes facilitating far greater stock availability, in tandem with careful price monitoring, aggressive marketing campaigns and attractive tariff plans offering unlimited access to social networks.



The Board of Directors has recommended an annual dividend in the amount of KZT 9 billion, or KZT 45 per ordinary share and per Global Depository Receipt (GDR), representing 55 percent of the Company's free cash flow for the twelve months ended 31 December 2019.

Since the start of the quarantine period, we have also focused on supporting our society and providing the tools to assist our customers as we all grapple with the personal and professional challenges that the pandemic has created.

Kcell has introduced free calls and internet traffic for medical professionals. We have also provided all our customers with free access to more than 400 e-learning web sites, to online book, movie and TV entertainment services and to online banking services mobile applications. In addition, we have granted bonus minutes and free roaming data for those subscribers who have not been able to return to Kazakhstan as a result of the current state of emergency. We also provided uninterrupted mobile service when subscribers' balance reaches zero. From early days of quarantine in Kazakhstan we urged our customers to remain home by displaying the slogan UYDEBOL (meaning “stay home” in Kazakh). Our initiatives were clearly communicated across all digital touchpoints, emphasizing our overarching message “Stay home, Kcell is at your service”.

The current quarantine in Kazakhstan's major cities has had a significant impact on the level and scale of business activity. However, with the situation still ongoing it is not possible to assess the real impact of the pandemic on the longer term performance of Kcell.

Whilst we maintained our momentum in the first quarter of the year, the outcome for the remainder of 2020 remains uncertain. However, we will continue to pursue digital and self-service approach, with a clear focus on delivering innovative, high quality products and services.

Thus, on the 18th of April, Kcell has introduced Simkomats, self-service terminals, that provide remote services such as new SIM, SIM change, top-up and E-SIM using biometrical ID scan. We will continue to do all we can to support the communications needs of our customers and our society during these unprecedented and challenging times.”

Almaty

29 April 2020

CONFERENCE CALL

Kcell will host an analyst conference call on 29 April 2020 at 12:00 London time / 14:00 Moscow / 17:00 Almaty. The conference call will be held in English:

Dial in details are as follows:

UK: +44 203 984 9844

US: +1 718 866 4614

Russia: +7 495 283 98 58

Passcode: 411747

Web dial in:

<https://mm.closir.com/slides?id=411747>

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

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Review of the first quarter 2020

Net sales

Net sales increased by 13.9 percent to KZT 40,062 million (35,180). Service revenue up 9.4 percent to KZT 34,620 million (31,654).

Voice and other services

Revenue from voice and other services increased by 8.0 percent to KZT 19,279 million (17,851).

Enterprise revenue increased by 34.0 percent to KZT 5,263 million (3,927).

Data service revenue

Data revenue increased by 16.6 percent to KZT 13,787 million (11,822). Data traffic increased by 35.1 percent to 101.2 petabyte (PB) (74.9).

Value-added service revenue

Revenue from value-added services was down 21.6 percent to KZT 1,554 million (1,981).

Handset sales

Handset sales increased by 54.3 percent to KZT 5,442 million (3,526).

KZT in millions, except percentages	Jan-Mar 2020	% of total	Jan-Mar 2019	% of total
Voice and other services	19,279	48.1	17,851	50.7
Data services	13,787	34.4	11,822	33.6
Value added services	1,554	3.9	1,981	5.6
Handset sales	5,442	13.6	3,526	10.0
Total revenues	40,062	100.0	35,180	100.0

EXPENSES

Cost of sales

Cost of sales up by 9.5 percent to KZT 28,504 million (26,024), mainly due to an increase in sales of devices.

Selling and marketing expenses

Selling and marketing expenses increased by 21.8 percent to KZT 772 million (634), largely as a result of higher marketing expenses.

General and administrative expenses

General and administrative expenses increased by 16.4 percent to KZT 2,189 million (1,880), mainly due to an increase in headcount.

EARNINGS, FINANCIAL POSITION AND CASH FLOW

EBITDA, excluding non-recurring items, increased by 13.6 percent to KZT 15,846 million (13,952). The EBITDA margin was 39.6 percent (39.7).

Net finance cost increased by 12.1 percent to KZT 2,309 million (2,059).

Income tax expense was KZT 2,337 million compared to tax benefit of KZT 1,670 million in the first quarter 2019 due to the recognition of a deferred tax asset on the tax loss carried forward as a result of the accrual of a fine on the termination of the Network Sharing Agreement with KaR-Tel LLP.

Net income was KZT 5,354 million compared to a net loss of KZT 8,751 million in the first quarter 2019, mainly due to the recognised penalty of KZT 14,552 million resulted from the termination of the Network Sharing Agreement with KaR-Tel LLP.

CAPEX increased to KZT 2,604 million (2,132) with the CAPEX-to-sales ratio of 6.5 percent (6.1).

Free cash flow decreased to KZT 3,112 million (7,268).

Key milestones for the first quarter of 2020

January

- 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

- On 6 February 2020, Kcell’s ordinary shares and global depository 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

- 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.
- On 18 March 2020, the Board of Directors approved the decisions to sign an Addendum to the current Agreement on the urgent line of credit dated 24 September 2013, signed between Kcell and Halyk Bank of Kazakhstan JSC, on the following conditions:
 - Change the interest rate to 12.5 percent per annum on loans for a period of up to 12 months and to 13.0 percent per annum on loans for a period of between 12 months and 36 months;
 - Extend the period of availability of the credit line until 31 December 2021;
 - Extend the term of the credit line under this Agreement until 31 December 2025.

Significant events following the end of the reporting period

April

- On 15 April 2020, the Board of Directors approved the attraction of KZT 15 billion within the existing credit line with Halyk Bank of Kazakhstan JSC, to replenish working capital and investments. The term of this loan facility is 36 months with an interest rate not exceeding 11.5 percent per annum.

Halyk Bank of Kazakhstan JSC confirmed the reduced interest rates for the KZT 42 billion open credit line:

- Interest rate of 11 percent per annum on loans up to 12 months;
 - Interest rate of 11.5 percent per annum on loans up to 36 months (previously 13.0 percent per annum).
- On 15 April 2020, the Board of Directors recommended the annual dividend in the amount of KZT 9 billion, or KZT 45 per ordinary share and per Global Depository Receipt (GDR).

According to Kcell's dividend policy, the amount of annual dividends on the Company's shares should not be less than 50 percent and not more than 100 percent of the Company's net cash flow for the previous financial year (cash flow from operations and investments). Given that the Company's free cash flow for 2019 amounted to KZT 16.443 billion and net profit of KZT 10.117 billion, the Kcell Board of Directors recommends distribution of KZT 9 billion as dividends for 2019.

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 (AGM) (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 80 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.

- The Board of Directors approved a decision to convene the AGM on 28 May 2020 at 15:00 AM (Almaty time) at the following address: 2G, Timiryazev Street, Almaty, 050013, Republic of Kazakhstan. Registration of the participants will start at 14:00 AM (Almaty time).

In the event that the initial AGM does not take place, it will be rescheduled for 29 May 2020 at 15:00 AM (Almaty time).

Shareholders registered as at the record date of 20 April 2020 (00:00 Almaty time) will be eligible to participate in the AGM. The AGM will be held in person.

To register, participants will need to provide identification document and trustees are required to present a power of attorney to participate in the meeting with the right to vote.

The AGM agenda:

- Approval of Kcell JSC Annual Financial Statements for 2019;
- Approval of the distribution of Kcell JSC net income for the financial year, the decision on the dividend payment on ordinary share and the size of the dividend payout per one ordinary share;
- Approval of Regulation on the Board of Directors of Kcell JSC.

Administrative and legal 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 Company did not agree with the order issued by the Committee. On 3 July 2019, the Company appealed to the Court.

The management of the Company believed that the appeal would be successful and assessed the probability of outflow of cash as possible.

On 25 October 2019, Specialised Inter-district Economic Court of Almaty issued the resolution to cancel administrative proceedings due to the lack of an offense. However, the Committee has the right to appeal within 180 days after announcement of the resolution.

On 14 April 2020, the Committee appealed the decision of Specialised Inter-district Economic Court of Almaty. The case was initiated and submitted to the judge for the preliminary review of the motion for re-examination of the case. The cassation court hearing has not been scheduled yet. The management of the Company believes that the Committee’s claims against the Company are not supported and an outflow of economic resources related to the above matter is remote.

Financial statements for January-March 2020 have been reviewed by the external auditors and their report will be available on the Kcell website after 15 May 2020.

The information was submitted for publication at 09:00 ALMT on 29 April 2020.

Financial Calendar

Interim Report January – June 2020	30 July 2020
Interim Report January – September 2020	30 October 2020

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 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	Jan-Mar 2020	Jan-Mar 2019	Chg (%)	Jan-Dec 2019
Revenues	40,062	35,180	13.9	156,657
Cost of sales	-28,504	-26,024	9.5	-109,195
Gross profit	11,558	9,156	26.2	47,462
Selling and marketing expenses	-772	-634	21.8	-2,887
General and administrative expenses	-2,189	-1,880	16.4	-8,925
Penalty expenses	-	-14,552		-14,552
Reversal of tax and related fine	480	-		5,816
Impairment of assets	-874	-450	94.2	-4,100
Operating income/loss	8,203	-8,360		22,814
Other operating income and expenses, net	210	13		191
Finance income and expenses, net	-2,309	-2,059	12.1	-10,085
Net forex gain/loss	1,587	-15		-50
Profit/loss before income tax	7,691	-10,421		12,870
Income tax expense /benefit	-2,337	1,670		-2,753
Net income/loss	5,354	-8,751		10,117
Other comprehensive income				
Total comprehensive income/loss attributable to owners of the parent company	5,354	-8,751		10,117
Earnings per share (KZT), basic and diluted	26.8	-43.8		50.6
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	15,951	-600		52,954
EBITDA excl. non-recurring items	15,846	13,952	13.6	63,533
Depreciation, amortization and impairment losses	-7,538	-7,747	-2.7	-29,948
Operating income excl. non-recurring items	8,098	6,192	30.8	33,393

Condensed Consolidated Statement of Financial Position

KZT in millions	31 Mar 2020	31 Dec 2019
Assets		
Intangible assets	36,729	38,820
Property, plant and equipment	80,117	82,283
Advances paid for non-current assets	343	233
Right to use assets	22,071	23,067
Other non-current assets	231	242
Deferred tax assets	1,226	1,378
Long-term receivables	1,449	1,118
Total non-current assets	142,166	147,141
Inventories	6,576	6,636
Trade and other receivables	16,290	15,647
Other current financial assets	612	1,371
Other current assets	3,498	6,734
Financial assets held for trading	5,804	4,965
Cash and cash equivalents	11,200	8,825
Total current assets	43,980	44,178
Total assets	186,146	191,319
Equity and liabilities		
Share capital	33,800	33,800
Retained earnings	43,125	37,771
Total equity attributable to owners of the parent company	76,925	71,571
Long-term borrowings	38,374	55,548
Deferred tax liabilities	1,108	1,248
Long-term lease liabilities	20,780	21,620
Other long-term liabilities	2,151	1,970
Total non-current liabilities	62,413	80,386
Short-term borrowings	22,398	6,384
Trade payables, and other current liabilities	14,286	24,534
Short-term lease liabilities	3,245	3,198
Deferred revenues	5,015	4,149
Income tax and other taxes payables	1,864	1,097
Total current liabilities	46,808	39,362
Total equity and liabilities	186,146	191,319

Condensed Consolidated Statement of Cash Flows

KZT in millions	Jan-Mar 2020	Jan-Mar 2019	Jan-Dec 2019
Cash flow before change in working capital	16,452	-171	51,269
Change in working capital	-5,267	13,488	-16,643
Cash flow from operating activities	11,185	13,317	34,626
Cash CAPEX	-8,073	-6,049	-18,183
Free cash flow	3,112	7,268	16,443
Cash flow from financing activities	-1,307	-6,522	-13,597
Cash flow for the period	1,805	746	2,846
Cash and cash equivalents, opening balance	8,825	6,029	6,029
Cash flow for the period	1,805	746	2,846
Exchange rate difference	570	-16	-50
Cash and cash equivalents, closing balance	11,200	6,759	8,825

Condensed Consolidated Statement of Changes in Equity

KZT in millions	Jan-Mar 2020			Jan-Mar 2019		
	Share capital	Retained earnings	Total equity	Share capital	Retained earnings	Total equity
Opening balance	33,800	37,771	71,571	33,800	33,626	67,426
Dividends	-	-	-	-	-	-
Total comprehensive income	-	5,354	5,354	-	-8,751	-8,751
Closing balance	33,800	43,125	76,925	33,800	24,875	58,675

Basis of preparation

The interim condensed consolidated financial statements for the three months ended 31 March 2020 have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual consolidated financial statements as at 31 December 2019 and for the year then ended.

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 2020	Jan-Mar 2019	Jan-Dec 2019
Within EBITDA			
Non-recurring items	-105	14,522	10,579
Total	-105	14,522	10,579

Investments

KZT in millions	Jan-Mar 2020	Jan-Mar 2019	Jan-Dec 2019
CAPEX			
Intangible assets	548	804	8,094
Property, plant and equipment	2,056	1,329	12,106
Total	2,604	2,132	20,200

Related party transactions

In the first quarter ended 31 March 2020, Kcell purchased services for KZT 4,638 million and sold services for a value of KZT 3,014 million. Related parties in these transactions were mainly Kazakhtelecom JSC and its group entities.

Net debt

KZT in millions	31 Mar 2020	31 Dec 2019
Long-term and short-term borrowings	60,772	61,932
Less short-term investments, cash and bank	-11,200	-8,825
Net debt	49,572	53,107

Financial key ratios

	31 Mar 2020	31 Dec 2019
Return on equity (% , rolling 12 months)	32.6	14.1
Return on capital employed (% , rolling 12 months)	29.7	15.1
Equity/assets ratio (%)	41.3	37.4
Net debt/equity ratio (%)	64.4	74.2
Net debt/EBITDA rate (multiple, rolling 12 months)	0.76	0.84
Owners' equity per share (KZT)	384.6	357.9

Operational data

	Jan-Mar 2020	Jan-Mar 2019	Chg (%)	Jan-Dec 2019
Subscribers, period-end (thousands)	7,992	8,741	-8.6	8,275
Of which prepaid	7,025	7,866	-10.7	7,312
MOU (min/month)	222	218	1.8	228
ARPU (KZT)	1,419	1,194	18.9	1,334
Churn rate (%)	42.4	45.7	-7.2	44.5
Employees, period-end	2,062	1,811	13.9	1,950

Forward-looking statements

This report may contains statements concerning, among other things, Kcell's financial condition and results of operations that could be 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.