

Kcell

Results Report for January-March 2022

2022



Kcell JSC Results for January-March 2022

Almaty, April 28, 2022 – Kcell Joint Stock Company ("Kcell" or the "Company") (KASE, KCEL), one of the leading providers of mobile telecommunications services in Kazakhstan, announces its interim results for January-March 2022

Q1 2022

- Net sales increased by 15.6% to KZT 50 893 million (44 016). Service revenue increased by 11.2% to KZT 39 815 million (35 802).
- EBITDA, excluding non-recurring items, increased by 11.6% to KZT 21 677 million (19 421), with EBITDA margin of 42.6% (44.1).
- Operating income, excluding non-recurring items, increased by 21.9% to KZT 14 346 million (11 770).
- Net finance cost decreased by 22.4% to KZT 1 726 million (2 223).
- Net income increased by 29.1% to KZT 9 232 million (7 150).
- CAPEX-to-sales ratio – 8.3% (6.3).
- Subscriber base remained stable - 7 967 thousand users (8 053).

Financial highlights

KZT in millions, except key ratios, per share data and changes	Q1 2022	Q1 2021	Chg (%)	2021
Net sales	50 893	44 016	15.6	196 189
<i>of which service revenue</i>	39 815	35 802	11.2	155 054
EBITDA excl. non-recurring items	21 677	19 421	11.6	82 340
<i>Margin (%)</i>	42.6	44.1		42.0
Operating income	13 720	11 770	16.6	50 485
Operating income excl. non-recurring items	14 346	11 770	21.9	51 338
Net income	9 232	7 150	29.1	32 506
Earnings per share (KZT)	46.2	35.8	29.1	162.5
CAPEX-to-sales (%)	8.3	6.3		19.4
Free cash flow	(15 931)	(1 486)	(972.1)	42 895

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 2021, unless otherwise stated.

Comments by Yuri Kharlamov, Chairman of the Management Board, CEO

“The new year 2022 began with tragic events that shocked every citizen of Kazakhstan. Everything that happens these days is woven from thousands of stories of people. But we were all united in one thing - faith in a better future. This faith gave each of us the strength to take care of each other, to help, to show empathy. Often risking their lives, our people - Kcell employees - worked to provide communications for all Kazakhstanis, both within our country and abroad. Our colleagues helped those who found themselves in a difficult situation or suffered as a result of the riots, helped businesses and social workers.

The close-knit Kcell team has focused all efforts on a quick business recovery and maintaining the growth of our key financial indicators. As a result, total revenue in the first quarter of 2022 increased by 15.6%. At the same time, service revenue grew by 11.2% due to the quality of our services and attractive offerings, which include innovative tariff plans, OTT products and mobile financial services..

ARPU increased by 12.3% due to improved quality of our subscriber base as more subscribers are now opting for new content-rich offerings.

In the first quarter, demand for mobile phones remained strong and sales were up 28.1%. The main driver was our unique offer for contract phones that is based on our own best-in-class scoring, which allowed us to achieve record results.

EBITDA in the first quarter grew by 11.6% driven by higher revenue and our ongoing efforts to optimize costs.

As part of the implementation of the Action Plan for the reform of the Samruk-Kazyna Fund, approved by the Board of the Fund on January 24, 2022, new procurement rules were introduced in Kcell only from April 1, 2022.



Despite a significant delay in restarting procurement procedures 250+ project is ongoing, 300 new sites were launched in Q1 to provide coverage in rural areas, as we continued to take measures to improve the quality of our service. In 42 rural communities we have installed new 3G/4G base stations in addition to existing ones.

The largest public 5G network in Kazakhstan was launched in Turkestan in December 2021. Our base stations were put into operation at urban sites of strategic and touristic importance. In March 2022, Kcell became the first mobile provider in Kazakhstan to receive Apple's official confirmation that all iPhone 12 and 13 models support 5G network.

Kcell strives to maintain high standards of corporate governance and best practices across its operations. We are adapting our corporate governance structure to current requirements from the state and the Samruk-Kazyna Fund. In particular, at the annual general meeting of shareholders, which will be held on May 19, 2022, the issue of reducing the number of members of the Board of Directors of the Company will be considered. The organizational structure is changing - in April of this year, a decision was made to introduce the position of Chief Corporate Director, whose responsibilities will include compliance with the law, including procurement processes.

Our focus is to continue to deliver strong financial and operational results for the benefit of the society, our customers and shareholders”.

Almaty

April 28, 2022

Review of the 1st quarter of 2022

Net sales

Net sales increased by 15.6% to KZT 50 893 million (44 016), mainly due to the recognition of government subsidy in the amount of KZT 559 million.

Service revenue increased by 11.2% to KZT 39 815 million (35 802).

Voice and other services

Revenue from voice and other services increased by 16.3% to KZT 20 914 million (17 987).

Data service revenue

Data service revenue increased by 9.0% to KZT 17 163 million (15 747). Data traffic grew by 10.8% to 164.3 PB (148.4).

Value-added service revenue

Revenue from value-added services decreased by 16.0% to 1 738 million (2 068).

Handset sales

Handset sales increased by 28.1% to KZT 10 519 million (8 214).

KZT in millions, except percentages	Jan-Mar 2022	% of total	Jan-Mar 2021	% of total
Voice and other services	20 914	41.1	17 987	40.9
Data services	17 163	33.7	15 747	35.8
Value added services	1 738	3.4	2 068	4.7
Handset sales	10 519	20.7	8 214	18.7
Government subsidy	559	1.1	-	-
Total revenues	50 893	100.0	44 016	100.0

EXPENSES

Cost of sales grew by 9.9% to KZT 32 376 million (29 456), largely due to increased handset sales.

Selling expenses increased by 50.2% to KZT 437 million (291).

General and administrative expenses grew by 10.2% to KZT 3 122 million (2 834), mainly due to the indexation by 20% of the salaries of employees whose average monthly income is below the minimum wage.

EARNINGS, FINANCIAL POSITION AND CASH FLOW

EBITDA, excluding non-recurring items, increased by 11.6% to KZT 21 677 million (19 421), with EBITDA margin of 42.6% (44.1).

Net finance cost decreased by 22.4% to KZT 1 726 million (2 223).

Income tax expense increased by 13.5% to KZT 2 873 million (2 532).

Net income increased by 29.1% to KZT 9 232 million (7 150).

CAPEX increased to KZT 4 197 million (2 786), and CAPEX-to-sales ratio was 8.2% (6.3).

Free cash flow was negative at KZT15 931 million (negative 1 486).

Conference call

Kcell together with Kazakhstan Stock Exchange JSC will host a ZOOM video conference call for investors and analysts on April 28, 2022 at 11:00, Almaty time. The conference will be held in Russian.

To join the conference, send your last name, first name and patronymic, name of organization, position, e-mail address, questions to customers@kase.kz.

All registered participants will be sent a link (invitation) to the online meeting on ZOOM.

A presentation will be available on the Company website <https://investors.kcell.kz> shortly before the conference call.

Enquiries:

Kcell

Investor Relations

Irina Shol

+7 7012111202

Investor_relations@kcell.kz

Key milestones of Q1 2022

February

- On February 17, 2022, Kcell Board of Directors recommended the Annual General Meeting of Shareholders (AGM) to approve an annual dividend payment based on the 2021 results in the amount of KZT 21 500 million, representing 66% of the consolidated net income, or KZT 107.5 per ordinary share.

The proposed record date for shareholders entitled to receive the dividends is May 20, 2022 (00:00 Almaty time). The proposed date for the dividend payment is the first business 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 proposed procedure for payment of dividends is a one-off payment. The payment of dividends on ordinary shares will be made through the paying agent - Central Securities Depository JSC.

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.

- On February 25, 2022, Kcell informed of the completion of Phase One and launch of Phase Two of the Nexign Converged BSS installation project.

Currently, the initial configuring of the system has been finalized and it is operating in pilot mode with a limited number of customers. Phase Two will include the adjustment and field-testing of the billing platform as well as on-demand migration and will conclude with the system's commercial commissioning. The remaining phases will focus on the migration of the company's existing subscribers to the new billing system.

The project officially kicked off in April 2021. The operations are expected to conclude by late 2022. It aims to enhance the existing services as well as to introduce completely new ones, which would make the use of new products more convenient for Kcell and its subscribers.

Significant events following the end of the reporting period

April

- Timur Naizabekov, Independent Director notified the Company about his intention to resign from the Company's Board of Directors from April 14, 2022.

The acting Members of the Kcell Board of Directors are as follows:

- Alexey Buyanov – Chairman, Independent Director;
 - Dinara Inkarbekova – Independent Director;
 - Jere Calmes – Independent Director;
 - Yermek Ramazanov - Independent Director;
 - Kuanyszbek Yessekeyev – a representative of shareholder Kazakhtelecom JSC;
 - Timur Turlov – a representative of shareholder Freedom Finance JSC;
 - Serik Saudabayev – a representative of shareholder Kazakhtelecom JSC;
 - Timur Khudaiberdiyev – a representative of shareholder Kazakhtelecom JSC.
- On April 15, 2022, the Board of Directors adopted the following decisions:

- Termination of the employment agreement of Sevil Gassanova, member of the Management Board, Chief Legal Officer of Kcell JSC, effective from April 15, 2022;
- Election of Azamat Uisumbayev as a member of the Management Board, Chief Corporate Officer of Kcell JSC, effective from April 15, 2022.

The new composition of the Management Board of Kcell JSC:

- Yuri Kharlamov – Chairman of the Management Board, Chief Executive Officer;
- Askar Yesserkegenov – member of the Management Board, Chief Technical Officer;
- Maria Averchenko – member of the Management Board, Chief Commercial Officer;

- Dina Nurpeissova – member of the Management Board, Chief Financial Officer;
- Azamat Uisumbayev – member of the Management Board, Chief Corporate Officer.
- Kcell Board of Directors has decided to convene the Annual General Meeting of Shareholders of Kcell JSC (“AGM”) on May 19, 2022 at 11:00 (Almaty time) at the following address: 51, Alimzhanov street, Almaty, Republic of Kazakhstan. The AGM will be held in person with registration starting at 10:00 (Almaty time).

The AGM will be held in person.

In the event that the AGM does not take place on the above date, it will be rescheduled for May 31, 2022 at 11:00 (Almaty time).

Shareholders registered by the Central Securities Depository as shareholders in the registrar of holders of shares as of April 19, 2022 (00:00 Almaty time) are entitled to attend the AGM.

To register, participants will need to provide their identity documents and trustees are required to present a power of attorney to participate in the meeting with the right to

vote.

Proposed agenda of the AGM:

1. On determination of the composition and term of office of the Kcell JSC Counting Commission and election of its members;
2. The approval of Kcell JSC Annual Financial Statements for 2021;
3. The 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;
4. The election of a new Board of Directors of Kcell JSC;
5. The approval of amendments to the Regulations on the Board of Directors of Kcell JSC;
6. On approval of amendments to Regulation on the amount and conditions for payment of remuneration and reimbursement of expenses to independent members of the Board of Directors of Kcell JSC for performance of their duties;
7. On shareholder requests regarding the performance of Kcell JSC and its executives and results of their consideration.

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.

Free cash flow: cash flow from operating activities less cash CAPEX.

Condensed Consolidated Statements of Comprehensive Income

KZT in millions, unless otherwise stated	Q1 2022	Q1 2021	Chg (%)	2021
Revenues	50 334	44 016	14.4	194 081
Income from Government subsidy	559	-	-	2 108
Cost of sales	(32 376)	(29 456)	9.9	(125 867)
Gross profit	18 517	14 560	27.2	70 322
Selling and marketing expenses	(437)	(291)	50.2	(3 106)
General and administrative expenses	(3 122)	(2 834)	10.2	(14 137)
Reversal of tax and related fine	-	-	-	683
Impairment of assets	(762)	(51)	1 394	(2 694)
Other operating income and expenses, net	(476)	386	(223.3)	(583)
Operating income	13 720	11 770	16.6	50 485
Other income and expenses, net	(156)	(36)	333.3	223
Finance income and expenses, net	(1 726)	(2 223)	(22.4)	(7 765)
Net forex gain/loss, net	267	171	56.1	259
Profit/loss before income tax	12 105	9 682	25.0	43 202
Income tax expense	(2 873)	(2 532)	13.5	(10 696)
Net income	9 232	7 150	29.1	32 506
Total comprehensive income due to parent company	9 232	7 150	29.1	32 506
Earnings per share (KZT), basic and diluted	46.2	35.8	29.1	162,5
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	21 051	19 421	8.4	81 487
EBITDA excl. non-recurring items	21 677	19 421	11.6	82 340
Depreciation, amortization and impairment losses	(7 487)	(7 687)	(2.6)	(30 778)
Operating income excl. non-recurring items	14 346	11 770	21.9	51 338

Condensed Consolidated Statement of Financial Position

KZT in millions	31 March 2022	31 December 2021
Assets		
Intangible assets	40 777	42 284
Property, plant and equipment	85 259	85 805
Advances paid for non-current assets	816	1 930
Right to use assets	17 387	16 943
Costs of obtaining contracts	513	472
Deferred tax assets	1 349	1 720
Long-term receivables	5 156	4 148
Total non-current assets	151 257	153 302
Inventories	10 303	6 582
Trade and other receivables	20 913	17 751
Other current financial assets	829	538
Other current assets	8 892	10 141
Cash and cash equivalents	32 520	51 402
Total current assets	73 457	86 414
Total assets	224 714	239 716
Equity and liabilities		
Share capital	33 800	33 800
Additional paid-in capital	1 260	1 260
Retained earnings	72 443	63 211
Total equity	107 503	98 271
Long-term borrowings	46 377	48 283
Long-term lease liabilities	16 208	15 185
Government subsidies: non-current portion	5 128	5 688
Other long-term liabilities	4 291	4 204
Total non-current liabilities	72 004	73 360
Short-term borrowings	11 706	11 699
Trade payables and other current liabilities	19 496	43 869
Government subsidies: current portion	2 237	2 237
Financial guarantees	281	330
Short-term lease liabilities	4 373	4 944
Contractual liabilities	3 857	3 207
Other taxes payable	1 308	712
Income tax payable	1 949	1 087
Total current liabilities	45 207	68 085
Total equity and liabilities	224 714	239 716

Condensed Consolidated Statement of Cash Flows

KZT in millions	Q1 2022	Q1 2021	2021
Cash flow before change in working capital	21 408	19 409	82 333
Change in working capital	(14 516)	(9 033)	-8 277
Cash flow from operating activities	6 892	10 376	74 056
Cash CAPEX	(22 823)	(11 862)	(31 161)
Free cash flow	(15 931)	(1 486)	42 991
Proceeds from financial assets (net)	-	12 685	18 709
Cash flow from financing activities	(3 216)	(14 783)	(33 653)
Cash flow for the period	(19 147)	(3 584)	27 951
Cash and cash equivalents, opening balance	51 402	23 023	23 023
Cash flow for the period	(19 147)	(3 584)	27 951
Exchange rate difference	265	97	428
Cash and cash equivalents, closing balance	32 520	19 536	51 402

Condensed Consolidated Statement of Changes in Equity

KZT in millions	Q1 2022				Q1 2021		
	Share capital	Retained earnings	Additional capital	Total equity	Share capital	Retained earnings	Total equity
Opening balance	33 800	63 211	1 260	98 271	33 800	48 283	82 083
Dividends	-	-	-	-	-	-	-
Total comprehensive income	-	9 232	-	9 232	-	7 150	7 150
Closing balance	33 800	72 443	1 260	107 503	33 800	55 433	89 233

Basis of preparation

The interim condensed consolidated financial statements for the three ended March 31, 2022 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 December 31, 2021 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	Q1 2022*	Q1 2021	2021
Within EBITDA			
Non-recurring items	626	-	853
Total	626	-	853

*costs associated with damage from the January events

Investments

KZT in millions	Q1 2022	Q1 2021	2021
CAPEX			
Intangible assets	1 138	65	13 604
Property, plant and equipment	3 059	2 721	24 448
Total	4 197	2 786	38 052

Related party transactions

During the 1st quarter ended March 31, 2022, Kcell purchased services for KZT 6 419 million and sold services for a value of KZT 3 810 million. Related parties in these transactions were mainly Kazakhtelecom JSC and its group entities.

Net debt

KZT in millions	31 Mar 2022	31 December 2021
Long-term and short-term borrowings	58 083	59 982
Less short-term investments, cash and bank	(32 520)	51 402
Net debt*	25 563	8 580

* excluding lease liabilities under IFRS 16 "Lease"

Financial key ratios

	31 Mar 2022	31 December 2021
Return on equity (% , rolling 12 months)	33.6	33.1
Return on capital employed (% , rolling 12 months)	29.4	29.7
Equity/assets ratio (%)	47.8	41.0
Net debt/equity ratio (%)	23.8	8.7
Net debt/EBITDA rate (multiple, rolling 12 months)*	0.3	0.1
Owners' equity per share (KZT)	537.5	491.4

* excluding lease liabilities under IFRS 16 "Lease"

Operational data

	Q1 2022	Q1 2021	Chg (%)	2021
Subscribers, period-end (thousands)	7 967	8 053	(1.1)	7 961
Of which prepaid	6 984	7 068	(1.2)	6 978
MOU (min/month)	206	208	(1.0)	210
ARPU (KZT)	1 664	1 482	12.3	1 614
Churn rate (%)	22.6	30.8	(8.2)pp	27.7
Employees, period-end	2 151	2 228	(3.5)	2 136

Forward-looking statements

This report may contain 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.