

Edited Transcript of

Q1 2021 MTS Financial & Operating Results Conference Call

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MTS Speakers

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Andrey Kamensky

VP for Finance

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CEO, MTS Bank

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Xtellus Capital

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Gazprombank

Alexander Vengranovich

Renaissance Capital

Presentation

Operator:

Dear ladies and gentlemen, welcome to the Conference Call of Mobile TeleSystems. At our customers' request, this conference will be recorded. As a reminder, all the participants will be in the listen only mode. After the presentation, there will be an opportunity to ask questions. [Operator Instructions] May I now hand you over to Polina Ugryumova, Director of Investor Relations who will lead you to this conference. Please, go ahead.

Polina Ugryumova, IR Director:

Welcome everybody to today's event to discuss MTS's first-quarter 2021 financial and operating results.



Before we start, I must remind you that — except for historical information — any comments made during this call may constitute forward-looking statements. Important factors could cause our actual results to differ materially from those contained in our projections or forward-looking statements. These in turn imply certain risks, a more thorough discussion of which are available in our annual report and form 20-F or the materials we have distributed today.

MTS disavows any obligation to update any previously made forward-looking statements spoken on this conference call or make any adjustments to previously made statements to reflect changes in risks.

I also wanted to mention that following the sale of NVision we have folded the remaining portion of integration revenue into “other services.” For your convenience, we have retrospectively restated our profit & loss statement in our Summary Financials file, which is available on our IR website together with the press release and presentation for this call.

Today’s presenters are:

- Slava Nikolaev, President & CEO;
- Inessa Galaktionova, First Vice President for Telecommunications;
- Andrey Kamensky, Vice President for Finance; and
- Ilya Filatov, Vice President for Financial Services and CEO of MTS Bank — who will speak in Russian and I will translate.

So with that let me turn it over to Slava to kick us off.

Vyacheslav (Slava) Nikolaev, President & CEO:

Thank you Polina, and thanks to everyone joining the call today.

Since this is my first call as CEO I wanted to start with just a few words about where we are today and where we’re headed going forward. Overall, our strategy remains unchanged. We are continuing to execute on a two-pronged approach to build out an ecosystem of digital services, while maintaining mobile market leadership.

Looking ahead, you can expect to see continuity as we move forward on that strategy. At the same time, we are going to put a sharper focus on concentrating our firepower to rapidly reach commercial scale along promising growth vectors. Context matters. In Russia, consumers prefer local content and corporates prefer domestic solutions. As a telco, this is frankly a unique opportunity. And we are going to take full advantage of it.

I’m pleased to report we’re off to an excellent start in 2021. Consolidated Group Revenue for the quarter was up 5.5% year-over-year to nearly 124 billion rubles — with solid contributions from all four of our verticals. Notably, areas beyond connectivity contributed more than 1/3 of the total upside — with Fintech leading the way followed by Cloud & Digital Solutions as well as Media.

Turning to the OIBDA waterfall. For the quarter Group adjusted OIBDA was up 6.7% year-over-year supported by solid contributions from core services — which more than offset headwinds from the loss of high-margin roaming revenue — as well as a material contribution from MTS Bank and other factors.

A few words on digital news. First, I’d like to welcome Olga Ziborova as Vice President for Ecosystem Development and Marketing. Going forward, Olga will be leading our efforts to further refine our ecosystem products, services, and bundles.



Overall, we continue to see robust uptake and engagement across the ecosystem. Over the past three quarters, revenue from ecosystem clients has increased from around 19% to 23% of total B2C revenue. That's compared to ecosystem client penetration at less than 16% of the subscriber base in Q1. So we still have a long runway for sustainable growth.

Turning to products. Users of our ecosystem subscription MTS Premium are up around 50% over the past six months. Earlier, we had made this available for free to high-end subscribers that met a minimum spending threshold. In Q1, we shifted to a paid-only model for new adds, while also revamping the offer to a more generous benefit package that includes unlimited data and a higher-tier of video-on-demand content.

Our loyalty program, MTS Cashback, continues to draw in new users, topping 11 million registered participants in Q1. On the app side, we've reached nearly 25 million active users of our self-care hub, MyMTS — more than half of all smartphone users on our network. This remains a critical gateway into our ecosystem, which is reflected in the ARPU of MyMTS users being more than 10% above average.

We're also seeing good traction with NETARIF, our new one-stop-shop subscription that combines mobile connectivity and digital services. Based on our cohort tracking, we're seeing higher CLV than our previous flagship tariff, Tarifishche, and more than 30% above the B2C average — with the upside roughly evenly spread between ARPU and retention. We're also seeing high engagement, with the majority of new adds to NETARIF actively customizing their plan instead of opting for the default configuration.

In Fintech, we reached 2.6 million bank clients with open accounts, deposits, and loans. Encouragingly, year-over-year growth in daily banking clients outpaced total clients — which is in line with our focus on increasing the frequency of customer interaction.

Turning to Media, at the end of Q1 we approached nearly 3 million OTT users — nearly tripling from just a year ago. Historically, our OTT offering was a mobile-first app with smartphone users accounting for the vast majority of viewers. We're now seeing robust diversification across platforms. For example, active SmartTV users have increased more than 10 times since last summer, and today make up a significant share of the total.

In April, we reached a major media milestone with the launch of a radical redesign of our OTT Platform — which has been rebranded as KION. This is a truly compelling and differentiated home entertainment experience. KION features hundreds of linear TV channels, thousands of licensed on-demand titles, and — for the first time — a select slate of exclusive content — which we're calling KION Originals.

To give a bit of color, these are not low-key web serials, but rich storytelling across drama and comedy series, as well as documentaries and feature films. We're also pioneering a new format we call Kinostories that gives viewers flexibility in choosing between episodes or full-length viewing. As we execute on content, our top priority is managing our spend in a deliberate manner — keeping a laser focus on return-on-investment and business KPIs around engagement, retention, and lifetime value.

We're being very active in showcasing and promoting the platform. We've launched nationwide advertising and we're seeing good resonance with leading celebrities, media outlets, and social media influencers. We estimate we reached tens of millions impressions in just the first few weeks. In terms of engagement, we're already seeing higher app installs. That said, we're still

less than a month out since launch and we will hold off on sharing more details until we have a longer trend line.

Looking ahead, KION will be a foundational component of our ecosystem. The media market is poised to be disrupted as the secular shift to OTT gains momentum. In the long-term, we think we can be a top-3 player in Russia with a user base of 20 million viewers.

On that positive note, let me hand it over to Inessa for a telecom and B2B update.

Inessa Galaktionova, First VP for Telecommunications:

Thank you Slava.

In Q1 we continued to see robust dynamics in core communications.

In mobile connectivity, service revenue in Russia was up 2.3% to 82 billion rubles on the back of solid domestic demand growth. The deceleration from Q4 largely reflects a high base from relatively earlier tariff adjustments in 2020. There was also a negative impact on a comparable basis from the extra leap day last year. In addition, we continued to see significant year-over-year headwinds from the pandemic-related drop in international roaming revenue — despite seasonality.

Looking ahead, we expect roaming headwinds to ease — or even reverse — beginning in Q2 on lower comparables. Although even in our most optimistic scenarios we expect full-year roaming to remain well below pre-pandemic levels.

Our three-month active subscriber base in Russia ticked slightly downward to 78.4 million. Strategically, our core focus remains subscriber quality. And in Q1 we saw healthy dynamics in our loyal customer base — those with us twelve months or longer — as well as our market share of data users. We expect to continue to differentiate away from connectivity as a standalone service — instead deepening engagement through complimentary services and bundle offers.

In fixed-line, in Q1 we successfully sustained our momentum in broadband. B2C revenue was up 7.5% year-over-year when excluding telephony. Residential broadband net adds also continued at pace and edged toward 4 million. Fiber is a top priority and we continue to invest in our backhaul and FTTB network. Today, we offer gigabit broadband in more than 30 Russian cities.

We also continued executing on our B2G project to build out connectivity to 5,000 socially important facilities, such as schools and medical clinics. In March, we issued our very first social bonds to help fund the project. Overall, we are on schedule to achieve the goals we set last year, and are now executing on the third and final phase. This is a further demonstration of our commitment to help build an inclusive digital future for all members of society.

In retail, we saw strong double-digit growth of 16.4% year-over-year in sales of handsets and accessories. This in part likely reflects a spike in demand due to the timing of device upgrade cycles. We also continue to execute on our channel diversification strategy, with ecommerce sales doubling year-over-year. In Moscow, we've launched new showrooms in some of the city's most highly trafficked shopping districts. These stores provide a richer shopping experience, with dedicated zones for gaming, banking, wearable devices, and smart home gadgets. On the product side, we recently launched new "tariff plus device" bundles together with Samsung, which are aimed at boosting our subscriber conversion rate from device sales. And across our network we're making good progress on enhancing touchpoint quality, with in-store Transactional NPS topping 70.



Finally, a brief update on B2B. As you know, last year was an unprecedented time for digital acceleration at a global level. This year, our customers are continuing to embrace digital transformation — and MTS is a trusted partner in that process. We were proud to recently be recognized in the CX World Awards as providing the best B2B customer experience for telecom services in Russia.

In Q1, our Cloud & Digital Solutions vertical saw rapid double-digit growth, with revenue up nearly 30% year-over-year. We also continue to be a leader in Private LTE for enterprise clients — a promising indicator toward future 5G projects.

With that, let me hand it to Ilya for a Fintech update.

Ilya Filatov, VP for Financial Services and CEO, MTS Bank:

[via translation by Polina Ugryumova, IR Director]

Thank you Inessa.

I am happy to present our strong Q1 results for Fintech and MTS Bank. But first, I would like to note that based on full-year data, MTS Bank was recognized as the eighth-largest Russian bank by credit card portfolio, and the number one bank in terms of point-of-sale loan growth.

In 2021, we continue steadily executing on our strategy, with a focus on developing digital channels. In Q1, for the first time we reached more than half of all loan product sales through digital channels. Just a year ago this accounted for less than a quarter of all sales.

In the first quarter, we saw healthy dynamics in our retail loan portfolio — growing 35% year-over-year before provisions — which served as the key driver for our overall credit portfolio growth.

On the back of this loan growth and the lack of additional provisions — as, for example, we saw during the pandemic last year — net interest income in the first three months of the year grew 14% year-over-year to 4 billion rubles. Net fee & commission income increased 39% year-over-year reaching over 2 billion rubles, contributing 35% of overall operating income before provisioning. Moreover, fee & commission income accounted for more than half of total retail operating income before provisions. Net income increased to nearly 1.5 billion rubles and return on equity reached double digits: 16% versus 5% in the year-ago quarter.

Cost-of-risk for the retail loan portfolio declined to 5.2% from 5.4% quarter ago. In the retail segment, cost-of-risk increased slightly to 8.3%, reflecting the active issuance of retail products and provisioning for the expanding loan portfolio. The share of non-performing retail loans declined to 8.8% in Q1 versus 9.5% in Q4. Overall, the bank remains committed to a conservative approach to reserves with year-end NPL coverage standing at 130%.

We remain at a comfortable level of capitalization. As of April 1, 2021 our N1.0 capital adequacy ratio stood at 13%, which reflects a healthy safety margin above minimum regulatory requirements of 10.5%.

Looking ahead, we see promising growth opportunities, and we are continuing to expand our customer base and realize ecosystem synergies with MTS.

Now let me give the floor to Andrey.

Andrey Kamensky, VP for Finance (CFO):

Thank you.

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In Q1, Group net profit decreased 8.8% year-over-year to 16.2 billion rubles. Net profit was supported by higher income from business operations — including solid performance at MTS Bank — as well as the positive impact from a decline in cost of debt on a year-over-year basis. In addition, growth was constrained by a high base effect in the year-ago quarter due to a significant non-cash impact from FX effects and operations with derivatives. Excluding this last factor, Group net profit increased 19.5% year-over-year.

Now a few words on CAPEX. At our last call in March we announced a higher CAPEX plan for 2021. There are three major factors driving that increase: (1) FX drag in equipment procurement, (2) deliberate investments in new growth areas, and (3) short-term allocation for a major radio swap project in Moscow. In line with the outlook we gave you, capital expenditures in Q1 amounted to 29.3 billion rubles. We regard this higher CAPEX intensity as a temporary ramp-up as we invest in our future — not a new run rate. In this context, Group free cash flow excluding MTS Bank and cash proceeds from the sale of Vodafone Ukraine stood at 11.3 billion rubles for the first three months of the year.

Turning to the balance sheet. The treasury team has made great progress in optimizing our debt portfolio amid the lower interest rate environment we've seen over the past few years. As Inessa mentioned, we recently issued the Company's debut social bonds — which are in line with the Social Bond Principles of the International Capital Markets Association. We were happy to see very high engagement during the book building — including from smaller institutions and retail investors. In total, we had nearly 3,000 orders versus the few dozen or so large fixed-income investors that we see in a typical issuance.

At the end of Q1, our gross weighted average interest rate stood at 6.3%. We believe we timed our refinancing actions well, and we feel good about our debt position now that rates have begun to increase. Moreover, we continue to enjoy healthy tenor, and our leverage remains at a very comfortable level of 1.5x Net Debt to OIBDA [net debt excluding lease liabilities].

Now I'll hand it back to Slava for his closing remarks.

Vyacheslav (Slava) Nikolaev:

Thank you Andrey.

I'm very encouraged by our performance and results. We delivered a strong start in Q1, and we are on track to deliver solid results for the full-year. At this time, we are reaffirming our existing full-year outlook that we gave you back in March of at least 4% growth in revenue and OIBDA, and CAPEX of 100-110 billion rubles. That said, there could be some potential to revise that later in the year, in particular depending on how much travel and roaming resumes this summer.

Turning to shareholder returns. In March, the Board of Directors authorized a further 15 billion rubles in stock buybacks this year — and we've already spent more than 5 billion rubles on the program. In addition, the Board has recommend a full-year 2020 dividend of 26.51 rubles per ordinary share to be approved by shareholders at the AGM in June. We continue to target a total regular dividend payout in 2021 above the 29.50 rubles we paid in calendar year 2020.

Finally, I'd also like to highlight that the Board recently set up a dedicated ESG Committee aimed at strengthening corporate governance, environmental initiatives, and corporate social responsibility. We recognize ESG is an increasingly important factor for investors in their decision-making process, and we are committed to enhancing our transparency and disclosure around ESG.

So with that, let me hand it back to Polina for the Q&A.

Q&A

Polina Ugryumova:

Thank you Slava, and thank you to the rest of the speakers. As we take questions, please be aware there may be a slight delay for translation. Operator, with this let's open the line for questions.

Operator:

Thank you. Now we will begin the question-and-answer session. [Operator Instructions]. And the first question we've received is from Ivan Kim. The line is now open, please, go ahead.

Ivan Kim, Xtellus Capital:

Good afternoon. Three questions from me if I may. Firstly, you raised prices at the end of February-March, and I know it fell to raised price in January too, did you see other operators adjust their prices higher as well from the start of the year? That's the first question.

The second question is on factors influencing EBITDA. So, can you please comment on RUB 1.5 billion of other 24:47 factors influencing EBITDA year-on-year this quarter and whether we can expect anything similar in the remainder of the year?

And just probably a technical question on your paid OTT subscribers. How many do you have? Thank you.

Polina Ugryumova:

Ivan, can you please repeat the third question, which related to paid OTT subscribers?

Ivan Kim, Xtellus Capital:

Just how many of those they have. Because you show the total number of OTT subscribers. I was just wondering, how many of those are paid... Are they all paid or some of them are eligible for the services within their subscription? Thank you.

Inessa Galaktionova, First VP for Telecommunications:

Okay. Ivan, I will take the first question. This is Inessa, responsible for Telecom. So usually on the telecom market, there is a practice to make price indexation, review tariffs, at the beginning of the year. Actually, this is common for telecom operators to do that at the beginning of the year, so in the first quarter. We did it later this quarter. As you mentioned correctly, the end of February [through] the beginning of March, so our colleagues on the market also reviewed prices in the first quarter.

Andrey Kamensky, VP for Finance (CFO):

This is Andrey. The second question with regard to the factors on OIBDA ... the positive impact on OIBDA from other factors primarily relates to the effect of one-off OPEX provision in Q1 2020 that resulted in a low base in the first quarter on a year-over-year basis. Overall, we expect the impact from this provision to be overall neutral in the first half of year.

Vyacheslav (Slava) Nikolaev, President & CEO:

And for the last question. I think, it's the most difficult because it's really difficult to define what is a paid OTT subscriber. I will explain why. Because if you look at the common market practice, you would, for example, see that there are users of Yandex.Plus [bundle] that have access to Kinopoisk [video-on-demand service]. The big question is, whether those guys are paid users or not.

They are paying. And we have a very similar practice with the [MTS] Premium service and other bundled services. In these terms, I can tell you that we are not looking for OTT users that will not bring any value to the Company, including, by the way, the advertising revenues that could come. We don't have this [AVOD] system now. But I think any online OTT user is looking into the system again. It's becoming more popular because of the possibility to target this advertising, which makes it much more commercially viable.

So, the number of OTT subscribers we report, they usually include subscribers that get revenue to the Company through different channels. But they're not free users, generally. So maybe it's a little long, but the question is not as easy as it looks.

Ivan Kim, Xtellus Capital:

I agree. Thank you very much for that. May I just follow-up on the provision that Andrey mentioned? So did I understand correctly, that you said that, overall, it's going to be neutral for the first half. So there will be some... I'm not sure how to understand that. So there will be some negative impact on the second quarter or...

Andrey Kamensky, VP for Finance (CFO):

Ivan, I mentioned that, actually if we compare this year to the previous year, it would be neutral. Yes, the comparison, because it was the low-base of 2020 when we made this provision. Therefore, you see now this positive impact. And if we compare the first half of the year of 2021 to 2020, it would be neutral. That's what I mentioned.

Ivan Kim, Xtellus Capital:

Okay. Thank you.

Operator:

Thank you. The next question is from Alexander Vengranovich of Renaissance Capital. Your line is now open, sir, please go ahead.

Alexander Vengranovich, Renaissance Capital:

Thank you. Three questions from my side. So, the first one, on the assumptions you use for your roaming revenue forecast, for this year.

Can you remind us, what sort of outlook you have for roaming revenues by the quarters, if possible, in order to understand what sort of a potential upside we can have if travel restrictions are more or less lifted for the core geographies for travels of Russian tourists? That's the first question.

The second question is on your mobile retail network. I was a bit surprised to see the growth of the number of the stores in the second quarter, which I think is a bit contradicting to what you've been saying before, as basically the long-term target of mobile retail network optimization remains intact. I'm just wondering what was driving that. Whether it was sort of a timing effect

of the opening of the new showrooms, or do you feel that there might be some competitive situation which really prevents you from optimizing your network further?

And the third question is again on KION. Can you please indicate the scale of the content investments related to KION this year, maybe, and until 2023 which you think is required to achieve your goals on the number of the users and your top-three position on the market? And related to that, what do you think could be the key issues for KION to achieve these targets? Thank you.

Vyacheslav (Slava) Nikolaev, President & CEO:

Okay. I will take the first question on roaming revenue forecast. Of course, we never made any firm assumptions on that. We are generally assuming that rather conservatively and that was reflected in my part of presentation. So, nothing particular. It would be pure speculation to set a date when this ... when all the limitations will be lifted. Second question goes to Inessa.

Inessa Galaktionova, First VP for Telecommunications:

Regarding the retail network. Actually, we, Alexander, appreciate that you are very careful with all the figures we provide for retail. And so you are very carefully calculating. But I just want to address your attention that actually those small fluctuations, which is less than 2%, does not reflect any strategy behind that.

This is actually a normal operational business, which sometimes requires [us to close some shops] because we are searching for new good locations and in some regions it requires us to lower, for example, [lower] quality channels like local dealers and local distribution and invest more in our own retail chain, which is [higher] quality.

That's why I ask you not just to pay such a huge attention to those small figures, because, again, we'll repeat that right now we are very stable in terms of [the] number of our stores in the coming quarter or half a year, we don't plan any big optimization, as [for example] it was announced one year ago. And we actually made that [optimization] as we promised.

In the coming months, we don't expect any optimization. As soon as we have a plan, the strategy we'll definitely share with you, because there will be something behind that. I mean, the strategy. Right now, this is just a small iteration of things which doesn't reflect any changes in the strategy.

Vyacheslav (Slava) Nikolaev, President & CEO:

And then the third question on the scale of content investment. We are not disclosing the exact figure. But I can tell you that, it's not groundbreaking. We are being very accurate with those investments. And at the same time they are included in our overall capital spend. So it's all in there and it doesn't change it much.

Alexander Vengranovich, Renaissance Capital:

And regarding the issues or potential challenges, maybe you can provide some more details on that, will be great.

Vyacheslav (Slava) Nikolaev, President & CEO:

Well, I think, challenges for KION's success could be only... Well, if we go into SWOT analysis, I would say that, given the start [we've seen], the possibility that our own originals would be really bad is off the table now. It looks that it all goes very well.

And of course, the competitive environment is there. We have a player that is able to spend a lot of money on that. We have another player, which is able to redirect a lot of search traffic onto their platform. So, we are playing on this market with our own opportunities. And I believe [we have] currently the best team making originals. And at the same time, [we have] a very strong product team and you can see that in the product itself. So, I'm pretty confident that we are set for growth in this market.

Alexander Vengranovich, Renaissance Capital:

Thank you.

Operator

Thank you. Then we go to the next question. It is from Henrik Herbst of Morgan Stanley. [Operator Instructions].

Henrik Herbst, Morgan Stanley:

Thanks very much. I had three questions. Firstly, I wanted to follow-up on the price increases beginning of the year. I mean, you've been doing price increases now, I guess, for a few years. Can you talk a little bit about what you've seen in terms of customer perception on price increases? Any change in churn or anything different from last year?

And then, I also wanted to follow-up on KION, I guess and your content investment. Firstly, when we think about the content investment, I realize you can't give us any explicit numbers. But is 2021 sort of the beginning and the content investment is ramping up from here, or are you sort of investing quite a lot now to get operations going? And from here the content investment should be stable to sort of coming down a little bit, so more directionally than perhaps explicit numbers?

And then, I guess, a bigger picture question on content investment. I think if you look globally, most telcos that tried to invest in content have sort of changed their minds. I guess, the latest one AT&T you sort of now exited the Time Warner investment. Can you maybe talk a little bit about what do you think you're doing differently, or what's different with MTS, and why we shouldn't sort of be worried about the lack of success from other telcos trying the same thing. Thanks very much.

Vyacheslav (Slava) Nikolaev, President & CEO:

Okay. First of all, thank you for your interesting questions. The first question is easy to answer. I think, we came we came to this quite a few years ago. It came [from] a model which allows us to do those price increases in a very transparent way. And we see that our subscribers appreciate this way. They always have time and suggestions of how they can change tariff, if they wouldn't want to stay on the tariffs that are being increased. And therefore, in the last two or three years, we don't see any reflection on NPS after our price increases. So, we are confident that we're doing that very accurately, and we monitor all changes afterwards. So, I'm pretty confident we are okay here.

On KION, content investment, I would say that in comparison with 2020 and 2021, the investment could go higher maybe by a notch but not much. And then, if we see this going well, it will pretty much continue on the same level, because we have a model of how often how many originals we have to get on the market to keep the interest of new subscribers and the interest of existing subscribers, and it seems [to be] working so far.

And going into the last question on AT&T, Time Warner and this dilemma that everybody has, I would say that our situation is very different from the situation when a telco is purchasing an existing content provider because the idea behind [being a] content provider is to have the widest distribution possible. So, limiting this distribution to one operator will really decrease its value. And this is the basic problem behind [it].

Our case is very different because we are not planning to conquer the world with [content]. We are making a very specific investment into enough local content to constantly increase the number of subscribers on the platform. And then we are keeping them there both with the product excellency and existence of our libraries. And the libraries of course include libraries that we purchase from majors and libraries that are created with our own content. And I think that this difference is the most important and we see this model can really work out. So, that's pretty much it.

Henrik Herbst, Morgan Stanley:

Okay. Thank you very much. Can you also perhaps follow up in terms of investment. Is there any significant sort of OpEx investment as well? Is your content strategy a drag on your OIBDA margin? So, is it mainly on CapEx? Thank you.

Vyacheslav (Slava) Nikolaev, President & CEO:

No, not really [any significant impact on OpEx]. It's very, very moderate. The application is [developed] by our teams. [The] core of the platform [is supplied by] a big vendor, but then we create all the systems around it by ourselves. And there will be some OpEx [impact], but only when the subscriber base will grow. So, it's all dynamic and only positive impact I would say.

Henrik Herbst, Morgan Stanley:

Thank you very much.

Operator:

Thank you. [Operator Instructions] We have received another question. It is from Ondrej Cabejsek of UBS. Your line is open. Please go ahead.

Ondrej Cabejsek, UBS:

Hi. And thank you for the presentation. I have a couple of questions if I may. One is a follow-up on Ivan's earlier question. So maybe I completely misunderstand the answer, but when you look at the similar annual numbers, if I look at the one-offs from last year, then in the second quarter of 2021, you had even more one-offs in the base and in 1Q 2021. So when you say flat impact year-over-year on a semiannual basis does that indicate that we're expecting some negative one-offs in the second quarter of 2021 or is that understanding that's not correct and maybe there's something else. So, any clarification would be appreciated.

Second question if I may on MTS Bank. So very good numbers this quarter. Are you confident that you can keep your return on equity at maybe double-digits this year before you get to your 20% target in 2023? And is that the target that you still think is achievable without any capital increase?

And maybe finally in terms of Net Promoter Score, you mentioned the progress on there, but one of your competitors at their Capital Markets Day recently was saying that their Net Promoter

Score is going up while the Net Promoter Score of the entire market — and that would mean you as well — is going down. So, can you clarify is that something that you are also seeing on the way that you perhaps measure Net Promoter Score differently, or what the trajectory is currently for MTS? Thank you very much.

Andrey Kamensky, VP for Finance (CFO):

Ondrej, thank you very much. Let me start with the first one. However, actually, there's not much I can add. I've already said that based on our assumption for the first half of the year, actually, the effect of 2021 to 2020 would be neutral on this specific item. So that's actually it.

Ilya Filatov, VP for Financial Services and CEO, MTS Bank:

[Foreign Language]

Polina Ugryumova, IR Director:

Ondrej, thank you very much on your specific question on the bank. Yes, I'm really very happy to answer this. We do expect the return on equity for the bank will remain in the double-digit area by the end of this year, which could be taken as around like 12%.

Ilya Filatov, VP for Financial Services and CEO, MTS Bank:

[Foreign Language]

Polina Ugryumova, IR Director:

As for the 2023 targets, we have recently re-announced them. So we remain on track.

Ilya Filatov, VP for Financial Services and CEO, MTS Bank:

[Foreign Language]

Polina Ugryumova, IR Director:

As for the potential capital injections, so additional capital injections, a lot will really depend on the regulators' initiatives as currently we see the regulators, some of the regulatory initiatives, are made towards potentially cooling down of the retail market. So for this year, we do not have any further specific plans to increase the bank's capital. And for the next year, we still do not have enough clear certainty, enough clarity on what the regulator will do.

Vyacheslav (Slava) Nikolaev, President & CEO:

I just wanted to add that we really hope that FinTech is going to grow. We see that it's growing really fast. And if we see that this growth continues at a really healthy rate, we are ready to support it with some additional financing. Not again nothing that would really make a drastic change in our figures, but given that ROE is growing, I think, there is a possibility. Go ahead.

Inessa Galaktionova, First VP for Telecommunications:

I'll take the question on NPS. So, actually we don't comment on information [that] was mentioned by a competitor, especially when we don't know which materials or reports are invoked. That's why it's difficult to comment. And overall, we see that NPS on the market is pretty modest mostly due to pandemic mood, which has happened for the last year. But this is the only trend we see. So, that's why we don't comment on competitor [comments].

Ondrej Cabejsek, UBS:

Thank you very much. Maybe I may follow up because there were no other questions in the line. Can I just clarify? I believe there was a comment during the presentation about CapEx being temporarily higher. Is this a way to say that 2021 is a one-off year, or is this a multi-year thing you think? Any clarity would be appreciated.

Andrey Kamensky, VP for Finance (CFO):

Yes, Ondrej, thank you very much. That actually was part of my speech. What I wanted to mention is that it's not going to be a new run rate for the future. And yet we expect that for the next years that might be lower. It's too early actually to give any guidance or whatever, but that's our understanding at the moment.

Ondrej Cabejsek, UBS:

So the one-year spike would be your current working assumption?

Vyacheslav (Slava) Nikolaev, President & CEO:

This is what Andrey said, I'm sorry.

Andrey Kamensky, VP for Finance (CFO):

Yes.

Ondrej Cabejsek, UBS:

Thank you very much.

Operator:

Thank you. We've received another question. It comes from Anna Kupriyanova of Gazprombank. The line is now open. Please go ahead.

Anna Kupriyanova, Gazprombank:

Good afternoon. Thank you very much. I will have a couple of questions.

Coming back to your OIBDA margin, if I correctly estimate that if we exclude the effect from [the] provision last year, we get the OIBDA margin for Russia to be flat roughly year-on-year, if I correctly understood your comments. And what could we expect in terms of the year-on-year margin trend going into the next nine months of this year? This is my first question.

And my second question will be regarding your music subscribers. I see that they're slightly down. Just to understand how this direction develops and what do you expect in the future. Should we consider this as a promising part of your media division going forward?

And my final question, I think, I missed the number of your multi-product users. If you could repeat that please?

Andrey Kamensky, VP for Finance (CFO):

Yes, Anna, thank you very much. I'll take the first question. In terms of OIBDA margin, actually we do not provide any guidance on the OIBDA margin. And frankly speaking, on our business we are not so much focused on the margin itself. We are more focused on the numbers. And therefore, actually you can refer to the guidance that we are giving for OIBDA plus 4% growth a year that we stick to. So that's the answer to your first question.

Vyacheslav (Slava) Nikolaev, President & CEO:

Frankly speaking, as for music subscribers I didn't see any major changes there. I can follow it up later, but there are no drastic changes. And this is not a core to MTS Media. MTS Media is currently focused on the online movie part. But on music subscribers, we have several directions working with music.

One of the directions is partnership with Spotify and it's probably not included in this number. We still have partnership with Apple Music, and we have our own application which is also a partnership. So, I will check on that but nothing major on this business happened last year. We did not disclose a multiproduct user number this quarter. So, it's growing, but we didn't have this exact number.

Anna Kupriyanova, Gazprombank:

Thank you very much. And may I, please, ask a bit more about your major revenues in terms of share of TV revenues and fixed-line revenues. I mean which fixed-line revenue growth came from TV? How does it compare to the overall segment increase? Not in terms of users.

Vyacheslav (Slava) Nikolaev, President & CEO:

I understand the question, but we cannot answer it now. And going forward it will be more and more difficult to diversify revenues coming from different business lines because everything is coming in bundles. And the way you attach revenue for this bundle to different businesses is very artificial. So, it's really impossible to say which part comes from the fixed line, which part comes from TV, sorry. But everybody would want that because to realize your cost efficiency but unfortunately it doesn't work this way.

Anna Kupriyanova, Gazprombank:

And then the final question. When can we expect a new disclosure in terms of your results in new business segments?

Vyacheslav (Slava) Nikolaev, President & CEO:

Could you please specify. What do you mean by results of the new business segment?

Anna Kupriyanova, Gazprombank:

The disclosure of your business segments in terms of results presentation by new direction as Media, FinTech, digital?

Vyacheslav (Slava) Nikolaev, President & CEO:

We're a little bit bundled here at this table, because we are giving the results of our business lines. So, that's why I asked you to specify the question.

Anna Kupriyanova, Gazprombank:

What I mean, for example, your media revenues, your digital revenues, given it's your major four new directions. I would be interested to understand when we can see the revenues in these directions. At this stage, you don't disclose your media revenues. Sorry, if I missed something.

Vyacheslav (Slava) Nikolaev, President & CEO:

We will process your request and come out with some solution. But I think that again, given that most of the services are given in bundles, this would also be pretty much artificial. But we will try to help you. So, we'll consider it. Thank you.

Anna Kupriyanova

Okay.

Polina Ugryumova, IR Director:

As we have given this message for quite a long time to the market, the whole paradigm idea behind the ecosystem is that you're building a specific ecosystem around each client, let's say. And you are selling the services in the bundle. While some of the services can be absolutely profitable, other services, which do increase the life of our clients or increase the NPS, which is associated with this client, can be OIBDA zero for example, even negative.

What is really very important for us is that this type of bundling provides the longer life of our clients. And in the end results in the higher CLV, which is customer lifetime value. From that perspective, going forward in implementing our strategy, it would make less and less sense to give you a breakdown between the division, especially at the level of the profits, which are generated by this division.

But anyway, as you may see we keep increasing the transparency and the fulfillment of our disclosure to better understand how our business evolves and to make you understand how the whole ecosystem paradigm develops here. It is more friendly and more transparent in terms of understanding.

Anna Kupriyanova, Gazprombank:

Thank you very much for your comments.

Operator:

Thank you. The next question is from Slava Degtyarev of Goldman Sachs. Your line is open. Please go ahead.

Slava Degtyarev, Goldman Sachs:

Yes. Thank you very much for the call. One general question for me. There is quite a large spike in inflation across the globe, and it looks like Russia is not an exclusion here. Do you see any inflationary effect putting pressure on either CapEx or the OpEx side in the medium-term that we should be aware of, and which lines can be most effective? Thank you.

Vyacheslav (Slava) Nikolaev, President & CEO:

Since you're mentioning that this is a global effect, of course, it has influence on every company and probably every person. But I would say that we don't see anything specific in terms of CapEx and everything. We have long-term relationships with our vendors, and I don't think that we have something specific to our Company with this regard, no, [we are the same] just as everyone else.

Slava Degtyarev:

Okay. Thank you very much.

Operator:

Thank you. And the next question is from Ondrej Cabejsek of UBS. Please go ahead. The line is now open.

Ondrej Cabejsek, UBS:

Hi. Thanks. I have a follow-up. Thanks for your patience. Following your last quarter results, there were press reports that you may be putting up your towers into a separate company.

And we have one of your competitors especially being very vocal about trying to do something especially in maybe the more remote regions of Russia. When it comes to network sharing, etc. is this something that you're ready to comment on? What potential paths would you be most interested in, when it comes to some infrastructure sharing or deals, etc.?

Vyacheslav (Slava) Nikolaev, President & CEO:

Yeah. We have a very easy answer. We are looking at all opportunities. And we're very [closely monitoring], what's happening [inaudible]. In the market, nothing happened yet. We realize there are a lot of negotiations in this area. And of course, we are on the top, but we're not ready to disclose anything yet.

Ondrej Cabejsek, UBS:

But can you maybe say in the past MTS has been very much opposed to this? Is the situation a bit different now, from your perspective, now maybe that the market is on more level-playing field when it comes to coverage, network quality et cetera, is it something you would consider at all today as compared to five years ago?

Vyacheslav (Slava) Nikolaev, President & CEO:

I can only repeat what I've already said. Of course, life is going on. And we are going on. We are looking at the opportunities. And whenever we are ready to disclose any news for you, we will do that, believe me.

Ondrej Cabejsek, UBS:

Thank you very much.

Operator:

Thank you. As there are no further questions, I would like to hand back to you.

Polina Ugryumova, IR Director:

Ladies and gentlemen, thank you very much for listening. As usual, we will make a replay of this call available on our IR web page in the near future. If you have any further questions, please do not hesitate to reach out to MTS Investor Relations at any time. Our inboxes and phone lines are open. In the meantime, we appreciate your interest in MTS and wish everyone a pleasant day.