

Edited Transcript of

## Q2 2020 MTS Financial & Operating Results Conference Call

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### MTS Speakers

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*VP for Finance*

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*Goldman Sachs*

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### Presentation

**Polina Ugryumova, IR Director**

Welcome everybody to today's event to discuss MTS's second-quarter 2020 financial and operating results.

As usual, please be aware that — except for historical information — any comments made during this call may constitute forward-looking statements. Important factors — including related to the COVID-19 pandemic — could cause the 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 want to remind you that you can find copies of the presentation and materials used and referenced in this conference call on our Investor Relations website.

Today's presenters are: **Alexey Kornya**, President & CEO; **Slava Nikolaev**, First Vice President for Customer Experience, Marketing, and Ecosystem Development; **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.

Now it's my pleasure to introduce Alexey to kick us off.

### **Alexey Kornya, President & CEO**

- Welcome everyone and thank you for joining us. Given the ongoing global pandemic, I wanted to begin with an update of where we stand today before turning to our second quarter performance and highlights.

First and foremost, our guiding principles remain unchanged: protect our employees, support our customers, and help society more broadly. As we said on our last call in May, the pandemic has had several major impacts on our company, most notably a steep drop in international roaming, slowdown in retail sales and the change in risk profile of the loan book at MTS Bank. While significant uncertainty remains, we have also gained some much needed clarity.

On the retail side, following the initial drop in sales in April, a recovery kicked off in May that continued into June as social distancing eased. Our operations are now mostly back to normal. Overall, we see the market rebound continuing.

On the connectivity side, traffic volatility has mostly abated, while we continue to see resilient demand on both mobile and fixed-line services. While limited international travel has resumed, roaming headwinds have continued into peak summer travel season, and therefore we expect them to have a material impact on our results in the third quarter.

Finally, I also wanted to highlight that at global level, we are now living in unprecedented time of digital acceleration. As we look at the bigger picture, current trends only further reinforce my confidence in our two-pronged growth strategy. Firstly, we are maintaining a leading network, investing in coverage, capacity, and quality. Our goal is to provide reliable connectivity when, how, and where it is needed. Second, we continue to move with pace on the transformation path we laid out last year. In Fintech, although we are in a challenging macro cycle, the industry is rapidly moving towards digital-first banking, contactless payments, and other areas where we see a competitive niche. In media, the shift toward video on demand is accelerating and set to fundamentally reshape the entertainment industry. B2B businesses are prioritizing agile and IT approaches, remote work solutions, and cloud-based workflows. We expect these trends to continue, and I am confident we are well-positioned to capture some of the digital tailwinds.

Turning now to our performance, I am happy to report that despite volatility and headwinds, we successfully delivered growth in the second quarter. Group revenue was up 1.3% year-over-year to reach RUB 117.7 billion. Importantly, top line growth was driven both by our core telecom business as well as segments beyond connectivity. At the same time, we saw a significant negative impact in retail amid the overall market slowdown during the pandemic. Group adjusted OIBDA notched up slightly by 0.6% year-over-year and reached RUB 51.6 billion. OIBDA was

supported by core performance and a positive one-off, while negatively impacted by provisions at MTS Bank. Andrey will go into more details there.

Finally, despite recent operational challenges, we continue to execute on our strategy at pace across all fronts. Let me share just a few recent highlights. In July, we received the first 5G license in Russia in the specialized millimeter-wave spectrum, while the commercial 5G rollout is still some time away, we are targeting initial limited use cases in the Internet of Things, such as industrial process automation. In addition, we are also launching 5G smartphone sales in our retail stores to begin driving device penetration on our network. This summer we also launch Marvin, our in-house AI-based virtual assistant. This project builds on the expertise in natural language processing we gained from developing our own customer support chatbot. Users can communicate with Marvin via multiple channels, including a dedicated app and an MTS branded smart speaker, which is now in initial public use. In Media, we are making steady progress to expand our content offering and strengthening partnership with leading players, such as Channel One, Russia's most watched TV network.

With that, I will hand it over to Slava, who will give Customer Experience and Ecosystem update.

### **Slava Nikolaev, First VP for Customer Experience, Marketing, & Ecosystem Development**

- Thank you very much. Hello, everyone. As Alexey said, everywhere we look today the world is becoming more digital. Successfully capturing that demand requires a customer-centric approach backed up by world-class products and services. That is what we have been doing.

As you know, we began this journey several years ago by shifting towards a more open and straightforward approach in customer engagement. For example, we took steps to prevent subscribers for being signed up for add-on services they did not really want. While this can impact revenue in the short-term, it also strengthened brand trust and loyalty, which is the foundation for our long-term success. More recently, we are seeing that other players are beginning to move in this direction. We welcome the market move toward greater transparency, but we are not standing still. We are now moving forward on the next phase, which is leveraging the trust we have built across upsell services beyond connectivity.

In Q2, we saw growing adoption across many of our apps and programs. Our Pay-TV subscriber base jumped up around 7 % quarter-over-quarter to 4.9 million viewers. This was driven in part by our bundle offer, which is called Stay Home. Our loyalty program MTS Cashback saw a striking 73% increase in registered users year-over-year, reaching over 6 million participants. We are continually expanding that program. For example, we recently launched a promo under which new subscribers can convert unused data balances into cashback rewards. We are also driving penetration of our mobile apps with MTS Bank users, up nearly 60% year-over-year, and active users of MyMTS now topping 22 million. These are promising trends as we move forward on our CLV 2.0 strategy.

I also wanted to highlight a few recent major milestones as we take our customer value prop to the next level. Last week, we launched a partnership in Russia with Spotify, the world's most popular audio streaming subscription service. Under the partnership, we are offering 6 free months of premium service for eligible subscribers with follow-on payments handled via their MTS account. This exclusive offer is a good example of how we are strengthening our ecosystem through partnership. It also demonstrates that MTS's leading market position and commitment to compliance and transparency makes us a partner of choice for global companies looking to tap into the Russian market. Beyond music, we are also moving forward in video.

Fundamentally, in media, the content is the product. And there are two pillars to our content strategy.

The first is our content library. This is absolutely critical for customer retention. To keep viewers happy long-term we need a large, diverse line-up of in-demand titles. We have to appeal to every taste and every member of the family — day in and day out. We have recently concluded multiple agreements with some of the world's top studios that will multiply the size of our premium content library several fold.

The second half of the equation is customer acquisition. Here the focus is exclusivity. We are taking a multipronged approach that includes first look rights, joint development, and — in certain cases — our own production. We are filling up the pipeline and have half a dozen content projects already underway. As these films and miniseries premier, they will provide a powerful magnet to draw new viewers to our platform. In addition, on the technical side, we have unified our distribution backend in more than a dozen large cities.

To sum up, we now have all the pieces in place: a scalable platform, an array of channels and a differentiated content offering that makes it the right time to expand our marketing, which is why we recently launched a nationwide advertising campaign focused on the MTS online streaming experience. Last but not least, in July, we unveiled MTS Premium, a new bundle package that combines offers and services from across our ecosystem. It is free for higher revenue subscribers and RUB 199 for a month for others. It includes a subscription to MTS TV, spam call blocking, and an extra 5GB of mobile data, as well as access to special retail discounts and privileged rates at MTS Bank. We think this will be a compelling offering for many of our subscribers.

As we build out our ecosystem, we are also changing how we internally track customer lifetime value. We have already seen some promising indicators. For example, we see ARPU is 1.7x higher and churn is more than 50% lower for users that have subscribed to two or more MTS services versus a single service. As for three and more, the gap grows to more than double ARPU with churn down by a factor of three or more. We are making good products. We see potential upside and we are powering our ecosystem while we are looking forward.

Now let me hand it over to Inessa for Telecom and B2B update.

### **Inessa Galaktionova, First VP for Telecommunications**

- Thank you, Slava. While 2020 has been a year of challenges, one thing has never been clearer. Connectivity is essential to society, essential to the economy, and essential to everybody's life. As we move further into the recovery phase, I am happy to report MTS's core business has remained resilient. We have successfully adjusted our operations to navigate the situation.

In distribution, we are diversifying our sales channels in line with our long-term mobile strategy. We have added more than 12,000 SIM distribution points in Russia. We have launched new partnerships with e-commerce players such as Ozon and Wildberries. We have expanded brick and mortar distribution with partners such as Detsky Mir. In fixed line, we saw surging new adds as home connectivity became even more critical for work, study, and entertainment. In Q2, our broadband base was up an exceptional 8.7% quarter-on-quarter, and TV was not far behind that, at plus 7%. Altogether, fixed line revenue was up more than 5% year-over-year. We



continue to enjoy fixed line leadership in Moscow, where we saw the biggest transition to remote work and estimated market share at over 40% in both broadband and Pay TV.

Turning to our mobile voice and data. In Q2, we kept a laser focus on supporting customers, including temporarily zeroing the cost of traffic to official hotlines and websites. We also further improved our CRM approach, leveraging big data for targeted, personalized engagement. In Q2, we saw incremental improvements in customer loyalty. Quarterly mobile churn moves down about a third of a percentage point. To some extent, this largely reflects fewer customers are looking to switch providers during the pandemic. Despite mobile churn, we saw our Russian mobile subscribers tick downward by 1.7% quarter-on-quarter. That said, we think this is solid performance, when taking into account the drop in tourists, migrants, and secondary SIM users, as well as the obstacle to customer acquisition and return. Despite those factors, we saw a nearly 2% year-over-year increase in Russia mobile service revenue, reflecting a healthy ARPU accretion. Moreover, our tracking indicates many of our customers shifting from dual to single SIM, preferably choosing MTS as the sole operator. Overall, while the market remains competitive, we continue to feel comfortable in our leading position.

Looking ahead, we expect international roaming, which is the key margin driver, to remain under pressure in the second half of the year. It is also important to keep in mind that given our subscriber base, we have relatively high roaming revenue than some of our peers. We estimate the absolute impact from roaming in Q3 will probably be slightly higher than in Q2, given the historical concentration of summer travel in July and August. At the same time, there could be some minor offsets from greater longer distance calling as Russian families opt for domestic vacations.

Turning now to retail. Despite the store closure and falling foot traffic in April, Russia retail revenue was down low-single digits at minus 3.4 % year-over-year, reflecting a sales rebound in May and June. We also continue to forge ahead on our optimization strategy. By the end of Q2, our footprint has declined by 600 stores year-over-year. That fulfils our initial guidance for year-end 2020. We are not only on track, we are ahead of our schedule.

Going forward, we continue to see long-term opportunities to further rightsize our network. At the same time, the retail market in 2020 is highly volatile, and there is reduced visibility looking ahead. We are also closely monitoring the situation and so far, we have not taken any decisions. That said, we intend to move further in this direction and could consider additional moves this year if the competitive situation allows. Beyond storecount, we continue to build momentum in diversifying channels and formats. In Q2, we saw exceptional growth in online sales more than doubling year-over-year. More recently in July, we launched our first MTS showroom in Moscow as a flagship store to showcase our premium offerings.

Turning to B2B. The corporate segment has also been negatively impacted by roaming as companies scaled back business travel. In addition, we see some pressure on the SME side, given the macro cycle. However, we are also seeing a surge in demand in new growth segments. The figures from Q2 are impressive, MTS cloud revenue more than doubled year-over-year. Revenue from IoT smart connectivity and vertical solution was up double digits versus the prior year quarter. VPN revenue was also up double digits. MTS Marketer, our marketing service for SME, saw extraordinary top-line growth. Big data, which began as an internal enabler, saw external revenue more than double year-over-year. On the enterprise and B2G side in Q2, we won several large contracts worth over RUB 1 billion. In B2G in particular, we saw revenue up more than a 30% year-over-year in Q2. This is an underpenetrated, but addressable market for

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us as, with promising prospects in this space and projects underway to bring online social significant facilities such as schools and medical clinics.

To sum up, amid headwinds, we are demonstrating results. In a changing customer landscape, we are focused on acquisition and retention. As digital accelerates, we are moving forward full force to capturing new growth opportunities.

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

### **Ilya Filatov, VP For Financial Services and CEO, MTS Bank**

- Thank you, Inessa. As we mentioned earlier, Fintech was one of the MTS segments most impacted by COVID. In April, the Russian banking industry faced a serious decline in demand for credit products as quarantine restrictions were introduced. However, in May, demand began to rebound and the industry recovery is still ongoing. MTS Bank followed the overall market trend, and we are also gradually restoring consumer-lending volumes.

Over the past year, the Bank's assets have increased 29.4%, with our total gross loan portfolio up 30.6%, and the gross retail loan portfolio, in particular, up 48.1% to RUB 99.3 billion. Obviously, the pandemic slowed the loan portfolio growth in Q2, but we hope to continue moving towards pre-crisis levels and again see growth accelerate in Q3. In June, monthly consumer loans issued by MTS Bank, particularly returned to base line at about 97% of pre-crisis level.

Quarantine restrictions led to a greater share of customer acquisition through digital channels. Today, the Bank issues around one-third of cash flows from digital channels. In addition, in Q2, the Bank joined the Russian Faster Payment System, which allows our client to transfer money quickly and commission-free.

Net interest income in the first 6 months of 2020 increased 40% to RUB 7.3 billion, reflecting loan portfolio growth over the past 12 months. At the same time, loan restructuring by certain clients and the overall increased level of credit risk led to high Bank provisioning in the second quarter. As a result, at the end of the quarter, the Bank reported a net loss of RUB 0.9 billion.

As we expected, cost of risk grew in the second quarter due to additional provisions. Cost of risk for the overall portfolio came in at 11.7%, and for retail specifically it was 13.4%. This was above the levels in the first quarter — 6.6% and 8.4%, respectively. The share of non-performing loans in the retail portfolio was 8.1% versus 6.6% in the first quarter.

In terms of capitalization, we are at a comfortable level. At the end of H1, the N1.1 and N1.0 consolidated regulatory capital adequacy ratios were 8.9% and 13.7%, respectively, which according to our estimates gives a moderate cushion in capital reserves versus the minimum regulatory requirements of 4.5% and 8%, respectively. These ratios demonstrate that despite the pandemic, the Bank remains resilient. At the present time, we see no need for additional capitalization of the Bank.

It is also worth mentioning that a few days ago Fitch confirmed the Bank's rating at BB- with a stable outlook, noting its strong financial performance and the sustained positive effect of the Bank's joint integration with MTS Group.

Given the ongoing economic recovery, the Bank's conservative approach to risk management, and consistent implementation of the Bank's strategy with a focus on development of digital channels, we believe our Fintech vertical can recover relatively quickly from losses incurred as a result of the pandemic and resume operational and financial growth.

Now let me hand it to Andrey for Financial update.

**Andrey Kamensky, VP for Finance**

- Thank you, Ilya. Let me begin by walking through some of the impacts at the adjusted OIBDA level and below. Group adjusted OIBDA increased 0.6% year-over-year to RUB 51.3 billion, primarily driven by solid performance in core services as well as OPEX savings. Those savings were in part due to our optimization efforts. However, we also saw one-off reductions in rental and labor costs amid the pandemic, reflecting dynamics in leases and sales provisions. In addition, we also saw a one-off positive impact from revaluation of a provision we had booked previously in relation to a regulatory case regarding bulk SMS rates for banks. We initially had more conservative expectations, and we have now adjusted the provision as we gained greater clarity. At the same time, the positive factors were mostly offset by COVID-19 related factors, in particular the headwinds in roaming as well as loan provisioning at MTS Bank.

Group Revenue reported a decrease of 7.5% year-over-year to RUB 11.8 billion. Net profit was supported by core business performance, lower net interest expenses reflecting declining interest rates, and a positive impact from discontinued operations in Ukraine. At the same time, we saw a negative impact from operations with derivatives and the fixed effect as the ruble rebounded from lows in March. On a half-year basis, this was partially offset by the positive impact we saw in Q1 as the ruble weakened. Net profit was also negatively impacted by MTS Bank, although we expect the Bank to return to profitability on a year-to-date basis in the second half of 2020.

Turning to CAPEX. In the second quarter, we continued to invest heavily in network infrastructure with Group Cash CAPEX in the first half of this year coming in at the RUB 40.8 billion. That gives a CAPEX to sales ratio of just over 17%. Given the traffic dynamics of this year as well as the competitive situation, we plan to continue investing in the second half of the year.

Free cash flow remains robust at RUB 24.8 billion for the half of the year. Compared to last year, we paid relatively less debt in 2020, although we have also seen a bit higher level of working capital. We continue to have a strong balance sheet with ample liquidity and robust cash flows. We're also maintaining a disciplined approach to debt management. We have a fully local, well insulated net debt position, and we remain opportunistic in the ruble bond market. The rates are low and demand is healthy. In the second quarter, we issued nearly RUB 32 billion of bonds on MOEX, and we fully repaid the outstanding portion of a USD 750 million Eurobond we issued 10 years ago. Overall, as we discussed before, we are making good progress on steadily bringing down our cost of debt. In the second quarter, our gross debt average interest rate declined from 8.1% to 6.7%, down more than 1.4 percentage points year-over-year.

As you recall, in 2018, we were the first operator in Russia to begin reporting under the IFRS 15 and 16 standards. At the same time, in the interest of comparability, we continue disclosing our leverage under the prior standards for the past couple of years. However, recently we have seen many of our global and most of our local peers switch to calculating leverage based on OIBDA including IFRS 15 and 16. In addition, we have also now established a trend line with 6 quarters of reporting under the new standards on a last-twelve-months basis. So we feel it's the right time to make the switch as well. On this basis, in the second quarter, our leverage remain steady at 1.3 times.

Now, I will hand it back to Alexey for his closing remarks.

## **Alexey Kornya, President & CEO**

- Thank you, Andrey. Overall, I am encouraged by our performance in the first half of the year. I'm proud of the team for what we've accomplished. I think we can say without exaggeration that in the second quarter we truly lived up to our slogan to "be better every day." Given our core resilience and increased visibility into the second half of the year, we are reaffirming our earlier guidance of flat to 3% growth in revenue, minus 2% to flat in adjusted OIBDA, and around RUB 90 billion in cash CAPEX.

Finally, despite the tough environment, we are nonetheless delivering a record year for shareholder returns. We have already paid out a special dividend, launched in 2020 buyback program, and completed payment of our regular full-year dividend based on 2019 results. In addition, the Board has recommended our secondary payment based on the first half 2020 results. Taken together, we expect to return potentially more than RUB 100 billion to shareholders this year. We are proud of our track record, and in July we were named a top-10 most popular stock on MOEX for retail investors. We hope our global investor base also feels that we are delivering.

To sum up, we successfully navigated operational challenges in the second quarter. We are in good shape as we have entered the second half of the year. And we are confident we will emerge stronger and well-positioned to capture the next growth wave.

Thank you. And let me hand it back to Polina for Q&A.

## **Q&A**

### **Polina Ugryumova**

- Thank you, Alexey, and thank you to the rest of the speakers. Before we take questions, I wanted to say there might be a delay if your question requires translation. Operator, let's open the line for the questions.

### **Operator**

- Thank you. [Operator Instructions]

The first question is from Ondrej Cabejsek, UBS. Your line is now open. Please go ahead.

### **Ondrej Cabejsek**

- Hello and congratulations on the results and thanks for the opportunity to ask questions. I have a question or several maybe starting with your OIBDA progression and OIBDA guidance in general. Can I just understand what you expect in the second half because [inaudible 33:29] breakdown the drivers here. Your service revenues are growing and are likely to continue growing throughout the year. It's the handset sales that are down the low margin sales, they are really down, the adjusted OIBDA numbers include the provisions from the Bank. So why exactly do you expect the second half of this year to be much worse than what we saw year-to-date? That's my first question.

### **Andrey Kamensky**

- Okay. Is the second question coming?



**Ondrej Cabejsek**

- Yes, maybe second question was on the service revenue. You noted at your first quarter results call that you seem to be out of the woods that compared to April, May and June were much better, that the only negative impact that you saw basically was roaming. I just wanted to confirm that that is still the case and what trends you are seeing in the third quarter? That was my second question. Thank you.

**Alexey Kornya**

- Let me answer the first one. In respect for OIBDA guidance, we think it is too early to revise our guidance at this stage because the heaviest impact from roaming revenues is coming in the third quarter. We'll have to see the dynamic of our business both in financial services because the macro situation does not allow yet to expect a much stronger or quicker recovery. To sum it up, we think it is reasonable to maintain our guidance, taking [into account] the third quarter impact which we expect at this level.

The second question is somehow interrelated. If we hear it right, in respect of third-quarter roaming and traffic revenues, we do see some roaming traffic appearing due to ease of travel restrictions. However, historically this third quarter is the highest in terms of roaming, that is why in terms of materiality that carries the biggest impact on the performance.

**Ondrej Cabejsek**

- Okay. That is clear. Thank you. If I may follow up on the first question. Maybe just can you tell us what's going on with some of your OPEX items, because again it's your high revenue? So the high margin revenues are growing as the low margin revenues are declining. And the adjusted OIBDA actually includes the provision. So what's going on with the other cost items? Can you give us a bit of a color why we should expect margin contraction? Is there anything outside of roaming basically that is driving this outlook?

**Alexey Kornya**

- Ondrej, sorry we cannot get it fully. Can you speak up a little bit clear and slower? Sorry, but we cannot comprehend.

**Ondrej Cabejsek**

- Yes. If I could follow up on the first question, please. My point is that your high margin revenue seems to be growing, the service revenues. The lower margin revenues are in decline, sales of goods, etc. You adjust for Bank provisions in your adjusted OIBDA guidance and still you are guiding for margin contraction. Basically my question is, outside of roaming, is there any other OPEX impact that you could explain why this guidance is still for a margin contraction for this year?

**Alexey Kornya**

- I think we still have to see the recovery in retail. On the other side, there were some positive one-offs in the second quarter, which we marked. We don't see other major factors other than overall macroeconomic uncertainty continued pressure in Fintech area roaming and, as I said, overall market economy.

**Ondrej Cabejsek**

- All right. That is clear. Thank you.

**Operator**

- The next question is from Slava Degtyarev, Goldman Sachs. Your line is now open. Please go ahead.

**Slava Degtyarev**

- Thank you very much for the presentation. Also, a couple of questions. Firstly, how would you assess how much of the cost savings that you did throughout Q2 will have a lasting effect in the medium term? And how much of the spending curve will get back in the second half already?

Secondly, also on the service revenues. It looks like your underlying service revenue growth in Russia was very resilient in Q2, if probably not accelerated, if we adjust for the timing effects of the tariff revisions that you've done in Q1 and also the negative roaming effect in Q2. So what was driving that strength or even acceleration in your view? Is it higher consumption of the services or anything else? Thank you.

**Andrey Kamensky**

- Thank you very much for the question. Let me start with the first one. As I mentioned, actually, we saw some one-off reductions in our rental and labor costs related to our retail network. Looking forward as we are saying the situation is actually rebounding, I think that this cost will be back. So the short answer is that I think the major part of this optimization we will see [only] in the second quarter. Although we need some optimization and that will also will have an effect in the mid-term as well, but it will be minor comparing with these reductions in rental and labor costs in retail.

**Inessa Galaktionova**

- I will take the second question regarding service revenue. Some clarification on that from our side. First of all, we have a pretty stable sub base. We see the healthy growth of ARPU due to penetration of higher tariff plans. On top of that, we see that, first of all, the churn is declining. And that's all in terms of trends.

One additional moment which I also mentioned in my speech: we see the trend that most of our second SIM consumers are refusing [cancelling] from a second SIM and turning to the MTS SIM card as their main and single one. That also drives penetration for our entire services.

**Slava Degtyarev**

- Thank you very much.

**Operator**

- The next question is from Alexander Vengranovich, Renaissance Capital. Your line is now open. Please go ahead.

**Alexander Vengranovich**

- Good afternoon. A couple of questions please. First one, how would you characterize the post-COVID situation on the mobile market? Obviously, Megafon [inaudible 41:36] the market share. Do you feel that in the third quarter the market remains pretty stable, more or less in line with what we've seen before COVID? Do you see negative signs of accelerated competition on the market? And the related question here: do you feel that there might be an opportunity to

adequately raise the prices again this year, like all the market players did in the first half of the year?

My second question is probably a follow up on the margin effects. Can you clarify the 1.7 billion positive impacts on OIBDA coming from the retail, where it exactly comes from? Did you pay any leases for the closed stores during the period? And if you optimized some of the costs, does that automatically mean that these costs will be still optimized in the third quarter this year? Thank you.

**Alexey Kornya**

- As for the competitive environment, we don't see any change in terms of intensity of competition. Overall, we can say it's a normal situation. We still feel the COVID impact in the market, which is reflected in roaming, as we mentioned already, and partially in the B2B segment as well. We cannot say yet that we are fully back to post-COVID. However, as I said, we see some recovery in terms of traffic distribution and we see some recovery due to easing of travel restrictions. We hope that by the fourth quarter we'll see more of a post-COVID environment. We do not see any particular opportunities currently for tariff increases, and, in particular, we've seen those already and we are more kind of pushing our customers to migrate to higher tariff plans due to growth in their consumption and as a part of our ARPU growth strategy.

**Andrey Kamensky**

- Answering your second question in terms of the breakdown of 1.7 billion positive impact on OIBDA coming from retail, I think it was driven by the closure of the stores in the second quarter. In terms of the breakdown, the major part of it is coming from the payroll and the rest from the rent and other related costs.

**Alexander Vengranovich**

- Basically if you reopen most of the stores in the third quarter that means that this positive impact will be lower. Did I understand that right?

**Andrey Kamensky**

- Absolutely.

**Operator**

- The next question is from Ivan Kim, Xtellus Capital. Your line is now open. Please go ahead.

**Ivan Kim**

- Good afternoon. Two questions from my side, please. First on the MTS Bank provisions in the second half. So far incremental provisions this year were about RUB 2.5 billion. Can you please provide maybe an estimate for what the incremental for the provisions will be in the second half of the year?

My second question is regarding capex. I think there was a previous discussion that some of your [inaudible 45:37] spending can be delayed. The question is whether the capex for the year can be lower than 90 billion. Thank you.

**Ilya Filatov**

- We think that the majority of the provisions we might have expected to build during the year have been already booked during Q2. Looking at the dynamics in July and August, we do expect

that in the second half of the year or for the full year numbers, the Bank should become positive at the level of the net profit.

**Andrey Kamensky**

- Yes. Coming to your second question about potential for capex, I mean the lower for the year, actually, if you [inaudible 47:03] any regulatory factors, they're minor. We see no changes because of that. As I mentioned in my speech, actually we continue to invest heavily in our network, which proved to be the right case during the pandemic. We do not change our plan for capex, as we mentioned before, which is RUB 90 billion for the year.

**Ivan Kim**

- Great. Thank you.

**Operator**

- The next question is from Evgeny Annenkov, Bank of America. Your line is now open. Please go ahead.

**Evgeny Annenkov**

- Good evening and thank you for the presentation. I have two questions, please. First is on the MTS bank. What outlook do you have for net interest margin for H2, given falling interest rates and also higher share of the impaired loans in your book?

Second, in your OIBDA guidance, do you assume any visible impact of higher share of your fixed revenue, given MGTGS generated close to 70% EBITDA margin. Thank you.

**Ilya Filatov**

- As we have mentioned, we do estimate that the majority of the provisions we are obliged to do or have been already booked during Q2 and we do expect net profit to become positive for the full year now.

**Evgeny Annenkov**

- Thank you. And what outlook do you have for net interest margin picking up for the margin of the Bank?

**Alexey Kornya**

- For your second question in relation to guidance, of course that includes fixed revenue. Maybe we didn't get fully the question, but of course that includes all revenues. We include all revenues in our guidance.

**Evgeny Annenkov**

- Thank you.

**Operator**

- We have a follow-up question from Ondrej Cabejsek, UBS. Your line is now open.

**Ondrej Cabejsek**

- Thank you. A short question, please on the fixed side in Russia. You saw some pretty good acceleration. Can you comment a bit on the outlook and how sustainable that growth rate is, potentially what the drivers are, et cetera? Thank you.

**Alexey Kornya**

- Acceleration in where? Fixed line?

**Ondrej Cabejsek**

- Yes.

**Alexey Kornya**

- Can you repeat the question? Sorry.

**Ondrej Cabejsek**

- My question is on the fixed line in Russia. You saw some significant acceleration. My question is how sustainable the current growth rate is around 5%, because I think a lot of your peers saw some acceleration as well. How sustainable that is from your view and what potential drivers contribute to that if yes or no. Thank you.

**Alexey Kornya**

- Okay, thank you. I think the growth rates for mid-single digits are sustainable for this year, and we expect to end up with them in the second half of the year, somewhere mid-single digit in fixed line.

**Ondrej Cabejsek**

Okay, thank you.

**Operator**

[Operator instructions]

- The next question is from Dilya Ibragimova, Citibank. Your line is now open. Please go ahead.

**Dilya Ibragimova**

- Hi. Thanks very much for the opportunity and congratulations for the strong results. My question is perhaps to Slava on the content strategy. Is their ballpark number that you are budgeting either at opex or capex on the content? I'm looking at exclusive content, specifically. Thanks.

**Vyacheslav Nikolaev**

- Yes. As we are starting with our media, we are quite conservative in our spend for the content. However, it is a part of our strategy. So we will invest and that is included in our guidance for this year. We would prefer not to disclose the figures, especially taking the COVID situation did impact this part of our business as well, content production.

**Dilya Ibragimova**

- Okay, thanks. Can I just follow-up on this. Does it tend to be more of an operating cost or capital investment? Thanks.

**Vyacheslav Nikolaev**

- No, there will be both, the significant part of that growth is in both opex and capex.

**Dilya Ibragimova**

- All right. Thanks very much.

**Operator**

[Operator instructions]

- We haven't received any further questions at this point. I hand it back to the speakers for closing remarks.

**Polina Ugryumova**

- Ladies and gentlemen, thank you very much for listening. If you have any further questions, we welcome you to contact MTS Investor Relations at any time. A webcast of this discussion will be available soon on our website if you wish to replay the call. In the meantime, we appreciate your interest in MTS and wish a happy rest of the day.

**Operator**

- Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may disconnect now.