

Edited Transcript of

Q2 2021 MTS Financial & Operating Results Conference Call

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MTS Speakers

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First VP for Telecommunications

Ilya Filatov

VP for Financial Services

CEO, MTS Bank

Andrey Kamensky

VP for Finance

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Goldman Sachs

Alexander Vengranovich

Renaissance Capital

Ondrej Cabejsek

UBS

Evgeny Annenkov

Bank of America

Presentation

Operator:

Please stand by. Good day, everyone, and welcome to the Mobile TeleSystems PJSC Q2 2021 Financial and Operating Results Announcement and Conference Call. Today's conference is being recorded, and at this time I'd like to turn the conference over to Polina Ugrumova, Director of Investor Relations. Please, go ahead.

Polina Ugrumova, IR Director:

Welcome everybody to today's event to discuss MTS Q2 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. This, in turn, implies certain risks, a more thorough discussion of which is 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 would also like to flag that we have added a few extra slides to the presentation. If you have dialed in by phone, we encourage you to also tune into the webcast. The supplemental presentation materials will be made available on our website following this call.

Today's presenters are:

- Slava Nikolaev, President and CEO;
- Olga Ziborova, Vice President for Ecosystem Development and Marketing;
- Inessa Galaktionova, First Vice President for Telecommunicationc;
- Ilya Filatov, Vice President for Financial Services and CEO of MTS Bank; and
- Andrey Kamensky, Vice President for Finance.

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. Overall, we had very strong headline results in Q2. We entered double-digit growth territory for both revenue and adjusted OIBDA. Moreover, we increased revenue by 10.6% year-over-year despite the ongoing challenges from the pandemic. While retail had an artificially low base due to store closures in 2020, all other segments saw a solid performance on a like-for-like basis. Together non-telecom segments contributed well over half of the Group's supply upside. This further demonstrates the progress we're making in diversifying beyond connectivity.

Our top-line results resonated in operating income. Fintech was the largest OIBDA driver, reaffirming the role MTS Bank has begun to play for us as a key profit center. We also saw a slight tailwind from roaming, which mostly reflected improved roaming terms with foreign operators. In retail, we experienced some OIBDA pressure due to margin compression and COVID-related OPEX savings in the year-ago quarter. Looking ahead, we see significant headroom for OIBDA accretion from both roaming restoration and retail optimization. Overall, strong performance in Telecom and even stronger in other areas.

Due to popular demand and the increasing importance of our ecosystem verticals, we will be gradually increasing transparency in segment reporting. On the slide, you can see the scale of our businesses for the first half of the year as well as revenue dynamics for the last 12 months. In Q2, standalone revenue grew more than 20% YoY in Retail, more than 30% in Media, more than 40% in Fintech, and speaking of rapid growth, we'll reach nearly 50% YoY growth in Cloud and Digital Solutions.

Turning to strategy, over the past several months, the MTS management team has conducted a comprehensive review of the Company. We've taken a deep dive into each of our businesses as well as looked closely at the market perception of valuation multiples in different sectors. We've reached the conclusion that many of our businesses are not appropriately valued by the market.

We are taking several steps to address that. First and foremost is improving the way we run the Company by ensuring each business has not only a fit-for-purpose business model but also the right management structure and level of market visibility. In terms of organization structure, on the one hand, our consumer-facing ecosystem verticals — Fintech, Media, and Retail — are already relatively clearly defined. On the other hand, we have extensive infrastructure assets that remain fully embedded within MTS.



Therefore, and in consultation with the board of directors, the MTS management has initiated the restructuring process whereby we will propose to the board the separation of our tower and certain digital infrastructure assets into distinct, wholly-owned legal entities. We are targeting the legal separation of both tower and network assets to be completed by early 2022, subject to board approval and subsequent approval at a General Meeting of Shareholders.

We firmly believe this change will have further improved business execution by delegating decision-making authority and enhancing management accountability. Moreover, formalizing cross-business relationships may help us improve how we measure ecosystem synergies and benchmark intergroup services against the market. Plus, improving efficiency by sharpening the focus of each leadership team. Over the longer term, the steps also have the potential to unlock significant value for shareholders.

Ultimately, we see that multiple MTS businesses are reaching sufficient scale to directly access the capital markets. Given MTS Bank's growth trajectory and successful track record, Fintech could be one of the first candidates for consideration.

A few more words on infrastructure. On the passive side, we believe the market has been getting closer to parity in terms of the scale of coverage, and there are signals it may be moving towards consolidation. In this environment, we think it makes sense to be opportunistic regarding our tower assets.

On the active side, the proposed infrastructure separation would combine our fixed-line, data center, and cloud assets into a 100% wholly-owned entity – MTS Web Services. We think this approach has multiple potential benefits.

First, in the context of the future development of edge cloud solutions, a standalone business that combines extensive network infrastructure with advanced cloud data capabilities could occupy an exceptionally advantageous market position. Second, speeding up our time to market in developing cloud business solutions. Third, incentivizing management to pursue external growth opportunities. Fourth, driving cost optimization for more efficient infrastructure management. Fifth, creating a pure play standalone provider of infrastructure services with long-term optionality for value crystallization.

If approved by our Board and shareholders, we will target MWS to begin business operations in early 2022. At the same time, the Company's spectrum licenses and overall traditional telecom business, including subscriber and customer relationships, will remain with MTS. Ultimately, we believe MTS Web Services can become Russia's leading private provider of next-generation cloud and network solutions.

I also want to be clear that at this stage, this is a management proposal. All of these plans are subject to board and shareholder approval. Moreover, from the customer's point of view, nothing will change. MTS will remain the core client-facing service provider. Looking ahead, our digital ecosystem remains our key strategic focus as we seek to drive overall customer lifetime value.

On that note, let me hand it to Olga Ziborova for an ecosystem update.

Olga Ziborova, VP for Ecosystem Development & Marketing:

I am happy to report in Q2 we saw solid performance across the ecosystem. Let me share just a few of the highlights.

Non-telecom revenue grew twenty-seven percent year-over-year, reaching around twenty-five percent of consolidated Group revenue. Ecosystem clients increased by fourteen percent quarter-on-quarter, reaching 7.4 million. We define "ecosystem clients" as customers who are actively and deliberately using at least two different MTS products or services. In addition,



average products per customer steadily increased in both Q1 and Q2, reaching 1.4 at the end of the reporting period.

The number of paid MTS Premium subscribers roughly doubled during the second quarter, following a shift to a paid-only model earlier this year. We are also seeing healthy dynamics in MTS Cashback, our loyalty rewards program.

Most importantly, ecosystem engagement is driving leading indicators for Customer Lifetime Value. For example, users of both MTS Premium and MTS Cashback have a three times higher NPS and eighteen times lower churn versus non-ecosystem clients.

In Media, viewership continued to climb — with active OTT streaming users up nearly three times year-over-year. And we are gaining good traction in content, with our KION Originals taking ten of the top fifteen spots for most-watched shows on the platform.

Turning to our service-based offerings. Our SME advertising platform, MTS Marketer, is experiencing robust sustained growth. Ad campaign revenue increased five times year-over-year in Q2. And externally, we have launched subscription-based pilot projects together with Lukoil in fuel retail — as well as with Daichi in residential HVAC.

With that, let me pass it to Inessa for a Telecom and B2B update.

Inessa Galaktionova, First VP for Telecommunications:

Thank you Olga.

In mobile, service revenue in Russia grew 5.3% year-over-year in Q2, reflecting continued growth in data consumption, as well as overall tariff dynamics. Moreover, our subscriber base continued increasing, reaching a level last seen in 2019. At the same time, international roaming revenue remained more than 60% below Q2 2019. Given the new virus variants and ongoing travel restrictions, we expect full-year revenue from international roaming to remain well below the roughly 10 billion rubles we realized in 2019.

In fixed-line, we saw very robust growth in B2C ex-telephony of around 12% — although roughly one-third of the delta came from an inorganic impact due to the consolidation of acquired wireline businesses. Excluding that factor, fixed-line B2C revenue ex-telephony grew 8.4% year-over-year organically. Overall, the fixed-line subscriber base ticked up to 4 million, and aggregate revenue was up just under 4% year-over-year.

Turning to B2B. Our Cloud & Digital Solutions business is firing on all cylinders, with revenue growing nearly 50% year-over-year in Q2. IoT likewise is performing well — subscribed devices increased more than a quarter versus the year-ago period. As Olga mentioned, marketing-as-a-service revenue was up an exceptional five times year-over-year. Additionally, B2G fixed-line revenue for socially important facilities was up 20% year-over-year. And we are continuing to make good progress in commercial private LTE.

I also wanted to highlight that in Q2 we closed the 100% purchase of Multiregional Transit Telecom. MTT operates Russia's largest platform for Telecom APIs, which are integrated into customer software products and services. This is a key strategic acquisition that greatly enhances our exposure to high-growth tech sectors like ecommerce and ride-hailing. At a global level, unified communications is a major growth segment for the telecom industry, and MTS is now the market leader in the space in Russia and well-positioned to capture incremental revenue going forward.

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



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

Thank you, Inessa. I am happy to report that in Q2 MTS Bank and Fintech overall delivered a very strong performance, successfully carrying forward our momentum from Q1. In terms of headline results for the first half of the year, MTS Bank net profit reached RUB 3.4 billion. Operating income before provisions increased by 50%. Our ROE reached almost 18%.

I'd also like to highlight three recent developments. First, in May MTS Bank issued debut bonds of RUB 5 billion, and the book was more than 4x oversubscribed. Second, we have now reached a level where digital channels account for the majority of the volume of personal loans and card acquisition. Third, in July we invested in Factorin, a leading blockchain trade finance platform, which will expand the financial services we can offer to B2B clients. In particular in receivables factoring and supply chain finance.

Turning to our growth drivers. The core retail portfolio grew nearly 60% YoY in Q2 before provisions, which contributed to the 22% YoY increase in net interest income for [the first] six months of the year. Moreover, net fee and commission income in the first half of the year more than doubled YoY to reach RUB 6 billion, contributing 40% of overall operating income before provisions.

Cost of risk for the retail loan portfolio decreased significantly YoY from 13.5% to 7.3% in Q2, which reflects the rapid pace of portfolio growth with retail cost of risk of the existing loan being significantly lower than the level provision for new loans. In addition, past due accounts remain at a comfortable level and the share of NPL declined to 7.5%.

MTS Group supports the bank's growth strategy. In Q2, an additional capital injection of RUB 4 billion was carried out. MTS Bank's capital adequacy ratios increased and we maintained a healthy safety margin above regulatory requirements. Overall, we are successfully achieving high growth rates in 2021. As the Bank has rapidly scaled up, we are seeing income increase to the level that we are now materially contributing to the profitability of MTS Group as a whole.

Vyacheslav (Slava) Nikolaev, President & CEO:

Supporting the spirit of transparency, we also wanted to provide a bit more color on our Media and Retail businesses. Looking ahead, our core focus is gearing those for long-term profitability. In Retail, that's mostly an OPEX exercise, while in Media it's also about carefully calibrating content investment, which we are keeping well under control, as you could have seen on slide 7 when we showed it.

In Media, we are successfully gaining traction following the launch of our event KION platform in April. In Q2, three months OTT viewers were up more than 11% QoQ, and OIBDA likewise saw healthy growth well into double digits YoY.

In Retail, we saw very robust sales of handsets and accessories in the reporting period. This in part reflected the low base from the year-ago quarter when many of our stores were closed in line with public health guidelines amid the pandemic. We're also seeing some OIBDA pressure due to the shifting brand mix in device sales. Consumers are increasingly shifting towards more premium brands, which have slimmer gross margins. In Q2, retail OIBDA after lease expenses and cost to obtain contracts amounted to minus RUB 1.4 billion, equivalent to an annual run rate of negative RUB 5.5 billion. We believe there is room for improvement there. We are targeting to bring that to a break-even level by year-end 2022. We recently appointed a new leader, Farid Kamalov from Detsky Mir, to help us sharpen our focus on retail efficiency.

Now let me hand it to Andrey for a financial update.

Andrey Kamensky, VP for Finance (CFO):

Thank you, Slava.

Group net profit for the quarter increased 46.5% YoY to RUB 17.2 billion. Net income growth was supported by higher profitability at MTS Bank, core operating performance as well as lower financing costs. In addition, there was a significant positive impact from the fixed and derivative operations reflecting the relative currency dynamics in Q2 2021 vs. Q2 previous year.

Now a few words on CAPEX and cash. Our CAPEX run rate remains on target with the guidance we provided earlier in the year. Free cash flow in the first half of the year amounted to RUB 16.8 billion. The decline vs. the first half of the previous year reflects multiple factors, including a significant negative YoY impact from acquisitions in 2021 and proceeds from the sale of associates in 2020. Combined, those two factors add up to a delta of around negative RUB 7 billion. In addition, historically, our CAPEX is skewed towards the second half of the year, while in 2021, we have budgeted investment to be spread more evenly between quarters. Taking these factors into account, we expect underlying cash generation to remain at a healthy level for the full year.

Turning to the balance sheet. Our gross weighted average interest rate slightly increased to 6.6%, which reflects the impact of the CBR key rate hikes on our floating debt instruments. At the same time, we feel very comfortable in terms of our overall debt position in terms of leverage and repayment schedule. Now, I will hand it back to Slava for his closing comments.

Vyacheslav (Slava) Nikolaev, President & CEO:

Thank you, Andrey. I will be really short. Given those solid results, I'm happy to report that we are upgrading our 2021 outlook to upper single-digit growth in revenue and more than 5% growth in adjusted OIBDA while reaffirming our CAPEX guidance of around RUB [100-110] billion. Finally, on shareholder returns, last week, we completed the full year 2020 dividend payments, and in July the board recommended the first half 2021 semiannual dividend. The combined expected total regular dividend payout in the calendar year 2021 comes to 37.06 rubles per ordinary share. We feel that this is a reflection of our robust performance as well as our confidence in our outlook going forward. With that, let me hand it back to Polina for the Q&A.

Q&A**Polina Ugryumova, IR Director:**

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. [Operator instructions] We'll take our first question from Ivan Kim with Xtellus Capital.

Ivan Kim, Xtellus Capital:

Good afternoon. Two questions for me, please. Sorry, if I missed that, but can you elaborate on the margin pressures in retail? You mentioned the shifting of the mix, which is an understandable factor, but there should be more than that since the margin was just 1.6% in the quarter. Just wondering whether it will continue? Or it's more of a one-off thing? And then, secondly, can you please elaborate on what drove MTS Ecosystem clients so much QoQ? Thank you very much.

Vyacheslav (Slava) Nikolaev, President & CEO:

On the first question, it is a great question. I would want to think that it's more than that. Majorly it is really a change of mix of devices. If you ask, whether it's going to change or it's going to keep the pressure on the margin, with our outlook and target that we have mentioned towards our retail, I believe that we are going to be able to change that mix and improve our margins in retail to a positive area even in old [IFRS standards] OIBDA.

On the second question, I'll take it too. It's actually a mix of different factors. One of them is a very good uptake of our Premium service. The other one is increased activity in CRM, where we allow our clients to get more for less, and at the same time, we see better connections to NETARIF [bundle tariff], which is also by definition a multiproduct solution. Neither of these is a single solution. It's a combination of factors.

Ivan Kim, Xtellus Capital:

Right. Thank you.

Operator:

All right, we'll take our next question from Henrik Herbst with Morgan Stanley.

Henrik Herbst, Morgan Stanley:

Thanks. Thanks very much. I had two pretty quick questions. The first one was just in terms of your separation of infrastructure. Did I hear it correctly that it was one tower company and one infrastructure with data centers? Or was it one with all your telecom infrastructure, basically? And the other thing was, did you say that you... are you just setting it up in a separate legal entity, or are you actually looking to get co-investors or looking at an opportunity to IPO or something like that? And then the second question is around CAPEX, which is up a bit, obviously, this year vs. the sort of run rate previous years. Maybe it's too early, but should we think about 2021 CAPEX as sort of a peak and a return to more normal levels from 2022? Thanks very much.

Vyacheslav (Slava) Nikolaev, President & CEO:

I'll take the first two questions. Then I'll hand it over to Andrey. On infrastructure separation, once again, it's two companies. One company is towers only. The second company is infrastructure plus data centers. These are separate legal entities, two separate legal entities. We'll see how it goes from now. Now, the main idea is to focus... to have more opportunities on the tower side, because we see this as a major trend. On the infrastructure company, the main idea is to focus on its development. Now our telecom technical block is considered to be a very traditional structure, and we see that this could really transform [itself to provide] the most modern edge cloud solutions. We have all the parts that, when put together, could bring us to a very good market position on that. On that again, we will probably be looking for different opportunities, but so far, the idea is to create this company.

Andrey Kamensky, VP for Finance (CFO):

I'll take the last question on the CAPEX. I'll just reconfirm what we said earlier this year that you're absolutely right, we see and consider this CAPEX this year as a certain peak, as a temporary ramp-up as we invest in our future, not a new run rate. We presume that we will come back to more or less comparable levels that we've seen before.

Henrik Herbst, Morgan Stanley:

Brilliant. Thank you very much.

Operator:

Our next question comes from Slava Degtyarev with Goldman Sachs.

Slava Degtyarev, Goldman Sachs:

Thank you very much for the presentation. A couple of questions. Firstly, what would be your current thinking over the long-term leverage levels for MTS? Are you aiming to stay at broadly current net debt to EBITDA level? Looking for certain moves here? And secondly, probably also a follow-up on with regards to the value crystallization. What would be the long-term consideration that you currently have in mind with regards to the maximization on the portfolio separation? Is it that you can see those long-term potential partners, you consider a partial sale of the business so you may consider 100% investment or the sale of the controlling stake? Or is it that you're optimistic, you're currently opportunistic across all of the options? Thank you.

Andrey Kamensky, VP for Finance (CFO):

I will take the first question. In terms of leverage levels, as we said before, we see 2 as a quite comfortable ratio of net debt to OIBDA. Currently, it stands at the level of 1.6. The covenant that we have is much higher than the levels that I mentioned, so we are in a pretty comfortable situation at the moment.

Vyacheslav (Slava) Nikolaev, President & CEO:

On the second question, it is too generalistic because it very much depends on the [subsidiary] company and on the general [market] levels, but we are looking at different opportunities now, and we don't want to tie ourselves to any of them. Of course, what I want to say is that the safety of our main business is one of the things that we are considering most important here.

Slava Degtyarev, Goldman Sachs:

Thank you very much.

Operator:

Our next question comes from Alexander Vengranovich with Renaissance Capital.

Alexander Vengranovich, Renaissance Capital:

Good afternoon. A couple of questions from my side. First, on the relaunch of the OTT video service last quarter. Are you satisfied with the general solidity of results in the launch? I've seen that the overall increase of the users QoQ was probably not that impressive, and the growth was really comparable with the previous quarters. I'm just wondering whether you see that as satisfactory and whether you plan, maybe, to increase the spending on the content, to accelerate it? Related question here: so you showed the profitability of the Media services — can you, please, remind us of the accounting of content spending for the Media services segment? Whether you capitalize it and depreciate it over time? And if that's the case, can you please roughly share with us the share of the CAPEX in the first half of 2021, which was, maybe, related to the Media services segment? That's probably all from my side.

Vyacheslav (Slava) Nikolaev, President & CEO:

Let me start with the first question. You know, we're never satisfied with the results. I think we can do better, but we have to understand one thing: KION, on the one hand, is deliberately launched under a new brand, and we think it's a very right thing going forward. At the same time, it takes time to get brands to be recognised by the client. We see that we have a very good reception of our originals. I think we took the right way of doing that. I expect this to grow faster than was shown in Q2. On the second question, and I didn't... maybe, you would probably help me to somehow understand it. Because, yes, we capitalize our content production, and we've

shown the amount of this production on the 7th slide of this presentation. This is it. Maybe if you want some more details, you could...

Alexander Vengranovich, Renaissance Capital:

Yeah, sorry for that. I found the cash CAPEX now on the 7th slide. That's okay. I just wanted to confirm that it is capitalized. Good. Then maybe like a sort of a follow-up question. When we look at the number of the MyMTS service app clients in Q2, I think there was a minor QoQ reduction of the active users. I'm just wondering whether it has any grounds behind it, or do you feel that the overall number of the users is a kind of close to the saturation? And it's probably the maximum level you're expecting it to be overall in the future.

Vyacheslav (Slava) Nikolaev, President & CEO:

I can tell you got me worried for a second. Where did you find it?

Alexander Vengranovich, Renaissance Capital:

When I look at the... I think, in Q1, the number of the My MTS app monthly active user was roughly around 24.6 million customers, if I'm correct, and in this quarter, it was roughly around 24.5 million. I'm just wondering whether it has any grounds behind it. If I am correct.

Vyacheslav (Slava) Nikolaev, President & CEO:

It's generally flat. Frankly speaking, the most important part here is that when we've been discussing MyMTS numbers several quarters ago and over the years, we said that we were expecting it to plateau at some point. I'm not sure that we've got to that point yet. We see that the majority of people who use smartphones already have MyMTS. You have to understand that if people use several SIM cards, they usually use My MTS on one of their devices. In these terms, this could be multiple... we have multi-users, and we don't count them as multi-MyMTS-users. In these terms, we're pretty happy with our current number of users. I see that with the development of the content of this application, we are going to see additional growth. For example, we have two teams working on the Fintech part of My MTS, and we expect more clients from this side in the following quarters, too. It's going to grow further. I don't see anything ominous in those figures, and I see that our subscribers are very happy with MyMTS, which is usually showing in NPS.

Alexander Vengranovich, Renaissance Capital:

Good. So, based on what you say, I'm reading that in a way that these roughly 25 million My MTS users probably represent the majority where they are close to 100% of the smartphone users on the MTS network... true unique smartphone users on the MTS network, right?

Vyacheslav (Slava) Nikolaev, President & CEO:

That's not what I said. Sorry.

Alexander Vengranovich, Renaissance Capital:

Thank you.

Operator:

Our next question comes from Ondrej Cabejsek with UBS.

Ondrej Cabejsek, UBS:

Hi, thank you for the presentation. I've got two questions and two follow-ups, please. The first question on the Bank. First of all, you mentioned last quarter that there may be a need for some kind of equity injection, potentially next year. With the Bank doing so much better now, is that still a potential consideration? And then also, is there any space for potentially reversing some

of the provisions that you made last year at the Bank? The second question would be: you mentioned a couple of minutes ago that in terms of margin improvement, that could be done via ongoing retail optimization. In the previous quarter, your comments around retail were that you don't actually see in the short term too much space for doing that. If you could please clarify where we are? And I'll leave the follow-ups for later.

Andrey Kamensky, VP for Finance (CFO):

I will take the first question here because, as a shareholder of the Bank, we're quite comfortable and happy with the level of growth that we see in the Bank and the level of risk that remains at the very comfortable levels. As a shareholder, we're ready to support, and we already did this in the first half of the year, and we are ready to support the Bank in its growth further. That would be our position.

As a follow-up to this first question in terms of reversal of the provisions, we see a very positive dynamic in terms of provisions. The provisions that we made... we don't estimate any substantial reversal of them provided the current policy of the Central Bank and the regulations impact on us.

Vyacheslav (Slava) Nikolaev, President & CEO:

Again, on Retail, we see that our margin improvement could be reached even on the current number of stores. We are planning to optimize not the number of stores but their positioning and product links within the stores and services within the stores, including, of course, not only hardware provision. Generally, as we put this before, we are in a very competitive market, and we are always ready, and we are still ready to go down. We don't see enough movement from other sides. I can tell you, I would be very happy to move in this direction, but I don't see any signs of that. So far, we've decided to go in a different direction. Frankly, I'm very confident that we can reach the goals that I've already mentioned regarding retail.

Ondrej Cabejsek, UBS:

Thank you and the follow-ups that I had for the previous questions. The first one with respect to the leverage you keep mentioning, two times, it seems and, correct me if I'm wrong, that it is becoming more of a target than a comfort level?

Andrey Kamensky, VP for Finance (CFO):

Not actually. The question was actually what kind of comfortable level that we see. That was the answer for that. We don't see it as a target. No. You can see the current levels.

Ondrej Cabejsek, UBS:

Thank you. The second follow-up, if I may, just on the infrastructure. I know, you said you don't want to, you know, close any avenues or talk about this in too much detail. But if you had all options open on the table, talking specifically about the towers, I guess... because I think you made it clear that the Fintech and the infrastructure are businesses that you see more of potentially as IPO and value unlock targets... but in terms of the towers, if you could create a list of preferences between completely selling them, on the one hand, and, on the opposite hand, sharing both active and passive elements of the towers with one of your competitors, for example, and all of them are going through similar reviews, what would be the preference of the management today?

Vyacheslav (Slava) Nikolaev, President & CEO:

You know, the point is that we even started an internal discussion here because we are taking the opportunistic position here. We are looking at different options. There are many of them. I wouldn't say that we had a list of preferences, I don't know. But it would be very theoretical and

could be perceived wrong. I wouldn't be able to answer this question with a preset list of preferences.

Ondrej Cabejsek, UBS:

All right. Thank you very much.

Operator:

As a reminder, everyone, that is *1. We'll take a follow-up question from Ivan Kim with Xtellus Capital.

Ivan Kim, Xtellus Capital:

Thank you for the opportunity. Just two more questions. On MTT acquisition, can you maybe give us some color on what sort of growth you expect from MTT and, probably, generally, from your virtual PBX business? That's the first question. The second question is, as well, on leverage: so your pre-IFRS leverage is now 2x including the dividend payments that you're going to make this year. Your leverage including leases is 2.5x. I'm just wondering, do you perceive that as an issue at all, or you will be comfortable to move to 2x based on your leverage definition, which is 1.6 currently? Thank you.

Inessa Galaktionova, First VP for Telecommunications:

I will take that first question on MTT. When we were closing the deal, definitely, we had a strategy. One part of the strategy was based on the basic products, virtual ATS [PBX], which is actually growing organically, and we do expect some single- or, in the good period, in a good forecast, it could be double-digit figures. The main strategy behind buying these assets was to have very big growth on Telecom API, and here we do expect very big growth. It will depend on how quickly we will be introducing new products on the market and using the well-established B2B channels to bring that product on the market and to our clients. Here we actually expect very big growth, so we'll definitely keep you informed in our next reporting.

Andrey Kamensky, VP for Finance (CFO):

Ivan, and on your second question, of course, just to clarify. I mentioned our current definition of leverage, which is 1.6, so in these terms, I said that the comfortable level is around 2.

Ivan Kim, Xtellus Capital:

Thank you.

Operator:

All right, we'll take the next follow-up from Alexander Vengranovich with Renaissance Capital.

Alexander Vengranovich, Renaissance Capital:

Thanks. In your presentation, you mentioned that ecosystem clients and those clients that use multiple services have multiple lower churn against the average client of MTS. I'm just wondering how big, maybe if you can do it in providing colour, how big is the overall churn reduction YoY in Q2? And if you can, can you please quantify any financial impact, for example, on selling expenses, which you've already seen in Q2, for example, from the churn reduction YoY? Again, no matter the reduction of the new SIM cards sold, from optimization of the staff. Anything that you can share. How does this churn reduction on the existing clients really help you to save on some of the expenses? This will be helpful. Thank you.

Vyacheslav (Slava) Nikolaev, President & CEO:

We are not calculating exactly all the time, because it's a very... I think I tried to explain it when we reported the results of Q1 that is a very tricky figure because when you connect them to

another service, you see that the churn is going down, and you can attribute it to a new service or telecom increase. Generally, what I wanted to say is that, first of all, the major impact could be seen in telecom growth results, which we've shown separately, too, and you can see that it's now traditionally better than many of our competitors. But there is no exact figure... in Q1, we calculated that more than 50% of telecom growth was attributed to multiproduct and ecosystem client effects. This is generally it, but again, this is a very, very vague figure. I wouldn't put a pin on it.

Alexander Vengranovich, Renaissance Capital:

Got it.

Operator:

We will take our next question from Evgeny Annenkov with Bank of America.

Evgeny Annenkov, Bank of America:

Hi, good evening, and thank you for the presentation and opportunity to ask a question. I have just one. Could you please provide some updates on the regulation? First, on 5G potential spectrum allocation and roll-out model, if any update with consortium model or doing it on a standalone basis. The second one is on 4G spectrum licenses renewals in Russia that are expiring and potential requirements that could be linked to it, like rural coverage of federal roads coverage. If you could please provide any update on the discussions with regulators. Thank you.

Vyacheslav (Slava) Nikolaev, President & CEO:

On 5G, nothing major really happened during the last three months except for the news that you've probably heard about localization, but we've expected them. In terms of the consortium model, let it be put this way: I am optimistic. I always believed that this problem could be solved only with the help of mutual efforts, and I'm optimistic that this is being solved in the right way. On the second part, we'll see how it will be officially going forward but I think there will be some links. I think it's already public. I don't see this as major news. But again, according to the way it's being discussed, I don't think it would put any major pressure on our CAPEX or cash flow. It seems reasonable. It's a 10-years license agreement. It looks very reasonable.

Evgeny Annenkov, Bank of America:

Thank you so much. Any potential KPIs and spendings from your side will be also potentially spread over by 2030, or something like that, not immediately in 2-3 years?

Vyacheslav (Slava) Nikolaev, President & CEO:

And in addition to that, I can tell you that the government actually expects us operators to cooperate on this matter. They are really looking... as I see it, they put significant efforts to help us with that, including some negotiations with the energy companies and local governments. It seems that this time, it might be a positive thing. And yes, it will be spread over the next 10 years.

Evgeny Annenkov, Bank of America:

Thanks so much.

Operator:

And there are no further questions. I'd like to turn the call back over to Polina for any additional or closing remarks.

Polina Ugryumova, IR Director:



Thank you. We have one question coming [online] from a journalist that is about our plans related to potential additional buybacks: if you have any plans to launch a new buyback before the end of this year?

Andrey Kamensky, VP for Finance (CFO):

For this year, we actually finalized the buyback program that we run, and we don't have any plans to have another program until the end of this year.

Polina Ugryumova, IR Director:

Operator, do we have any other questions online?

Operator:

No, there are no further questions at this time.

Polina Ugryumova, IR Director:

Thank you very much, ladies and gentlemen, for listening to this call. 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. Thank you.

Operator:

And that does conclude today's presentation. Thank you for your participation. You may now disconnect.