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MTS Speakers

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Presentation

Polina Ugryumova, IR Director

Welcome everybody to today's event to discuss MTS's third-quarter 2020 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 — including related to the COVID-19 pandemic — 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.

As always, you can find our press release and presentation for this call on our IR 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.

I will begin with the headlines and highlights before handing it over to Slava and Inessa for ecosystem and telecom updates. Ilya will then give some color on MTS Bank and Andrey will go over Group financials. Then we'll wrap for questions.

I am very happy to be able to report that MTS has once again delivered another set of solid results for Q3 2020.

For the quarter, Group Revenue grew 4.9% year-over-year to reach 129 billion rubles. We delivered balanced growth in both telecom services, as well as new segments beyond connectivity — with all four of our verticals contributing. Moreover, Fintech, Media, and Cloud & Digital Solutions combined outpaced connectivity to deliver more than half of the total upside.

Group adjusted OIBDA was likewise up a solid 3.3% year-over-year to reach over 58 billion rubles. The increase was primarily driven by service revenue, OPEX savings in retail, as well as a positive contribution from banking services.

Overall, I am encouraged by our robust year-to-date performance — especially given the volatility and challenges amid the COVID-19 pandemic. Encouragingly, in Q3 we saw many of the headwinds begin to ease. Our stores in Russia mostly resumed normal operations, and MTS Bank returned to profitability amid a relatively more stable macro environment.

At the same time, challenges remain — most notably the decline in international roaming — but also the overall higher level of economic uncertainty, which could put additional pressure on our segments most exposed to the macro cycle, in particular B2B and financial services.

We also continue to make progress on our transformation plan. Let me give you a few of the recent highlights. In AI, we announced a new position for Vice President for Artificial Intelligence. And we are happy to have a proven leader in the sector, Alexander Khanin, joining MTS to take on the role. In Cloud, we recently launched a major new Tier-III modular data center outside St. Petersburg, and we've strengthened partnerships on next-generation technologies, such as teaming up with Canonical to deploy Charmed OpenStack. In 5G, we continue to engage with key stakeholders on defining the path forward in Russia. And we are partnering on pilot projects to strengthen our position ahead of the future commercial rollout.



Overall, we continue to execute at pace on the CLV 2.0 strategy that we laid out for you a year ago. As you recall, there are two fundamental pillars: first, be the best telecom in Russia, and second, capture digital upside. Today, we are more confident than ever that we have a strong foothold to catch some of the digital wave.

With that, I will hand it over to Slava, who will give a customer experience and ecosystem update.

Vyacheslav Nikolaev, First VP for Customer Experience, Marketing, & Ecosystem Development

- Thank you Alexey, and good afternoon and good morning to everyone joining us.

2020 has been an unprecedented year for digital uptake — both globally as well as for MTS. Overall, we're making good progress against many of the KPIs we track closely. Let me share a few.

First and foremost, we've now reached more than 6 million multiproduct users. These are customers who are consuming more than one service across telecom, media, and fintech. For reference, that's a bit under 10% of the size of our overall mobile subscriber base. And going forward, we see significant potential to increase that penetration further.

In Q3, we also saw surging adoption of our loyalty program — MTS Cashback — with registered users more than doubling year-over-year to 8.4 million. And we continue to gain traction with our MyMTS app — with monthly active users up around 20% year-over-year. Digitizing customer care not only helps boost cost efficiency, it also provides a highly effective channel for targeted marketing.

In the high-value segment, we're off to a good start with our MTS Premium ecosystem bundle, which we launched over the summer. Today we have over 4 million users, keeping in mind that includes those who automatically qualify by passing a spending threshold. And we're seeing robust uptake — engagement had already reached around 20% of total users by the second month after launch.

Turning to MTS TV, we are seeing very robust net adds. In Q3, we gained additional impulse on top of the already solid momentum from Q2. Viewership was up by 700,000 — a 15% quarter-on-quarter increase. And breaking that down further it's even more impressive. In OTT alone we saw exceptional 50% growth in users quarter-on-quarter. So we're moving at full force to capture some of the in-home entertainment market.

At MTS Bank, our customer base remained stable despite economic volatility. We've also recently taken some steps to revamp our mobile banking app to provide a more full-featured and user-friendly experience. At the end of Q3, we had nearly 1.1 million app users.

We're also pivoting our marketing approach, allocating over half of our spend toward bundle and ecosystem offers. And we see encouraging signs we're successfully winning mindshare. According to our consumer brand tracking, we are perceived as a top-3 ecosystem player among leading Russian tech and financial companies. We think that's a very promising leading indicator.

Finally, we're also making progress on revamping our app library — which we develop largely in-house. We are adding modular login and payment modules to more than 10 of our apps. This



significantly enhances the user experience by providing a more consistent interface across our app portfolio.

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

Inessa Galaktionova, First VP for Telecommunications

Thank you Slava.

Q3 was another strong quarter for MTS in core connectivity.

Let me start with mobile. Wireless service revenue accelerated from Q2 to reach a solid 3% growth year-over-year. Notably, we successfully bridged the gap that resulted from the loss of international roaming due to pandemic-related travel restrictions. That's particularly impressive given roaming seasonality, and we believe reflects the strong underlying performance of the business.

Looking ahead, Q4 is historically a light quarter for travel. So we expect to see roaming headwinds ease through the end of the year. Furthermore, the anticipated upcoming vaccine rollout gives us some cautious optimism that roaming may begin to recover in the new year.

Turning to the mobile customer base. In Q3, three-month subscribers in Russia rebounded to 78.2 million as retail operations fully resumed. That's a bit below the pre-COVID level, which in part reflects the ongoing impact on migrants, tourists, and visitors. Most importantly, we continue to see healthy dynamics in our high-value base. These are loyal subscribers who have been with us for 12 months or longer. We also continue to refine our tariff structures in line with evolving market conditions. For example, we are encouraging customers to migrate away from archived unlimited plans by offering new tariffs with generous data caps at an attractive price point.

So overall, we feel good about our mobile revenue and subscriber performance in Q3.

Turning to fixed-line. In Q3, we enjoyed robust dynamics and we closed the quarter with revenue up 1.7% year-over-year. Excluding telephony — which is in secular decline — fixed-line revenue was up a solid 5.4% year-over-year. Encouragingly, we carried our Q2 momentum forward in consumer broadband, with net adds holding steady at around 100,000 quarter-on-quarter. We expect home connectivity growth to continue, and we see this as a powerful tool in cementing customer relationships.

On the retail side, foot traffic returned to healthy levels in Q3 following the decline we saw in Q2. That supported sales of devices and accessories, which were up nearly 3% year-over-year. That said, uncertainty remains as the epidemiological situation continues to evolve — which could impact consumer spending during the holiday season.

In ecommerce, we saw exceptional performance, with online sales up more than 75% year-over-year. And we recently reached a major milestone by becoming the first Russian operator to launch eSIMs nationwide, with a fully remote authentication and activation process.

Finally, turning briefly to the B2B segment. 2020 has been the year of digital acceleration, and in Q3 we continued to see robust demand for next-generation services. Overall revenue in our Cloud & Digital Solutions vertical was up 24% year-over-year. Our cloud business alone saw more than 80% revenue growth, with solid double-digit performance in IoT as well. Finally, in B2G revenue was up an impressive 22% year-over-year. That was largely driven by major contracts to bring social facilities online. These projects not only make good business sense,



they reaffirm our commitment to bridge the digital divide and help improve access to high-quality connectivity.

With that, let me hand it to Ilya for a banking and fintech update.

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

- Thank you, Inessa. The third quarter proved to be a period of recovery in Fintech following the negative impact from the pandemic, despite the ongoing market uncertainty. As we previously discussed, the Russian banking industry faced a steep decline in demand for credit products at the beginning of Q2. However, in early May the industry saw early signs of demand recovery and by July had returned to pre-crisis levels. Consumer loan issuance by MTS Bank had fully recovered by the end of Q2.

Over the past year, the Bank's assets grew 14.6% to reach 203.4 billion rubles, with the total gross loan portfolio up 26% and the gross retail loan portfolio in particular up 34.4% to 107.2 billion rubles. During the pandemic loan portfolio growth slowed. In Q2, the gross retail loan portfolio of MTS Bank increased 1.2%, while in the third quarter we saw growth accelerate to 8%.

Net interest income in the first 9 months of 2020 increased 37.4% to 11.3 billion rubles, reflecting loan portfolio growth. Overall net income for the nine-month period amounted to 251 million rubles versus a net loss for the first half of the year of 924 million rubles due to substantial loan provisions.

Cost-of-risk for the overall loan portfolio came in at 4.6% — significantly below the 11% seen in Q2. The decline in cost-of-risk reflects the high base from loan loss provisions booked during the second quarter, as well as the normalization of the macroeconomic environment in Q3. The share of non-performing loans in the retail portfolio was 10.9% versus 8.1% in the second quarter. However, the Bank continues to maintain a conservative approach to provisioning with NPL coverage standing at 124%.

In terms of capitalization, we remain at a comfortable level. Our N1.0 consolidated regulatory capital adequacy ratio was 13.5% as of October 1st, which provides a moderate cushion in capital reserves versus the minimum regulatory requirements of 10.5% including buffer.

We are consistently executing on our strategy with a focus on developing digital channels and adhering to a conservative risk management policy. As a result, we are confident the bank will record positive net profit for the full-year, while achieving operational and financial growth.

Now let me hand it to Andrey for Financial update.

Andrey Kamensky, VP for Finance

- Thank you. Overall, in Q3 Group Adjusted OIBDA increased 3.3% year-over-year to reach over 58 billion rubles. Growth was achieved despite the steep decline in international roaming revenue, which is margin-accretive for us.

OIBDA was supported by higher telecom service revenue, as well as OPEX savings from our retail optimization actions. On that note, we also want to remind investors that we saw a strong contribution to OIBDA from retail at the end of last year, so looking ahead we expect this factor to moderate in Q4 2020 on tougher comps.

Group net profit increased 2.3% year-over-year to 18.8 billion rubles. Net profit growth was constrained by the non-comparable base from discontinued operations in Ukraine. At the same time, this was more than offset by positive impacts from core business performance as well as lower finance costs.

Now a few words on CAPEX. We continue to invest heavily in our network as well as in new digital growth areas. In the first nine months of the year, Group Cash CAPEX amounted to 63.7 billion rubles year-to-date — equivalent to a ratio of 17.4% to sales. In addition, recent FX trends have driven our CAPEX spending higher in ruble terms since a large portion is allocated toward radio equipment priced in foreign currency. As you recall, we have a longstanding practice to proactively manage FX exposure through derivative instruments. Given the ruble dynamics this year, we have seen a net positive cash contribution from the expiration of derivative contractions for this purpose. When adjusting for this positive effect, our full-year 2020 CAPEX guidance remains unchanged at around 90 billion rubles.

Turning to free cash flow. Recently, we have received some feedback about how we report this metric — in particular given the increasing importance of MTS Bank. In the banking sector, free cash flow is not widely recognized as a particularly meaningful indicator. Moreover, MTS Bank funding and lending operations have produced substantial fluctuations in Group free cash flow over certain reporting periods. Internally, we have always tracked core cash flow as a key reference in recommending our regular dividend payout. Therefore — in the interests of transparency — going forward we will be reporting free cash flow excluding the bank.

On this basis, Group free cash flow ex-Bank amounted to 54.2 billion rubles in the first nine months of 2020. This was down 5.3 billion rubles year-over-year when also excluding the SEC/DOJ payment in Q1 2019. We believe this represents robust cash generation given the non-comparable base from 2019, which included a contribution from our former operations in Ukraine. Free cash flow in 9M20 was supported by relatively stronger core performance in continuing operations, as well as lower financing and tax payments versus the year-ago period.

Finally, turning to the balance sheet. Over the past few years, we have established a solid track record in delivering material gains by bringing our borrowing costs down. In Q3, our gross debt weighted average interest rate dropped to 6.6% — a decrease of nearly 120 basis points year-over-year. And we continue to take actions to optimize our debt portfolio.

To conclude, our strategic stance in financial management is simple: a strong balance sheet, methodical capital allocation, and robust cash flow.

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

Alexey Kornya, President & CEO

- Thank you, Andrey.

Overall, we're managing well across both core telecom as well as our three verticals beyond connectivity. In 2020, we've not only risen to the occasion operationally, we've accelerated our digital transformation strategically. And we are seeing that reflected in our results.

In light of our year-to-date resilience, solid financial performance, and increased visibility toward year-end 2020, we are upgrading our full-year guidance to revenue growth of at least 3% [from flat to 3%] and flat to 2% growth in Adjusted OIBDA [from -2% to flat], while maintaining our Cash CAPEX guidance of around RUB 90 bn, when including the effect from derivative instruments.

Turning to shareholder remuneration. We've now completed our regular dividend payouts for the year — we slightly outperformed our policy target and delivered a total of 29.5 rubles per ordinary share. We're also on track to complete our 2020 buyback program of around 15 billion rubles. All told, this year we are returning over 100 billion rubles to shareholders — setting a new record for MTS.

Finally, as one of Russia's leading public companies we are committed to close engagement with the investor community. That's why we were particularly proud to have been named the best executive team in our sector across the broader EEMEA region in the 2020 Institutional Investor survey. In addition, Andrey, Polina, and I were also recognized as #1 in our individual categories. We appreciate your support, and we look forward to continuing the conversation in 2021 and beyond.

So to sum up. We've navigated through challenges. We're moving forward on our growth strategy. We delivered in Q3. And we're well-positioned to deliver a solid close to the year.

With that, let me hand it back to Polina for Q&A.

Q&A

Polina Ugryumova

- Thank you, Alexey. Thanks to the rest of the speakers. As we take questions, please be aware, there may be a slight delay for translation. Operator, with that, let's open up the line for questions.

Operator

[Gives instructions]

The first question is from Ondrej Cabejsek, UBS. Your line is open.

Ondrej Cabejsek, UBS

- Hi everyone. Thank you. Congratulations on the results. I have a couple of obvious questions before I get back in the queue. I was wondering, in terms of the mobile service revenues, you've highlighted that most of the headwinds that you've faced so far are sort of going away now. I was wondering more about the competitive situation on your plans to increase prices, as we've come to expect in the first quarter. One of your competitors who's reported so far was highlighting a sort of mixed message in terms of currently there being more competition in the market, but at the same time, it being a rational expectation that the market as a whole, again, goes through another round of repricing in the first quarter. Your views on that, please? That's my first question.

Second question. In terms of the store count, you clearly are still managing the overall numbers. Are you ready at this stage — with stores actually opening up, but you closing them further — to give more color as to what you expect in terms of closures for the near term. And related to that third question, please, in terms of EBITDA guidance. If I just look at the swing in your EBITDA guidance today versus what we've seen so far, it implies more than what you expect on the top line in terms of guidance changes. I was just wondering, where the assumption of improved profitability versus what you've seen so far is precisely coming from? Thank you.

Alexey Kornya

- Ondrej, thank you. I'll take the first and third, and Inessa will answer the second. As far as overall competitive environment. We see it relatively stable. We don't see major challenges. However, it is worth noting that VEON is being quite active in reducing prices in some regions, recently. However, we don't see it as a major change in the overall competitive landscape and overall pricing policies. I would like to note these developments in the market recently. And taking those developments, we remain relatively positive towards the overall competitive situation going forward.

Speaking about our guidance, it accommodates for our understanding of the competitive environment, as well as some macroeconomic and other potential volatility. Here we use our traditional approach to revise guidance only in the period when we have enough visibility toward the end.

Inessa Galaktionova

- Regarding retail, we're not changing our approach towards retail optimization. We are looking and watching carefully at the situation on the market. We're definitely not planning to reduce additional shops by the end of the year. For the year, we closed 600 shops, which we reported during the Q2 results. 'Til the end of the year, we don't have any plans to reduce it further. At the same time, we'll definitely see how the situation is going to develop. In case we see some elements and opportunity to reduce next year, we'll definitely do that because we're pretty healthy and pretty happy with our sub base development. If there will be volatility and a necessity on the market, we'll do some optimization, but then we would just inform you next year.

Ondrej Cabejsek

- Thank you for that. Can I have just one short follow-up? Is there an explicit answer that you can give us in terms of your specific approach as we get very close to 1Q? Is it your plan currently to go through repricing again? As we saw in the past couple of years.

Alexey Kornya

- Well, if I understood correctly, your question is about our plans for repricing. I think, taking recent pricing developments and overall approach, it is too early to give any guidance for our repricing approach strategy over the next year.

Ondrej Cabejsek

- All right. Thank you very much.

Operator

- The next question is from Ivan Kim of Xtellus Capital. Your line is now open.

Ivan Kim

- Can I please dwell on the same subjects, more or less? First, on the retail optimization. Who in particular are you watching now? Because it looks like that the rest of the market is ready to optimize. Svyaznoy optimized quite a bit. Is it not vice versa that the market is watching you going forward? That's the first question.

Then the second question is about pricing but from the different standpoint, from a regulatory standpoint. The Federal Anti-monopoly Service was a bit more active, recently asking Tele2 to

retract what they did in May with a price increase. Do you think they could increase or be a factor again, or any future actions that you may take? Thank you.

Inessa Galaktionova

- I will take the first question regarding the retail optimization. To be honest, we are not watching the steps our competitors are taking, because we are leaders on the market. We are watching how traffic develops because we did see that during the summer it recovered after Q2. Now we see that there are some changes in the traffic. It's slowing down, and definitely we have some targets in terms of sales. So definitely that depends on the market situation, not on the movements of our colleagues. That relates only to the retail optimization.

Alexey Kornya

- As for the antimonopoly authorities, is there a risk for pricing, price upgrades? It is a factor. It would be nice to say that they have no influence over the overall pricing environment and situation. We are watching, but I would say that the overall competitive environment is a bigger factor than regulation, at least in pricing policy. We have not seen FAS being the major limitation towards reasonable pricing in the market, but rather the overall competitive situation and competition; we have four aggressive players on the market. That's been the major factor for overall pricing policy.

Ivan Kim

- Thank you very much.

Operator

- The next question is from Alexander Vengranovich of Renaissance Capital. Your line is now open.

Alexander Vengranovich

- Good afternoon. Two questions from my side on the consistent development. First one: can you explain the accounting of MTS premium subscription revenue? Is it split between the different segments. I want to understand how much goes into mobile and how much into the other segments. And the second question: what sort of target penetration of the different ecosystem segments do you have in mind within your five years' strategy? For example, I'm talking about MyMTS app, cashback, banking solutions. Whatever you can share, thank you.

Vyacheslav Nikolaev

- For the first question, we do not disclose the allocation of premium revenues into different services. But I can tell you that the methodology of doing that reflects the actual usage of those advantages that are being given to subscribers. So it's natural and it doesn't redistribute the natural flow of revenues. As for the second question, we can say that we were anticipating having 10 million subscribers in Fintech and 10 million subscribers of our Pay-TV. These are our main targets for the nearest strategic period, as well as at least 40% of our subscribers [should become] ecosystem subscribers.

Alexander Vengranovich

- Okay, thank you.

Operator

- The next question is from Henrik Herbst of Morgan Stanley. Your line is now open.

Henrik Herbst

- Hello. Thanks very much. I've got a few questions, actually. Firstly, I just want to ask you about your mobile service revenue trends, which do indeed look very strong. I mean, I guess you've got about the three percentage points, I think headwind from roaming, which means that you've got underlying service revenue growth of 6% on a subscriber base that is flat or slightly down year over year. I'm just wondering what's driving that. Are you seeing any benefits from COVID in terms of more data usage, etc.? Should we think about that as a sustainable underlying rate? As we go into Q4 and I guess 2021, depending on roaming, could you see 4 to 6% service revenue growth?

Then I also wanted to do a follow-up on the non-performing loans. It sounds like you're pretty confident in the business and that's sort of temporary... Can you maybe give some more insight into what's driving the increase in non-performing loans and how you can feel so confident that the trend is going to reverse?

Then, the last point, I guess, is in terms of your portfolio of assets. There's been a recent speculation in the press that you were looking at adding onto a bank business. I know, I probably can't talk about individual potential deals, but more generally, how do you think about your assets portfolio and where do you see any gaps? Can you streamline your portfolio? Any thoughts on that? Thank you very much.

Inessa Galaktionova

-Henrik, thank you for your questions. Actually, by asking your first question you almost answered for me. First of all, we managed to close the gap of roaming by very strong sub base who is definitely penetrating and using more data. ARPU is growing. Also, during that time our customers were really focused on the client service because during this period it was very important to have very good quality of the service mobile and fixed. These are actually the main elements. And also, as you remember, we made some price increase at the beginning of the year that also helped slightly in Q3 by closing this gap driven by international roaming.

Ilya Filatov (translated)

- We do not see any significant risks related to rising NPL, as we have even further made more strict our policy for building provisions. As we have already mentioned, our coverage ratio currently stands at 124%.

Alexey Kornya

- The third question relates to bank specifically, how we see the difference of our bank portfolio with the TCS Group, if I got this right. Right?

Henrik Herbst

- Yes, but also more generally, thank you.

Alexey Kornya

- In terms of financial services, I think we see that their focus and their active side is mostly in credit cards, while we are particularly strong in point of sales general credit. In terms of portfolio, we're different. And overall, TCS, in our view, is a financial service group. We are not viewing

them as an ecosystem because they are predominantly focused on one industry — the financial sector — while we view ourselves as being in at least three industries actively. In this sense, we have a more diverse portfolio in our product mix.

Henrik Herbst

- Thanks so much.

Operator

- The next question is from Sunir Radj Rofal, HSBC. Your line is now open.

Sunil Rajgopal

- Hi. I would want to check on what are the company's plans in terms of CAPEX for next year are, especially with 5G coming in. What is your perspective on that? And, secondly, what are your thoughts around the next key growth areas that you see outside of data & voice? Thank you.

Andrey Kamensky

- The answer to the first question in terms of the CAPEX for next year, I think, it's too early to share, but of course, you know the factors that can be behind that. In terms of 5G, nothing actually to share so far for now, it is not in the plans.

Alexey Kornya

As we are talking about key growth areas, I think, you can pretty much [get] that from our strategy, because when we talk about digital upsides, our strategy refers to the areas where we see potential for growth and development, growth of ARPU and loyalty for our customer base. So we are focusing on three segments or three markets which are beyond connectivity and beyond traditional telecom. These are [1] financial services, and we see that financial services are going through a major transformation. There is an upside. This is particularly in some consumer finance and daily usage of financial services for B2C segment. Then another segment is [2] Media, where we see also a major transformation in the way how the content being consumed this moving on. Here we also see the opportunities. And in the [3] cloud services and then particular cloud businesses, including Internet of Things solutions platforms inclusive some B2G segment is being the fourth area where we expect to see growth. These are all in our strategy and we focus on that. We still believe that telecom in Russia is a growth sector and we see potential for growth in this sector as well.

Analyst

- Thank you.

Operator

- The next question is a follow-up from Ondrej Cabejsek of UBS. Your line is now open again.

Ondrej Cabejsek

- Thank you. I wanted to follow up on your fixed business, so going back to the second quarter, you suddenly showed a big acceleration in terms of the fixed broadband product, especially. Your comment back then was that this level of sort of mid-single digit growth you saw then as sustainable for the foreseeable future, but in the third quarter, the growth that was back to sort of 1% to 2%. I was wondering is this because you are perhaps more aggressive in fixed mobile consolidation, FMC bundling the products together and maybe booking the discounts for that in

the fixed service or why has suddenly the revenue growth rate dropped to below what you said you would be expecting?

Alexey Kornya

- Okay. In the second quarter, well, firstly, let me refer to our expectations on the growth in fixed line. We believe that there is a good potential of growth in fixed line. And we keep upgrading and developing our network and fixed business. Because we do think that we can see mid-single digit growth rates in this segment. And without the telephony effect falling down, we would have seen more than 5% growth in this sector in the third quarter.

As for the difference between second quarter and third quarter, there was a one-off factor in the second quarter related to B2G contracts with socially significant facilities being a factor in the second quarter. That effect was a high base in the second quarter, but we will continue to see next year also the effect from these services and we expect to see fixed line business being contributor to overall growth as well.

Inessa Galaktionova

- Just maybe some addition to Alexey regarding this B2G allocation. It's not like one-off effect. This is uneven allocation because the government contracts, they are not equally spread throughout the year. The part of the contract was just allocated in Q2, but that means that it's just allocated through the year not in equal parts, that's the reason of this high growth in Q2.

Ondrej Cabejsek

- Thank you. I misunderstood I think or I didn't catch the part where you were saying that the growth could have been or would have been mid-single digit, if it were not for something can you please repeat that?

Alexey Kornya

- Yes, what I was referring, that we have a significant part of decline in fixed-line telephony, if we excluded for this factor, the other part of fixed line business showed more than 5% growth.

Ondrej Cabejsek

- Understood. Thank you. And one more short follow-up please, if I may, on any sort of visibility or plans on any potential future buybacks. I think you went into 2020 not expecting one but then you launched a smaller one because of where the share price dropped. Can you share any views on how you would be approaching any potential future buybacks and then sort of short-term at this stage?

Alexey Kornya

- For this year, the plan was RUB 15 billion and we'll complete the buyback for this amount. As for going forward, we don't have any plans yet to share.

Ondrej Cabejsek

- All right, thank you. I'm sorry, does that mean that you don't expect any or that you will be deciding allocating between dividends and buybacks in the future or that there are no plans? How do I read that answer, please?

Alexey Kornya

- No, we have not decided yet. And as we always say there is the dividend policy which we follow and any upgrade toward this dividend policy is a discretionary step depending on the overall financial performance and results of the Company.

Ondrej Cabejsek

Understood. Thank you very much.

Operator

The next question is from Dilya Ibragimova of Citi Bank UK. Your line is now open.

Dilya Ibragimova

Hi, thank you very much. Congratulations on the strong results. I have three questions if I may. First is on MTS Premium. Just wanted to ask if you could share the split of the cost of the users into paying versus the eligible ones. And if you could comment whether there is any specific feature that customers find appealing which makes them take up the product?

Second question is on competition. Again, apologies for that to dwell on the subject. But if you could comment on maybe where exactly Beeline is being aggressive, Beeline has also been mentioned by Tele2 management last week, but they are being more aggressive in selected regions. While Beeline mentioned that they just launched some use-targeted tariffs which have no expiry, do you feel like they're aggressive in specific segments? I think VEON also mentioned they plan to have more segmentation products coming up. Just color, is it only competition in specific segments? And just to confirm that it's nothing to do with unlimited [tariffs], so we're not going back to unlimited competition? Any color would be appreciated.

And the third question on retail online versus offline. Online sales have been based on the online retail have been growing quite strongly due to COVID. Do you see rationale for driving the online part of it and does eSIM or this remote identification which now seems to be easier from this year as opposed to what it has been the requirements in the past? Is it a path that you would be exploring going forward and do you plan to maybe specifically drive online share in your overall retail sales? Thanks.

Vyacheslav Nikolaev

Okay, I'll answer the first question on MTS Premium. Again, your question was engaged versus total user. Total users — we have over 4 million. And the second month of our launch, we've seen 20% of users actively using some of the benefits, one or more benefits that were provided by MTS premium.

Dilya Ibragimova

Sorry, just a follow-up on that, are 20% also paying users?

Vyacheslav Nikolaev

Both. Overall, we did not divide that. Of course I think that out of paying users the percentage would be naturally more, but I don't have a specific number for you.

Dilya Ibragimova

Okay. Thank you.

Alexey Kornya

As for the competition. The price adjustment, well, let me start from the general comments. The general comments is that we see the overall competitive environment as being quite stable and I would say even benign looking forward. Still, however, we see that in about 40 regions, Beeline made price adjustments. They were not in specific segments, they were across the board. But once again, we don't see that as being a game changer in the market.

Inessa Galaktionova

Regarding online/offline. As we mentioned, definitely the pandemic stimulated the usage of online. And during Q2, we saw a huge increase of our online sales. In the peak, it was around 40% of our general sales coming through online, I mean for retail. Now the percentage is more stable. It's around 30% and it's staying on the same level in spite [of the fact] that almost all of the shops are opened. And there is still a huge demand buying goods from online. In overall, we're almost doubling our sales online year-over-year, with SIM cards achieving 3x year-over-year growth, and sales of [handsets] and accessories almost doubling.

We have the same outlook for next year. We are pretty sure that online is going to play a key role both for SIM cards and for goods sales next year and we're doing everything to have very good customers join through online channels.

Regarding eSIM. As you know, right now the launch of eSIM is in pilot mode. We're testing that, how it's working and what is the demand. And again, it will depend on regulations, how quickly it will launch officially in Russia. But we are fully prepared and as soon as the regulation is done, we are ready to propose [eSIMs] to every user who wants that.

Dilya Ibragimova

Thank you very much.

Operator

The next question is from Anna Kurbatova of Alfa Bank. Your line is now open.

Anna Kurbatova

- Good afternoon. Thank you very much for taking my question. I have two major questions. First of all regarding...

Polina Ugryumova

- Anna, sorry, this is Polina, your line does not work very well. Can you please try again?

Anna Kurbatova

- Can you hear me?

Polina Ugryumova

- You're too close to the microphone.

Anna Kurbatova

- I'm sorry. Can you hear me now?

Polina Ugryumova

- Much better.

Anna Kurbatova

- Apologies, yes, this is a headset. Well, thank you very much. My first question is regarding your guidance, whether your new top line and OIBDA growth projections take into account the disposal of NVision? And the second one, if it is possible for you to give comment on the situation in Belarus with your unconsolidated subsidiary there, because the year-over-year numbers in 3Q look like [good] enough with growth in revenue in the mid-teens, while I personally was expecting some maybe pressure on mobile operations there in relation with the politically challenging situation? Any comment on this current situation and the Belarusian market would be very grateful. Thank you.

Alexey Kornya

- Thank you. For guidance, this does include the consolidation of NVision. But in accordance with US GAAP we'll do anyway this on a comparable basis [that is retrospective deconsolidation]. So we'll have year-over-year report our full year results on a comparable basis. Like we've done with the disposal of our Ukrainian business.

As for Belorussia, we don't see a major impact on our business dynamics, they're in the market. In third quarter, we had 16% growth in local currency as you could see from our reporting and more than 10% growth in our OIBDA, once again in local currency. We expect to end up with a strong year in Belorussia and once again we don't see the major disruption to our business there.

Anna Kurbatova

- Thank you very much. It's helpful.

Operator

- The next question is a follow-up from Ivan Kim of Xtellus Capital. Your line is now open.

Ivan Kim

- Hello. Quick question on your quasi treasury stock. Are we nearing any action with regards to cancelling that or partially cancelling that? Thank you.

Andrey Kamensky

- Yeah, the answer is the same, actually as we always say — strategically we believe that it does make sense actually to cancel it. But now, we're more concerned about our possibility to pay and deliver dividend payments according to our dividend policy. In the short term, we do not see it as an opportunity.

Ivan Kim

- Okay. Thank you.

Operator

- As a reminder, if you would like to ask a question, please press 01. The next question is from your Evgeny Annenkov of Bank of America. Your line is now open.

Evgeny Annenkov

- Thank you for the presentation. I have two questions please. Firstly, on your OPEX optimization. It seems that in Q3 you continued with some cost optimization even on top of store closures and it positively contributed more than RUB 1 billion to your OIBDA. Can you please give details on

fixed cost? Was that temporarily related to COVID or some of them are recurring costs, like potentially salary optimization or more preferential lease rates?

And secondly on MTS bank. MTS Bank reported a nice improvement in margins year-on-year despite cost of risk was actually up year-on-year. Do you think assuming no extra provisions, RUB 1 billion plus net income level per quarter is sustainable? Overall, when do you think you can reach your 20% ROE target? Thank you.

Andrey Kamensky

- Yes, I will take the first question in terms of the OPEX optimization. Of course, the major part is coming from retail. It's coming from the rent cost and it's coming from the payroll. But, of course, this is not only retail because, we have some other sectors which also were affected negatively by the pandemic. Therefore, actually, as a response to that we have to reconsider some of our cost. The most of it are the payroll and in most of the cases, this is rent. That's the major lines that were reconsidered during this time.

Operator

- As there are no further questions, I hand back to the speakers for conclusion.

Alexey Kornya

- There was a second question. Let's answer the second one.

Ilya Filatov (translated)

- We do confirm that we estimate the third quarter was much better in terms of the operational efficiency as compared to the second quarter when we speak about our banking segment. But as we have already mentioned during our Q2 disclosure, we do expect that for the full year, the bank will report a positive result in terms of net income, however, we cannot define the accurate estimate of this net income at this stage.

Evgeny Annenkov

- Sorry, just to confirm, you think potential lower lease rates might sustain in one or two quarters?

Polina Ugryumova

- Evgeny, can you please repeat your question?

Evgeny Annenkov

- My question is on leasing costs for your stores, you said you managed to get some more beneficial rates in Q3. You think it might be sustainable in Q4 and potentially next year?

Alexey Kornya

You are referring to optimization in rental rates?

Evgeny Annenkov

- Yes.

Alexey Kornya

Well, rental rates, we saw some kind of recovery, and I think we achieved certain optimization, which we will carry on. However, the materiality of this optimization is not that high as we saw it

back in second quarter and partially in third quarter. However, we do expect to see some carry-on on optimization overall in our retail for the next year.

Evgeny Annenkov

- Thank you. That helps.

Operator

- Now there are no further questions.

Polina Ugryumova

- 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 in-boxes and phone lines are open. In the meantime, we appreciate your interest in MTS and wish everyone a happy and healthy holiday season.

Operator

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