

Edited Transcript of

## **Q1 2020 MTS Financial & Operating Results Conference Call**

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### **MTS Speakers**

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*President & CEO*

**Slava Nikolaev**

*First VP for Customer Experience & Marketing*

**Inessa Galaktionova**

*First VP for Telecommunications*

**Andrey Kamensky**

*VP for Finance*

**Polina Ugryumova**

*Director of Investor Relations*

### **Other Participants**

**Cesar Tiron**

*Bank of America Merrill Lynch*

**Ivan Kim**

*Xtellus Capital*

**Ondrej Cabejek**

*UBS*

**Herve Drouet**

*HSBC*

**Alexander Vengranovich**

*Renaissance Capital*

**Slava Degtyarev**

*Goldman Sachs*

**Dilya Ibragimova**

*Citibank*

**Igor Goncharov**

*Gazprombank*

### **Presentation**

#### **Polina Ugryumova, IR Director**

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

As usual, I must remind everyone that except for historical information any comments made during this call may constitute forward-looking statements, important factors could cause the actual results to differ materially from those contained in our projections or forward-looking statements. This, in turn, imply certain risks, and more thorough discussions of which are available in our annual report, in form 20F, or in the materials we have distributed today. MTS disallows any obligations to update any previously made forward-looking statements spoken on this conference call or make any adjustments to previously made statements to reflect changes and risks. You can find copies of the presentation and materials used in the reference in this conference call on our investor relations web site.



Today's presenters are: Alexey Kornya, President and CEO, Slava Nikolaev, First Vice President for Customer Experience and Marketing and Ecosystem Development, Inessa Galaktionova, First Vice President for Telecommunications, and Andrey Kamensky, Vice President for Finance.

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 would like to begin by saying that our thoughts are with all of those affected by the global coronavirus pandemic. This is an unprecedented time that is impacting billions of people around the world, including millions of our customers and thousands of our employees. Connectivity has never been more critical, and we are proud to be helping our customers stay in touch with their friends and family, as well as colleagues and classmates. While the agenda of the call is our first quarter results, the focus of much of the discussion today will be understandably the ongoing impact from COVID-19. As the scale of the situation became clear in February, we activated our continuity protocols and established a task force to coordinate our response. Let me go on with a few of the steps we have taken.

First and foremost, our highest priority is the health and safety of MTS team. We have now transitioned over 30,000 employees to remote work. At the same time, many of our workers have mission-critical jobs in stores and in the field that cannot be done from home. To help protect them, we have put in place extensive sanitation measures such as temperature screenings, facemasks, and cleaning protocols in line with local, regional, and national guidelines.

Second, we have launched multiple initiatives to help those being impacted. For healthcare workers, we are providing free connectivity for doctors fighting COVID-19 in many Russian regions. For customers, we are providing unrestricted access to essential resources at zero cost, including free calls and traffic to official hotlines and websites. For society, we're supporting multiple public initiatives to help the most impacted.

In addition, the senior management team has pledged to donate at least 10% of our salaries to charity. We have launched internal crowdfunding campaign to encourage employees to follow suit. While our businesses are resilient, we are not immune. Our core focus has been to keep society connected, while moving swiftly to adapt how we engage with our customers.

On the network side, we boosted capacity and reallocated resources, and we have successfully handled a dramatic rise in traffic with minimal disruption. On the sales side, we are strengthening online channels, diversifying SIM distribution, and doubling down on digital customer care. On the product side, we've launched new offers and content to help better meet changing customer needs. Slava will talk more about those efforts. Overall, I'm encouraged by how rapidly we have adapted to the situation.

As a digital-first company, we were already embracing agile best practices, including open feedback, rapid sprints, and lean development. We are now successfully applying those principles to remote collaboration. I would like to thank the entire MTS team for their dedication and professionalism in the challenging time. While we cannot predict all of the impacts from COVID-19, one thing is clear — digital transformation is now speeding ahead. At MTS, we continue to move forward at full force across of all our verticals.

And in the first quarter we had a number of notable developments. In telecom, we refined our tariffs, took a stake in a regional fixed-line operator and launched the first industrial 5G zone in



Russia. In Fintech, we launched a completely revamped mobile banking app and saw strong growth in our customer base. That said, looking ahead, we are now anticipating some negative impacts, which Andrey will go over in more detail. In media, we embarked on new partnership projects, including a JV with Channel One and new initiatives in co-producing content. And in B2B, we saw exceptional performance in promising areas — including triple-digit top-line growth in clouds and collocation services — and expanded our offerings in new product lines.

I also wanted to highlight that last week we announced new candidates for the Board of Directors, who have a deep bench of expertise across retail, media, and digital transformation. These competencies are complementary to our growth strategy, and I hope to welcome the new members of the Board following the AGM in June.

Now, turning to our results. Amid a relatively normal environment in the first quarter, we saw solid overall performance in the first three months of the year. Group revenue increased nearly 9% year-over-year, to reach around RUB 120 billion on the back of positive contributions from all of our four verticals. Most impressively, around half of the top-line growth came from adjacent segments beyond connectivity. We have been making steady progress in our transformation, and that's now being reflected in our figures.

Group Adjusted OIBDA was up 1.6% to reach RUB 51.5 billion, driven by growth in core services, which Inessa will talk about in more detail. At the same time, we were constrained by a high base due to a positive one-off in Q1 2019. Excluding this effect, adjusted OIBDA saw solid 5.6% underlying growth year-over-year. Overall, I'm happy to say that we delivered yet another strong quarter of solid results. With that, I will hand it over to Slava to give a customer experience and marketing update.

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

- Thank you, Alexey. Now, the world is facing unprecedented challenges and disruption. But as always, change also brings opportunities and we firmly believe that those who adapt fastest today will be in the best position tomorrow. In the current environment, our guiding principle is providing comprehensive and consistent support for our customers. As we do this, our focus is on strengthening long-term relationships and not short-term monetization. This not only makes good business sense, but it's the right thing to do.

As Alexey mentioned, we have launched a number of initiatives to support those who are most impacted. I particularly wanted to highlight the work we have done to provide connectivity for doctors fighting the virus. We have launched a new tariff with three free months of connectivity, which is being offered to thousands of healthcare workers. This was the first project of its kind in Russia, and we hope it's a help to those on the front lines.

We've also been seeing changes to consumer behavior as people migrated to working, studying and socializing from home. More and more of our daily life is happening through digital channels, and we are moving decisively to offer new solutions for new lifestyles.

For example, we launched a #StayHome bundle of digital services that packages together: MTS TV, Music, Library, Fitness, and telemedicine via our SmartMed application. We are also providing extra rewards within our loyalty program for online purchases of much-needed goods such as grocery and food delivery. And in live entertainment, we have shifted gears towards online programming, launching a series of virtual concerts with some of Russia's top performing artists. Viewers can watch a free stream via MTS Live with the option for an immersive



experience with a VR headset. To date, over 30 million people have tuned, in and we have a packed event line-up ahead of us.

Given where we are in the business cycle, as we execute on those initiatives we're taking a cautious approach in terms of OPEX. But ultimately this is an investment in the future. Beyond the recovery phase, we think many changes to consumer behavior will likely persist. That's why we think now is a good time to begin disclosing additional metrics around our ecosystem development.

In Q1, we continued to see growing adoption of MTS apps. A good example is the MTS Bank application, with users up more than 70% year-over-year, breaking the 1 million mark for the first time. Additionally, our flagship self-care app, MyMTS, reached nearly 22 million active users. Although going forward, we expect that number to plateau, given that we have already attracted our most digital-savvy users to the platform. But we are staying ahead of the curve, and now we're shifting our focus towards expanded functionality, in particular by aiming to deepen Fintech-based features and capabilities. We've set up a joint team with MTS Bank to do just that, and we have some exciting developments in the pipeline.

With regards to the bank, we continue to see robust growth in the customer base in Q1 reaching nearly 2.5 million bank clients, over half of which are in our key audience of high-frequency daily banking users. And lastly, in media, we have a stable foundation of 4.6 million paid TV viewers with promising prospects to add new customers by leveraging bundle offers and exclusive content. Overall, we've made steady progress in cultivating our ecosystem and those efforts are beginning to bear fruit. Now, let me hand it over to Inessa for a telecom business update.

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

- Thank you, Slava. As Alexey mentioned, connectivity is now more important than ever. Over the past two-and-a-half months, we have successfully adapted our strategy, but saw unprecedented challenges. Operationally, this has required tremendous efforts from redirecting call centers and redesigning sales channels to reassigning employees to remote work. We executed at lightning speed, and despite disruption, successfully maintained overall high service quality as well as healthy sales dynamics.

Turning to Q1 results, let me begin with mobile in Russia. Overall, we saw solid top-line performance with year-over-year mobile service revenue growth in Russia accelerating to nearly 7% to reach around RUB 80 billion. This in part reflected the impact of tariff adjustments towards the beginning of the year. In addition, there was a low base effect due to pricing moves going into effect relatively later in 2019. We also continue to actively fine tune our tariff structure. For example, new subscribers of our flagship tariff are now presented with an additional paid option to activate unlimited data above 25 gigabytes. As we early flagged, due to travel restrictions we have seen a falloff in roaming revenue. We expect this is to materially impact our results in Q2 and potentially in the second half of the year.

Turning to subscriber dynamics. In Q1, our mobile customer base in Russia was up just under 1 million subscribers year-over-year. At the same time, given the retail situation in Q2, we'll be seeing a significant impact on adds and outflow. The situation is evolving and the impact is hard to forecast. That said, we expect a reduction in churn will only partly compensate for lower adds, translating into a net decline in subscribers. However, we think the biggest dynamic is in the low-value segment, such as tourists, guest workers, and secondary SIM users. Altogether, this represents a small share of total revenue. In contrast, we are seeing greater resilience among



our high-value customers, who continue to be our strategic focus and target audience for upselling digital services. While we do expect some impact, we continue to see long-term opportunities for ARPU accretion.

In fixed-line in Russia, we saw positive revenue growth of 1.4% year over year in Q1 to reach RUB 15.3 billion. Notably, we saw solid performance in consumer broadband and TV more than offsetting declines in landline phones. Excluding telephony, B2C fixed revenue went up over 5%. More recently, new adds and bandwidth upgrades are higher than forecasted, particularly in Moscow, as people are working, studying, and relaxing more at home.

Turning now to retail. In the first quarter we saw solid 6.1% year-over-year growth of sales of handset and accessories, reversing the dynamics we saw in Q4. That said, we believe this partly reflected a temporary blip due to foreign exchange volatility. In particular, as the ruble weakened, consumers may have accelerated purchases of imported devices ahead of expected price increases. In Q1, we also continued to execute on our optimization program, and we were on track to hit our target of up to 400 net closures this year.

However, the world has now changed, and retail is one of the most impacted sectors. As an essential business, many of our stores have remained open during the crisis, although stores and shopping malls have had to close in line with local health guidelines. Given self-isolation measures, we have also seen a significant decline in foot traffic. Altogether, we anticipated to lose a major share of retail revenue in Q2, but we are not standing still. We are moving swiftly to adapt our approach to the current environment. We have expanded contactless SIM delivery to hundreds of Russian cities, and we have added thousands of new SIM distribution points in essential retail outlets, including post offices, grocery stores, and pharmacies.

In addition, we have received regulatory approvals for self-registration of SIM cards and we have already fully put this into commercial operation with an app-based ID verification process. Looking ahead, we plan to prioritize this channel as the key level to lower subscriber acquisition costs. We are also broadening our tNPS satisfaction tracking across all of our sales channels. We want to make sure customers have a great experience during each and every touchpoint, whether in stores, online, or at their door.

At the end of the day, our telecom strategy is simple — best brand, best network, best customer base. We had a strong start this year, and despite challenges, I'm confident we're on the right track. With that, let me hand it to Andrey.

### **Andrey Kamensky, VP for Finance**

- Thank you, Inessa. As usual, I will start with an update on MTS Bank before circling back to Group for financials.

Given the insulation from COVID-19 in Q1, the bank saw continued strong performance in the first three months of the year. Net interest income rose 43% year-over-year to RUB 3.6 billion driven by 50% growth in gross loans versus the year ago quarter. Net profits for the bank amounted to more than RUB 200 million, which included the negative impact of about RUB 480 million as we proactively booked provisions in response to the changing macro environment in Q2.

In line with our consumer focus, portfolio growth was driven by retail loans, which were up 67% year over year to RUB 91.1 billion. Importantly, we saw a good mix of growth across general purpose loans and the card products contributing to overall portfolio diversification. Shifting gears from Q1 to Q2, in contrast to connectivity, the banking sector is more sensitive to macro



volatility, and we have begun to see significant shifts in the indicators we track. By early April, sales of new loans were down around 60%, partly reflecting the closure of retail branches, but also changing patterns in consumer spending and saving.

We have also seen an increase in requests for loan restructuring. Given these signals, we are carrying out a deep and comprehensive assessment of the portfolio, and we're modeling a variety of forward-looking scenarios. While the full impact remains difficult to estimate, we are taking a cautious approach. We currently expect cost of risk to further increase in Q2, and that will likely require additional provisions that will be recorded in future reporting periods, which we expect to put pressure on the bank's OIBDA and net income.

Nonetheless, we are confident we will overcome the speed bump. Moreover, recent developments have only further reaffirmed the logic behind our strategy. Now more than ever, consumers are shifting to digital-first banking — from online customer service to virtual cards and contactless payments.

Coming back to the Group. In Q1, Group net profit came in at RUB 17.7 billion, largely flat year-over-year. On top of support from core operating performance, net profit also saw a significant positive impact from depreciation of the ruble, with losses from FX more than offset by changes to the fair value of the derivative instruments. In addition, a decline in finance income versus the year-ago quarter was largely offset by lower financing costs, reflecting our ongoing efforts to optimize our debt portfolio.

At the same time, net profit faced headwinds from a relatively high base in discontinued operations in the first quarter of the previous year, in particular from MTS former Ukrainian operations, as well as the reassessment of the reserve related to Uzbekistan.

Excluding discontinued operations, in the first quarter of this year, net profit from continuing operations increased 33.8% year-over-year to reach RUB 17.3 billion. Turning to CAPEX and cashflow. Capital spending for the first three months of the year increased by RUB 3.6 billion, as we continued to actively invest in improving capacity and coverage. When excluding the payment related to Uzbekistan in the first quarter of 2019, free cash flow in the first quarter of 2020 declined RUB 6.7 billion year-over-year and totaled RUB 17.5 billion, largely driven by the two factors. First, higher capex intensity this year [as well as] due to the acquisition of a stake in a regional fixed business, and second, the high base from the divestment of our stake in Ozon in the year-ago quarter.

Turning to the balance sheet. This year, we are continuing to take timely steps aimed at optimizing our debt portfolio. In the reporting period, we issued RUB 15 billion in exchange-traded bonds with a maturity of seven years, and a coupon rate of 6.6%. We also raised two loans with a maturity of five and six years totaling RUB 75 billion. By the end of March, our gross debt FX exposure had been reduced to just 2%.

Total group debt at the end of the quarter stood at RUB 423.4 billion with the weighted average interest rate decreasing nearly 30 basis points from the end of last year to 7.4%. Our net-debt-to-last-12-months to Adjusted OIBDA ratio stood at 1.6 at the end of the quarter, excluding the effects of IFRS 15 and 16. And we find this level very comfortable in the current environment. Now I will hand it back to Alexey for his closing remarks.



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

- Thank you, Andrey. Since first quarter, the world has changed and so has our outlook for 2020. In the interest of transparency, I wanted to share some of the operational indicators we track internally to give a sense of what we are seeing.

Importantly, some of the biggest impacts we saw in April are now starting to reverse in May. In connectivity, roaming is at near zero while local traffic remains elevated, particularly in fixed line. Although the early spike in top-ups and add-ons has now returned to baseline. In retail, many of our outlets that were temporarily closed in March have begun re-opening — and we are seeing gross adds and sales of goods trending in line. In FinTech, our retail bank operations have fully resumed. In addition, virtual card adds are up more than a third, despite the sharp decline in overall card issuance, but, as Andrey mentioned, we are expecting an impact from economic headwinds. Finally, in digital, we are seeing breakneck growth in new users. In April, MyMTS adoption was up 2.5 times, and adds in SmartMed and Smart University were up an explosive 10 times. That's a powerful catalyst for our ventures in telemedicine and online education.

Taking these trends together — as well as considering the increased uncertainty for the remainder of the year — we are revising our 2020 guidance downward to flat to 3% growth in revenue; minus 2% to flat in Adjusted OIBDA; and maintaining our CAPEX outlook at around RUB 90 billion.

Despite this revision, we're confident in the relative resilience of our core business, as well as our solid liquidity position and sustained cash generation ability. In terms of shareholder remuneration, we remain fully committed to fulfilling our dividend policy in 2020. Furthermore, this year we have already paid a special dividend in the first quarter, as well as launched a repurchase program to buy back up to RUB 15 billion of our shares. Finally, the Board has also recommended the full-year 2019 dividend of RUB 20.57 per ordinary share for approval at the AGM in June — which, by the way, we will be conducting remotely for the first time. We will be webcasting the event and we have an action-packed lineup. I hope you will join us remotely.

So, to sum up, we had a solid first quarter. We are navigating the second quarter, and we are continuing to move forward on laying a strong foundation for the future of MTS.

Thank you. And let's open up the line for the questions.

## **Q&A**

### **Polina Ugryumova**

- Operator, we are ready to take questions now.

### **Operator**

- The first question we've received is from Cesar Tiron of Bank of America. Your line is now open. Please go ahead.

### **Cesar Tiron – Bank of America Merrill Lynch**

- Yes, hi, good evening everyone. Thanks for the call and for the opportunity to ask questions, and congrats on the numbers. I have two questions, please. So the first one is on traffic. If you can please share again the data trends in May and how it compares to April. And the second question would be on guidance. It's a downgrade, but it looks more like an upgrade to the underlying business, I guess. Can you please tell us what you have assumed in terms of roaming

for the full year? Have you assumed that there's no roaming revenue for all of 2020 and then what type of provisions have you assumed for MTS Bank going forward. Thank you so much.

**Alexey Kornya, President & CEO**

- Thanks you for your questions on data traffic trends in May. We see that still in fixed line the traffic is quite elevated, and, overall, over those few months, we saw a much high impact in terms of capacity stretched on the fixed-line rather than on mobile.

So in mobile, the traffic's up from the pre-pandemic period about 10%, while in fixed-line it is about 30–40%, and, in Moscow, even above that. So, we see some reduction of the stretch in May versus April in fixed-line, but overall, the situation is staying as such.

And, as far as guidance is concerned, taking the uncertainty and relatively low visibility of how things develop, we would refrain from navigating particular contributions from business lines into this guidance. We think that with all variety of the businesses, we took into account certain recovery both in terms of isolation requirements and in some other aspects starting from summer. But generally, we think that this is quite a strong guidance. I agree here with you. That's quite a strong guidance taking the overall macroeconomic situation and the strong roaming effect which we saw in the second quarter.

**Cesar Tiron, Bank of American Merrill Lynch**

- Okay. Thanks. Just to make sure, you have assumed — it's in the press release — you have assumed further provisions of MTS Bank into the next quarters, into the guidance, right?

**Alexey Kornya, President & CEO**

- Yes. We assumed significant provision which we'll probably see in the second quarter in our financial segments.

**Cesar Tiron, Bank of America Merrill Lynch**

Thank you so much. Very clear. Thank you.

**Alexey Kornya, President & CEO**

- It is important to say that our risk policy is quite sober in the financial segment and always was as such. We showed our cost of risk, and we even started expecting some slowdown in 2020. Already in 2019, we started putting in stricter risk requirements toward the B2C loan portfolio in the Bank, and that will have a positive impact on our provisioning this year. So we've been quite cautious and start taking relevant measures early enough.

**Cesar Tiron, Bank of America Merrill Lynch**

- Thank you so much.

**Operator**

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

**Ivan Kim, Xtellus Captial**

- Good afternoon. Just a follow-up on the previous questions. So you don't want to share how much you planned for provisions at MTS Bank for the second quarter? Just to make sure. And my two questions are: First on retail footprint, do you see the opportunities to accelerate the closure of the stores? And how do you see that market evolving throughout the year? And my second question is on the acceleration in domestic mobile service revenue, excluding roaming.



In the second quarter, you saw a 40% increase in demand for voice and data packages in April. Some return to baseline in May of course, but even that 40% increase is quite significant. So do you expect acceleration in domestic mobile service revenue in the second quarter and how significant is that going to be? Thank you.

**Alexey Kornya, President & CEO**

I'll take the provision. And the next two will go to Inessa. On provisions, I would like to specify two important aspects. Firstly, it's too early to indicate because the ultimate provision for the first quarter will depend on certain consumer behavior from a particular vantage which we'll see upon completion of the second quarter. So in this sense, we wouldn't be even able to give you any guidance in this respect because it's too early.

That's firstly, and secondly, just to stress once again, we have been quite sober in terms of our risk policies. We started early enough, starting from the end of 2019, in a more disciplined risk approach. And that also allows us to limit the potential additional provisions, as we think we'll see in the second quarter.

**Inessa Galaktionova, First VP for Telecommunications**

- Regarding the retail footprint, as we promised for 2020, we plan to close around 400 shops. In the first quarter, we closed around 170 shops. And actually we are planning to close the rest up to September. But, due to the quarantine, we were forced to close a much higher number in April and May. We will follow the situation on the market, and we will see how many shops will open at the end of Q2. At the moment, we don't plan to close more than 400, but we will definitely review this situation on the market and we will take shifts for further actions, based on the Q2 results. This is on the retail footprint.

Regarding the acceleration and roaming and the effect on Q2, we, once again, will mention that in Q1 it was effect of the pricing and the low base, sub-base in Q1. So we don't expect any acceleration to continue in Q2.

**Ivan Kim, Xtellus Capital**

- Okay. Thank you.

**Operator**

- The next question is from Ondrej Cabejsek of UBS. The line is open. Please go ahead.

**Ondrej Cabejsek, UBS**

- Hi, and thank you for the opportunity. I have a follow-up on the guidance and the previous questions more related to revenue trends than data trends per se. Can I just understand if you could give us more color, could you indicate that the trends are stabilizing and improving already in May? Could you give us just an idea of what happened to service revenue trends in mobile in April and then, in terms of the guidance going forward, would you be able to give us an indication in terms of what the assumptions regarding mobile service revenues are for the updated guidance?

**Slava Nikolaev, First VP for Customer Experience & Marketing**

- Hi, I will take this question. This is Slava Nikolaev. I can tell you that service revenue, when we are talking about service revenue, the major impact on service revenue we had was roaming. And, given that we have had most of this impact already in April, I can tell you that in these terms, the trends in May seem better. No news in addition to that.

**Ondrej Cabejsek, UBS**

- So no number that you are willing to give us? For example, from April, what the trough of the trends look like.

**Slava Nikolaev, First VP for Customer Experience & Marketing**

- No, no particular numbers. You probably know our revenue streams in roaming, we have disclosed that many times. Actually, we expect them to come back at some point. In other revenues, again, we don't see any decline in mobile revenues.

**Ondrej Cabejsek, UBS**

- Okay. Thank you. And the second question, if I may. You have finished the acquisition of the regional broadband provider. Clearly, there is more demand for fixed broadband in Russia. It's still an under-penetrated market. Is this — potentially given the current increase in demand for fixed broadband — a first of several acquisitions that we may expect from MTS in this space?

**Alexey Kornya, President & CEO**

- Well, I don't think that the particular growth in broadband demand is improving valuation approaches or the price of the assets neither downwards nor upwards. I wouldn't say that it principally changes our approach. We do look at opportunities in the market. We continue to monitor, and it is part of our strategy to grow non-organically in our fixed-line presence in the regions. To the extent that is possible and economically viable. So we will continue with this approach.

**Ondrej Cabejsek, UBS**

- Okay. Thank you very much.

**Operator**

- Thank you. The next question is from Herve Drouet of HSBC. Your line is now open. Please go ahead.

**Herve Drouet, HSBC**

- Yes. Thank you. Good afternoon. A couple of questions as well. The first one. Could you share with us, maybe, the NPL or bad debts you have experienced in April and the beginning of May or maybe in term of trends to give us a bit of an idea of how the provisions may look for MTS Bank. The second question is regarding your CAPEX. I mean, we have seen there is much more traffic in fixed-line. I was wondering, are you starting to shift a bit more CAPEX, more towards fixed or digital, as there is an acceleration of digital adoptions, or is this purely mobile? Or do you stay with your current plan as the plan at the end of last year? And out of this CAPEX, how much out of the 90 billion is for the Yarovaya Law. This is my second question.

And, finally, just a comment. Do you believe there could be a very good opportunity to drastically reduce your points of sales in terms of retail shops, especially as the online retail has increased quite significantly? And do you believe your competitors may gradually move more towards that route rather than just physical outlets? Thanks.

**Alexey Kornya, President & CEO**

- Let me, once again, take the bank question on NPL and provisions. We showed the figures on our NPL and cost of risk as of fact up to April in our slide deck in terms of being more numerical. We didn't see much growth in NPL. There is some growth in the cost of risk on the back of macroeconomic developments with additional provisions to come. But to just reiterate what I

said, to give you a more detailed or more specific indication would be premature. We think that we have a sober risk policy approach and we have yet to see how the situation develops towards the end of the second quarter. We give guidance taking into account the additional provisions required for MTS Bank.

**Andrey Kamensky, VP for Finance**

- I'll take the second question about CAPEX. As we reiterated our forecast for this year for the same amount as we said before, you should bear in mind that, if you actually compare our CAPEX versus previous year, we are spending a bit more, if you take the Ukraine operations out. This increase specifically has to do with more CAPEX that we're spending on our fixed business — because it's growing and it is a part of our strategy — and we are focusing on converging products more and more. And, of course, digital products, which became a part of our strategy and, actually, our operations.

**Inessa Galaktionova, First VP for Telecommunications**

- Okay. I will repeat the answer regarding the retail footprint. First of all, we don't need a radical optimization in retail, because our retail chain generates very [high] quality sales. And, secondly, we had plans to close this year around 400 shops. In Q1, we closed 170 and the [remaining] 250 we are planning to close in Q2. And, as you know, and as it's mentioned in Slide 18, in April we closed due to quarantine, due to coronavirus, around 50% of our chain and in May around 25%. Actually, at the end of the day, the big part of our retail chain was closed.

At the moment, we don't plan to close more than 400 shops this year, but we will navigate, we will see the situation on the market. And if it will be required and if we see some additional moves that we need to optimize the number of shops, we will definitely announce that. But at the moment, we stick to our plans to close 400 shops this year.

**Herve Drouet, HSBC**

- And maybe just to follow up on the CAPEX, how much for this year is going to be spent for the Yarovaya Law or in data storage out of the RUB 90 billion?

**Andrey Kamensky, VP for Finance**

- Actually, we do not disclose the parts of the CAPEX. We are always referring to the total amount.

**Question**

- Okay.

**Alexey Kornya, President & CEO**

- Are you asking about Yarovaya?

**Herve Drouet, HSBC**

- Yes, Yarovaya. Just out of the RUB 90 billion spent. Yes.

**Alexey Kornya, President & CEO**

- Yes. Look, our guidance is 50 billion over the five-year period. We are saying that we will be trending a little bit towards the beginning or the start of implementation of Yarovaya Law. So you can assume that we will be around, if you divide 50 by five. That's a rough indication.

**Herve Drouet, HSBC**

- Understood. Thank you.

**Operator**

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

**Alexander Vengranovich, Renaissance Capital**

- Yes. Good afternoon. This is Alexander Vengranovich from Renaissance Capital. Just two follow-ups, I think, from my side. So the first one is on rising data consumption in April and May. I'm just wondering, how it's possible for you to upsell your customers with higher speed data tariffs on fixed-line and, probably, bigger packages in mobile. Do you think that it's feasible to do it in this environment? And have you already started to see that the customers are taking higher speed data tariffs or bigger packages on your mobile network? I'm just trying to understand what sort of the upsell opportunity is on your fixed-line and mobile network. That's my first question.

And the second question is also on your competitive environment in mobile. You have done the price increase early in the first quarter 2020, and I think most of your competitors did the same. Also in April, we have seen that Tele2 has started to quite substantially increase the prices for user tariffs in some of the regions. I am just trying to understand if it's a major change to the competitive environment. I mean that it's becoming even better because everybody is trying to optimize its marketing proposition for the customers and there is no further disruptive activity from Tele2 anymore on the market. Do you see any changes after the first quarter with regards to the competitive environment? Thank you.

**Slava Nikolaev, First VP for Customer Experience & Marketing**

- Okay, with the first question, first of all, I want to stress that we see higher data consumption primarily in fixed-line, though the overall trend that we see from the beginning of the year — and including the time after COVID — that people tend to get higher tariff plans, higher price tariff plans with bigger allowances. And you probably remember that at some point in February we started to go away from pure unlimited tariff plans, making additional services for a separate price. So first, we see increase in tariff pricing with this. And second, we have already told you many, many times that the competitive environment in Russia is improving.

And I think that what you see in the first quarter is just a result of that. We have seen Tele2 following our moves for a long time now. And I am completely not surprised that they are increasing their prices, following our changes. I wouldn't say that it's a major change of competitive environment. It's just something that led to a very stable increase of our mobile revenues in the end of the last year and the beginning of this year. I think it's just remaining the same for the last 9 to 12 months.

**Alexander Vengranovich, Renaissance Capital**

- Okay, thank you. That's clear.

**Operator**

- Thank you. The next question is from Slava Degtyarev of Goldman Sachs. Your line is now open, please go ahead.

**Slava Degtyarev, Goldman Sachs**

- Yes, thank you very much for the presentation. Two questions. Firstly, on guidance. You haven't lowered your margin guidance for the full year despite the loss of the high-margin roaming revenues. Can you please talk a little bit about the mitigating factors that you are implementing

across your business, maybe, on the personnel side, marketing side, or subscriber acquisition cost, etc.

And secondly, a question on the B2B digital and cloud performance. Basically, can you elaborate how it performs in Q2, whether there is an acceleration of growth there or you observe certain challenges? Thank you.

**Alexey Kornya, President & CEO**

- Let me tell you on guidance. Actually, we do reduce our guidance by expanding the range. We put the range in our OIBDA from -2% to flat. So that gives you visibility and gives us certain better flexibility, as we will see how the situation develops towards the year end. Of course, we are taking a number of initiatives in order to optimize our costs. Starting from revising our roaming agreements, reducing our marketing budgets, and many other initiatives which will help us to catch up with our OIBDA current guidance. Having said that, we think — and here I probably agree with you — it is a strong guidance on OIBDA, but we'll have to make certain efforts in order to deliver.

On B2B digital, yes, we see double digit growth in this segment organically. If we look now, we believe that the strong demand will stay there. We have a very good infrastructure. We acquired, as you know, one of the top leading data centers, commercial data centers, Avantazh. We will start filling in this year. That gives us additional contribution to our revenue. So we are all in all quite positive for our data cloud and B2B business digital development.

**Slava Dektyaryov, Goldman Sachs**

- Okay. Thank you very much.

**Operator**

- Thank you. The next question is from Dilya Ibragimova of Citibank. Your line is now open, please go ahead.

**Dilya Ibragimova, Citibank**

- Thank you very much. I had a couple of questions, please.

First, if you could share, perhaps, your thoughts on Board nominations. You mentioned strong candidates. Specifically, whether you have any projects in mind following the appointment and election at the AGM of Konstantin Ernst and given the venture capital background of Alexander Galitsky. That is my first question, if you could share your thoughts there.

The second question is on B2B, or maybe, let me rephrase it. Do you see your data center capacity as sufficient, whether you plan to invest more, continuing to attract some more demand for media and entertainment specifically? What are you thinking in terms of network architecture, when 5G comes in or even to support 4G, when people stream more content where they need more localized presence of the data center cloud solutions to be able to offer good quality of services?

And, maybe, the last one on the media and entertainment vertical. Considering the strong demand and viewership that you have seen in April and May with all the events that you have been introducing, do you see this vertical as an opportunity to drive customer loyalty only, or do you think you could monetize this as well? And there are a few new initiatives you've mentioned the JV and the new format of producing films. I'll stop there. Thanks.

**Alexey Kornya**

- A few words on the Board of Directors nominations. I think the new Board is strengthening in order to respond or to help the company with the new ecosystem strategy and ruling outside of telco product position.

We have Konstantin Ernst the leading guru in media in Russia. As you know, we signed an agreement with Channel One on strategic partnership to develop our media together. In this sense, it is a logical addition to our Board, taking our strategic partnership, and his expertise and his knowledge. Nadia Shouraboura is a very experienced professional in building and developing ecosystems, and it seems we are facing a lot of ecosystematic challenges and questions; she will be helping us to give a proper response or to develop. In particular, in data center strategy development, she also has very good experience with Amazon. Shaygan is very experienced, both in telco and being Chief Technical in Verizon and in digital banking, bringing technical digital expertise in leading banks. Mr. Galitsky has a very broad experience in different industries and with startups and with how you build up the business and how you develop businesses. So these are all very strong additions, we believe, to our Board.

One can also note that the majority of Board members [will now be] independent. That is also very strong indication of strategic approach or strategic stance, which we'll get from the Board. That's probably some thoughts in respect to the Board. With the B2B data centers capacity utilization, we are not using that heavily, we don't see it as a primary source for internal usage and particular, when we talk about entertainment or media or something like that. These are just the minority of our data capacity utilization. The primary use, of course, is commercial. So we'll sell, although we have internal use, but with the new data centers buildup, with the new development, of course, the primary goal will be commercial to develop on that and to build a new revenue stream. In this sense, we have a lot of capacity. We built and we acquired significant capacity which we will monetize this year and next year and going forward.

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

- On entertainment. Actually, that's a very interesting question because, at first, we realized, when we were launching these virtual concerts, we realized that it's definitely not the time and place to monetize that heavily on the base at the moment. But it was a really great impact on our image and on loyalty. I got a lot of positive response. In addition to that, I can tell you that the actual cost of contact in this endeavor is really great. It's one of the lowest in the history of such events.

At the same time, I think that, coming back to normal, we will be able to monetize that because, first of all, for some time we had an interesting VR project that maybe wasn't that popular in the pre-COVID times. But now as we see huge demand in online concerts currently in Russia, we believe that we'll be able to provide concerts still free of charge expecting normal quality. But we'll charge for 4K and we will charge also for VR 360 and other additional capabilities that we already have on our platforms. It's actually good in both ways.

#### **Dilya Ibragimova, Citibank**

- That's very helpful. Thank you very much.

#### **Operator**

- Thank you. The next question is from Mr. Igor Goncharov of Gazprombank. Please go ahead. Your line is now open.

#### **Igor Goncharov, Gazprombank**



- Yes. Thank you very much for the opportunity. Just two quick follow-up questions. One on the dividends. You mentioned in your presentation that you remain committed to the dividend payments during the year 2020. For some reasons you've mentioned the year 2020 specifically. Does it mean that you see some flexibility in relation to the dividend payments in the year 2021, which is still included into the current dividend policy? That's question number one. Question number two relates to the completed integration of Rostelecom and Tele2. Do you see any changes in the competitive environment in recent months related to this integration? Do you see any additional pressure potentially on your business from it? Thank you.

**Andrey Kamensky, VP for Finance**

- Yes. The answer to the first question is very simple. We are going to stick to our dividend policy, which is valid for three years. There are no changes that we foresee for 2021 in terms of dividends.

**Alexey Kornya, President & CEO**

- Speaking on competitive environment. Firstly, overall, as we've already mentioned, we think that it remains stable. We don't see any deterioration or significant improvement in place. We think it is stable, and that gives us certain optimism. I would put it that way. In this sense, we don't see effects from consolidation of Rostelecom and Tele2 having any specific impact on the current competitive environment.

I would rather say we encourage any consolidation in the market, because we think that overall consolidation of the market is a good and positive step and leads to certain value creation in the markets. I think it's rather a move in the positive direction.

**Igor Goncharov, Gazprombank**

- Okay. Very clear. Thank you very much.

**Operator**

- Thank you. We've now received a follow-up question of Ondrej Cabejsek of UBS. Your line is now open. Please go ahead.

**Ondrej Cabejsek, UBS**

- Hello. Thank you. A follow-up. I'm not really expecting an answer, but I'm going to try. Can you give us an indication of what part of your growth is currently coming from VEON? What part of your service revenue growth that is above market is driven by the losses that Beeline was reporting? Thank you.

**Alexey Kornya**

- Well, that we cannot say, sorry. It's a very specific question and I don't think that this is necessarily the source of our growth, so I wouldn't really comment on our competitors.

**Ondrej Cabejsek**

- Okay. Thank you.

**Operator**

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

**Polina Ugryumova**

- Ladies and gentlemen, thank you very much for listening. If you have any further questions, we welcome you, as usual, 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 and wish everybody a happy and healthy day. Please stay safe.

**Operator**

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