



# **Financial results for the fourth quarter and FY 2019**

26 March 2019



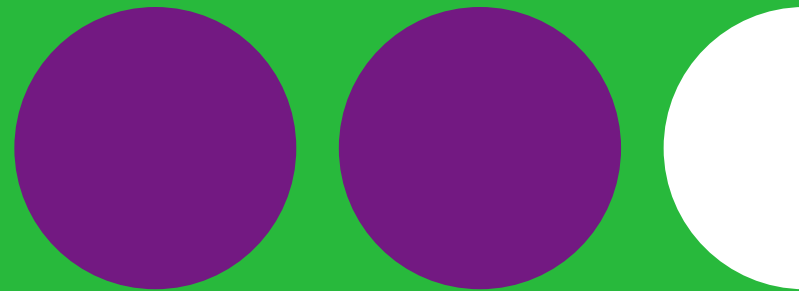
# Disclaimer

## **Some of the information in this document may be inside information.**

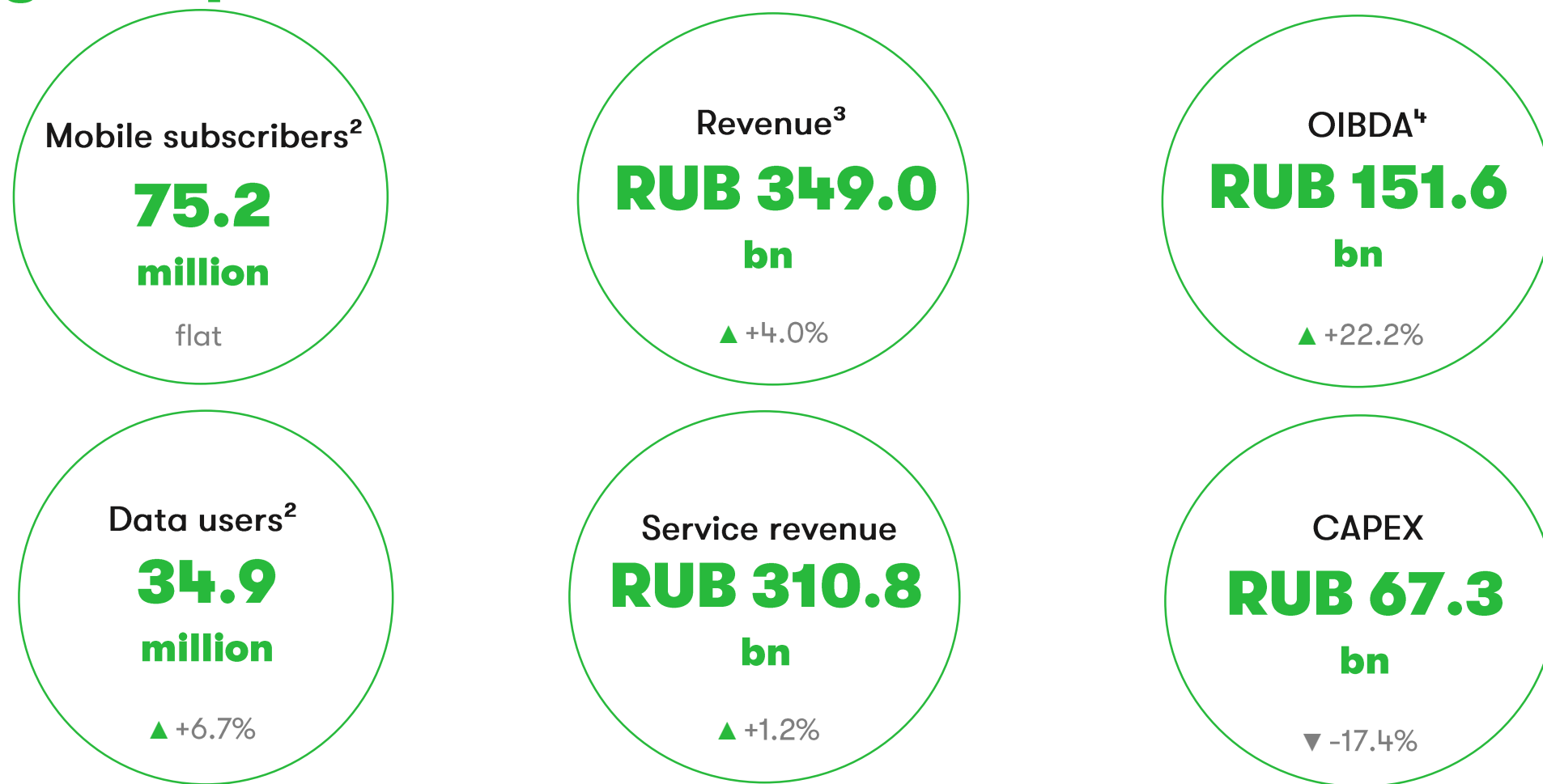
Certain statements and/or other information included in this document may not be historical facts and may constitute “forward looking statements” within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 2(1)(e) of the U.S. Securities Exchange Act of 1934, as amended. The words “believe”, “expect”, “anticipate”, “intend”, “estimate”, “plans”, “forecast”, “project”, “will”, “may”, “should” and similar expressions may identify forward looking statements but are not the exclusive means of identifying such statements. Forward looking statements include statements concerning our plans, expectations, projections, objectives, targets, goals, strategies, future events, future revenues, operations or performance, capital expenditures, financing needs, our plans or intentions relating to the expansion or contraction of our business as well as specific acquisitions and dispositions, our competitive strengths and weaknesses, the risks we face in our business and our response to them, our plans or goals relating to forecasted production, reserves, financial position and future operations and development, our business strategy and the trends we anticipate in the industry and the political, economic, social and legal environment in which we operate, and other information that is not historical information, together with the assumptions underlying these forward looking statements.

By their very nature, forward looking statements involve inherent risks, uncertainties and other important factors that could cause our actual results, performance or achievements to be materially different from results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the political, economic, social and legal environment in which we will operate in the future. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. We expressly disclaim any obligation or undertaking to update any forward-looking statements to reflect actual results, changes in assumptions or in any other factors affecting such statements.

# 1. Key Highlights of Q4 2019



## MegaFon performance in 2019<sup>1</sup>



(1) All changes are shown on a year-on-year basis – FY2019 vs FY2018

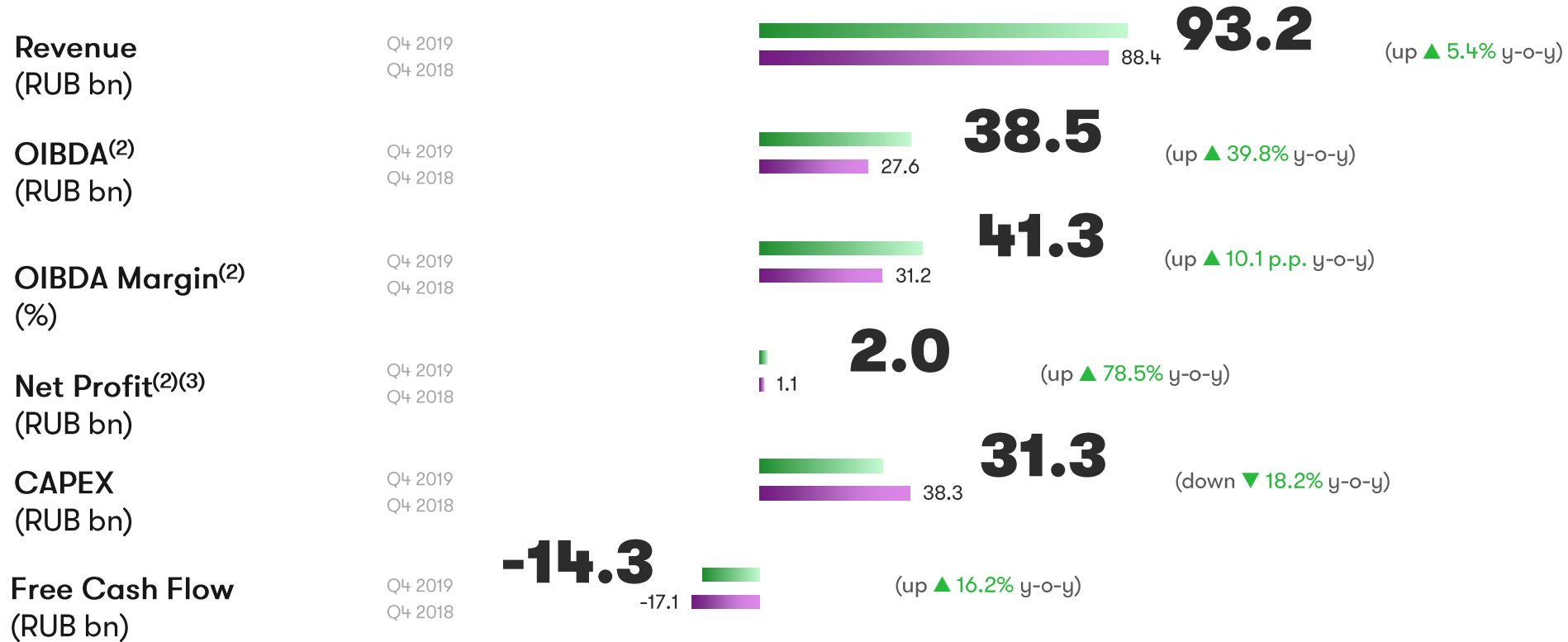
(2) Total number of mobile subscribers and data users in Russia only

(3) Based on the IFRS consolidated financial statements audited by JSC “KPMG”. As a result of the completion on 9 June 2018 of the transaction to create a joint venture with JSC “Gazprombank”, LLC “Financial Investments” and LLC “RT-Business Development” (a subsidiary of Rostec), the Group ceased to consolidate the financial position and the results of operations of its subsidiary, Mail.Ru Group Limited. Accordingly, all financial data in this document related to 2018 Financial year refers to the financial data of the Group exclusive of the Mail.Ru results. Such data was previously reported as the results of the “Telecom segment”

(4) Including the effect of IFRS 16 adoption

●●● Key Highlights

# Q4 2019 Key financial highlights<sup>1</sup>



Notes:

(1) The financial indicators presented in this document are based on the consolidated financial statements for 12m 2019 audited by JSC KPMG.

(2) Including the effect of IFRS 16 adoption

(3) Net Profit attributable to equity holders of the Company, exclusive of negative impact of non-cash impairment of Svyaznoy group investment in the amount of RUB 2.3 billion

## Q4 2019 and post-closing events



### MegaFon opened the first Experience Store in Russia

MegaFon opened its first Experience store in Russia with a focus on customers' digital experience. This is another step in modernization of the Company's retail network aiming to improve the service quality and increasing its revenue and the number of subscribers. The Experience store unveils a new format for MegaFon retail stores. Four times larger than the traditional store, the new Experience store has self-service for customers and promotes new types of digital services and goods.



### JV set to optimize the usage of a 5G spectrum in Russia

MegaFon, Rostelecom, VimpelCom, and MTS signed a MoU to consolidate efforts in jointly developing and optimizing the usage of 5G mobile networks (5G/IMT-2020) in Russia. The parties have been considering a number of options for the creation of 5G radio subsystems and will focus on development of electromagnetic reconcilability to free up the spectrum in 700 MHz, 3.4-3.8 GHz, 4.4-4.99 GHz and 24.25-29.5 GHz frequency bands including the possibility of creating a joint venture (JV) with equal shares. The four operators will be able to jointly use frequency spectrum allocated to the joint venture. The operators will be able to share the radio frequency spectrum on equal terms.



### MegaFon rolled out the next-generation NB IoT CatNB2 tech

MegaFon rolled out the next-generation NB IoT CatNB2 technology across 59 Russian regions, offering a fivefold increase in speed compared to the current IoT generation.



### MegaFon launched MegaFon-CARGO service

Jointly with Mail.ru Group, MegaFon launched MegaFon-CARGO, an automated freight shipping service. It combines the elements of TMS-system, marketplace, aggregator, cloud service and is a logistics ecosystem intended for cargo owners of any scale. The service provides an end-to-end process of transport logistics, integration with accounting and warehouse systems, transport and insurance companies.



### MegaFon updated Digital Lawyer service

Together with Nlogic MegaFon launched the updated Digital Lawyer service, which is based on a neural network and optical character recognition (OCR) technology. The service offers three products to increase the efficiency of the back-office of a large business and optimize its legal, operational and accounting functions.



### Driving the digital transformation of coal companies

MegaFon and SDS-Coal signed a cooperative agreement to build a modern communications infrastructure at coal-mining facilities and digitize operations management to drive labour productivity, and improve environmental and occupational safety.



### MegaFon launched FVNO project

MegaFon successfully launched the FVNO (Fixed Virtual Network Operator) project together with local Internet providers. The virtual broadband operator will complement the Company's own infrastructure.



### Free roaming in 130 countries across the globe

MegaFon and Booking.com entered into a unique partnership to offer their customers roaming services for free in 130 countries around the world. MegaFon subscribers will now be able to communicate and access the internet for free when travelling.



### MegaFon launched its own Cloud platform

MegaFon launched its own MegaFon Cloud platform using the resources of two TIER III Operational Sustainability data centers in Moscow. MegaFon Cloud is built on modern SSD disks and the latest generation processors providing high fault tolerance with availability of services at the level of 99.95%.



# Responding to global trends

Facing the global challenges related to CoVid-19 pandemic crisis, MegaFon strives to meet these challenges by supporting its subscribers with special offers and free access to online services...



Increased roaming call limits in Europe<sup>(1)</sup>



Free access to webinar and video conference solutions



Free access to educational and entertaining services<sup>(2)</sup>

... and by taking initiatives protecting its people against virus spreading in a number of ways



Emergency center (headed by CEO)



Full-fledged remote workspace arranged for employees nationwide following the directive on social isolation and movement restrictions



CEO-1 management roster formed to monitor situation and control the efficiency



All business trips cancelled except for those related to continuity of core business and network maintenance



Internal business meetings involving more than 3 participants are being held via videoconferencing



Access to the office buildings for stakeholders and 3<sup>rd</sup> parties temporarily restricted, except for mail delivery



Arrangement of working environment and office cleaning according to the recent requirements of the Federal Service for consumer rights protection and health welfare



Retail stores in Russian airports closed for the time being

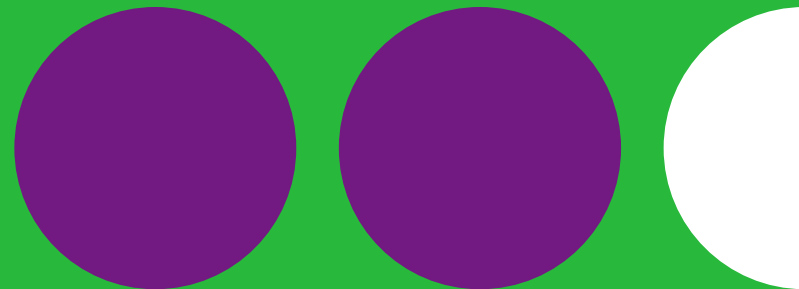


Proactive communication and action plan developed in case of negative scenario

(1) The offer is valid till March 31, 2020  
(2) Including MegaFon TV and MegaFon Education platform

# 2. Operating Overview

## of Q4 2019



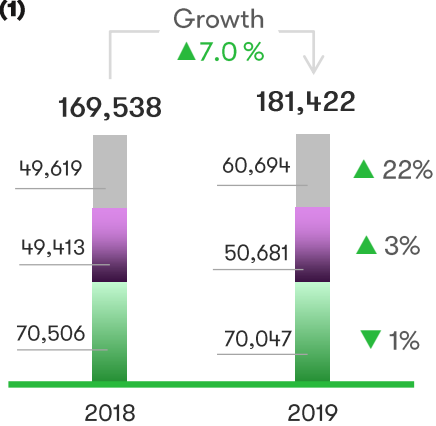


Operating Overview

# MegaFon keeps on building best-in-class network infrastructure



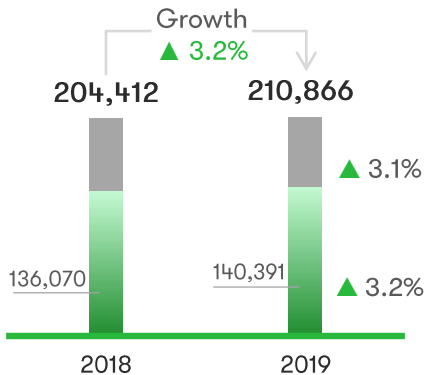
## Number of base stations<sup>(1)</sup>



- 2G BS, units
- 3G BS, units
- 4G BS, units



## FOCL<sup>(2)</sup>



- Backbone, km
- Backhaul, km



## Transit fiber optic infrastructure

- The largest fiber optic network among Russian mobile operators
- Supports further roll-out of the Company's mobile network



## #1 IN RUSSIA BY TOTAL NUMBER OF BASE STATIONS



## Data centers infrastructure

- Distributed footprint of data centers in Russia
- 120 locations in Russia, 6 large DCs (>2 MW grid power)

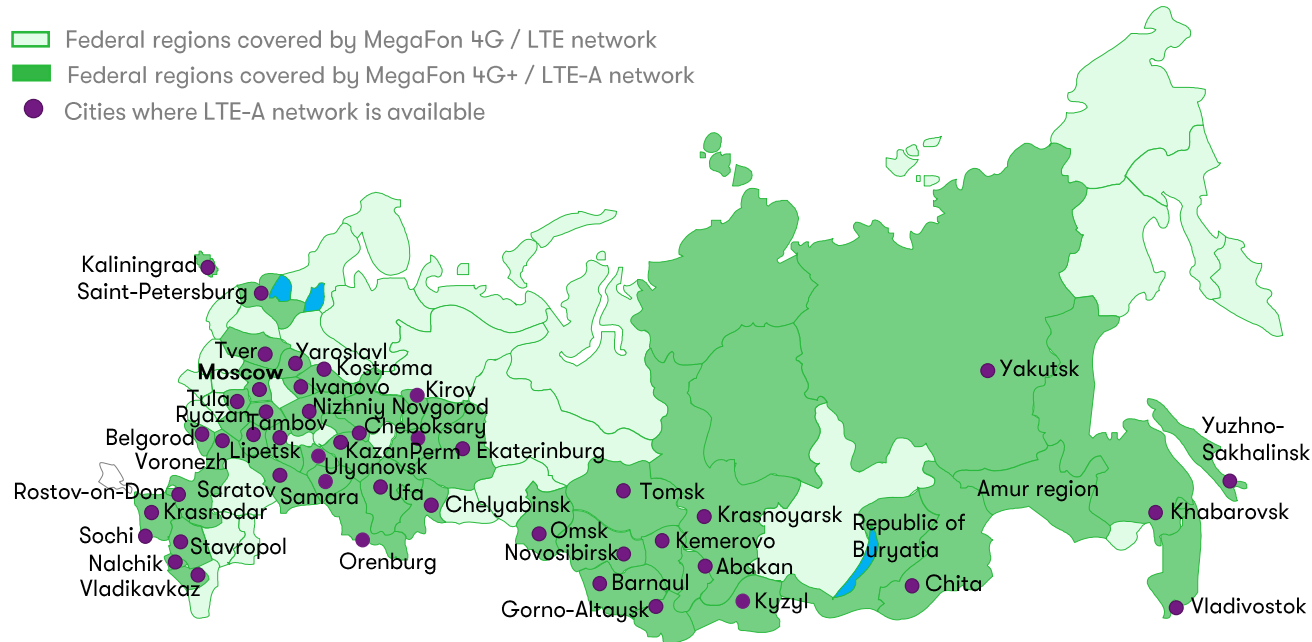
Location	Tier	Area, m <sup>2</sup>	Racks, psc	Power, kWh
Moscow, Vyatskaya	3	1,579	631	2,100
Moscow, Kavkazskiy blvd	3	1,602	612	2,976
Moscow, Technopolis	3	638	405	3,190
Moscow region, Dmitrov	3	882	289	2,700
Samara, Krasniy Pakhar	3	1,227	720	8,000
Novosibirsk, Tolmachevskaya	3	713	313	2,394

Note:  
 (1) Represents the number of logic base stations enabled to function in various frequency spectrum bands  
 (2) FOCL – fiber-optic communication lines

# High-speed network development in Q4 2019

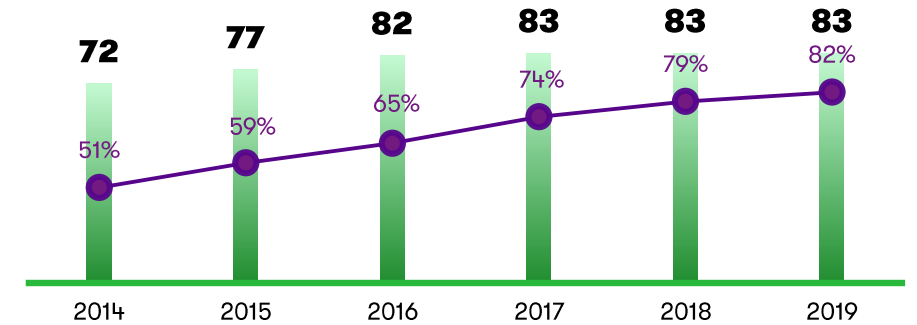
## 4G/LTE network development

- Federal regions covered by MegaFon 4G / LTE network
- Federal regions covered by MegaFon 4G+ / LTE-A network
- Cities where LTE-A network is available



## Availability of MegaFon 4G services in Q4 2019

- Number of Russia's regions where MegaFon 4G services are available
- % of population covered<sup>(1)</sup>



Available in all regions where MegaFon has a presence and in 128 countries via 280 roaming partners



4G+/LTE-A network providing speeds of up to 150-450 Mbit/s is available in 49 regions of Russia<sup>(2)</sup>



VoLTE services launched in Moscow, Moscow region, St Petersburg, Leningrad region, Samara, Krasnodar, Orenburg, Ivanovo, Murmansk, and Ulyanovsk



4G infrastructure includes 60,694 base stations<sup>(2)</sup>



33.0 million<sup>(2)</sup> 4G-enabled devices registered on MegaFon network, +16.8% y-o-y



4G traffic usage increased by 53.5% y-o-y



Share of 4G traffic in total data traffic reached 76.3%



Status as Russia's fastest mobile provider re-confirmed for the 3<sup>rd</sup> year in a row by Ookla<sup>(3)</sup>

(1) Russian population as of the latest census in October 2010

(2) As of 31 December 2019

(3) Based on speed measurement tests taken by mobile data users on their devices via Ookla's Speedtest app in Q1-Q2 2019 in all mobile networks in Russia

# Expanding digital ecosystem to satisfy the needs of digital subscribers in their everyday life



## Partnerships

**Digital shelf** is a set of unique offers for MegaFon subscribers together with digital market leaders

- Collaboration with **Blizzard** – two-click access to Blizzard’s bestsellers on games.megafon.ru, with discounts up to 10% and free data
- Exclusive partnership with **Tinder** offering MegaFon subscribers the best prices for subscribing to Tinder Gold with free data for the application and access to the service, even with zero credit
- A new service in partnership with **LitRes**, offering subscription to a library of audiobooks, including free data



## Education

**MegaFon Education** was launched in September 2019, and offers an opportunity to expand special knowledge, improve qualifications and even get a new specialty online

- The service offers training courses in IT, marketing, management and finance. Subscribers can learn new programming languages, take courses in public speaking, emotional intelligence and others
- 185,000 unique users, rapidly growing



## Video services

### MegaFon TV

- In 2019, the number of active users went up by 55% and totaled 1.6 million subscribers
- A new converged product launched (residential broadband, mobile services, TV), including MegaFon TV’s proprietary set top box
- Direct revenue increased by 35% y-o-y
- MegaFon TV market share at 2019 year-end was 3% according to Telecom Daily




## Financial services


**Bank card** - a unique electronic banking product based on MasterCard payment transaction system

- Single account of the banking card and a subscriber’s mobile phone account
- Three more new tariff plans added for the card offering a cashback of up to 1.5% in RUB for retail payments and an interest of up to 10% p.a. on the account balance
- Lending real money to subscribers based on Big Data insights
- Total card transaction volumes exceeded RUB 24bn for FY2019

# Key developments in B2X segment

**B2X continued strong performance in 2019...**

 **398K** B2X <sup>(1)</sup> clients  
+5.0% y-o-y

 **+3.2%** y-o-y growth of  
B2X revenue

**... and introduced a wide range of new products and services for digital clients**

## MegaFon Cargo

- An online platform to automate freight logistics and streamline the engagement process for all stakeholders
- From 23% to 7% – reduction in delivery delays
- 15% – reduction in the Company’s total transport costs

## Smart Call Processing

- AI-based cloud call automation solution for both incoming and outgoing calls
- Helps optimise man-hours and improve routine task management

## IoT Last Mile

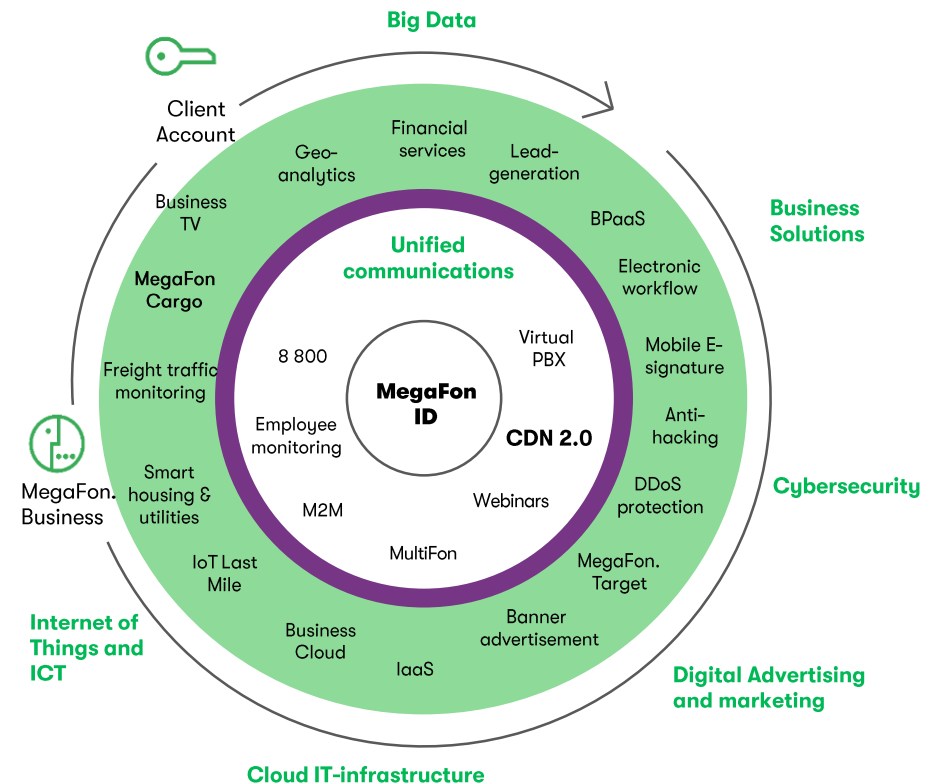
- A refreshed tariff line enabling B2O customers to set up last mile and/or backup channel services using a dedicated mobile APN network for data security

## MegaFon Environment

- An automated environmental monitoring solution

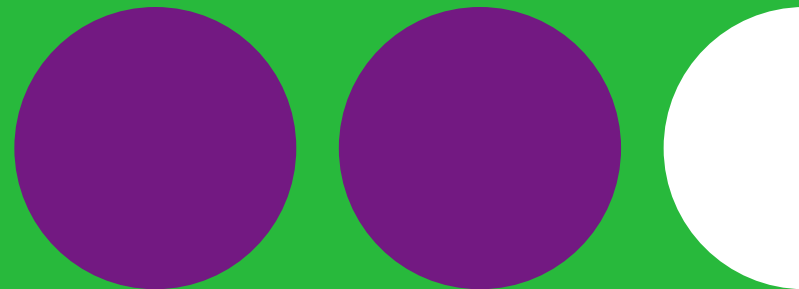
## MegaFon Cloud

- Best Tier-3 data centres in Moscow
- 100 Gbit/s – core network capacity

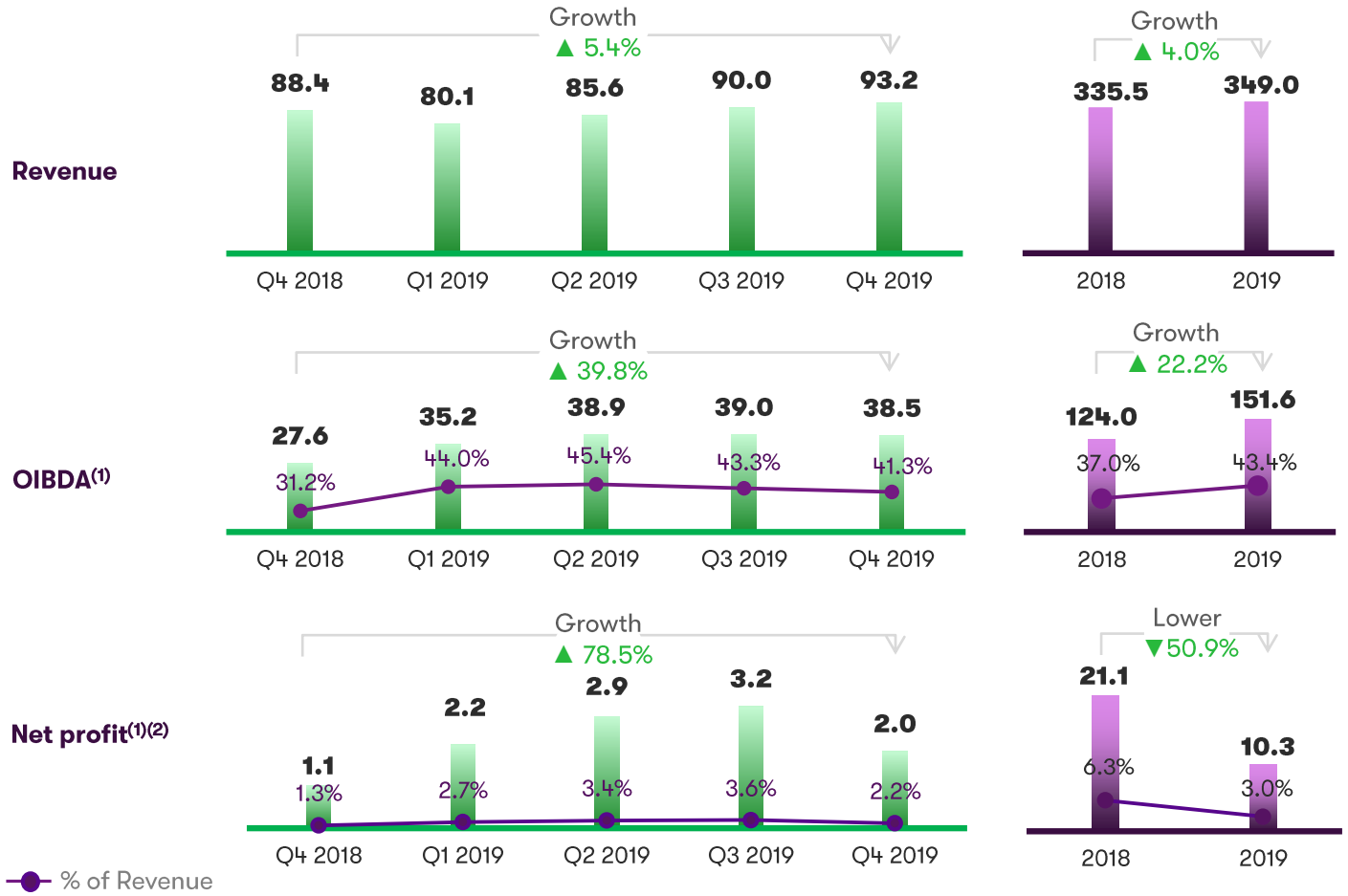


(1) B2X includes both B2B and B2G segments.

# 3. Financial and Operating Results of Q4 2019



# Key highlights: earnings trends



## Q4 Revenue, OIBDA and Net profit

- Total revenue in Q4 2019 went up by 5.4% y-o-y to RUB 93.2 bn as a result of strong growth in wireline revenue amounting to 16.2% y-o-y, as well as solid 41.5% y-o-y increase in revenue from sales of equipment and accessories. This was partially offset by 0.4% decline in wireless revenue
- OIBDA increased by 39.8% y-o-y to RUB 38.5 bn. This reflects a positive effect of RUB 5.5 bn from adoption of the IFRS 16 standard. Organic OIBDA<sup>(3)</sup> in Q4 2019 showed a strong 19.7% growth y-o-y to RUB 33.0 bn. The improved results were driven by the growth in revenue and a reduction of costs achieved through a number of initiatives we took aimed at increasing efficiency
- OIBDA Margin went up by 10.1 p.p. y-o-y to 41.3%. Exclusive of the effect of IFRS 16 adoption, organic OIBDA Margin<sup>(3)</sup> increased by 4.2 p.p. to 35.4%
- Net profit increased by 78.5% y-o-y to RUB 2.0 bn as result of the top-line growth and operational cost savings. Eliminating the negative IFRS 16 impact of RUB 830 million, organic Net Profit increased by 151.7% y-o-y to RUB 2.8 bn. The growth was still affected by the increase in finance costs resulting from the additional loans raised to finance the Tender Offer for shares and GDRs in 2018, the Mandatory Tender Offer in Q1 2019, and the final buy-back procedure, completed in Q2 2019

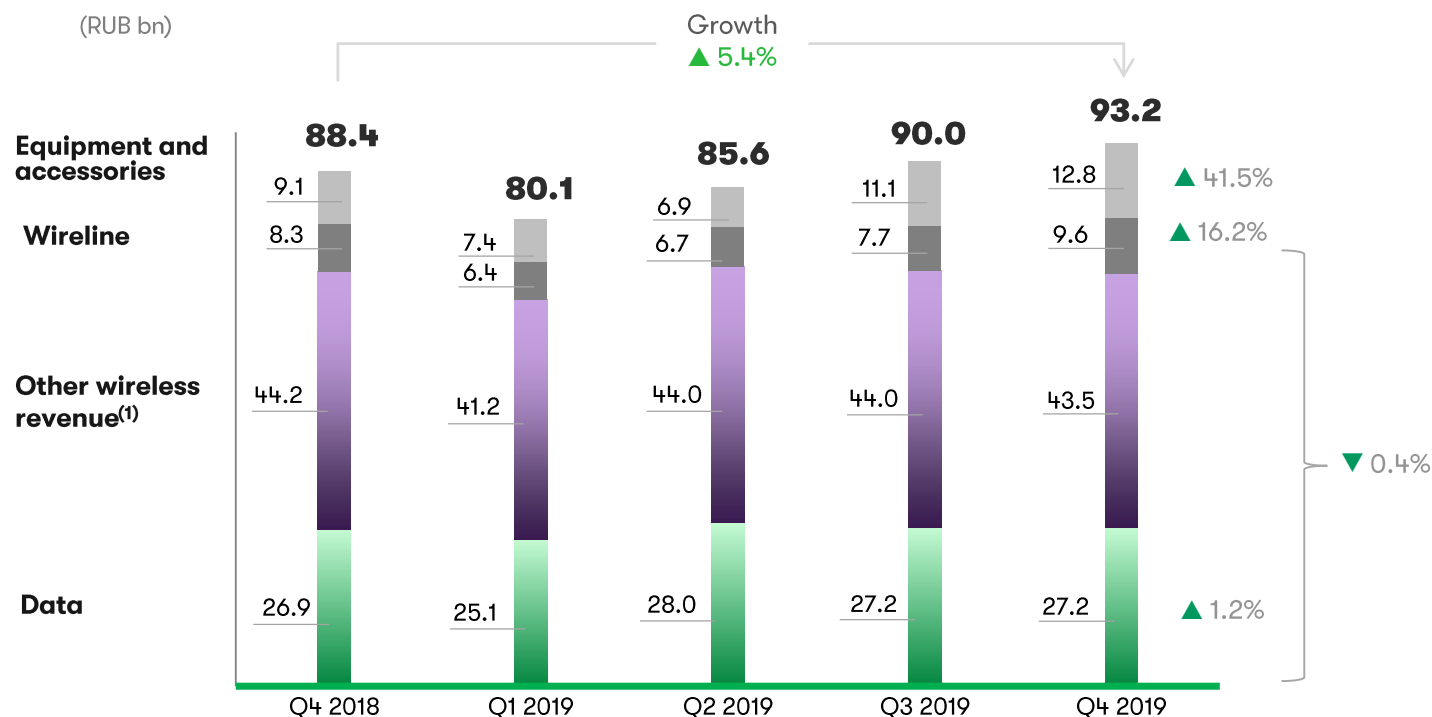
Note: Due to rounding, manual calculations for financials and KPIs may differ from those displayed

(1) Including the effect of IFRS 16 adoption

(2) Net Profit attributable to equity holders of the Company, exclusive of negative impact of non-cash impairment of Svyaznoy group investment in the amount of RUB 2.3 billion

(3) Organic OIBDA is OIBDA, and organic OIBDA margin is OIBDA margin, in each case exclusive of the impact of IFRS 16 adoption

# Key revenue components



Wireless	80.4%	82.8%	84.1%	79.2%	75.9%
- Data (% of wireless)	37.9%	37.9%	38.9%	38.2%	38.5%
Wireline	9.4%	8.0%	7.8%	8.5%	10.3%
Equipment and accessories	10.2%	9.2%	8.0%	12.3%	13.8%

**Wireless revenue** slightly declined by 0.4% y-o-y to RUB 70.8 bn in Q4 2019 mainly due to the cancellation of domestic roaming. Slowdown in both mobile data revenue and VAS revenue growth also had a negative effect on the wireless revenue dynamics

- **Mobile data revenue** experienced a slowdown in growth to 1.2% y-o-y, while continuing to contribute substantially to total revenue with its share in wireless revenue increasing from 37.9% in Q4 2018 to 38.5% in Q4 2019. This growth was supported by an increase in the number of mobile data users responding to various initiatives aimed at increasing subscriptions for medium and high tariff plans in the “Vkluchaisya!” (“Connect!”) tariff line, which provide a wider portfolio of digital products and partner services aimed at stimulating data consumption, such as increased cashback rate, cross-sales, and zero-rated traffic for certain musical streaming services or messengers

**Wireline revenue** increased by 16.2% y-o-y to RUB 9.6 bn due to significant revenue from ICT contracts with B2G clients. Another contributor to the growth was launching new FMC product in Moscow region, which unites broadband internet, TV and mobile services

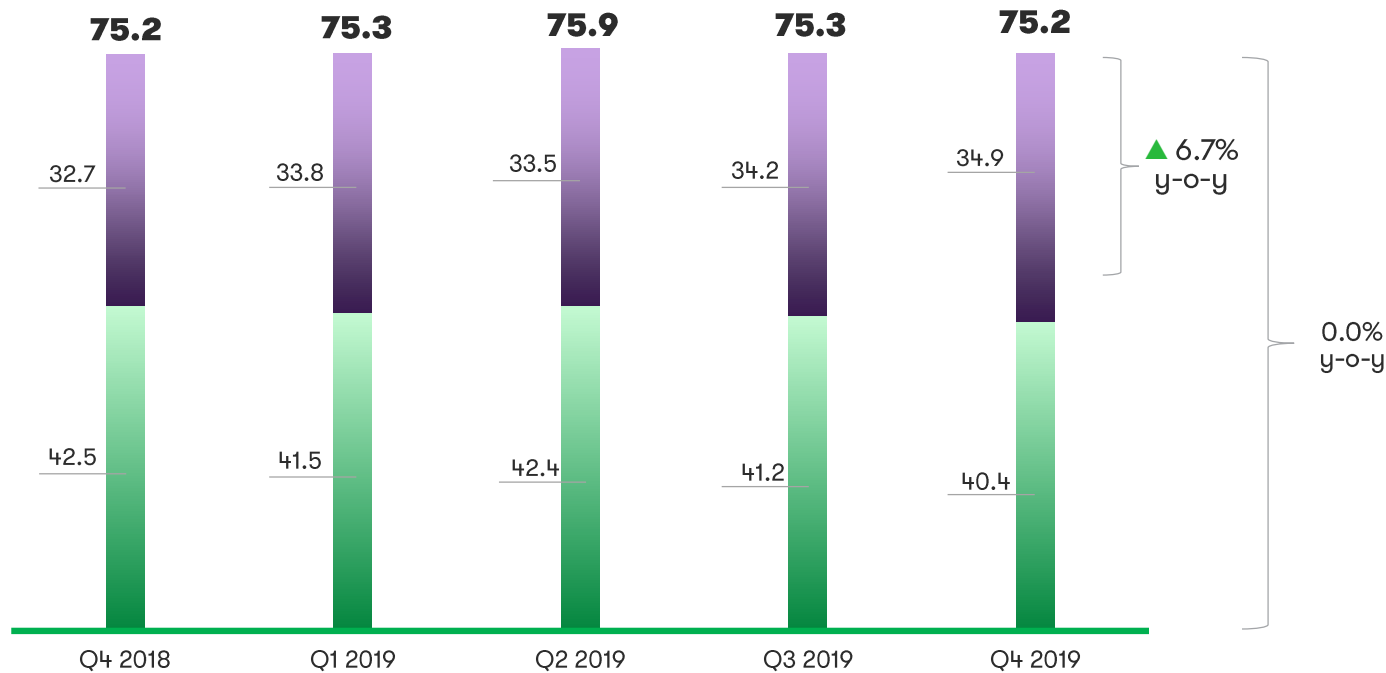
**Revenue from sales of equipment and accessories** in Q4 2019 increased substantially by 41.5% y-o-y to RUB 12.8 bn as a result of an increase in sales of smartphones, including those in the high-end price range, such as Samsung and Apple, as well as Honor and Huawei. The growth in smartphone sales was also supported by the opening of advanced retail stores focused on the provision of top quality client service and a unique customer experience

Note: Due to rounding, manual calculations for financials and KPIs may differ from those displayed.  
 (1) Other wireless revenue includes revenues from VAS services; revenue from local subscribers which includes monthly fees, airtime revenues, own subscriber roaming and connection fees; wireless interconnection revenues; roaming charges to other wireless operators



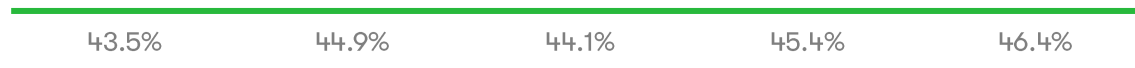
# Drivers of Russia total wireless services revenues: Wireless subscribers

(million)



■ Data service user base <sup>(1)</sup>    ■ User base not using data service <sup>(2)</sup>

## Share of data users in overall subscriber base, %



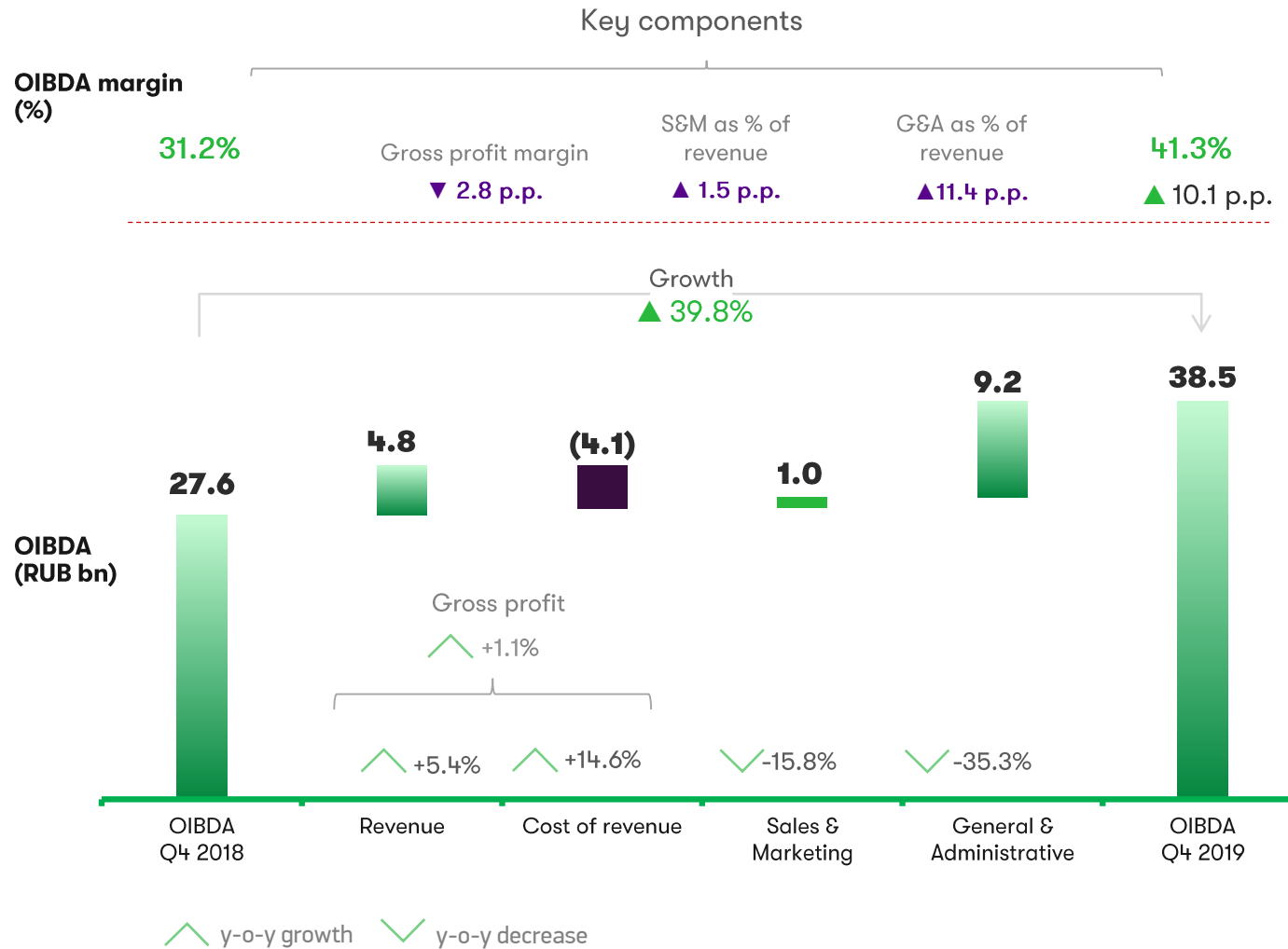
Results provided on this page cover only the Russian business

### Total Russia wireless subscribers including data service users

- Overall, the Russian subscriber base remained stable y-o-y at 75.2 million users, reflecting MegaFon’s strategy of increasing the lifetime value of our subscribers and their contribution to margin
- The data service user base increased by 6.7% y-o-y to 34.9 million users accounting for 46.4% of the overall subscriber base. This increase in data subscribers was supported by a steady growth in our data-service centered product and content portfolio, principally reflected in our refreshed “Vkluchaisya!” (“Connect!”) tariff line and other products developed to attract data consuming subscribers

Note: Due to rounding, manual calculations for financials and KPIs may differ from those displayed  
 (1) Data Service User is defined as a Subscriber who has consumed any amount of data traffic within preceding month  
 (2) Mobile subscribers that do not fall within the definition of Data Service User Base

# Key factors influencing OIBDA margin



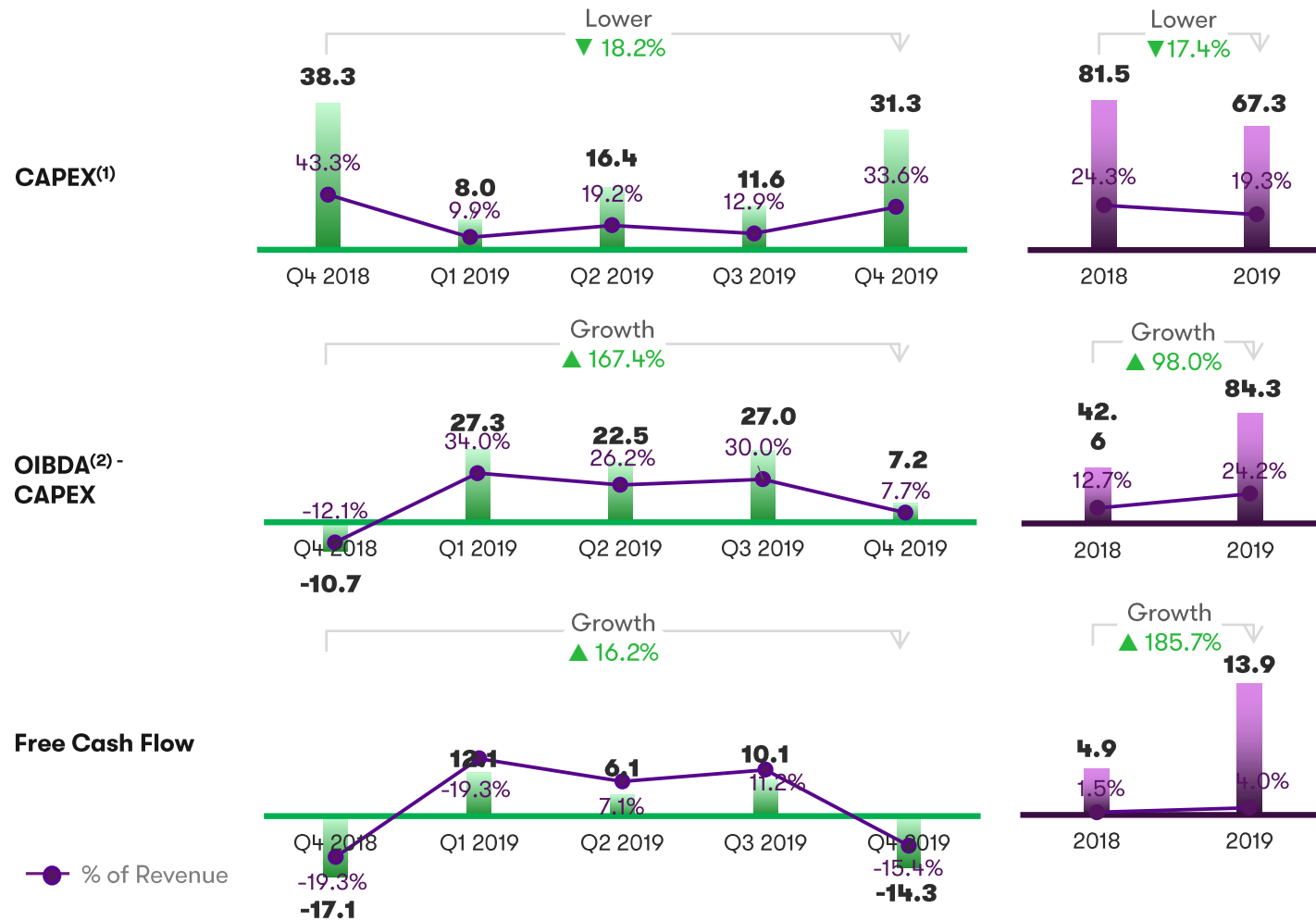
In Q4 2019, OIBDA<sup>(1)</sup> was up 39.8% y-o-y to RUB 38.5 bn, which resulted in an increase in the OIBDA margin<sup>(1)</sup> of 10.1 p.p. y-o-y to 41.3%

- **Gross profit** increased by 1.1% y-o-y following a 5.4% growth in top-line revenue, while gross profit margin decreased by 2.8 p.p. to 65.4% largely due to the increased cost of revenue resulting from the higher sales of equipment and accessories in Q4 2019, being traditionally a lower margin segment
- **Sales & marketing expense** reduced by 15.8% y-o-y primarily due to a 20.2% y-o-y decrease in dealer commission expense as a result of using Big Data analytics to target high-quality subscriber directly, as well as a significant 15.7% decrease in advertising
- **General & administrative expenses** declined by 35.3% y-o-y, principally due to a significant decrease in rent and utilities expense as a result of the positive impact of the adoption of IFRS 16. Another key driver was a decrease in spectrum expense due to the revision of charges by the regulator in H2 2018 coupled with the lower network maintenance costs in Q4 2019

Note: Due to rounding, manual calculations for financials and KPIs may differ from those displayed.

(1) Including the effect of IFRS 16 adoption

# Key highlights: free cash flow and CAPEX



## CAPEX, OIBDA-CAPEX, Free Cash Flow

• In Q4 2019, MegaFon spent RUB 31.3 bn in CAPEX, which is 18.2% lower than in Q4 2018 due to the fact that in Q4 2018 we incurred significant costs for upgrade of our billing platform and enhancement of the network resilience

The major investment projects in Q4 2019 included:

- continued roll-out of all networks with the focus on the accelerated development of high-speed mobile data LTE/LTE-Advanced networks across the existing network footprint, which resulted in our putting into operation 2,470 LTE/ LTE-Advanced base stations
- a buildup in network capacity to meet the increased subscriber demand for the best-in-class data services
- initiatives aimed at improvement of the quality of service and customer experience

• OIBDA-CAPEX increased by 167.4% y-o-y due to higher OIBDA reflecting the positive effect of IFRS 16 and lower CAPEX spending

• Free Cash Flow to shareholders increased by +16.2% y-o-y to RUB (14.3) bn on the back of improvement of operational cash flow, despite an increase in finance costs resulting from the additional loans raised to finance the shares and GDRs buy-backs completed in 2018 and in 1H 2019

Note: Due to rounding, manual calculations for financials and KPIs may differ from those displayed

(1) MegaFon CAPEX refers to actual CAPEX accrued for the year and may not match cash flow CAPEX

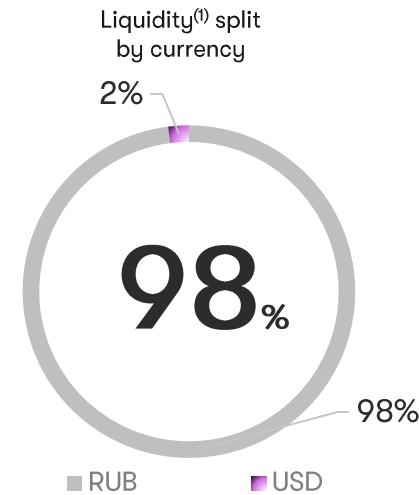
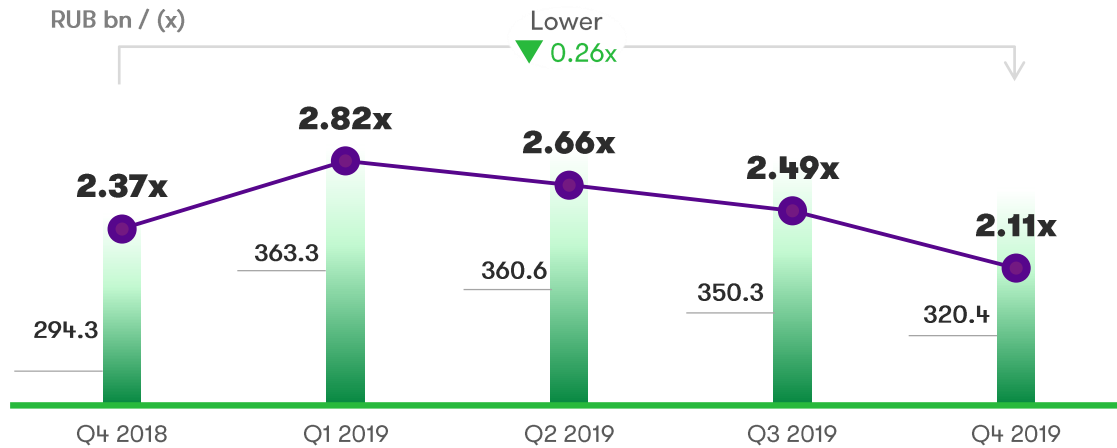
(2) Including the effect of IFRS 16 adoption

# Net debt and liquidity evolution

NET DEBT BUILD-UP, RUB BN	AS OF 30 SEPTEMBER 2019	AS OF 31 DECEMBER 2019	CHANGE
Cash and cash equivalents	22.7	52.7	30.0
Short-term investments	-	-	-
Total debt	373.0	373.1	0.1
Long-term debt	345.4	350.1	4.7
Short-term debt	27.6	23.0	(4.6)
<b>Net debt</b>	<b>350.3</b>	<b>320.4</b>	<b>(29.9)</b>

- MegaFon’s leverage decreased in Q4 2019 due to an increase in available cash
  - Net debt/LTM OIBDA<sup>2</sup> was at 2.11x level at the end of Q4 2019
- MegaFon continues its strategy to mitigate FX risk:
  - 2% held in US Dollars to offset the revaluation of FX-denominated liabilities
  - remaining cash held in rubles to take advantage of higher deposit rates

Net debt and Net debt/LTM OIBDA<sup>2</sup>

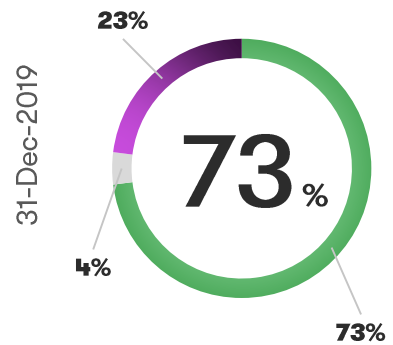
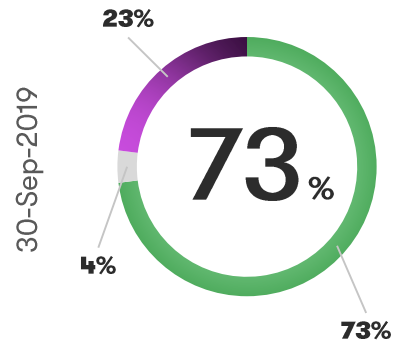


■ Net debt    ● Net debt/LTM OIBDA<sup>2</sup>

Note: Due to rounding, manual calculations for financials and KPIs may differ from those displayed  
 (1) - Liquidity is calculated as the sum of cash and cash equivalents and short-term investments  
 (2) - OIBDA in Q1-Q4 2019 includes positive impact of IFRS 16

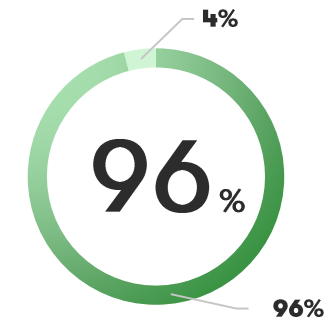
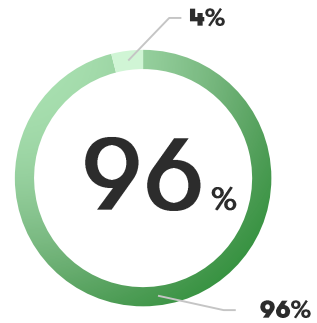
# Debt profile

By instrument



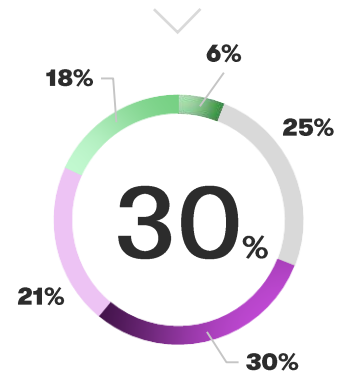
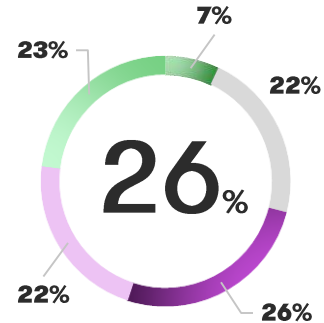
- Bank Loans
- Equipment Financing
- Bonds

By currency <sup>(1)</sup>



- RUB
- EUR Hedged

By maturity



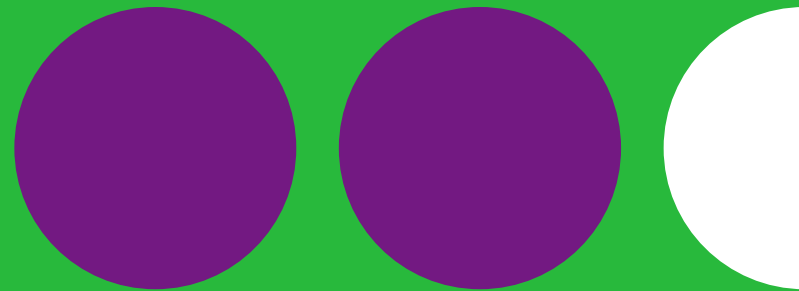
- 1 Year
- 2 Years
- 3 Years
- 4 Years
- 5 Years and Longer

- MegaFon concentrates on maintaining
  - diversified debt portfolio which is either ruble-denominated or hedged into rubles
  - a comfortable repayment schedule for its debt portfolio, 39% of which becomes due in 4 years or later

Note: Due to rounding, manual calculations for financials and KPIs may differ from those displayed  
 (1) — On nominal basis

# 5. Appendix

## IFRS standards



# New reporting standards

Starting from 1 January 2019 we adopted the new accounting standard IFRS 16 “Leases”<sup>(1)</sup>. The Company has applied IFRS 16 using the modified retrospective transition method without restating comparative amounts. The cumulative effect of the initial application of IFRS 16 on the Group’s retained earnings at 1 January 2019 is nil.

Key Financial Metrics RUB million	Reported (including IFRS 16 effect)			Organic (excluding IFRS 16 effect)		
	Q4 2019	Q4 2018	Y-o-Y <sup>(2)</sup> , %	Q4 2019	Q4 2018	Y-o-Y <sup>(2)</sup> , %
Revenue	93,202	88,412	+5.4%	93,202	88,412	+5.4%
OIBDA	38,518	27,561	+39.8%	32,995	27,561	+19.7%
OIBDA Margin	41.3%	31.2%	+10.1 p.p.	35.4%	31.2%	+4.2 p.p.
Net Profit <sup>(3)</sup>	2,022	1,133	+78.5%	2,852	1,133	+151.7%

Notes:

(1) IFRS 16 “Leases” requires lessees to present right-of-use assets and lease liabilities on the balance sheet for all leases (with limited exceptions). As a result of this our operating expenses for Q4 2019 decreased by RUB 5,523 million, while our finance costs and depreciation increased – all of which decreased our Net Profit by RUB 830 million in Q4 2019, net of tax. On transitioning to IFRS 16 we recognized a right-of-use asset and a lease liability in respect of our operating leases – both in the amount of RUB 88,651 million as at 1 January 2019

(2) All changes are shown on a year-on-year basis. Y-o-Y (or year over year) means the same periods in the current and previous year on either a quarterly or yearly basis

(3) Net Profit attributable to equity holders of the Company, exclusive of negative impact of non-cash impairment of Svyaznoy group investment in the amount of RUB 2.3 billion



# Contact Information

**MegaFon**  
**Investor Relations**

41 Oruzheyniy lane  
Moscow, 127006, Russia  
Tel.: +7 495 926-2012  
Email: [IR@megafon.ru](mailto:IR@megafon.ru)  
Web: [corp.megafon.com](http://corp.megafon.com)