

# Financial Performance

MegaFon continued to deliver steady growth and a robust financial performance in 2019. Consistent focus on our strategy was the key factor in enabling our revenue growth. By continuing to develop our portfolio of digital products and services that create genuine

value for our customers across all business segments, we are ensuring strong operational and financial performance and the Company's clear digital leadership in the market.

## Consolidated financial results, 2017–2019<sup>1</sup>

Indicator	2017	2018	2019	2019/2018
Revenue, RUB bn	321.8	335.5	349.0	4.0%
OIBDA, RUB bn	121.9	124.0	151.6	22.2%
OIBDA margin, %	37.9%	37.0%	43.4%	6.4 p.p.
Net profit, RUB bn	20.5	21.1	10.3 <sup>2</sup>	-50.9%
Net profit margin	6.4%	6.3%	3.0%	-3.3 p.p.
CAPEX, RUB bn	56.0	81.5	67.3	-17.4%
CAPEX/Revenue	17.4%	24.3%	19.3%	-5.0 p.p.
Free cash flow to shareholders, RUB bn	35.2	4.9	13.9	185.7%
Net debt, RUB bn	234.5	294.3	320.4	8.9%
Net debt/OIBDA, x	1.92x	2.37x	2.11x	-0.26x

## Revenue

In 2019, MegaFon's revenue grew by 4.0% to RUB 349.0bn. Service revenue grew by 1.2% to RUB 310.8bn, largely driven by a 6.6% increase in mobile data revenue. Mobile revenue increased by 1.6% to RUB 280.4bn. Russian revenue is a major component of MegaFon's total revenue and accounts for over 98.4% of total revenue.

Mobile data revenue growth was largely driven by upgrades of the 'Vkluchaisya!' ('Connect!') tariff line. In 2019, having invested much effort in identifying our customers' decision-making patterns and logic, we were able to release several successive versions of the bestselling 'Vkluchaisya!' ('Connect!') tariff line incorporating the latest technological solutions. We also launched new products and services

which stimulate data usage through expansion of our digital ecosystem and partnerships with other digital players. By leveraging insights gained through Big Data analytics, MegaFon became Russia's first telecoms operator to introduce a flexible bonus system with ever-increasing rates of cashback on subscription charges. The cashback points can be used to purchase our products. The Company also introduced a cross-product discount system for its subscribers. In the second half of 2019, MegaFon launched 'Obyedinyai!' ('Combine!'), a converged bundle plan that combines mobile, residential broadband and TV services. Our revenue in the fixed-line segment was driven by higher ICT services revenue from B2G customers. B2G projects included photo and video recording of criminal activity

<sup>1</sup> Based on the IFRS consolidated financial statements for 12M 2019 audited by JSC KPMG. Due to manual rounding, financial and operating results may differ from those presented here. All changes are shown for the same periods in the current and previous year on a quarterly basis, unless otherwise indicated. Indicators for 2018–2019 include IFRS 16 impact.

<sup>2</sup> Excluding revaluation of investment in an associate (non-monetary item).

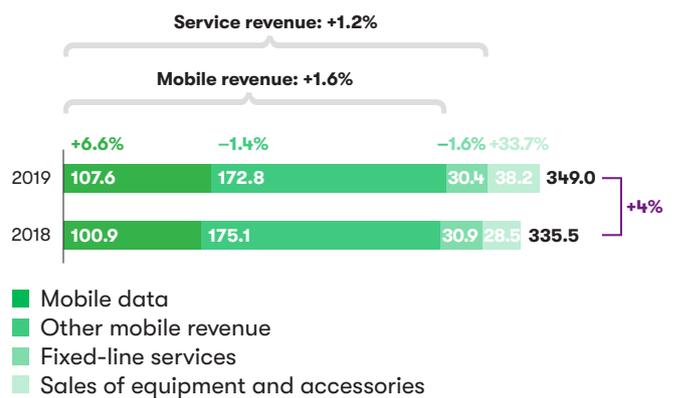
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in Samara and Yakutia, the launch of the emergency call system through a single number ‘112’ in the Pskov Region, the setting up of an information technology system (ITS) in Komi and many others.

Service revenue in 2018 included a one-time upsurge in demand for the Company’s services during the 2018 FIFA World Cup and the positive effect of the abolition of intra-network roaming in Russia in Q3 2018. As a result, our mobile revenue growth rate slowed in 2019 and our fixed-line revenue declined by 1.6% y-o-y.

In 2019, we saw excellent growth in revenue from sales of equipment and accessories, which grew by 33.7% y-o-y to RUB 38.2bn. The increase was largely driven by higher smartphone sales, including high-end models, such as Samsung and the latest iPhone, and by our campaigns promoting Xiaomi, Honor and Huawei smartphones. Smartphone sales were also boosted by the introduction of a new generation of stores, emphasising top quality client service and a unique customer experience.

### Revenue in 2018–2019, RUB bn<sup>1</sup>

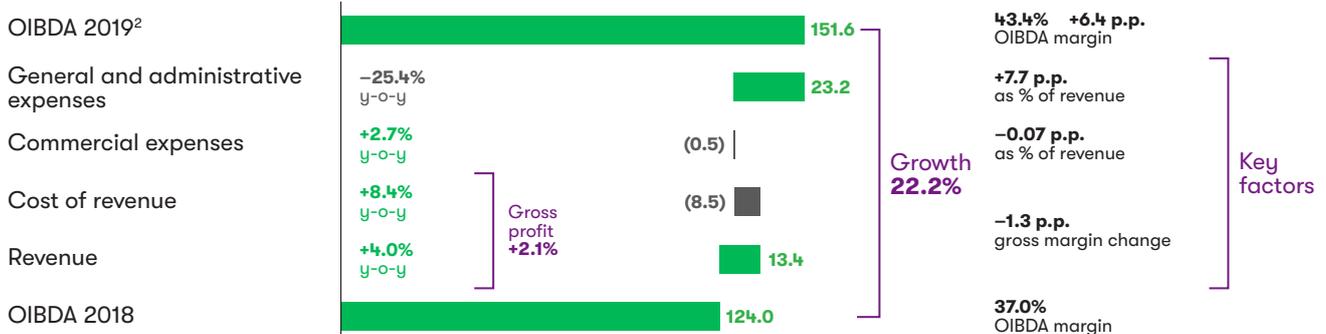


## OIBDA

In 2019, OIBDA was up 22.2% y-o-y to RUB 151.6bn, while OIBDA margin increased by 6.4 p.p. to 43.4%. OIBDA and OIBDA margin were driven by higher revenues and lower general and administrative expenses due to the positive impact of the transition to IFRS 16,

in the amount of RUB 21bn, as well as several cost reduction initiatives. In addition, MegaFon’s spectrum fees decreased in 2019 due to fee changes. The higher cost of revenue resulting from increased sales of equipment and accessories (that have lower margins versus services) had an adverse impact on OIBDA.

### Key factors influencing OIBDA in 2019, RUB bn



<sup>1</sup> Changes are shown for values stated in RUB m and, due to rounding, may slightly differ from those based on the data presented in infographics.

<sup>2</sup> Including the effect of IFRS 16.

## Net profit

In 2019, MegaFon's net profit decreased by 50.9% y-o-y to RUB 10.3bn. The decrease was primarily driven by higher finance costs due to borrowings made for the buyback of shares and GDRs completed in September 2018, the mandatory tender offer completed in Q1 2019, and the buyback of shares from the remaining minority

shareholders completed in Q2 2019. Other significant negative impacts were higher amortisation expenses related to our billing system, the upgrade of which continued into early 2020, and from the RUB 3.3bn negative effect of the transition to IFRS 16.

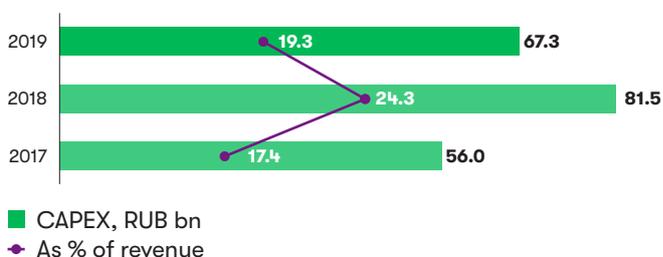
## Capital expenditures and free cash flow

In 2019, CAPEX decreased to RUB 67.3bn, down 17.4% y-o-y. Capital expenditures were mainly allocated to the further rollout of our network, improving its resilience, increasing the quality of our services and enhancing customer experience. In 2019, approximately 11,100 new LTE and LTE Advanced base stations were launched. Some CAPEX was also allocated to the preparations for the new 5G standard in Russia.

In 2019, MegaFon continued to make sizeable investments in data storage hardware and software required to ensure compliance with the Yarovaya law.

Free cash flow to shareholders in 2019 increased by 185.7% y-o-y to RUB 13.9bn due to the significant decrease in CAPEX and higher cash flows from operating activities. On the other hand, higher finance costs resulting from the additional borrowings obtained to finance the buyback of ordinary shares and GDRs in 2018–2019 continued to have a negative impact on FCF.

Capital expenditures in 2017–2019, RUB bn



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## Liquidity and financial stability

As at the end of 2019, MegaFon had sufficient liquidity and a comfortable leverage position. Net debt grew by 8.9%, from RUB 294.3bn in 2018 to RUB 320.4bn in 2019. This increase was primarily due to borrowings made to finance the buybacks of ordinary shares and GDRs in 2018–2019.

The Company's leverage was at its peak at the end of Q1 2019, upon completion of the buyback of MegaFon's ordinary shares, including those represented by GDRs, pursuant to the mandatory tender offer mentioned above. Thus, at the end of Q1 2019, MegaFon's net debt amounted to RUB 363.3bn. Throughout the year, the Company regularly used part of its operating profit to pay off its debt. As a result of this, coupled with a substantial OIBDA increase in 2019, the net debt/OIBDA ratio as at 31 December 2019 was 2.11x (down 0.26x y-o-y).

At the end of 2019, 98% of available cash and cash equivalents were denominated in Russian roubles (including through hedging arrangements) and 2% were denominated in US dollars and other currencies to mitigate the risks of adverse movements in our liabilities in foreign currencies. In addition, 39% of the debt portfolio has a 4-year or longer maturity.

MegaFon enjoys excellent access to funding and support from our financing counterparties. We monitor all developments in the financial markets and take timely steps to mitigate any negative impacts.

### Debt portfolio

In May 2019, MegaFon redeemed its then outstanding rouble-denominated exchange bonds totalling RUB 10bn at par. During 1H 2019, MegaFon issued three rouble-denominated exchange bonds totalling RUB 40bn at par value, with three- to seven-year maturities. The coupon rates ranged between 8.55%–8.9% p.a., payable semiannually.

### Debt portfolio as at 31 December 2018 and 2019, %

#### By instrument



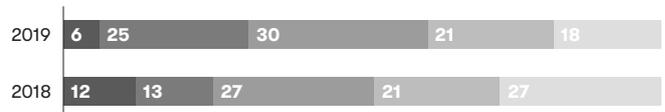
- Bonds
- Bank loans
- Equipment financing

#### By currency



- RUB
- EUR
- USD
- FX hedging instruments

#### By maturity



- 1 year
- 2 years
- 3 years
- 4 years
- 5 years and longer

### New accounting standards

From 1 January 2019, MegaFon has been applying a new accounting standard, IFRS 16 Leases, and its financial results are presented including the IFRS 16 impact. OIBDA without taking into account the positive effect of IFRS 16 in the amount of RUB 20,990m amounted to RUB 130,628m, and OIBDA margin was 37.4%. Adjusted net profit excluding the negative effect of IFRS 16 in the amount of RUB 3,282m amounted to RUB 13,630m.