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VEON Ltd. (VEON)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Faisal Ghori

Group Director-Investor Relations, VEON Ltd.

Hi, good afternoon, and good morning to everyone. Thank you for joining us today for VEON's Fourth Quarter Results Presentation for the period ending December 31, 2023. I'm Faisal Ghori, Head of Investor Relations. I'm pleased to be joined in the room today by Kaan Terzioğlu, our Group CEO, along with Joop Brakenhoff, our group CFO.

Today's presentation will, as usual, begin with the key highlights and business update from Kaan, following discussion of detailed financial results by Joop, will then hand it back to Kaan to discuss our outlook and priorities for 2024. We will then open up the line for Q&A.

Before getting started, I would like to remind you that we may make forward-looking statements during today's presentation, which involve certain risks and uncertainties. These statements relating partly to the company's anticipated performance and guidance for 2024, future market developments and trends, operational and network developments and network investments, and the company's ability to realize its targets and commercial and strategic initiative, including current and future transactions. Certain factors may cause actual results to differ materially from those in the forward-looking statements, including the risks detailed in the company's Annual Report on the Form 20-F and other recent public filings made by the company with the SEC.

The earnings release and the earnings presentation, each of which include reconciliation of non-IFRS measures presented today, can be downloaded from our website. We also note that today's presentation will include ratings from credit agencies, our rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

With that, let me hand it over to Kaan.

Kaan Terzioğlu

Group Chief Executive Officer & Director, VEON Ltd.

Thank you, Faisal. Good morning. Good afternoon. Happy Nowruz Ramadan Kareem to all. Thank you for joining our fourth quarter's 2023 and full year results webcast. Before we get into the detail, allow me to turn and zoom out and refresh our memory. When Russia-Ukraine war started, we made a choice. We chose Ukraine. Our exit from Russia resulted, as we can see in full year results, in a very different VEON. We might be more compact in terms of balance sheet, half the size, but today, we are a much faster growing company, with a very healthy balance sheet.

We continued delivering strong results in Q4 2023. Normalized revenues were up 18% year on year, and normalized EBITDA grew even faster at 25% year on year. For the full year, we have 18% top line growth, 20% EBITDA growth and 53% free cash flow growth, taking the free cash flow yield of 24%. Such results makes us extremely satisfied.

Our decentralized operational model with world-class governance allows us to build a leaner, faster, more profitable and more cash-generative company. Our local brands may be different, Jazz in Pakistan; Kyivstar in Ukraine; Banglalink in Bangladesh; Beeline in Uzbekistan and Kazakhstan. Names, brands may be different, but they all execute the same strategy, drive for the same targets, and they grow faster than their local competition.

In the majority of our markets, we have the highest net promoter scores, fastest broadband networks, and we are not only gaining market share, but also gaining wallet share. VEON today is resilient, it is strong. VEON is tough, which takes me to Kyivstar in Ukraine.

I want to thank our CEO, Aleksandr Komarov and his exceptional team. In the aftermath of the cybersecurity attack on December 12 on our network, thanks to their swift response. As of yesterday, we have surpassed the activity levels in terms of number of customers, data consumption, voice calls, roaming users, TV entertainment consumers, as well as health services consumers. And we are even more than pre-attack levels.

Moving on, let me also speak a little bit about our ongoing integration into capital markets. I'm happy to see that we are reintegrating to the capital markets community. Recently, we attended New Street Research, BCG Conference this past quarter and we have also attended JPMorgan and EFG conferences in the past few weeks. Currently, our securities are covered by Barclays, New Street Research, Inam/Tellimer and Imperial Capital. In the recent weeks, Standard & Poor's and Fitch issued their ratings about our company and MSCI rated us AA for ESG, putting us into the leaders category. If we haven't had a chance to communicate with you directly, please reach out to Faisal and our Investor Relations colleagues.

I want to talk about AI for a moment, not because everybody talks about it, not necessarily because I see AI as a tool to save costs, but because what matters. What matters is our customers. How can we make a doctor in Dhaka the best doctor? How can we make a teacher in Islamabad the best teacher? An auto mechanic, a farmer, a small business owner, smarter and more efficient. We are excited to make this happen. This is what we call AI 1440, augmented intelligence in every single minute in a day.

All our operating companies are working with the leading research institutions in their respective countries to develop small language models and job-specific language models. We can create AI-based language-specific models in Punjabi, Urdu, Bengali, Kazakh, Uzbek and in Ukrainian to respond to the needs in our markets with augmented intelligence. There is nothing artificial about AI. There is a way of using augmented intelligence purposefully. I cannot see a better value proposition than making our customers successful.

In the upcoming slides, I will outline the key achievements from the fourth quarter of 2023, followed by a detailed review of each country's operations and their ongoing implementations of VEON's Digital Operator strategy. Towards the end of my presentation, I will provide an in-depth update on these developments before handing it to Joop.

What is VEON 2.0? You can see in the slide five key pillars. Pillar number one, achieving double-digit growth. Through diligent efforts and establishing a new growth baseline, we have demonstrated our capability and

commitment to sustain double-digit growth trends. We call it fair market growth in line with nominal GDP and growth in our markets.

We have 520 million customers or potential customers and people living in our countries. Only one out of two have access to a proper, robust broadband service. Only 2 out of 10 has an access to a proper financial service. We believe the organic growth potential in our markets will be exponentially increased as we tap into the adjacent markets such as financial services, entertainment, education and healthcare.

Pillar number two, expanding margins. Our growth trajectory will facilitate margin expansion, given operational leverage and enhanced cost management. As this year has demonstrated, we are very effective when it comes to cutting costs out of our HQ costs and also OpEx.

Pillar number three, maintaining a robust balance sheet. Based on recent experiences, the importance of a solid balance sheet is very clear. We will continue to deleverage and optimize our capital structure. We no longer need excess cash for liquidity, and you will see us getting more effective in cash management, having an impact on interest expenses.

Pillar number four, generating more cash. Growing revenue, cost management, less interest expense will also be accelerated by moderation in investments. As we reach our 70% 4G penetration and already exceeded in some countries, you will see us moderating our investments. All these three elements with the investments focus will increase significantly our cash flow generation capability.

Pillar number five, advancing our digital operator vision. All the customers we have in the countries that we operate in, they deserve the services of any other developed markets. You will see us serving this unmet demand when it comes to entertainment, financial services, education and healthcare. And these will accelerate even the organic growth factors from 4G penetration, smartphone penetration, as well as the natural demographic flows. On top of this, you will see us integrating augmented intelligence and capabilities to our services in all markets.

Let's move to the next slide. During my presentation, I will concentrate on normalized constant currency growth rates, which more accurately reflects the true underlying growth trends and operational achievements across our operating companies.

In 2023, we achieved growth of 18% year-on-year revenue in normal local currency terms. Service revenues rose at a similar rate, up 18%, again in normalized local currency terms. Local currency normalized EBITDA expanded in 2023 at a rate of 20% year on year, and it is indicative of positive operating leverage and sound execution on cost management programs.

The financial results for 2023 showcase our business's inherent and robust capacity for generating strong free cash flow. Equity free cash flow increased 53% to \$434 million. This results in a free cash flow yield post interest expenses of 24% for VEON.

Our balance sheet remains strong, with a cash position of \$1.7 billion. Of this, \$1.3 billion is held at headquarters level as of December 31. Later in this presentation, Joop will provide an update of our pro-forma liquidity status, which takes into account the completion of our exit from Russia and early redemption of our 2023 and 2024 notes in October.

Let me share the details of the one-off items that have impacted our performance of the group for 2023. Number one is tax related one-offs in Pakistan and Uzbekistan. In 2022, we had some landmark court cases positive for

us, resulting in a positive decision. Second, one-off expenditures in HQ, including our expenditures related to the Russia exit. Number three, charitable donations in Ukraine and the cyberattack impact. You can see all the numbers related to those three elements up in the slides. After adjusting for these factors, VEON's organic like-for-like growth in 2023 continues to lead the sector, showcasing an impressive year-on-year growth of 18% and 20% increase in EBITDA. Taking these into account, Q4 2023 organic like-for-like growth at VEON would be 18% growth in revenue and 25% growth in EBITDA. For the full year, revenue grew 18% and EBITDA grew 20%.

Let's move to the next slide. In fourth quarter, we once again achieved double-digit growth at 18%. Local currency normalized EBITDA on fourth quarter at 25%, which excludes one-off impacts that I have mentioned.

In terms of reported dollars, we experienced a 1% increase in both total revenues and service revenues for the fourth quarter. Capital expenditures decreased 2% year-on-year, totaling \$258 million for the fourth quarter and CapEx intensity on a 12-month basis has come in at 17.6%, in line with our guidance.

Let's look our portfolio country by country. In Ukraine, Kyivstar achieved a full year double-digit growth in local currency. This success reflects the team's dedication to keeping Ukraine and its citizens connected, while also maintaining robust business performance. In our Central and South Asian markets, local currency service revenue growth of the year varied in between 14.6% in Bangladesh to 23.7% in Pakistan. As for EBITDA performance, excluding Ukraine, we saw local currency EBITDA growth ranging from 14.8% in Uzbekistan to an impressive 30% in Kazakhstan. Very balanced performance across all countries.

Looking specifically to Q4 in next page, you will see that year-on-year local currency service revenue growth ranged from 8.6% in Bangladesh to 28.5% in Uzbekistan. Again, from an EBITDA perspective, excluding Uzbekistan and Ukraine, local currency EBITDA grew at range – rates ranging from 23.3% in Pakistan to 30.1% in Kazakhstan. And EBITDA expansion is visible in all the markets.

Slide 12 takes us a little bit back into the history. And you see how from 2020 to 2023, the growth patterns of our different companies, on average, has varied and systematically now beating the inflation. Minus 2% decline in 2020 in local currencies expanded to 10% in 2021, 13% to 2022 and in 2023, we have reached 18%. As the dotted line symbolizes inflation, you can see that this reflects a nominal GDP aligned growth rate for our markets.

Where is the growth coming from? Let's look into our 4G and multiplay highlights. During the year, 4G users were up 11% to 94 million in Q4. 4G penetration rose 6 percentage points to 60%, bringing us ever closer to our group target of 70%. We see compounding effect of 4G for all and Digital Operator strategies in our multiplay segment.

Expanding 4G access enables us to convert more single player users to multiplay subscribers. Multiplay subscribers use both 4G connectivity and digital products, they spend more time on our applications. They stay longer with our services, churn less and drive higher revenue generation.

In Q4, multiplay segment revenue represented 33% of our group total revenues and grew 35% year on year. ARPU growth from different countries ranged from 5% to 25% year on year in local currency.

Let's look into Kyivstar in more detail. Kyivstar achieved double-digit growth in both local currency revenue and service revenue for the entire year of 2023. This growth was bolstered by an uptick in 4G penetration and increase in customers, opting for both double-play and multiplay services.

VEON and Kyivstar are committed to supporting Ukraine, both in our everyday efforts to keep Ukraine and Ukrainians connected and with our long-term commitment to invest in rebuilding Ukraine's mobile telecoms infrastructure.

In 2023, CapEx increased 7% year on year, and Kyivstar reconnected 190 communities to its 4G network in 2023. 15 of them were reconnected multiple times. Kyivstar has also made significant progress to ensure network resilience with power storage and generation capacities and capabilities installed across key sites.

As part of its 4G everywhere strategy, Kyivstar upgraded approximately 4,000 4G base stations, established 1,000 new 4G sites throughout 2023, and upgraded many sites to battery powered, which could last up to 72 hours in the middle of a war. Kyivstar continues to grow its 4G user base, reaching 14.3 million in fourth quarters, rising 60% of its customer base.

Helsi is furthest along in terms of our digital healthcare offerings across our portfolio. It provides online consultations with medical professionals and is a vital part of Kyivstar's Digital Operator Portfolio. Helsi Ukraine continues to power digital healthcare in Ukraine with more than 27 million registered patients, 10% year-on-year growth, having access to almost 1,600 active healthcare institutions, 37% year-on-year growth. And more than 37,000 specialists active on the platform, 20% year-on-year growth.

Helsi mobile app downloads increased 43% year on year and reached \$19 million in the fourth quarter, helping our clients to book 2 million appointments through the platform during the reported fourth quarter, which is 39% more than the last year.

Let me pause here for a second and share with you few points regarding Ukraine. We are fully committed to Ukraine. We stand with our choice. The Ukrainian people, and their future is our future, our people. We are a vital provider of communication and we play a critical role in ensuring digital services to the country. We remain actively engaged with Ukrainian officials. A delegation from VEON, including myself and Secretary Pompeo, visited Kyiv recently and we are in constant coordination with them to help ensure that Kyivstar continues to deliver vital communication services and addresses any possible concerns Ukrainian government may have.

Moving to Pakistan, Jazz, our operating company in Pakistan accelerated its growth despite the challenging macroeconomic environment in 2023. Jazz's successful execution of the Digital Operator strategy helped drive 2023 total revenue growth of 23% and EBITDA growth of 24%. In Q4, 4G user base reached almost 44 million, a year-on-year increase of 6% and a penetration rate of 62% among customer base.

We are enabling more and more users into multiplay users who account for 29% of operator's monthly active user base, with [ph] 3 times – 2 times (00:21:32) the ARPU of voice-only users. Jazz's multiplay customers generated 54% of operator's revenues in consumer segment, which is up 10.5 percentage points compared to last year.

With JazzCash, Pakistan's most popular financial services app, and Tamasha, the country's leading video streaming application, Jazz is a perfect example of how our Digital Operator strategy is succeeding at creating growth. JazzCash and Mobilink Bank continue to scale rapidly and profitably. Mobilink's gross loan portfolio expanded 28% year on year, while gross deposits rose an outstanding 188% year on year. Average loan size increased 31% at Mobilink Bank.

Total financial revenues grew almost 82%, driven by a 39% increase in gross transaction value, up to PKR 5.8 trillion. This corresponds almost to 7% of GDP of Pakistan.

The high growth was supported by a continued expansion of our retail distribution network, reaching more than 240,000 active merchants, up 29%, optimizing our agent base with more than 118 active agents by the end of fourth quarter. Just as an example, on the day, on a single day of December 30, 2023, JazzCash and Mobilink Banks issued over 71,000 loans in one day. As of February, digital lending portfolio was 82% year-on-year growth.

JazzCash had 16.2 million monthly active users and extended digital loans to 1.6 million customers, 35% year-on-year growth. Total revenues grew 82% and transaction volumes 39%. We believe JazzCash is defining the mobile financial services in Pakistan.

Let's look to Tamasha. In the fourth quarter, Tamasha, Pakistan's premier entertainment platform, witnessed its monthly active users climb to 10.6 million, marking a 2.5-fold increase year-over-year. Furthermore, the platform saw its total number of sessions jumped fourfold from the previous year reaching 555 million watched sessions. Tamasha is open to all mobile users, with nearly half of its user base consisting of non-Jazz customers. At the same time, the Jazz customers that consume Tamasha have an ARPU of three times higher than our single-play voice customers.

By bringing original and exclusive content that is relevant to our customers in Pakistan, Jazz and Tamasha are able to drive more individuals to use data and more multiplay offerings being consumed.

Moving onto Kazakhstan. Beeline Kazakhstan remains Pakistan's (sic) [Kazakhstan's] (00:24:59) leading operator in terms of Net Promoter Score, and it continues to gain market share. Total revenues rose by 21% year on year. Service revenues grew 21% year on year, driven by growth in mobile business, as well as other digital offerings and fixed line offerings.

EBITDA increased 30% year on year as higher ARPU, a growing customer base and rising consumption of data and digital services supported a solid top line growth. Beeline Kazakhstan's strong performance to be driven by higher ARPU, with consistent growth in the 4G user base, converged fixed mobile offers, specialized family packages and consumption of data and digital services. 4G penetration stands at 73%, reflecting 4G users of 8.1 million. This is up 12% year on year.

Multiplay users represent 42% of monthly active users, making Kazakhstan the most advanced in terms of our Digital Operator strategy. These customers consume Beeline Kazakhstan's digital services such as BeeTV, our fintech platform, Simply, our music platform, [ph] Hitter (00:26:24), and our digital-only operator, izi. This 42% of active users generate 60% of subscriber revenues.

In Kazakhstan, we have made \$5.9 billion of investments with a CapEx intensity of 21.5%, and despite the fact that we are deploying 4G and serving high robust 4.9G quality services against competition's 5G, we continue to gain market share.

Let me speak a little bit about Kazakhstan's first digital-first operator, izi. izi is an entertainment platform open to everyone, and it has 455,000 monthly active users. This is 4.3 times higher compared to last year. izi also provides telecommunication services and half of izi's customers have opted for also for these telecommunication services.

Being an agnostic telecommunications player actually introduces an entertainment service to lifestyles of young generations with great success. Monthly active mobile customers of izi increased 59% to 219,000 and izi users

enjoy the digital experience of the entertainment super app with an ARPU of KZT 1,800, which is 4.4 times higher compared to the ARPU of izi customers who do not use our telecom services.

Banglalink revenues rose 14%. This performance was driven by a balanced expansion in both customer base and average revenues. Driven by the uptake of digital services, the multiplay customer base grew 9% year on year, supporting a 60% increase in multiplay revenues, reaching 34% of total revenue generation potential.

Growing market share and ongoing investment in the Banglalink network drove EBITDA up 18% year on year, expanding the margin. Banglalink's strong focus on cost control and inflationary pricing helped deliver this impressive result, even when electricity and fuel costs continued to rise in multiple times.

Banglalink's 4G users increased by 7 percentage points year on year to reach \$20.1 million. This represents now 50% of the total subscriber base. Over the last four years, we have quadrupled this percentage of penetration.

Last but not least, the sale of one-third of our tower portfolio was another key highlight for Q4. Expect us to continue delivering on unlocking greater value from our portfolio, both physical and digital assets.

Toffee is another application that I would like you to remember. Toffee is part of Banglalink's digital operator offerings and the country's leading entertainment platform and OTT streaming platform. Toffee continues to maintain a healthy user base, with monthly active users reaching 8 million. Again, Toffee is available to all mobile customers in the country and currently, 65% of Toffee users are not Banglalink Telecom customers. The total number of sessions watched now is at 152 million, and this is actually 9% sequentially more than Q4 of this year. Banglalink customers who use Toffee generate three times the ARPU of single-play voice customers and this is the power of digital offerings.

Turning now to Uzbekistan, with the full year 2023, Uzbekistan achieved a 23% year-on-year local currency top line growth. This performance was driven by combination of expansion and both in ARPU as well as the customer base. There are double-digit increases in 4G users and data usage. Beeline Uzbekistan now exceeds 70% 4G penetration target, with 73% of the customer base using 4G data. 4G user base reached 6.2 million users this quarter, a 11% year-on-year increase.

Let me move to our flywheel of DO1440 digital services. I'm glad to see that our total monthly active users of digital services has reached 98.5 million, with an increase of 29% year on year. Among these users, 20.1 million is – never become a user of a telecom service and potential customers for us to gain.

I'm also extremely happy to see on our fintech environment, our year-on-year gross transaction values increased 11% to reach \$24 billion. And this 11% year-on-year growth in US dollars is equivalent to 44% year-on-year growth in local currency. We see higher usage levels, we see higher generation of revenues as we deploy these digital services.

Crystalizing the value of our infrastructure is one of our priorities. So far, you have seen a couple of transactions which has allowed us to unlock value from our balance sheet. Beyond information and telecommunications infrastructure sales, we are also looking for our non-core business disposals in the countries that we operate. And especially for our digital assets from fintech to entertainment platforms, we are looking for strategic partners as we also consider public offerings of our operators in local and international markets.

I would like to stop here and give the floor to Joop to give you a little bit more colors of our financial performance. Joop?

Joop Brakenhoff

Group Chief Financial Officer, VEON Ltd.

Thanks, Kaan. I'm pleased to present some of our key revenue milestones for the full year and the fourth quarter. This year marked yet another period of double-digit year-on-year growth in local currency revenues across all six of our markets.

Total revenue in local currency increased by 18% year on year, with service revenue also rising by 18% year on year. Despite these strong growth figures, our reported service revenue in dollar terms showed a slight decrease of 1% year on year on a reported basis. This was largely due to local currency depreciation in several of our key markets, especially in Pakistan, Bangladesh, Uzbekistan and Ukraine.

The driving forces behind our revenue growth include gains in market share and the expansion of our digital platforms across all operations, coupled with the implementation of disciplined inflationary pricing strategies.

On the next page, I will elaborate on our EBITDA and EBITDA margin. In full year 2023, VEON experienced a 20% year-on-year increase in local currency normalized EBITDA, with our normalized EBITDA margin improving by 0.8 percentage points to 46.2%.

It's crucial to recognize that our EBITDA growth was influenced by extraordinary one-off events in Kazakhstan, Pakistan, Ukraine and Uzbekistan throughout full year 2023. By making adjustments for these one-off occurrences, we gain a clear view of VEON's operational progress and profitability in local currency over the last 12 months, providing a more accurate measure of our financial health and efficiency.

For the recent quarter, we've achieved substantial year-on-year growth in local currency revenues across our six markets, with total revenue growing 18% year on year, culminating in reported revenue of \$953 million. Our reported currency revenue has shown modest growth, with a 1% raise year on year. As mentioned prior, this figure was influenced by notable depreciation in local currencies within our markets, mostly significant in Pakistan, Bangladesh, Uzbekistan and Ukraine. The surge in revenue is attributable to an increase in our market share and the broadening of our digital platforms throughout all operations, in conjunction with the implementation of methodical inflation-adjusted pricing strategies.

On a quarterly basis, VEON's local currency normalized EBITDA increased 25% year on year, complemented by a notable rise in our EBITDA margin of 2.5 percentage points to 44.4%. However, it's crucial to acknowledge that our EBITDA growth has been influenced by extraordinary one-time events as mentioned. Once these one-time factors are accounted for, the fourth quarter of 2023 reveals strong cost management and the positive impact of operating leverage. These elements have been pivotal in creating a fundamentally higher margin profile for VEON consistently over the last year.

Shifting focus to key balance sheet figures, I will now detail out our debt and liquidity status. As we close Q4, the group maintained a strong liquidity position, evidenced by a total cash reserve of \$1.7 billion, which excludes our banking activities in Pakistan. Of this amount, a substantial \$1.3 billion is held at our headquarters. At the operating level, each of VEON's entities remain self-sustaining in terms of financing.

In a strategic move this September, VEON undertook to complete advance redemption of notes set to mature in December 2023 and June 2024. This proactive measure has led to a significant decrease in our reported gross debt figures. As Kaan mentioned, we can also now share that we have secured BB- credit ratings from both Fitch and S&P.

As many of you are aware, we exited Russia in October 2023. As a result, the month and the quarter were marked by several transactions that materially influenced the group's financial position. As a result of the exit, our gross debt has substantially decreased and now stands at \$3.7 billion from \$6.7 billion from nearly a year ago. Similarly, our net debt and net leverage ratio has significantly improved, going from a net leverage ratio of 2.36 times a year ago to 1.42 times.

Let me now speak about the accounting impact of our exit from Russia. As a result of our exit, we will incur a non-cash cumulative currency translation loss of \$2.8 billion, which accumulated in equity through other comprehensive income and are recycled through the consolidated income statement on the date of the disposal.

As mentioned, non-cash and no impact on equity. Despite this, it's important to recognize that our continued operations have reported a profit of \$384 million for full year 2023, which translates to a price to earnings ratio with VEON 4.6 times. In other words, our continued operations are profitably growing.

Our overall equity for VEON is projected to rise by \$300 million for full year 2023. Taking into account the significant events, and on a pro forma basis, VEON's net debt stands at \$2 billion, a marked decrease from the \$5.1 billion net debt reported 12 months ago. It's noteworthy that \$1.6 billion of this net debt is attributed to the HQ level. Our cash reserves remained healthy at \$1.7 billion, with \$1.3 billion of this liquidity being retained at the HQ level.

Where does our debt profile stands now? Our debt profile has improved substantially. We have successfully restructured our debt to extend major maturities to 2025, providing the company with greater financial flexibility. By the end of the fourth quarter, VEON has \$400 million in debt, due within the upcoming 12 months. As of October 2023, the debt set to mature in 2025 totals \$1.64 billion. It's significant to note that additional debt repayments are poised to not only diminish VEON's overall gross debt levels and upcoming maturities, but will also lower the absolute cost of debt servicing.

Furthermore, there is [ph] \$810 million (00:40:50) currently outstanding under the revolving credit facility. This provides us with the option to rollover the amount into the final due dates in 2024 and 2025, thereby enhancing our liquidity management of long-term financial strategy.

Let me outline some of the changes to our cost of debt and average debt maturity. The cost of borrowing first quarter of 2022 has been impacted by three key factors. The emerging markets, frontier rates is the first one; higher interest rates on floating dollars; and Pakistani rupee debt. The second factor is early redemptions. The early redemption of VEON bonds maturing in December 2023 and June 2024 have also had an impact on borrowing cost, due to these bonds holding relatively lower coupons versus the average cost of debt and the acquisition of VEON Holdings bonds by PJSC VimpelCom.

Number three, higher proportion of OpCo debt. I should note that we now have a greater proportion of higher rate OpCo debt than lower rate dollar debt in our gross debt mix. This has the effect of increasing blended cost of debt. Our average debt maturity, excluding the RCF, stands at 2.9 years.

Now, I will hand over to Kaan.

Kaan Terzioğlu

Group Chief Executive Officer & Director, VEON Ltd.

Thank you, Joop. Let me look into 2004 (sic) 2024] (00:42:20) outlook. A year ago when we provided our guidance for 2023, we have indicated that the 2023 was up for a year for 10% to 14% growth in top line and

EBITDA. Over the years, over the months, we have increased our guidance and we actually increased the guidance in Q3 to 18% to 20% growth for revenues and EBITDA. We finished the 2023 with 18% growth of top line and 20% growth in EBITDA.

Looking to the trends of the first two months, we are cautiously optimistic that the momentum of growth continues and we are setting a guidance for 2024 for 16% to 18% growth of top line and 18% to 20% growth in EBITDA. We expect our 12-month CapEx intensity to be in between 18% to 19%. We believe that as we execute our Digital Operator strategy and improve our 4G penetration in all the markets, this momentum will enable us to achieve these results.

Thank you very much. I will stop here and open for discussions and questions. Thank you.

QUESTION AND ANSWER SECTION

Faisal Ghori

Group Director-Investor Relations, VEON Ltd.

A

Our first question comes from Rahul Shah from Inam Tellimer. In which market are you seeing the scope for the biggest revenue uplift from the digital strategy?

Kaan Terzioğlu

Group Chief Executive Officer & Director, VEON Ltd.

A

During my presentation, I have mentioned that the most advanced digital operator execution engine in our market is Kazakhstan. And we actually see here 73% 4G penetration and we generate almost 60% of our revenues from customers who consume also our digital services. This is followed by actually a very strong performance from Pakistan, Uzbekistan and Bangladesh.

Faisal Ghori

Group Director-Investor Relations, VEON Ltd.

A

Second question also from Rahul. Regarding asset disposals, do you have any visibility or scale, location, timeline? What are you facing the biggest challenges to upstreaming profits or asset sale proceeds?

Kaan Terzioğlu

Group Chief Executive Officer & Director, VEON Ltd.

A

In all the markets that we operate in, we do have independent tower companies currently owned by us and we are actually able to execute processes for transacting on either partially or fully on these tower companies. I do expect over the 18 months, these projects to deliver fruits. This year, we have finished in 2023 with one-third of our towers in Bangladesh and that will probably be the earliest ones that we will come back to the market again.

Now, disposal of assets is one thing that we create value from our balance sheet, but I also see our growing digital services as an attraction for international investors for actually taking strategic positions as well. Entertainment services like Tamasha and Toffee in Pakistan and Bangladesh, fintech services like Simply in Kazakhstan or JazzCash in Pakistan are also examples of potential value creation for us.

Faisal Ghori

Group Director-Investor Relations, VEON Ltd.

A

The next question is also from Rahul. Your guidance implies a slight uptick in CapEx intensity this year. Where will this extra investment be focused and why the shift in approach?

Kaan Terzioğlu

Group Chief Executive Officer & Director, VEON Ltd.

A

Last year, we actually were 1 percentage point below where we wanted to be, and this was due to the basically import controls that Pakistan has put in place. So, as that actually disappears, we do expect our normal path, which we started, as you know, about three years ago from 22% and now we are down to 19%, 18%. Last year was actually a 1 percentage point less than what we wanted to do in terms of investments. This is actually what – where we should be.

Faisal Ghori

Group Director-Investor Relations, VEON Ltd.

A

Okay. I'm going to switch to some of our kind of retail investors. Are there any plans to award shareholders with the dividend?

Kaan Terzioğlu

Group Chief Executive Officer & Director, VEON Ltd.

A

At this stage, we believe it's too early to come to that conclusion and we will keep everybody posted on that.

Faisal Ghori

Group Director-Investor Relations, VEON Ltd.

A

The next question is also from our retail platform. Are there any updates on the application that was submitted in Bangladesh for the digital banking license?

Kaan Terzioğlu

Group Chief Executive Officer & Director, VEON Ltd.

A

We are still in the process of talking with the authorities in terms of the digital banking license, and there has not been any news on that.

Faisal Ghori

Group Director-Investor Relations, VEON Ltd.

A

Okay. The next questions come from Stella Cridge from Barclays. Can you talk about how discussions around refinancing options have been progressing? How are you thinking about addressing the 2025 bonds?

Kaan Terzioğlu

Group Chief Executive Officer & Director, VEON Ltd.

A

Well, I will also ask [ph] Yoram (00:47:17) to chip in on this one. But for 2025 bonds, we believe that we are on track for normal maturity of those bonds. Any comments, [ph] Yoram (00:47:30), you would like to add?

A

No. I think what is important that [indiscernible] (00:47:35) a credit rating back and is not putting in place all the building blocks to address those maturities, as we near those maturities, which [indiscernible] (00:47:43) are more than a year wasted.

Kaan Terzioğlu

Group Chief Executive Officer & Director, VEON Ltd.

Thank you.

A

Faisal Ghori

Group Director-Investor Relations, VEON Ltd.

There's another question. Can we just comment about in greater detail about which subsidiaries are you able to upstream?

A

Kaan Terzioğlu

Group Chief Executive Officer & Director, VEON Ltd.

We do not have it currently, except for Ukraine, which is under martial law, any subsidiary with limitations of upstreaming.

A

Faisal Ghori

Group Director-Investor Relations, VEON Ltd.

Could you comment more about your engagement in Ukraine?

A

Kaan Terzioğlu

Group Chief Executive Officer & Director, VEON Ltd.

Sure. Ukraine is actually is – our team in Ukraine is doing a heroic job in terms of keeping our network up and running. As I mentioned you, not only that we are deploying new sites, we are multiple times deploying the same sites again and again to keep the network connected. In the meantime, we do have a very functional, open dialogue with the Ukrainian authorities to make sure that this service levels and support for the country continues.

A

Faisal Ghori

Group Director-Investor Relations, VEON Ltd.

Another question from the chat is, can you comment regarding your views on kind of FX and FX risk going forward?

A

Kaan Terzioğlu

Group Chief Executive Officer & Director, VEON Ltd.

Look, if I look the last four years, we had the era of COVID, and later war. And if I look back also in the last two years, one of the biggest, I think, impact that emerging markets have experienced was the increase of the interest rates from almost 0% to 5.25%. This is a financial equivalent of a nuclear bomb in emerging markets. I'm very happy to see that with regard to this type of turbulence, despite the fact that we had significant devaluations, our US dollar reported numbers were only down 2%, actually 1.5%.

A

I do expect that in the next era, the stabilization on the interest rates and potentially moderation of the interest expenses and this is probably be an era of more stability in the emerging markets economies.

Faisal Ghori

Group Director-Investor Relations, VEON Ltd.

The next question also comes from Stella Cridge. Can you comment about your kind of auditor situation and kind of its resolution?

A

Kaan Terzioğlu

Group Chief Executive Officer & Director, VEON Ltd.

Yeah, Joop, I'll pass it to you.

A

Joop Brakenhoff

Group Chief Financial Officer, VEON Ltd.

Thanks, Kaan. Yeah. After the sale of the Russian operations in October 2023, it was clear that the market really opened for ourselves. We've seen that analysts are supporting us. We've seen the rating agencies stepped in again. And also our discussions with the auditors started again. As a result, we have engaged with auditor for 2023, but of course, late in the process and therefore also our filing will be late, but the auditor has started. So, it's positive news.

A

Faisal Ghori

Group Director-Investor Relations, VEON Ltd.

The next question comes from [ph] Michele Ephemar (00:50:44) from Helicon.

A

Kaan Terzioğlu

Group Chief Executive Officer & Director, VEON Ltd.

Yeah.

A

Faisal Ghori

Group Director-Investor Relations, VEON Ltd.

Can you provide guidance on HQ costs in 2024 and beyond?

A

Kaan Terzioğlu

Group Chief Executive Officer & Director, VEON Ltd.

Hi [ph] Michele (00:50:51), thanks for the question. Actually, in 2023, we made a massive reorganization at the HQ, which allowed us to save almost 55% of our run rate. Now, we have reduced it to the level of \$75 million a year. And I do expect that optimization of our cost, of course, will continue as we normalize our operations. But HQ has contributed a lot to this year's margin expansion and we have completed this successful transformation last year.

A

Faisal Ghori

Group Director-Investor Relations, VEON Ltd.

The next question is also from Stella Cridge from Barclays. What are the sovereign bonds that you referred to in the presentation? What country do they relate to? Is \$150 million nominal value or market value?

A

Kaan Terzioğlu

Group Chief Executive Officer & Director, VEON Ltd.

We do keep some of our cash balances in Ukraine, in US denominated sovereign funds, and I think we are referring to that amount.

A

Faisal Ghori

Group Director-Investor Relations, VEON Ltd.

Can you comment regarding JazzCash in Pakistan in terms of revenue and asset size to the company?

A

Kaan Terzioğlu

Group Chief Executive Officer & Director, VEON Ltd.

A

Of course, JazzCash is a private entity within our operation. But if I look to its run rate growth, we have almost \$100 million of revenue run rate. It is EBITDA positive, cash flow positive and growing almost at 82% year on year with a very healthy unit economic cost. I believe this is going to be one of the driving factors of our business growth in Pakistan. If I look to overall Pakistan operations, almost 15% of our revenues today are generated through non-telecom assets, and a massive portion of that comes from JazzCash and Mobilink Bank and financial services.

Faisal Ghori

Group Director-Investor Relations, VEON Ltd.

A

The next question is from Rahul Shah. Now that you have a bond rating, will you be looking to extend your debt maturity profile?

Kaan Terzioğlu

Group Chief Executive Officer & Director, VEON Ltd.

A

We are looking for expanding our debt maturity profile, but my number one priority of achieving this is actually through the tower sales in local markets with long-term lease contracts other than anything else. That will allow us to basically deleverage the company at the headquarters, get rid of hard currency debt and turn it into local currency, long-term lease commitments.

Faisal Ghori

Group Director-Investor Relations, VEON Ltd.

A

The next question is also from [ph] Michele (00:53:20). Any relevant license payments do you expect in 2024 and beyond?

Kaan Terzioğlu

Group Chief Executive Officer & Director, VEON Ltd.

A

There is no renewals coming up except for a renewal in Kyrgyzstan, which is immaterial in total picture.

Faisal Ghori

Group Director-Investor Relations, VEON Ltd.

A

Okay. The next question is from [ph] Dmitry Ivanov (00:53:41). How do you plan to utilize the expected tower sale proceeds? Do you plan to finance local operations from the sales proceeds or upstream to the holding level?

Kaan Terzioğlu

Group Chief Executive Officer & Director, VEON Ltd.

A

So, as I mentioned, from my perspective, tower transactions is a very effective way of refinancing, hard currency, top line debt with local currency, long-term debt. And this is our primary objective. And, of course, we will use this also to further deleverage the company.

Faisal Ghori

Group Director-Investor Relations, VEON Ltd.

A

There is – he also has a second follow-up question. Regarding your debt profile, do you plan to reduce it? And if yes, what is a comfortable amount of debt at the holding level for you?

Kaan Terzioğlu

Group Chief Executive Officer & Director, VEON Ltd.

A

Joop, please also chip in, but the way I see it today, our leverage ratio is 1.43 if you exclude the long-term leases and 1.83 if you include them. And ideally, we would like to be somewhere in between 1 and 1.5 during this period, right?

Joop Brakenhoff

Group Chief Financial Officer, VEON Ltd.

A

Yeah. And especially we want to deleverage, of course, the group and especially deleverage HQ and then leverage the OpCos. And as I mentioned in the presentation, this will of course result to higher interest rates and therefore, we are a little bit conservative on that 1 to 1.5 times, yeah.

Faisal Ghori

Group Director-Investor Relations, VEON Ltd.

A

Those are all the questions in the queue. I think we'll give it another minute.

Kaan Terzioğlu

Group Chief Executive Officer & Director, VEON Ltd.

Thank you very much for being with us. I see that we have almost 100 people online. My greatest respects and looking forward to talking to you soon. Thank you very much.

Joop Brakenhoff

Group Chief Financial Officer, VEON Ltd.

Thank you.

Faisal Ghori

Group Director-Investor Relations, VEON Ltd.

Thank you.

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