

OUR CORNERSTONE, RUSSIA

Our largest market, Russia is the Cornerstone of our business, contributing 43% of Group EBITDA¹ in 2019. Our operating business, Beeline, serves 55 million customers through a growing range of services, from traditional voice, data and broadband through to streamed media content (Beeline TV) and mobile financial services. A mature market with four main providers, Russia saw continued price competition in 2019 through the promotion of unlimited data tariff plans.

Beeline experienced a challenging year in 2019 as aggressive competition in the market exacerbated our relative weakness in network and distribution, resulting in a year-on-year decline in our revenues of 0.6% on an organic basis.

Mobile service revenues led this decline, falling by 2.0% year-on-year on an organic basis as ARPUs softened in response to continued price competition in unlimited data tariffs. This was compounded by a decline in our customer base which partly reflected the restructuring of our store distribution network under our Beeline brand, completed in 2018. This refocused our distribution strategy around higher-value customers and resulted in some customers leaving our network as a consequence.

Weaker mobile service revenues more than offset the progress we achieved in growing our fixed mobile convergence (FMC) products during 2019, which contributed to a 5.8% increase in our broadband revenues and offset lower fixed line sales as we pivot away from voice-only business. Success here was enabled through effective tariff structures and efficient sales strategies as well as the growth of new revenue contributions in our B2B business.

Despite the dip in revenues, good cost control enabled Beeline to expand its organic EBITDA margin by 0.3% and deliver a similar amount of organic EBITDA in 2019 as in the year prior on a pre-IFRS 16 basis.

New services

Russia is a sophisticated, competitive market with a proven customer appetite for the growing range of services Beeline can offer. This customer journey often starts with our self-care application, MyBeeline; a personalised portal through which we can interact with our customers and configure a range of services that match their needs based on their preferences and other data they share with us. By applying algorithmic analysis to these data, we are demonstrating higher levels of ARPU and customer retention rates through the more tailored service choices we are able to offer.

MyBeeline had 10.1 million monthly active users (MAUs) at the end of 2019 and had helped to secure 2.2 million MAUs for BeelineTV, our online streaming service that configures movie and other video content to individual subscriber profiles, and Beeline's growing range of mobile financial services which recorded 4.9 million MAUs at the end of 2019.

Although Russia's total mobile penetration rate rivals many developed markets (159% in 2019), 4G smartphone penetration still accounts for only half of the market's subscriber base, suggesting a strong future for the growth of new, 4G-enabled services. This is reflected in the headroom we see for Beeline to expand its 4G footprint, which stood at 38% of our total customer base at the end of 2019, and to deliver new services to match the capabilities 4G offers.

Key economic indicators²

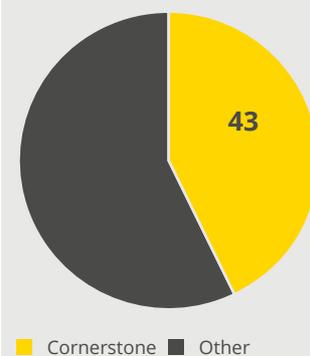
146m Population	4.7% Inflation rate
-0.1% Population growth	1.3% Real GDP growth

Market characteristics

159% Market penetration	60% 4G market share
76% Prepaid share	50% 4G smartphone penetration

FY 2019 EBITDA contribution¹

(Percentages)



1. EBITDA excluding corporate costs
2. Key economic indicators sourced from IMF database

Challenges and opportunities

Beeline's operational challenges in 2019 stem from a combination of company-specific issues and wider industry problems.

Network

The network perception issues Beeline has experienced reflect a degree of underinvestment in our networks in recent years that we are now correcting.

Beeline increased network investment by 35% in 2019, and by the end of Q4 2019 had 38% more 4G base stations than a year before. This investment has boosted our 4G coverage considerably, with 86% of our customers with access to our 4G network at the end of 2019, up from 74% at the close of 2018. That is important for revenues, since based on 2019 numbers a Beeline 4G subscriber generates, on average, close to three times the ARPU of a 2G subscriber.

The impact of this active deployment strategy has since been evident in March 2020 statistics from the Federal Service for Supervision of Communications, Information Technology and Mass Media Distribution, which show Beeline moving from 3rd place, from 4th, in terms of total number of base stations.

Distribution

Distribution efficiency is an industry-wide problem rather than a challenge for Beeline alone. The Russian market is overserved by retail stores, which places an undue financial burden on its operators.

Beeline has taken major strides towards addressing its own distribution footprint, which underwent a significant restructuring in 2018 when it consolidated retail stores formerly owned by Euroset under the Beeline brand. It closed around 200 of these stores in the second half of 2019 and plans to close a further 400 in 2020.

At the same time, Beeline has been deepening digital routes to market by developing its online sales channels, leveraging the growing presence of our MyBeeline self-care application within our customer base to drive engagement and customer retention.

Pricing

Pricing, similarly, has been an industry-wide issue, with strong competition around unlimited data bundles. Beeline's strategy here has been to restore pricing power through an expanded customer offer of digital applications and bundled products, including FMC services, which by the end of 2019 were being taken by half of our broadband customers (1.3 million FMC subscribers in total).

Taken together, we are confident that these measures to address our network perception issues, our distribution strategy and our approach to pricing will be successful in reversing the revenue trends of recent quarters.

Placing the customer at the centre of each of these will be a vital aspect of our success. Here, the creation of a new role within Beeline – our Chief Customer Experience Officer – underscores our commitment to putting the customer at the top table and engaging each through products and services that will earn their loyalty.

2019 Performance

On a reported basis, total operating revenue in Russia decreased in 2019 by 4% year-on-year, mainly due to the devaluation of the Russian ruble. In local currency terms, total operating revenue declined by 0.6% year-on-year compared to 2018.

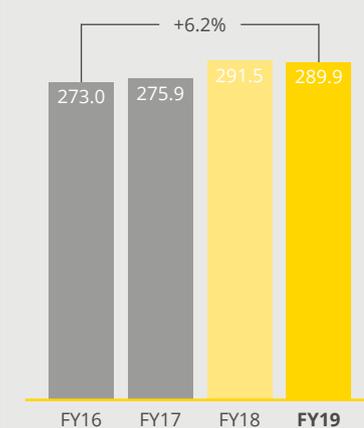
Adjusted EBITDA¹ increased in 2019 by 16% year-on-year to US\$1.96 billion, primarily due to the adoption of IFRS 16. The rise was impacted by savings in structural operating expenses, including savings in commercial costs, lower spectrum costs and the reversal of certain provisions, which was partially offset by the devaluation of the Russian ruble. In local currency terms, our adjusted EBITDA increased by 21% year-on-year and by 0.3% on a pre-IFRS 16 basis.

1. Adjusted EBITDA is a non-IFRS financial measure. See Glossary on page 111 for a full definition.

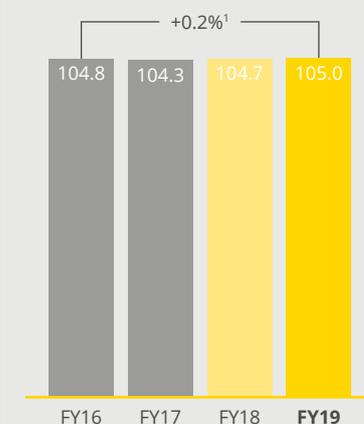
The number of mobile customers and data customers in Russia decreased in 2019 year-on-year, in each case driven by a reduction in sales through alternative distribution channels following the expansion of Beeline monobrand stores.

Mobile ARPU decreased by 2% year-on-year to US\$5.3, mainly driven by devaluation of the Russian ruble. In local currency terms, ARPU increased by 1%.

Revenue (RUB billion)



EBITDA Pre-IFRS 16¹ (RUB billion)



1. Growth excludes IFRS 16 impact in FY 2019