VEON FY 2018 RESULTS

Monday, 25th February 2019

Introduction

Richard James

Head of Investor Relations, VEON

Richard James: Well, good morning, ladies and gentlemen and welcome to VEON's 2018 Results Presentation. Today I am pleased to be joined on the stage by Ursula Burns, VEON's CEO; Trond Westlie, VEON's CFO; Kjell Johnsen, our COO; and Vasyl Latsanych, the CEO of Beeline Russia.

Ursula will start the presentation with a brief review of 2018. Kjell will then give a digital update, and a review of individual country performances. Then Trond will provide more detail on the group results and our outlook. Then we will hand over Vasyl who will provide an overview of the Russian market, and more detail on Beeline's strategy. And then we will ensure that there is ample time for questions at the end.

Before getting started, I would like to remind you that we may make forward-looking statements during today's presentation, which involve risks and uncertainties. These statements relate in part to the company's anticipated performance and guidance for 2019, future market developments and trends, operational and network development, and our network investments, and the company's ability to realise its targets and strategic initiatives 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 Form 20-F, and other recent public filings made by the company.

The earnings release and earnings presentation, each of which include reconciliations of non-IFRS financial measures presented today can be downloaded from our website. I would now like to hand over to Ursula to review our achievements of 2018.

Achievements of 2018

Ursula Burns

Chief Executive Officer and Chairman, VEON

Ursula Burns: Thank you, Richard. Good morning. And for all of you on the line, welcome and thank you for joining us, and to you in the room as well, for our 2018 presentation. Let me start today's presentation by reflecting on the year, on 2018. It was a transformative year for the company. 2018 saw large-scale movements in geopolitics and currencies around the world, and in economics in general at a global level and it actually impacted VEON very directly. It was also a year of significant change in our company. We implemented a new operating model and executed a major disposal to streamline our operation and focus them on emerging markets very narrowly.

Portfolio

VEON's portfolio of leading emerging markets mobile communications operators offers exciting prospects for the future success of the group as these are markets that are attractive and have attractive opportunities in population growth, in prosperity growth, and in this very important area of smartphone penetration. Each of the market represents distinct challenges as well not least of which is foreign exchange exposure which both Trond and Kjell will get into a little bit. This is one of the reasons that we implemented a new operating model at the centre that helps us to reduce costs, it gave our operating companies more flexibility to operate locally and to make the most of the local market opportunities and address the challenges very directly. It is the balance of these opportunities and challenges in these exciting markets that led me to accept the board's offer to take on the role of VEON's CEO on a permanent basis.

Now, as a reminder, we set four immediate strategic priorities when I came on board in last July. We focused on creating greater value for our shareholders and we have delivered on all four of these. We have implemented a new lean operating model for the group. As I mentioned earlier, this puts VEON in a better position to act locally to focus on cost, to be very dynamic in the marketplace. We have also invested in digitising our core. That helps us to improve the customer experience and to drive operational excellence and efficiency across all of our markets. We have shifted our focus from an HQ-driven central approach called the VEON Platform to investing at the operating company level in developing solutions and opportunities for the local markets.

Operating model

Our new operating model has also played a significant role in helping us to meet our corporate costs target. And we are firmly on track to halve our 2017 run rate by the end of this year. We are also committed to simplifying the group structure. In July, we launched an offer to acquire GTH's assets in Pakistan and Bangladesh. This was not successful but we remain committed to working our way through the strategic relationship with GTH and its minority shareholders and have recently submitted a mandatory tender offer for GTH, which is ongoing. Second focus area was on increasing VEON's operational focus on emerging markets.

We sold our 50% stake in the Italy joint venture. We did that in September. It was a standout success. We did it in a timely fashion. It reinforced our focus on emerging markets. And it helped us to realise value immediately for the shareholders, which was really good. And we are not stopping there. We have shifted our investments to local digital offerings as I said earlier in expanding our digital services on a global basis.

Third, we strengthened the group's balance sheet. With the sale of Italy, we got $2.9 billion. And we used almost all of that to repay debt. It helped us to improve our leverage and to lower our interest costs.

And finally, with an improved leverage and strong cash generation, we announced the payment of $0.17 dividend for 2018. This maintains our record of giving a dividend as long as the company's cash flow turns out to be strong. And we will continue to do that as we go into the future.

Highlights 2018

And before Trond runs through the group financials and then Kjell goes into detail by country, and I would like to draw your attention to the highlights for 2018 as you can see them on your slide. We delivered organic revenue growth for the year. We delivered EBITDA for the year that were ahead of our targets. As you know, we updated our projections in the third quarter and we met those updated projections as well. And we delivered a strong equity-free cash flow performance in US dollars, notwithstanding significant headwinds in currency. Although the headwinds and currencies are not things that we can control directly, we can do a lot to mitigate their impact. For example, we hold cash at the headquarters in US dollars, we have better aligned our debt currency exposure to our cash flow exposure. And by reducing the US dollar debt, we used the proceeds of Wind Tre to do some of that for us.

And we have increased our rouble debt over the quarters. We further worked with our vendors to share the risks and opportunities that are presented with currency movements. We did all of the typical things that you do to try to hedge yourself against the negative currency movements. We have done that pretty well.

Again, in quarter four, it was a solid quarter; as we reported, strong organic growth in both revenue and EBITDA. And we have been able to move our leverage down to 1.7X, below our 2X target and we intend to keep it in that range. And by doing that, we were able to also deliver a full-year dividend of $0.29.

Focus for 2019

So, now building on the momentum and the immediate priorities we addressed in 2018, there is four things we are going to focus on in 2019. The first is enhancing our core. And we are committed to digitising the core of our operations because we want to actually provide better service to our customers and lower our cost of operation, and be swifter in the way that we address opportunities and challenges over time.

So, as you know, we have installed a new digital business support system in Georgia and Algeria. That was provided to us by Ericsson. And we have pleasing early results. I am pretty impressed with the way that those went in and how they are operating.

And in Russia, we recently announced a partnership with Amdocs to essentially do the same; to modernise our business support system there. And today, if you read the news earlier today, we have reached a revised agreement with Ericsson that will help us to deploy this to more countries. We have actually narrowed the scope a little bit. It definitely appointed Ericsson to a set of high-priority solutions for us. And we renegotiated the contract and received $350 million or will receive $350 million for that. A good win-win, I think solution for both us and Ericsson.

The second is cost efficiency. We have more than – more to do in HQ. We have done quite a bit in HQ. We fundamentally changed the operating model there and reduced the costs significantly. But we still have more to do. And as I mentioned, we are on track to meet the targets that we gave to the markets, I mean in reducing our run rate by 50% by the end of this year. At the same time, we know that although the costs don't sit at the centre, we have to do the same thing out in the operating companies, and we are doing just that. We will be focusing on reducing costs, streamlining operation, using technology to move faster, and to do it in a more cost-effective manner.

Third, it is called portfolio management. And we put the word actively there because as the centre, we are managers and owners of a portfolio of operators around the globe. We will continue to manage this portfolio in order to deliver greater value for our shareholders. This means continuing to simplify our structure, i.e., GTH. This also means adapting different levels of asset intensity very specifically based on the assessment of returns in local markets. So, not a peanut-butter approach but very specific investments by market. It may also mean working through partnerships, which it will mean that, and also transactions that help us optimise the value and returns of our assets, and drive higher returns for our shareholders over time.

Fourth and but not least is what we call new revenue streams. Here we intend to progress at the operating company level through the development and deployment of local digital services, focusing on meeting the needs of underserved customers very locally.

Now Kjell will take you through some examples of both of these strands in a moment, the cost side, the growth side. And we will come back to you on all four of these areas in more detail in our Investor Day which is currently – we are currently planning for around summer, midsummer this year.

With that, I will hand it over to Kjell, who will take you through digital services before summarising the countries very specifically. Kjell, over to you?

Digital & Operations

Kjell Morten Johnsen

Chief Operating Officer, VEON

Kjell Johnsen: Thank you, Ursula.

Ursula Burns: You are welcome.

Kjell Johnsen: And good morning to all of you. Thank you for joining us today. I will start off with the digital part, and then I will try to take the main operations in a kind of summary fashion.

Digital

But looking into the digital side, there is been a lot of talk about the digital ambitions at VEON and our approach to it. The main thing that we have adjusted is we are now putting more responsibility with our OpCos, and that has been a success. In several of our OpCos, we have competencies that are top of the line, really at the world-class level. And we see that bringing more of the responsibility to the operations also creates a motivation and an excitement that we are building now.

But in digitising the core, it is all about streamlining; it is that in the future you are more likely to be in touch with a bot than with a person, which is the way many industries are going. We announced today our new agreement with Ericsson. So, that lays a foundation for building what is still going to be a world-class BSS system in the telco industry.

So, the adjustments we make are made because Ericsson is not pursuing the revenue-manager model. The rest of the systems will be very good. We have that in place in Georgia, we have them in place in Algeria and we are continuing to develop this in a partnership with Ericsson. Due to the work of Vasyl and Yogesh our CTO, we have also landed a great agreement with Amdocs. Amdocs has been our partner in Russia for many, many years. We are now taking that cooperation to the next level. And I think that brings a good balance to our portfolio. We have two very strong names that are committed to building excellent services for our systems, for VEON going forward.

Focus

Within our OpCos, we have developed DMP platforms, Data Management Platforms, over the last two years that are absolutely at the top level in the industry. We are using those actively for an analysis of building our networks. And Vasyl will speak more about that. We are using it for our Customer Value Management activities, securing that, we are not only focusing on driving gross adds, but we are also focused on driving up ARPU. The industry has for many years been very focused on the next quarter and the gross add numbers, but not enough on value. I am glad to say that in several markets, we see that it is changing. Maybe it is because when you run out of the easy pickings of new people coming on board, you have to focus more on value. We are also successfully developing internal digital services also with partners. Sometimes that means that we bring content in from partners. And other times, we are helping other value chains to build their own business.

For example, like we do with credit scorings and all things that – so that when you go to think of and take a loan, it is quite likely that some of the credit scorings that are done there come from us to actually helping them build their business, which is absolutely fine. And I would like to take you through a couple of examples of where we see interesting opportunities.

Examples

Pakistan, a country with a secular population growth growing by a couple of million people every year. A huge banking opportunity, still 80-90% of the population more or less unbanked in the traditional sense. JazzCash is building on Jazz being the strongest brand in the market without any doubt. Five million active customers. And we see opportunities to continue driving growth within that dimension.

Beeline TV has taken us out from a situation where we had old refurbished set-top boxes to now we have a sleek product that looks like it is designed in California by Apple or someone else. It is not anywhere near what you saw a couple of years ago. Introduced in Russia, moving on quite well. The intention is to move that to other countries. And I think we will spend a lot of time on that during 2019 so we can secure a reuse of the learnings we have here.

And then we are moving on from being a telco with a self-care platform to focusing on creating B2C ecosystems. I think the industry has underestimated the value of our interaction with the customer base here. We see messengers getting – were getting high valuations. If you look into our B2C ecosystems, we have almost as many people, monthly active users, in Russia as Viber has over our networks. And we have more than some of the well-known messengers out there.

So, clearly by putting more opportunities there for our customer base, we can derive growth and a better and more exciting customer experience for our clients. So, full speed ahead, much more focused on the local part, OpCos responding with enthusiasm and competence. So, I am quite bullish about our digital services going forward.

Business and growth

So, if we turn to the business, I think there is one word that captures it and that is growth. We are back to growth again. We see it almost over the board. And it is not unnatural. Many of our countries have young populations. They have growing populations. And we have strong positions that capture that growth.

The only country here that comes out as negative is Algeria. But if you look under the surface, you will see that we are actually increasing our market share quite significantly. So, on a relative performance basis, I am very satisfied with that development.

I will not speak too much about Russia. We have Vasyl here today, he knows the Russian operation from A to Z. And he will also answer questions around it. We have integrated Euroset. On time, on budget, we are transforming the Russian retail going from a joint venture in Euroset where we really could not add very much value in the interaction with our customers to a controlled channel that helps us getting out of the grey market that everyone wants to see hopefully closing down over time in Russia. This leads to growth. It means that our handset, our devices business is now twice as big as it was two years ago. And also, it is becoming profitable. We now have scale that make us very exciting for the device vendors.

So, we have turned that from being a loss-making business to now being a profitable business. Again, Vasyl will take you more through these things. I am just very happy to see that in terms of network development, we are now best in class in Russia. We have the highest rollout speed of the operators and we will have a strong network underpinning our business in Russia going forward. Pakistan had a tremendous performance. Headline numbers are very, very strong. And we are of course reminding you that the Supreme Court of Pakistan issued a suo motu. But even if we adjust for that, we are talking about double-digit growth at 9.9% a year.

We see good profitability. We see customer numbers increasing. It is already at 56 million customers in Pakistan. They are neck and neck with Russia when it comes to being the biggest operation in our group from a customer point of view. We are very well on track with our 4G rollout. We think we have timed it very well. We see around 25-30% smartphones 4G-enabled. And we have already LTE on the majority of our base stations, closer to 60-65%. That is a healthy development. And I think we are well-placed for competing with Zong and Telenor in Pakistan.

Algeria has executed really well on a turnaround. The management has followed a consistent strategy from the end of 2016 of investing into network quality, especially in Algiers, taking a more aggressive stance in the market, because it was clear that a couple of the other players were not at all focused on building value, just focusing on gross adds. We have pushed it back. We have been gross-add winners for a big part of 2018. And we see that we have been able to increase our market share.

We have launched the business support systems with Ericsson in Algeria. It is up and running. So, it is not something that is going to happen in the future. And if I should highlight challenges, it would be more about network rollout. We see from international studies that Algeria is quite far down the list on internet speeds. So, I would hope and expect that in our dialogue with the authorities, we would get an even better momentum on building out our base stations, but also our trunk lines and the intercity networks that are crucial for the industry in order to deliver the speeds that we would like to deliver.

Bangladesh has stabilised. I think that is a quite good achievement. It is not the easiest market to operate in, but Erik and the team have now been able to come to a small growth. And I think we should be satisfied with that. Still some things coming along that could be helpful for us. The S&P regulation is kicking in. And that will have an effect on the dominant player who takes most of the profitability out of that market.

Meanwhile we are focusing on changing the way we roll out networks. We are rolling out much earlier in the year. So, if you see this number falling off a cliff, it is basically because we have decided that we want to do most of the network rollout in the first part of the year and reap the benefits throughout. Overall a good stabilisation effort by the Bangladesh team.

In Ukraine, what else can we say? Kyivstar is a very well-run company, a clear market leader, taking very mature decisions in terms of its go-to-market strategy. And we see a very stable and a healthy development. We had a setback with ZTE when they had their denial order. It set us back a couple of months. That was fixed and arranged. And by the end of September, we are completely back on track on our 4G rollout. So, the pace in terms of network rollout is as it should be. And we see that we are ready to take the wave of 4G-enabled smartphones also in the Ukraine in our stride.

In Uzbekistan, we talked a bit about last time, it has gone from being a difficult country, closed, to having now a government that is committed to opening up. And we see that we are able to extract our profits from the market. And we also see, which I am very glad to notice, that the foreign currency balances are not going down. So, this looks to be sustainable. And the dialogue with the government is centred around what is the next move that can drive performance growth forward.

We are a market leader. We are rolling out 4G also at a very good pace. There are no critical hurdles at this stage. Ideally, we would have liked to see a bit more opening up in terms of international gateways. But that will be the icing on the cake. So, Uzbekistan has gone from being slightly problematic to being a quite great story for us at VEON.

That is basically what I wanted to touch upon when it comes to the operating companies. And we will do Q&As afterwards. And I hand it over to Trond please.

Fourth Quarter Results

Trond Odegard Westlie

Chief Financial Officer, VEON

Trond Westlie: Thank you, Kjell. And good morning from me as well to everybody here as well as the ones online. So, Ursula were alluding to the year as such.

Good results

So, I am going to focus on the fourth quarter results; delivering good results in fourth quarter, $2.25 billion of revenue and $714 million in EBITDA. That is a 5.3% growth on the top line. And we see 10% year-on-year growth in EBITDA specifically helped by Pakistan and Ukraine delivering $230 million of equity-free cash flow in the quarter; of the $2.2 billion of revenue, that is, $550 million of mobile data revenue, which is slightly more than a 30% increase year-over-year in mobile data. I will come back to that as well.

The net leverage ratio is 1.7 after selling off Italy and it has come down significantly from last year, and it is well below the two times that we have said we are comfortable with. On the corporate costs, the fourth quarter is slightly higher than the previous quarters, due to the fact that we have some severance provisions in that quarter of $52 million. If I exclude that $52 million, we have a year-over-year decrease of more than 34% fourth quarter over fourth quarter. So, we are very much in line with delivering on the cost intensity or the cost improvements.

When we go to the revenue and the EBITDA development, I am not going to spend too much time on it. But on revenue side, you see that the development is very much driven by Pakistan and Ukraine. I think that is the overall drivers for this quarter. Russia is picking up slightly. And when you look at the EBITDA that is the same development.

In addition to that, I think the year-over-year development is also influenced by Bangladesh and Algeria flattening out. So, if you look at the fourth quarter over fourth quarter compared to year-over-year, you will see they are much flatter the declining or Bangladesh slightly improving. And Algeria is still slightly declining due to the fact that the market situation that Kjell alluded to.

Forex in the fourth quarter, you see that it had an effect of $285 million on the revenue side and $111 million on the EBITDA side. If you look at the other way of composing the revenue development, the equipment accessories was slightly up with $20 million. Voice coming down and data coming up. The data growth in specifically Ukraine, Pakistan and Algeria is actually fairly high. Ukraine as a result of rolling out. The net in second half and as a result of that data is actually growing more than 80% year over year and Pakistan has the same amount of data growth as well.

So, a lot of growth coming on in those two countries. And when it comes to on the EBITDA, you see that the service revenue element is higher than the total cost development. And that means that the cost efficiency that I am going to focus on later is starting to show, even though not as much as we would like, and I will come back to that.

The currency effect is the same as previously mentioned of the $285 million in revenue and $111 million on EBITDA. On the corporate costs side, the corporate costs in 2018 were $360 million including the additional severance costs in the fourth quarter of $52 million. Having said that, there is more severance costs in there, but some of that were anticipated when we gave you the guidance for the year. So, I am not sort of specifying the other elements of that. So, all overall, a 20% decrease year over year as we said is delivered.

On track in 2019

Going into 2019, we expect to take another 25% out from the $360 million, down to the 270ish level in 2019. And of course, that will enable us to come to the $215 million going rate going into 2020 as we have been saying. So, we are on track on delivering our corporate cost development.

But we are not only interested in our corporate costs. We are also interested in the operational efficiency going forward. And as a result of that, we are also introducing the cost-intensity ratio improvements going forward. And the reason for talking about cost intensity instead of talking about nominal numbers is because we are in a growing environment. And that means that even though we have a saving target, we still see that revenue is going to grow in the future. And that means that costs will grow in the future but the ratio is going to be different. And that means that our ambition is to reduce by at least 1% a year over the next three-year period. 1% is about $85 million if you take the nominal numbers out of

2018[?]. Times three is around the $250 million. So, that is our ambition over the next three years.

We started this project way in 2018. The activities that we have in plan is sketched in the circles in the middle. So, we have a lot of initiatives going on service and technology costs. We have initiatives on commercial and we have initiatives on G&A. And these are the elements that we are going to focus on to drive that intensity going forward.

Numbers

Just to end up in the numbers. Q4 numbers starting on the EBITDA of $714 million. You will see the depreciation coming down from $560 million to $506 million this year mostly as a result of FX, no substantial elements to it. That leaves an operating profit of $208 million. $160 million in net financials coming down as a result of less debt effectively.

Forex do not have the same negative effect this year. So, we are coming out much better than last year on profit before tax of $57 million. Tax is coming down to $24 million. A big reason for that is withholding tax. And most of that is residing in Pakistan due to the challenges of up-streaming cash from Pakistan as a result of the Central Bank not having enough dollars basically.

So, until we have seen that solve itself and opening up for better currency situation in Pakistan, that part is also going to challenge or reduce the tax burden for a period. And having said that, last year we also had a big dividend upstream in the fourth quarter.

Profit and loss from continuing operations of $33 million. That results in the VEON shareholders' element of $19 million of loss in the fourth quarter. This is just to show you the continued strong cash flow generation, Russia, Pakistan, Ukraine driving that. All positive numbers on operating cash flow from the countries and then ending up in the equity cash flow of $230 million.

I am not going to be very detailed on this slide. Just showing you that you see the elements of working capital and provisions changing in the fourth quarter, leaving us more with than $200 million of free cash flow if you compare it to fourth quarter of last year.

Net debt development, an improvement of $270 million in the quarter. Starting out at 5.7, ending up at just lower than 5.4. So, we see that the cash conversion is actually being effective. And the reduction of debt is happening. Still at the 1.7 level. And as we have said before, that is the level where we are comfortable.

After receiving the money from the Italy sale, we have used all the proceeds for repaying debt. $2.8 billion have been paid in 2018. $800 million were paid in the third quarter. And then $1.3 billion have been paid in the fourth quarter. In the fourth quarter, we made a tender on our bonds. And we were successful on that.

In addition to paying down all our euro debt and dollar debt, we have also entered into an agreement on some debt swaps to roubles. And that means that we did $900 million in the fourth quarter. And that means that if you look at the debt currency mix going from the third quarter 2008 of 25%, going up to 42% in roubles. And we have done another $300 million in the first quarter of 2019. And that means that we are not mixed in the currency setup on the rouble exposure relative to our rouble or the debt structure relative to how we see the cash flows coming from rouble or rouble-denominated currencies. Costs are slightly up as a result of it, going from 7.2% to 7.5%.

As a result of IFRS 16 coming in, we are of course as well-affected. We will track those numbers every quarter and specify them so that you can follow them, so that you can put them in the way you want to. On balance sheet elements, it is approximately $2 billion in assets and $2 billion in debt.

On the income statement, the EBITDA effect is going to be approximately $450 million. And the profit before tax is going to be negative with $100 million. It will also affect the cash flow statement, both on operational cash flow in equity-free cash flow with approximately $300 million. And then financing the activities in the cash flow will have a negative of $300 million. So, that is the annual effect. And we will of course follow it quarter by quarter and specify each number to make sure that you can track the breach from previous to the coming numbers.

So, for 2018, we are delivering on our targets that we have slightly revised upwards in third quarter. So, a 3.5% revenue growth, 6.2% EBITDA growth organically, and an equity-free cash flow of a $1 billion. So, all in all, a good year in that sense. On the final dividend and the dividend policy, we are committed to paying sustainable and progressive dividend. A continuation of the progressive dividend policy is dependent on the evolution of group's equity-free cash flow including the development of US dollar exchange rate against VEON's functional currencies.

And as a result of this, the board has decided that for the year 2018 we intend to pay a dividend in the aggregate amount of $0.29. And that is comprised of the $0.12 we paid as an interim dividend in August in 2018. And these[?] then going to pay $0.17 per share in March 2019.

Equity-free cash flow

Going then to the development of equity-free cash flow, I would like to spend some time on this, and before we get into the guidance for the year. If we start to the left, we are delivering above – slightly above $1 billion in equity-free cash flow. Of that, I had a discussion during the year with many of you relative to what is sort of the normal course and what is the specifics and we have been very clear that of the $1 billion, it is about 200ish of non-recurring cash flow income. And that means that the underlying element, if you take away not[?] much of balance sheet improvement elements, it is about $800 million.

What we see coming in in 2019 is that the capex including the Yarovaya. That means Yarovaya is the biggest portion of that. But we are also going to spend more money on capex, both in Russia as well as in Pakistan. So, we are going to slightly up the ordinary capex spending. In addition to that, the severance payment, there was the severance provision that we did in the fourth quarter. It is going to be paid. And that means that the $250 million is going to be an additional spending of cash in 2019.

Counter to that is, of course, the ordinary business improvement, which we have estimated to be around $280 million for 2019, which is then of course countered by the FX effects when we use the FX rates from last week. So, as a result of that, we have good improvements in the business. But of course, we have spending on Yarovaya as well as on severance payments in 2019. And that is why we are saying that the ongoing underlying is going to be around the

$700 million. As you also probably have seen this morning, we have an agreement with Ericsson on $350 million. And that means that our equity-free cash flow is going to be at the same level in 2019 as it was in 2018 of around a $1 billion.

Going forward, we see that the Yarovaya and the severance, of course, not going to be there for a long time. In addition to that coming into 2020, we see that we have continuous ambitions on the cost-intensity improvements as well as business improvements. This is of course dependent on the FX development. But when we look at the chain of ambitions that we had had during 2018 with the improvement of cost intensity, the drive of the operations that we have been managing as Kjell has been alluding to, coming back to growth, coming back to the development of the margins, we actually see that coming up to a run rate of $800 million and probably higher in the course of the next three years is likely. And that is clearly the ambition if not more of this administration[?].

Guidance on 2019

So, when it comes to the guidance, on 2019 we see a low single-digit organic growth on the revenue side. We see a low to mid-single digit organic growth on the EBITDA as a result of the efficiency measures and so forth that we are putting in place. And as a result of the Ericsson settlement, we are also seeing that the equity-free cash flow guidance is going to be around the $1 billion. And I usually told you during last year that it was pressured downwards. As a result of $350 million coming on top of the $700 million, we see a slightly upward potential in that $1 billion, but not significantly.

Summary of results and expectations

So, all in all, I would say that the summary for 2018 we have – the 2018 targets and guidance have been achieved on. Dividend on the $0.29, it is a 4% increase year on year. Good organic growth revenue and EBITDA expected in 2019. And we see that the run rate on the cash flow expected at a 100ish level over the next three years underpinning our commitment to dividend distribution. So, with that, I want to hand over to Vasyl to take you through the Beeline Russia.

Russian Markets

Vasyl Latsanych

Chief Executive Officer, Beeline Russia, VEON

Vasyl Latsanych: Thank you, Trond. Good morning, ladies and gentlemen. After that very scientific presentation, I feel like I should give a little blockbuster of some real action going on in the market of Russia. So, let me start with the Russian market overview. My name is Vasyl Latsanych and I am responsible for the Russian business of VEON which has always been called VimpelCom in Russia. And the brands that we are using in Russia for many, many years is one of the most renowned brands in the country which is Beeline brands.

Russia is a huge country with a huge potential. That you have heard many times. Why is that so in our industry? It is because the population of Russia of 140 million is rapidly getting online, rapidly going digitalised. And now we have about 90 million of monthly internet users across the country. Of 140 million, you understand there are some old people, some very young people. That probably comprises all of the active population of the country. Our task is to make that usage more than a monthly usage, but a weekly usage, a daily usage. And that is why we are there working on penetration of the devices, of the technologies, of the networks to enable people to go online, anytime and anywhere.

Actually, people do. The average number of the social accounts in Russia is about four per person. And it is not all about Facebook. There is Facebook, there is Vkontakte, there is Odnoklassniki. So, only the social networks in their pure essence that is represented by three different players that compete with each other. There is a proliferation of different messengers. You have probably heard about Telegram. But there is also Viber, WhatsApp, Facebook Messenger, Skype Messenger. Everything is present in the market. People are using it very actively.

Except for the social accounts and besides the messaging, video is gaining the momentum as all over the world. And people are getting more and more on the video consumption on the go. Smartphones, tablets, computers, Smart TVs, and that is where we have to be and that's we have to build the network for them. Well, that has all given us a clear sign that there will be more consumption of this network access that we have to build more robust and more available networks for our customers.

Well, that is not only about the watching, playing, messaging. It is about business too. So, there are more and more people going online and doing their shopping online. 55% of people who go online do some shopping. And that is not only shopping in the internet shops. And let me remind you Amazon is not present, eBay is hardly present, but there is a number of local players who became big, who became very professional in servicing the online shopping industry. But it is also interestingly enough people get to watch something online and pay for that.

That was not the case in Russia several years ago. People would hack the content, people would use some pirated content, they would never be able and ready to pay for a movie to be watched on their computer. It is not like that anymore. More than half of the people who go online to watch something are ready to pay for that and about a third of them is actually paying money. So, the business is rapidly changing. I mean not the business, something as a behaviour is rapidly changing to become a business. And we have to be there because we are not only an enabler of the connectivity but also a player in getting their services built, delivered and performed.

Now if you are talking about the devices and how people consume, there are two-thirds of the population are using the smartphones. The number is decent but it is far away from being where we want it to be because the smartphone user is normally bringing us twice the ARPU, so the revenue of the ordinary phone users. While there are still more than 30% of people who do not use smartphones and they represent the potential to sell the smartphones to them, to sell the services, about 40% portion of the people who have smartphones do not use the cellular networks. This is ridiculous, to me at least, why would you have a smartphone if you would not use the cellular network? You would only use it for the Wi-Fi connectivity at home or at work but, actually, this is kind of strange, to me at least.

So, we work very hard to get the penetration of the connectivity to those people who already have the smartphones. And for that, we need very high-quality channels of communication with people. Mind, they do not have the applications that we can work with them through.

So, we need to go not online but mostly to go on feet to talk to them. And that is why we opened up the shops. It is one of the reasons we opened up so many shops because we need the connectivity with those people to be established through a direct physical contact in the first place. And they do come to our shops. We have a lot of visits of those people who do not have the connectivity in their smartphones. And we work hard to give them the trial periods, to give them the special tariffs and the discounts to enable them to use our network for the connectivity, because when people do so, they use some five hours per day of smartphone interactions. And that is quite a lot as you understand. And that is not for professional use.

So, the people are using the smartphones for very many reasons. And the connectivity has to be there. And actually, we have to give them more reasons to use the services that we provide through the phones and through the network that we have built.

What else? Above that, the technology goes very rapidly forward and the country is quickly developing into a full-fledged 4G country. And believe me that this is probably the most difficult country to cover with the 4G signal. If you consider the 4G network that was initially built in the 2.6 gigahertz frequencies, those are the frequencies with a very small footprint.

In order to cover the largest country in the world with vast lands in Siberia, you would have to plant millions of base stations more than the Chinese did. But luckily, we have a very well-regulated area with the frequencies which we can shift between the technologies. So, we use the LTE on basically any available frequency. We use it on 26, we use it on 18, we use it on 900, we started to use it on 21. So, we use everywhere LTE signals because we are fully committed to LTE development. And we think that the 3G will be quite rapidly decommissioning out of the market. The 900 and the GSM will mostly be used for the voice in the vast areas. But LTE will be the carrying signal for all mobile connectivity in the nearest future. Not to mention that 5G is going to come, but that is a different conversation.

The 35%, so a third of the population that ever goes online is only going through the mobile connectivity online. So, though Russia is one of the most best-connected countries in terms of the home broadband, it actually is better than the United Kingdom, at least in the quality and the speeds, but in the metropolitan areas for sure. But people prefer to use their smartphones. Why is that so? Also, because it is very cheap. Indeed, our ARPUs are incomparable to those in Western Europe; but that enables people not to really minimise their consumption, but rather to expand the consumption. And we are glad that we can deliver that consumption on a high quality and well-penetrated into the populated areas of Russia.

When we are talking about Russia, we should mention certain regulatory environments. And I would not call those restrictions. I would say that every country has an environment in its regulatory approach. And Russia has its own.

First of all, there used to be an intranet roaming in Russia which is very rudimental and it has been there for many years, and it had to go away and it did go away last year. The industry was quiet with a big fear about this wiping up a quite significant portion of the revenues. Well, we have played the game around it, and we have minimised the damage.

So, effectively if you look into our statement of last year, you would not find a big impact of the internet roaming cancellation on our financials. Yes, there were some but we have managed to compensate with different activities for those negative trends that the intranet roaming cancellation brought us.

The SIM cards. Russia with a population of a 140 million people is annually selling about a 100 million SIM cards. There are four carriers. There is fierce competition, but it is still not enough to substantiate a sale of 100 million SIM cards per annum. We think that is too much definitely. And we are glad that the watchdog, the regulator in Russia is trying to put a control over the SIM cards distribution.

And it becomes very good as a tailwind to our activities in the retail where we opened up new shops. And now we are present in virtually every meaningful place in Russia with our own sale, with our own control distribution rather than relying on someone else and distributing our SIM cards in many ways that we would not always consider in a proper quality.

As mentioned several times by Trond, a couple of minutes ago, the Yarovaya Law. Yarovaya is the lady that actually exists. I have just seen her recently. And she has been a forward man or forward woman of a regulatory that imposed certain costs on us by installing certain equipments to record and store the online traffic.

That is quite massive indeed. The assumption of our costs spread over three years as we said before will be going on invested and maintained. But so far, the good news is that it has been lowered in the last year than we anticipated. And it is spread over the time and it is going a little bit into the future without increase. So, luckily, we see that there is a managed approach. Well, we have to go through that and that is embedded in our assumptions for the future P&Ls and the cash flow as you have seen.

And the 5G thing in Russia. As we understand, there is not enough of frequencies to run a full-fledged tender between the four carriers of Russia to allocate the frequencies. So, there are attempts to arrange the launch of the 5G and to make that available to most people possible in Russia. We support the efforts of the regulator. And we will be fighting for having the equal access to those frequencies and that technology with all of the rest of the players. And we definitely do not like if anyone wants to privatise it and wants to make it exclusive to anyone. And that is quite openly said to the public opinion and to the regulator in Russia.

There were several happenings back in 2018 that we considered to be very important for our development and that lay the cornerstones of our future success both in 2019 and 2020 and further on. Of that, the most important one was probably – or the biggest one was the retail development in 2018.

And yes, there are many questions like why do you develop the physical retail in the time when everything goes online. And I should tell you, we go both physical retail and online. And the numbers here are self-explanatory. We have doubled the number of the shops. And the previous 1500 to 1600 shops were capped with the Beeline Monobrand retail network for about 20 years in the past, and then we have doubled it in the course of one year. And as Kjell said just a couple of minutes ago, that was a very well carefully-planned and executed activity. Actually, even I had some doubts that we would be able to construct so many shops in such a short period of time, and at a good quality. And I might say that I am amazed at how our people worked on constructing the new shops sometimes from scratch, sometimes received in a very poor condition after Euroset has moved away. And we had to very quickly, update it very quickly, stuff it. We have just taken onboard about 7000 people that were coming into our shops. We trained them. We put them online on the service. And we have purchased, procured and distributed the equipment to those shops.

We have increased the control of the sales up to 50% of our total SIM card sales. So, we rely less and less on those retailers and resellers that we have less control of. We do want our shops to be selling more as a portion of the SIM cards because we are not only controlling the sales, but we are ensuring the quality of the sales.

And as a result of that, we have dramatically decreased our churn in the previous year. But we also have increased the money flow by doubling the amount of the smartphones and the volume of the sales of the devices and the accessories through our shops. Not only double, because that was not a difficult task, the more difficult thing was to make it profitable.

And yes, back in 2017 we had lost about a RUB 100 million on the devices sales. That was not really a profitable business for us. Then after the increase of the shops, after a revision of our relationships with vendors, with the suppliers, after margin management, we have managed to earn RUB 1.7 billion of pure margin on device sales. And that is not big in terms of the margin business for us, but it is very important that it does not suck out the money out of the business anymore. It actually contributes.

The mobile network, another big, big undertaking last year. Again, a record high was the mobile network. We have built more base stations and launched more sites than ever in the history of Beeline. Actually, within the three quarters of 2018, we were said to be launching most base stations in Russia amongst all of the carriers. I think that is reflecting our commitment to building the superior network that would be catering for the smartphone users. And the goal and the idea is to be the carrier of choice for the smartphone users; not only in the big cities, but everywhere where the people are ready to consume these services, and where they are ready to go online through the smartphones and develop their usage. It actually was supported by the capex increase by 16% year over year with a total increase of CAPEX by 20% including the fixed line and the retail development. But interestingly enough, we have built most of these 16,000 base stations with LTE capacity. And that was the 18,000 base stations LTE built on existing and new network elements. The territories with the 4G parity increased by 75%, which means that we are competing more head to head with our competitors in the market after we have unfortunately lost a couple of years where the investment was not sufficient to keep up with the competition.

Fixed line was a very cherished business in the past from the times of the merger with Golden Telecom, Corbina and Sovintel. But unfortunately, in some years in the past, it has not been as well-funded and as well taken care of, because the company was concentrating on the mobile development. Now we have turned that around. And first of all, we have put a lot of focus, a lot of effort and some money into it. And we built more than 5000 new houses, which means about half a million households in Russia last year alone.

When we say we built, that means we have delivered the network to those households and we are ready to sell it. Effectively that not only increased our network, but that increased the total number of activities we do for the fixed line in Russian business. And it ended up with us finally, and actually we are super proud and glad about that, we have turned that back into the growth. That is also important because we have been many times discussing whether this business is available for the growth, is able to grow anymore. There is a high competition, there is a lot of fragmentation in the fixed business in Russia and we think that we still can cherry-pick those areas where we should invest, should build and we can progress and we can make money.

And interestingly enough last year, the B2C business of Beeline on the fixed line part grew by more than 7%. And that is year over year the record growth of several previous years. In fact, as you can see on the graph, finally at the end of 2018 both B2B and B2C businesses started to grow again after I think more than five years of decline.

The FMC base of declines is when we are selling both fixed line and mobile in one package in one billing cycle. So, the people has increased to more than one million and we still see quite a lot of potential to grow.

And last but not least, we have launched a very new technically and very new market-wise offer of Beeline TV everywhere which Kjell has mentioned in the past. And we have travelled away from that old-timer's IP television to totally flexible OTT-like network-agnostic television that is probably one of the most right for the contemporary users at the moment.

And some of our interesting endeavours in digital are showing that there is quite a good potential of using the tools that we have developed for the development of our own base and for producing and selling the new offerings to the market.

First of all, the My Beeline ecosystem, My Beeline is an application that you may use to control your account to talk to us basically to learn about the special offers. The total ecosystem of that is comprised of more than 8 million users per month, and more than 1.7 million users per day.

How much is that? Just for a comparison, something like Viber one of very well-populated messengers in Russia has a monthly user base of around 8 million users. And we are with this around the same number. So, we are talking about a massive penetration into the existing active users of the mobile devices and the tools that the mobile devices present.

We believe that this is not only the right thing to check your balance, but this is actually a communication and potentially a selling channel. And that is why we developed the partnerships and we developed the offers that we sell through the My Beeline app to the people. And as you can see, there are some big brands and there are some local brands that are joining the ecosystem that was built in order to promote and to sell their services using the beeline, My Beeline ecosystem.

Apart from that, we have developed quite a significant Big Data system within Beeline. And we are using Big Data for very many activities including those when we want to place a new store, we would use the Big Data to check the traffic patterns of the people, when we want to run an advertising campaign for ourselves, we would check it through the Big Data enablers how we would want to get the same people online, offline, outdoor, and on television. We would use that tool to refine our own activities, but we would also sell the tool. Just last year, we have produced almost $14 billion of the additional revenue or savings using the Big Data tools and we started to sell it to other people, to other businesses. Those are including the geoanalytics, the marketing ecosystem, the financial ecosystem, the data application tracking. That is all that we started to sell to the outsiders of our business, to the customers, and we believe that that will represent some of the digital potentials for our business for the future.

Financial results for 2018

That is all in all on this slide representing our financial results for the last year. We have increased our revenue by 5.7% year over year, the mobile service revenue increased by more than 2.5%, and actually in the fourth quarter increased by more than 3%, so we're on an upwards trend. We believe that we can continue the trend in 2019; this is what we work on. The service margin has grown by 3% and the device revenue more than double, as I mentioned before. The ARPU growth was more than 5% and the churn improvement due to various activities but mostly because we have restarted to control the sales through our mono brand channel with bigger scrutiny and increase the quality, has decreased by almost 8 percentage points.

A special point of pride is that after several years of decline of our EBITDA, Beeline Russia has produced a return and kicked off, and finally we are in the growth mode; the numbers are very small yet, but that's rather a tendency, a trend, that is important. The Beeline is not falling under its EBITDA anymore, year over year, it is starting to grow, and that is actually to mention counter the headwinds. We had mono brand retail and we absorbed the costs, we have big network rollout which was again producing certain costs and CAPEX and OPEX and we have absorbed that, but moreover, the spectrum fees increased last year, we have added more than a billion to the costs of the spectrum fees, and we had the intranet roaming cancelling which I mentioned before. All of that had been compensated for and we did produce a growth in 2018.

So, what is it about Beeline for the next couple of years? As you understand, we will continue the things that helped us, that were successful in 2018, but we will produce some of the initiatives for 2019, 2020 and 2021 to boost it.

Growth

First of all, as Kjell mentioned before, the growth is the name of our business; we have to grow. The customer numbers have to grow, the revenue have to grow, the ARPU has to grow; everything has to grow otherwise the business stagnates. We will be growing by customer numbers but not necessarily the SIM cards customers. We will be growing on fixed line network, in terms of the percentage of the growth faster than on mobile. We will be growing on TV business much faster than on fixed and on SIM cards. And that is just a representation of how we want to grow, not necessarily by answering again the bloody battle of the sim card sales. We will be there; our customer base of 55 healthy million customers will stay there, but we want to add on, not specifically, not only the SIM cards to that base, but all kinds of the services that we can produce with mobile, fixed and digital services.

Costs

The costs, as Trond has given you a presentation about the cost intensity[?] in our work and our expectation of refining the cost management system, Beeline is on top of that, representing a half of the VEON's business on EBITDA; we have to be very careful about the costs. We are producing special tools to control the costs from the beginning to the end and we will be very dedicated in 2019 and '20 to make sure the costs are under very tight control and that we do not spend anything that does not bring us enough of return quickly enough.

The partnership is the new part of our strategy, the partnership is our openness to the world, is when we want to make sure that anybody that wants and can produce a business can do it with us. Some carriers, some big businesses are relying on M&As when they have to make a choice, put the money in and then live with that. We do not think that that's always good in this rapidly changing world. We think that being open, generating the platforms and APIs and enabling the others to connect and quickly test their tools, their products, their ideas will be beneficial to our business as well in a better and less risky way than going big time on buying someone.

Core business

Let me tell you a couple of points about that, as I said, the growth is the name and is the foundation that the business has to grow, and we have to enable that growth of building the right networks, enabling the tools and the services for our customers, and attracting the new customers to our newly built networks. The core business is driven by fixed and mobile, the FMC; and with the new DBSS project, we hope that that will be further refined, but on top of that comes the media, the fintech and the digital tools that will again be more enabled with the DBSS development that we have just started with Amdocs.

Digital

The digital parts would be split into three distinctive portions; one of that would be the media. And as we have launched the new television, we now can sell the TV not only to Beeline customers, but basically to anyone in Russia. A customer of any carrier can consume Beeline Television and can have an account with us. And that is enabling to reach out to those customers that are not yet Beeline SIM card or Beeline fixed network users. That is a new type of the business that the carrier is conducting in Russia. Usually and historically carriers would be only selling the television to those customers that they have on network. We start to sell the television to anyone that will, can and wish to consume our television, because we believe that the television is standalone product. Through that television, we started to actively market and sell not only the streaming channels, which is usual, everybody does so, but the video on demand, the series, the online movies and cinemas that are present in Russia can be sold through our Beeline Television.

For example, we do not have Netflix in Russia, but we have IVI, we have OpCo, those are alike Netflix online cinemas and those are present in the Beeline Television. You do not have to have multiple accounts to manage the payments on multiple accounts. Everything is available on Beeline television. It is not only the set top box that you can have; you can have up to five devices, your tablet, your phones, your computers, connected to any network and use the Beeline Television and watch the movies and the series of the third parties on that television having single point of contact, single account, single payment and a bundle proposal for Beeline.

Beeline financial product

The Beeline financial product. Beeline has a number of different financial products, including the physical card, the virtual card, the application for payments and so on, so forth. Those were all the tests that we ran, and now we embark on a full-fledged development in the market when we will be massively proposing those financial services. Those would not be made in-house only, those would be partnered with any bank, any financial institution that is ready to partner and to sell it through the beeline network with the beeline big data targeting and scoring to our customers. And the ad tag, something very new; actually, we do service –

and that is interesting that even Google buys our ad scoring. You know, even those big agencies and big advertisers buy additional services from us, to make their targeting better. And it is interesting that we have developed those capabilities, training on ourselves first, and now being able to sell it to the third parties. I am not alluding that this would represent some tremendous money in the nearest future but we are entering a new business, we are entering the new domain with that and we want to become an agency for the agencies and a super targeter for the big advertises in Russia. And we have some good pilots so far, we will be turning it into an industry in the very near future.

Efficiency in investment

The efficiency in investment is needed to be very well-managed and well-controlled. And as you understand on one hand side, we increase the investment by spending more CAPEX; on the other hand side, we have to make sure that it spends very specifically and very targeted. For example, the base stations, we have used in the past to allocate the base stations on the principle of this is an important region, so we build that first, this is a less important region so we build that later, sometimes never. Well, we have scrapped that and now we build the base stations, not only base stations, I mean it is all in the same list; the base stations, the fixed line buildings, the special projects, all in the same list. So, we have specifically removed the geo position of the base station, of the whole list of everything that we want to build. So, we build those base stations first that represent better potential and the potential is calculated using big data analytics. It means that we don't even know when the base station is when choose to build it first, then for sure we know, because we have to build it. But, in the beginning, we are making sure that we do not have that skew of mind, that this is an important place, let's build it first. We go there where the money is, so we build those places first that represent better return.

Cost transparency

In terms of the cost transparency, we use several tools and we will launch more tools this year that will allocate the costs down to the products that we sell, not only to the department like this is the new product department cost, this is the fixed line department cost, no, down to every product we want to know how much we spend, how much that generates and whether we want to spend more, because the whole idea is to spend more for more, so we want to prioritise with the areas and products that bring better money, faster money and more money.

Partnerships

The partnership which I have mentioned before, the idea is that we cannot develop everything by ourselves, there are many developments that are quite risky but we want to try quite everything, so now we go on partnering with various start-ups, with various new digital companies and with old companies and we want to try to use our existing footprint, our customer base, our knowledge about the base, our retail to try to give more business to our partners and to have more business to ourselves.

Just to give you an example; you have probably been to some of the carriers' shops in United Kingdom, but you probably have not seen any Costa Coffees in those, but there are Costa Coffees in our shops in Russia; not only Costa Coffees, we have different coffee corners in our shops. And this is one of the attempts to draw more customer traffic and to get more people inside of our shops to interact with them. There are more places there in Russia, more and more, and there will be some 2,000 places this year when we will be operating the online store deliveries in those shops. So, we will again have more and more traffic coming to our shops and we can be working with that.

We believe that we have to draw more people to our shops and we are ready to present them with very competitive pricing on devices, with very well-crafted systems to enable more sales to those people of various products including mobile, fixed, financial and third parties. All in all, the business is about growth, the business is about control of the costs and very smart investment, and the business is about enabling the others to make business with us.

Thank you very much. Have a good day, and now I would like to invite my colleagues back on the stage for the Q&A session.

Q&A

Stella Cridge (Barclays Credit Research): Hi there. Stella Cridge, Barclays Credit Research. I wanted to ask about, if you do not mind, these pressure ports on Friday night that VEON had engaged in her discussion last year to sell the Russia business. I was just wondering if you could confirm if that report is factually correct or not, as in the talks took place, and in particular, does it relate just to Russia or does it include the Kazak and the Uzbek businesses which are in that unit as well? If this is the case, what would be the motivations for VEON to dispose of this unit?

Ursula Burns: Let me start, and then the team can join in. Generally, we will not comment on rumours. So, that is first, but I will say that we did not engage in a discussion to sell our unit last year. If we did, across the board, we would not actually disclose it until it was at a maturity point that was worth disclosing.

Stella Cridge: Obviously, you spent quite a large part of the morning giving us a great update on the outlook for the business in recent developments. Is this a unit that you consider absolute core to the VEON group, I mean, obviously, it is a huge part of EBITDA and cash flow, or is this something you would ever hypothetically consider exiting?

Ursula Burns: Ever and hypothetically I will not discuss, I mean ever and hypothetically I probably will not even be here. It is core to our business though. It is well run, it is large, about half the business and it has great prospects going forward. So, our goal and intention is to run it well; I think Vasyl did a great job in explaining that we are not just a telco provider anymore, in just about any of our markets, but we are actually trying to expand the market to engage our customers more across a varying set of revenue generation possibilities. So, it is core, it is key and we want to make sure that it continues to be fed adequately so that it can grow.

Kjell Johnsen: I do not think there is much to add.

Stella Cridge: Just one final one before I pass the microphone. Obviously, you have made the second move to acquire minorities within GTH. I was just wondering if you could give us an update on your expected timeline in this move.

Also has anything changed in the Egyptian market that you would be hopeful that this would be successful this time, in contrast to the previous attempt?

Ursula Burns: Let me take the second part, and then Trond if you can take the first part. Time helps everything, right, and visibility to what works in the past or did not work in the past helps move projects like this along. This involves governments obviously and working – and lots of other partners, minority shareholders, a whole bunch of infrastructure in the government, and just continuing to work to kind of polish the pea and make it more perfected make it more possible to succeed as you go forward. And that is basically what we are doing, I mean just literally continuing to engage and expand our communications and our base of believers. And if we continue to do that, we hope to be able to succeed this time. This is not straightforward and easy, I mean this is, like I said, with governments and shareholders and it is very challenging.

Trond Westlie: But I think that is the fundamental element that we have been doing to feel that we are better prepared. The recipients of our proposal for the MTO is better prepared, that means the Egyptian stakeholder branch, Egypt as such, and stakeholders there. So, I do think that is the reason for the timing as such, and we feel that, yes, everything is more mature and more prepared now than it was a year ago.

Ursula Burns: And timeline, we will have to see; we push it every day, we are working with the associated parties every day and we are pushing it to try to make it as quickly as possible. But who knows for sure.

Anna Kazaryan (VTB Capital): Hello. Anna Kazaryan, Vtb Capital. Thank you for this event, and the opportunity to ask questions. Can I ask several questions about Russian market? Can you give your outlook for example for competition on Russian market; do you see the opportunity to change tariffs in near term, and what might be the future of tariffs in Russian market?

Can you clarify, do you expect any significant impact from VAT increase? There were several media reports that operators adjusted some archive [inaudible] and some corporate tariffs to compensate for VAT increase, and also could you clarify your plans about future relationships with multi-brand retail networks, particularly any plans to prolong your interactions with Euroset?

The last question is regarding the capex in Russian market, particularly what might be the incremental increase of capex in Russia, excluding Yarovaya Law expenses and could you specify what might be the spending on Yarovaya Law implementation this year? Thank you.

Vasyl Latsanych: Let us take them one by one. So, the competition. Russian market is very competitive, it is fiercely competitive in several regions and we do participate in that competition, so there is nothing left to live on its own in Russian market. That is driving the penetration, driving the usage, but yes, that is undermining the potential for the growth. We hope and we work towards the stability in the markets and we usually are the last one to engage in any competitive battles in Russian markets. If you take a look at track back at those competitive activities, you would see that Beeline would never be the first or the second one to engage. So, it is rather a question to our competitors whether they want to tame it down and to finally start a growth mode of the business in several regions.

But all over the place, as you have noticed, we have grown the ARPU by more than 5%, and that is thanks to the various tariff initiatives, when we see people – you look into our megabytes per user numbers over the last year and you would see that our users have increased their usage by more than 30%. That we have managed to reflect adequately in our tariff plans, construction and pricing effectively, and we have managed to overall increase the ARPU, giving people more access to more megabytes, more gigabytes of the traffic, but with an increase of the tariff plans so that that compensates for the downward trends in some of the competitor regions, and also it does allow us to compensate for some headwinds like the internet roaming cancellation.

The VAT has been tackled by different measures in the market of different players, where there is no straightforward increase of the tariff plans like they do in the other industries, with the pricing increase associated to the VAT, but there is an overall adjustment of the tariff plans that allows to work on the compensation of the VAT increase. So, we do not expect the VAT increase to harm us in terms of wipe out our growth, but we do think that that would somehow slow down the potential of the market, which we consider to be better than what it looks like right now.

In terms of the retail developments, I think that for the moment we are staying with selling in every channel, we do not have any restrictions on selling there, not selling here, we sell with Svyaznoy we sell with Euroset. I have to admit though, that during the time that Beeline's retail network has doubled and developed in a quality term very well, we have seen the deterioration of the quality of the new sales from Svyaznoy and Euroset, and that has to be addressed. And if that is not going to be addressed adequately we may be reconsidering the cooperation with Svyaznoy and Euroset. But all in all, we would like to continue working with them, we just have to fix the quality issue of the sales, in those channels. We understand that we have also impacted their quality by increasing the sales and drawing some of the high quality customers to our own shops, but we believe that there is a good place for the Svyaznoy and Euroset to continue the sale of the relevant quality sim cards and services to our customers.

Did I miss something? Yes, the capex, I think we are not in a position to disclose the capex number for the next year. But we are continuing the execution of the plan of the network development both in mobile and in the fixed. And without naming how many base stations, how many houses we will build this year, I should say that the plan is big and it is going to be financed adequately by the capex and opex. But there is a goal to make it very smart and make it very efficient this year, even more efficient than the last year.

We have initially stated the expected amount for Yarovaya implementation, that calculation has not changed. It has shifted in time meaning that we have spent less in 2018, we will not spend more in 2019 than we initially planned, it will just have a longer tail into the 20 and potentially 21.

Alastair Jones (New Street Research): Alastair Jones from New Street Research. Just a few questions, firstly, coming back to the capex in Russia. I mean the one thing that does stand out is how much you are spending versus what your competitors say they are claiming to spend this year, and going forward. So, you are spending quite considerably less, but you obviously portrayed a pretty good picture of how your network is developing. I am just trying to match those two issues; is there a strategic disadvantage by not spending even more or do you think there are certain efficiencies that are coming in that are better than the competitors where you can sort of match their deployment essentially for almost the price? That is the first question.

And the second one just on the equity free cash flow guidance, just trying to break it down and if you could help me with my understanding on it. You said the underlying improvements are round about 280 million, I think – and then there is obviously FX which knocks off 150 of that. So, I think my understanding is there is roughly about 130 million underlying increase. Your corporate costs, you are claiming to be able to cut back maybe around about 90 million or so on corporate costs. So, if I understand it correctly that suggests about a 40 million increase in the underlying operations. And obviously you have been talking a lot about growth and the sort of cost focus and the cost initiatives. It just seems a relatively small amount, I am just trying to get an understanding of that, please.

Ursula Brown: Let's start with Vasyl first.

Vasyl Latsanych: Yes, start with the Russian capex. I understand that the question is very specific. It is difficult to answer that specific question with specific numbers because the carriers in Russia, and I, as you know, have quite good knowledge of two of them already, are very different, and you cannot really compare head to head, the different carriers and their spend, specifically on capex, and say that somebody spends more or somebody spends less on certain items. I may only say that we have quadrupled the launch of the new buildings of the fixed line network in 2018 and we have hit the record high construction of the base stations in 2018 on the radio network; and all of that has cost us less than the ongoing expense of our competitors into their network. And then you draw the conclusions, whether that is efficiency, whether there is better planning. Well, in general, Beeline is a much leaner and much swifter animal compared to the other carriers, and I could assume that there are more inefficiencies built in those bigger businesses having proliferation of different partnerships, equities that they have around that they have to fund, versus Beeline who is very single, not really single but very narrowly focused on developing network, fixed network and digital products. Others, they may have different games and different toys.

Kjell Johnsen: I think I can add a little bit. I think it is fair to say that when it comes to the capex side, we have seen over time that while Beeline is the biggest company in the group, they also do derive advantages within procurement from being part of a group that has operations in multiple countries. And I think we have a very well-functioning procurement around how we buy network equipment in these kinds of capex-related components.

Trond Westlie: Coming to the equity free cash flow bridge. Of course, what we try to do here is actually simplify the bridge from year to year, and as a result of that, it is a lot of bucketing going on to that level. And as a result of that, what is really driving the element is the CAPEX and the sort of one off in the severance element. When it comes to the 280 and the composition of that, it is much more complex that you are trying to say that it is just headquarter and then it is the rest, because like, just give you an example, we expect to pay licenses in Pakistan. In that license fee arrangement, it is a tax payment in addition, and as a result of that, that tax is not a part of the license payment but it is going up as a negative effect on that. So, it is just a lot of elements going to this. I think the biggest and the most important element I have got to say to this is really say that as a result of our businesses growing, costs will grow. And that means that the net effect of course will have a challenge. As we also say on the slide on that bridge, most on the cost intensity, we see that most of that is coming into the [inaudible] because some of these activities that we are running on cost intensity is going to be sort of backflip and basically has to take – more structural element that is going to take longer lead items. So, just to say that you take out the corporate cost and then the rest is, it is a bit skewed, because it is more into that bucketing than that one. So, the improvement is actually much better, but then you have the withholding tax in Pakistan coming on top because we expect dividend to come in, and then you have the license tax payments on top of that, and, counter to that, you have the interest. So, just simplifying like that would not be decent, but the net effect is, of course, the way you put it, is right.

Ursula Brown: Yes, we will take a question from the phone or online.

Operator: I remind you to ask your question over the phone, please press star and one on your telephone keypad and wait for your name to be announced. To cancel your request, please press the hash key. Our first question comes from the line of [inaudible] from Bank of America. Please ask your question.

Speaker (Bank of America): Yes, thank you so much for the call and the opportunity to ask questions. I have two questions please. On the CAPEX, I think you said you would provide guidance, was it just for Russia? Can you provide some ballpark figure, at least a percentage of sales for the group?

Then second, is your guidance on low to mid-single digit EBITDA growth based on 2018 reported numbers or is it based on adjusted numbers that would exclude exceptional items even for 2018? Finally, can you please give some details on the severance cost and give us an indication if you expect such costs not to recur again in 2019, as you probably keep on reducing the headcount at the [inaudible]? Thank you.

Trond Westlie: Yes, I got the first and the third, I am not sure if I caught the second one, we will find out. The first one, on the CAPEX, as I said, slightly higher, and that means short of a percentage capex to sales, I guess, it is going to be sort of slightly higher than from previous years in dollar terms. And that is really the angle – yes, short of a percentage. On the last question, on the severance, what we have done is we have done what we need to do to get to the 2020 rate. That does not mean of course that everything is going to be static going forward but to achieve the guidance that we have given you on the 2020 rate, we have done what we need to do.

I did not catch the second actually.

Vasyl Latsanych: Was it the growth coming from our revised number or from the original number of the growth reported? Not revised, reported.

Speaker: Basically, what I mean on the guidance, low to mid-single digit EBITDA growth, is it based on the reported EBITDA or is it based on an EBITDA that would exclude the exceptional items which have been impacted on 2018?

Vasyl Latsanych: IFRS.

Trond Westlie: Well, IFRS is not included in that growth. So, it is based on the reported number for 2018 and that is what we are guiding on. We are not including IFRS 16 numbers in there.

Speaker: Okay, thank you so much. Very helpful.

Speaker: It is [inaudible]. Thank you. Two questions please, one is on free cash flow. So, can you just remind us please, what do you expect for spectrum spends over the medium term just as a rough annual figure? You used to talk about $200 million, I was wondering if this is still a good estimate. Secondly, just on the minority leakage, I know you guide without minority leakage on the equity free cash flow. But is it possible to give us just a very rough sense of what is a normalised minority leakage if you were able to upstream your cash fully from all of your subsidiaries? And, obviously, this will change depending on how the GDH offer goes, but maybe you can tell us, within the minority leakage, how much will that change if the GDH offer were to go through, just on a rough level. Then I just wanted to double-check that the one percentage point reduction in the cost intensity that you were talking about, if this is on top of the headquarter cost reduction.

The second question was just on Bangladesh. I think the way Kjell, you have explained the CAPEX development in 2018, I think it sounded like you basically set a capex number for the year and then the only thing that you have the flexibility to change and play with is the quarterly developments; do you frontload it, do you backload it? But then at the same time I was just thinking, is this a good approach and generally how rigid are you with your capex budgets, because Bangladesh has suffered from under investment over the years, so does it actually pay to be so rigid and would it not be better to overspend massively in one year and double your CAPEX in one year and reap the benefits for many years to come, because I think the way you have explained it, it sounded quite rigid I thought; and compared to Vasyl, I think Vasyl sounded –

Ursula Brown: Can we – let's answer some of the questions, because we are not going to – we're not going to remember the first one. Why don't we start with Trond, and then we can do the CAPEX question?

Trond Westlie: Well on the cost-intensity part, the 1% challenge is of course to the OpCos. So, as we say, it will not be a linear, so do not expect that, because it is a programme started in 2018. We are rolling it forward, of course we are going to see effects during the course, but it is not going to be linear in that sense.

Going to the leakage part, we own 57% of GTH, of course there is the most significant leakage element. And as a result of that – I do not have the numbers in my head clearly. We do the analysis often, but I do not have that clear in my head. We just have to go through the ownership structure and we can help you with that.

Kjell Johnsen: On CAPEX, when we plan for the next years, we set up a yardstick and of course for all the companies, and we do an early release so that people can plan their network rollout. And now, since we are in very different geographies, take Bangladesh and Russia as examples, there is one very big difference, many differences but one very big difference is that in Russia you have a really hard winter; you do not have that in Bangladesh. And the management team in Bangladesh is often quite keen to rollout the network early in the year because they have a certain amount of money available. We do have a review internally that we do every year in May. So, it is not like we set a number some time at the end of the year and then we do not look at it again before we come to the end. So, we do make some adjustments here and there as we move along.

Ursula Burns: I want to just emphasise something. You said the word 'rigid' a couple of times, and it is anything but that. It is literally not rigid; we operate this business, as I said, actively, including how we spend CAPEX. We clearly do not allow changes that are massive month to month because that just would not make it possible for the operating companies to plan well, but we are not rigid.

Speaker: And spectrum spend.

Trond Westlie: Sorry, yes, we have already said 200. The way the world is going, and a lot of the countries that we are in, is looking at this as a funding opportunity. I do think that average is likely to come up. We have not really made an estimate, the only one coming up this year is Pakistan and we do not know the pricing on that, but of course we are in discussions with the government. But, other than that – that is the only one this year, so, yes, but likely higher than the 200; we have not made a new estimate.

Speaker: Can I squeeze one more in very quick one? On digital services, Terksa[?] has recently announced that they are prepared to wholesale their digital services on a white-label basis, is this something that is of interest to VEON given that you are scaling back somewhat in terms of the dedicated resource, I would say, to digital services? Is this a better model, do you think?

Ursula Burns: I think country by country we will have to determine, and I would say that we would not eliminate that option on a country by country basis; it depends on how good the service is and how open the market is, but we are definitely not opposed to it.

Speaker: Can I just continue on one of the points raised previously on Bangladesh. As you were going through all the different countries struck by the significant improvements you made in Russia, Ukraine, Algeria and so forth, Pakistan [inaudible] to do very well. The one that seems to do less well is Bangladesh, and it seems to me it could be a huge opportunity considering the secular growth that country has seen now and, in my mind at least, will continue for some time. Can you just maybe expand on what you see as a potential in this country in the competitive landscape and how you might be able to capture more that opportunity?

Kjell Johnsen: Yes, Bangladesh, obviously, as you say, has quite a significant population growth. The dynamics of the market are complicated in the sense that it has in a way a little bit been one player extracting most of the value and two others positioning themselves in that set up. We see Roby[?] spending enormous amounts of money on capex without really translating that into cash generation and EBITDA, and that pulls the market down a bit down, the very aggressive approach.

Going forward, I think we have some reason to be optimistic, in the sense that we have the SMP regulation. That will be helpful for us in our efforts to come back to growth. I think it is a quite strong performance that the management team there has been able to come back to black numbers instead of red, but I do not want to create too high expectations in the short term. We do not know exactly how the SMP is going to play out. I don't know if there are going to be delays in the implementation, or there could be things that end up in the court systems. So, I am kind of tilting towards a more positive stance on Bangladesh, but I do not want to oversell at this stage.

Ursula Burns: Well said.

Alexander (Prosperity): Alexander [Inaudible] from Prosperity. Just on debt, do you plan any further gross debt reduction this year, because you had almost 2 billion of cash balance at the end of 2018? Also, related to that is how would technically the transition to IFRS 16 change your leverage target because you would immediately have 2 billion of extra debt by capitalising your operating lease costs. Thank you.

Trond Westlie: Well, when it comes to the cash element, I think that the cash element has come down through the years, so the cash amount that we had out in the businesses last year is actually lower this year than it was the year before. We are continuously working on upstreaming those cash elements as we can. And, of course, that is helping us to actually do the debt repayment when they come due. But that is a normal recurring element, so there is no clear ambitions relative to improving it more, but it is a constant element of improvement going on in that sense.

Coming to leverage, we do see IFRS 16 as a pure accounting element so we are going to look at our gearing ratio on 2.0, prior to the adjustments of the IFRS 16. Because even though IFRS 16 has an accountant and is interesting, it does not help in understanding the cash involvement and the cash flow circulation because most of our payment element in VEON is actually fairly equal to the EBITDA.

Alexander: Thanks. And also, a follow up question. You have engaged in some discussions to buy back some of your more expensive debt or bonds. Can you provide any comment on how that process is going?

Trond Westlie: Well, we did make an offer before Christmas, that closed before Christmas, and the offer was made and we repaid 1.3 billion out of the four bonds that we tried to buy back.

Alexander: So, that is already in your –

Trond Westlie: That is already in the numbers as of 31st December.

Alexander: Okay, thank you.

Stella Cridge: Hi there, a couple of follow up questions from me. The first is, I noticed in your presentation in terms of treaty objectives, you highlighted in market consolidation and further simplified group structure. I was just wondering what you had in mind when you included those two points. I have one other question which I might follow up with after.

Ursula Burns: So, why don’t I start quickly and then Kjell can take over. In market consolidation and working on the structure, GTH is one of these areas that it is pretty obvious. We have lots of partnerships, minority shareholders and partnership opportunities that we will pursue market by market. You heard some of it in Russia but in Pakistan as well and markets around us to continue to be active and find places for growth. So, there is nothing really specific that I want to bring out, except for that we are actively looking and being very broad.

Kjell Johnsen: Yes, I think what you should expect going forward is that we may, if we see the right opportunities, do some kind of bolt on transactions. We do have an ambition within FMC. If we see interesting opportunities, we may move on that. They are not mega transactions, but they can be very interesting in order to strengthen our business. And those opportunities can come in a couple of different countries, time will show.

Ursula Burns: That is all we can say; I mean we used to be a telco company only, now we are a telco company largely and have opened up a significant amount of appetite for other ways to engage the customers that we have and to use the services that we have. So, you will see kind of swirl around those areas, and that is what we want to keep active. Hopefully by saying it, we will also have people come to us and have propositions, so that would be good too.

Stella Cridge: Okay, super.

Kjell Johnsen: But I think you also asked about the structure, I can just say a word on that also. What I tried to bring on the table when we talked about digital is we are now working with a much more decentralised model. We have strong functions centrally within compliance, controls and the areas where we will need to be really strong. We will have a lighter touch in our commercial approach; so, we will be relying more on the ingenuity and the creativity and the efforts of the local OpCos. And I see that that already is creating much more enthusiasm and motivation. So, I firmly believe that that move is right. That is part of the structural change we are doing.

Ursula Burns: I think if you pay attention to, which you did, Vasyl's presentation, it was routed into this excitement and this local market, understanding and potential for growth and we are trying to have that happen everywhere. The approach before was obviously central to Amsterdam and it just did not yield what we needed it to yield.

Stella Cridge: Okay, super. Thanks.

Ursula Burns: Last question from you.

Stella Cridge: On the debt structure, so looking at the debt maturity profile, you obviously have approximately a billion due the next couple of years, then a little bit of a peak in 2021, do you think that you will be in the bond markets in 2019, perhaps trying to extend this debt profile?

Trond Westlie: There are no plans as of now. So, we will tell the market when we are ready to go.

Stella Cridge: Okay. Thanks.

Ursula Burns: I think we are done with questions. Okay, I will let you have one more, we will take one more and then thank you for coming.

Evan Mansalov (Prosperity Capital Management): Evan Mansalov[?], Prosperity Capital Management. A very quick one. If you look at your equity – free cash flow to equity, all this projection of 800 billion last year, and the level of dividends, I guess it would be 500 million for the last 12 months from March; how do you expect this gap to be bridging? Is it bridging? Also, if you can remind how your dividend policy connects with this?

Ursula Burns: Why don't we start with the bridging?

Trond Westlie: I think that as a clear target, I do think that there are two elements coming into this. The bridge you see from '18 to '19, when you look at the operational improvements relative to the FX effect, it is actually improving more than the FX effects, which has not been the case for quite some time. And that is really as a result of the initiatives going forward. These are of course going to be filled in for 2020-2021. And as a result of that, we see that improvements going on. So, of course the operational improvement is a part of the ambition going forward and that is also supporting the dividend policy as such.

Ursula Burns: So, basically, we generate revenue, we spend money, we want to generate more money than the ratio to actually improve; we want to grow faster than we spend. So, that is one, this cost intensity. Second, we want to make sure that we can upstream as much as we can, and we hedge ourselves and control the gaps that we have in currency or FX exposure, and, obviously, we want to continue to operate the business well in this really intense way and grow.

So, if you look at that, and you look at the history that we have had over time, what we are looking forward to in ’19, ’20 and ’21, we are pretty confident that we can actually meet the policy that we have from a dividend perspective. So, it is not much more to really think about; we will manage it every year, every month to make sure that we can generate enough cash to pay the dividend, and spend a little less to pay the dividend.

With that, I would like to thank everyone for coming or calling and for asking questions and we will see you hopefully in investor day in the summer. Thank you.

[END OF TRANSCRIPT]