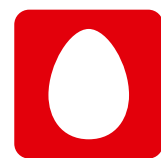


# Annual Report 2010



**MTS**

PRE-APPROVED  
by the resolution of MTS PJSC Board of Directors  
May 27, 2019, Minutes No. 283

APPROVED  
by Annual General Meeting of Shareholders of MTS PJSC  
June 27, 2019, Minutes No. 45

## Disclaimer

This Annual Report has been prepared by Mobile TeleSystems PJSC (the "Company") solely for information purposes and may contain forward-looking statements or forecasts. Such statements or forecasts relate to the matters other than historical facts or statements, and reflect the Company's intentions, beliefs or current expectations concerning, inter alia, performance results, financial condition, liquidity, efficiency, prospects, growth rates, strategies of the Company and industry in which it operates. Nature of the forward-looking statements and forecasts implies risk and uncertainty, as they relate to events and depend on circumstances that may, or may not arise in the future. The Company cautions that forward-looking statements and forecasts do not guarantee future performance and that actual performance results, financial condition and liquidity of the Company, as well as changes in the industry in which the Company operates may differ materially from those stated or assumed in the forward-looking statements or forecasts contained in this report. The factors

that may lead to material differences between the actual results and the assumptions contained in forward-looking statements or forecasts, include general economic conditions prevailing in the markets in which the Company operates, competitive environment and risks associated with operating in such markets, market change in the industry and related industries, as well as other risks affecting the Company and its activities. Moreover, even if the Company performance results, financial condition and liquidity and the changes taking place in the industry in which the Company operates comply with those set forth in the forward-looking statements or forecasts presented herein, those results or changes may not be illustrative of the results or changes in future periods. The Company does not undertake any obligation to review or confirm expectations or estimates, or update any forward-looking statements or forecasts to reflect the events or circumstances occurring or arising after the date of this report.

# Welcome to the MTS PJSC 2018 Annual Report!

We would like to bring to your attention the Annual Report of MTS PJSC following the results of 2018.

This is the 18th report in succession—we are preparing them for you, starting from 2001.

## Purpose of the 2018 Annual Report

In the provided Report we disclose the consolidated information about the main results of Company's business in accordance with its strategic goals and objectives for short-term, medium-term and long-term. The annual reporting tool provides an opportunity for MTS to comply with the high level of openness and transparency, including ability to inform our investors and shareholders, and also customers on cutting-edge solutions and services, which the Company introduces into management processes and product lines.

MTS is an innovative and continuously developing Company, which makes for more convenient, vibrant and brighter life.

We want to tell you about this.

## Annual Report Preparation Standards

The report has been prepared in accordance with the requirements of the legislation of the Russian Federation and regulators' requirements applicable to MTS, and also in accordance with the Russian and international standards and practices in the field of public annual reporting.

## Annual Report Structure

The report comprises four main sections:

1. About the Company,
2. Management Report,
3. Corporate Governance,
4. Sustainable Development.

## Strategically-Oriented Report

The report is focused on the strategic vision of Company management, results and key aspects of MTS business in accordance with the strategy. Special attention is paid to completeness and quality of forecast/expert information on macroeconomics, regional markets of telecommunications providers.

# W

## here to Find More Info

The annual report is available online (interactive version), in the app for iPad, and also in PDF format and as a printed version in Russian and English.

### Online version (interactive):

<https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/raskritie-informacii/godovaya-otchetnost>

### iPad App:

<https://itunes.apple.com/ru/app/godovaa-otchetnost-gruppy-mts/id919440557?mt=8>

Besides, MTS publishes Sustainable Development Reports annually

<https://moskva.mts.ru/about/mts-dlya-obshhestva/novosti-i-otcheti/otchet-ustoychivogo-razvitiya>

# A bout MTS<sup>1</sup>

Dear friends,

We are working in the telecommunications industry which is strategic for the country development and indispensable for resolving a wide range of everyday and business tasks of any person. All kinds of services rendered by MTS, such as mobile and fixed-line telephony, Internet access, have long been firmly established in the “consumer basket” of every Russian.

Our work is aimed not only at rendering high-quality, beneficial and convenient services to the customers, as well as ensuring high service level, but we are also constantly looking ahead, improving our offer and launching advanced services. Today our subscribers can quickly find the right information in the Internet, go shopping, pay for travels, buy tickets for concerts and movies, manage their finances and make many other useful and interesting things with the help of a mobile phone. We consider this only the beginning and are planning for further progress!

Our goal is to make sure that MTS customers could use the opportunities offered by modern mobile technology in full, while not limiting themselves in communication. A highly professional MTS team implements new ideas and projects daily so that our customers in any region and of any income could use communication services as much as they want and like not bearing any unforeseen costs.

Join MTS, stay with us for many years and you will always be one step ahead: we know, understand and appreciate you striving to anticipate your expectations!

Yours faithfully,  
Alexey Kornya,  
MTS President

## C ompany's Mission and Strategy

More detailed information

<https://moskva.mts.ru/about/informaciya-o-mts/mts-v-rossii-i-v-mire/o-kompanii/missiya-i-strategiya>

<sup>1</sup> In this Annual Report, the terms “MTS,” the “Company,” and the “Group” shall refer to the group of companies consisting of MTS PJSC and its subsidiaries; MTS PJSC shall mean Mobile TeleSystems Public Joint Stock Company. The indicators contained in this Annual Report are as of December 31, 2018, unless other periods or dates are expressly indicated.

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ABOUT

COMING

THE

ANY



## TS Group Today

**>65** thousand

employees

**5800**

MTS outlets

and around **100**

offices of MTS Bank

**105** mln

subscribers

**>220** thousand km

optic fiber lines, the first 4.9G gigabit networks were launched, 5G is being tested



**50** regions of Russia

Internet of Things  
networks NB-IoT  
MTS are launched in  
50 regions

**12.6** bln RUB

— volume of cash loans  
granted on the basis  
of Big Data in MTS Bank

**3.5** bln RUB

— cumulative effect  
from the use of Big Data  
for two years

**13** regions of Russia

Within agreements with  
regional authorities,  
MTS participates in  
“smart cities” projects in  
13 regions of Russia



# Expanding Beyond Connectivity



## Cloud

- >600 #CloudMTS clients
- 10 data centers
- 7x increase of stored and processed data within #CloudMTS in 2018
- Latest acquisitions: Avantage, IT-Grad



## Big Data

- Custom Big Data solution for MTS Retail Workforce Management
- Acceleration of credit issuance and scoring
- >200 data scientists & engineers



## AI

- >70% of customer requests via the MTS website are resolved purely by chat-bot
- >75% accuracy of MTS's Legal Tech algorithm



## System Integration

- + 50% LTM revenue growth
- Launched Industrial IoT pilot projects in 2019 in automation, analytics, machine vision
- >40% y-o-y increase in # of deals in Q1 2019



## FinTech

- 4x growth in X-selling of MTS Bank services in 2018
- Integration of MTS Bank's most popular products into the MyMTS app



## E-Health

- Telemedicine platform for remote doctor consultation
- 10 types of medical specialists



## Retail

- +31% LTM revenue growth
- Market share increase from 10% to ≈13% in 2018
- 63% tNPS



## NB-IoT

- >50 regions in Russia with MTS NB-IoT coverage
- Smart City agreements signed with municipalities in 13 Russian regions



## Tv

- A market leader in adds with ≈70,000 new subscribers per quarter
- 200 TV channels
- More than 4 million mobile TV users



## Smart Education

- Face-to-face online training
- ≈50% average monthly growth in registered users



## Esports & e-ticketing

- WASD.TV streaming platform launched in March 2019
- Achieved incremental revenue growth via business synergies in ticket X-selling



# ain Outcomes for 2018

In 2018 MTS Group demonstrated high financial results. The Company has advanced significantly on the way of implementing the strategy of business digital transformation and noticeably strengthened its positions in the Russian market of hardware sales. At the same time, the core telecom business continued to grow due to general price environment in Russia and sustainable growth of Internet consumption in all markets of Group presence. The outcomes for 2018 comply with the Company's forecast: Group revenue increased by 8.4 percent year-on-year and reached RUB 480.3 bln, the adjusted OIBDA increased by 22.9 percent year-on-year, to RUB 220.9 bln, including influence of new IFRS standards. The Group maintains the comfortable debt level, which sets it apart from foreign and local players in the similar markets.

During 2018 the Company has been working successfully on the implementation of its digital-strategy and expanded business in new areas. Several critical strate-

gic steps were made to establish a digital ecosystem for the customers.

- Control was obtained in MTS Bank. This enabled the Company to more efficiently launch new products in the field of digital banking in the market.
- Several innovative services in B2C sphere were provided—this is online school Smart University and tele-medicine service SmartMed.
- Purchase of one of the largest owners of data centers in Russia—Avantage company and the leading cloud provider IT-Grad resulted in stronger position of the Company in the fast-growing market of cloud services.
- Network development: the first federal network NB-IoT in Russia was built for Internet of Things. LTE networks were deployed in all markets of presence.

## Financial indicators

Consolidated revenue

**480.3** bln RUB

↑ 8.4% vs 2017

## Operational indicators

Smartphone penetration in MTS

**70%**

OIBDA

**220.9** bln RUB

↑ 22.9% vs 2017

50 regions are covered with NB-IoT networks:  
MTS share in the market of SIM-cards for IoT  
in Russia

**42%**

OIBDA profitability

**46%**

Revenue from system integration

**7.4** bln RUB

↑ 33% vs 2017

Total net profit not taking into account  
financial reserve

**65.9** bln RUB

Dividend payments in 2018

**26.0** RUB per share + yield  
of **11.1** RUB per share as part  
of the redemption program

# Key Events in 2018

## M&A and Investments

**JANUARY–FEBRUARY.** MTS purchased two leading Russian ticket operators in the market of culture and entertainment events—100% in MDTZK LLC (Ticketland.ru brand) for RUB 3.25 bln with account of debt and 78.2% share in Cubichall company—the only member of Cultural Service LLC (Ponominalu.ru brand). Cultural Service LLC was evaluated as RUB 495 mln, including net debt. Transactions aimed at business diversification will make it possible for MTS to occupy the leading positions in the promising market of selling tickets for theaters, concerts, musicals and festivals, and to provide a service of e-tickets purchasing to subscribers with its integration into the program of loyalty and ecosystem of MTS mobile apps.

**APRIL.** MTS and Medsi launched a telemedical platform SmartMed, on the basis of which the companies develop a complex of products and services of digital healthcare.

July. MTS purchased through its 100% subsidiary Mobile TeleSystems B.V. 28.63% shares of MTS Bank PJSC for RUB 8.27 bln from Sistema PJSC. As a result of the transaction, the share of MTS in the bank's capital increased from 26.61% to 55.24%. In February 2019 MTS increased its share to 94.72% as a result of purchase of additional 39.48% shares of MTS Bank. The transaction shall simplify the cooperation between MTS and MTS Bank, to strengthen synergy of telecommunications and banking products, to accelerate the process of decision making, to reduce time of launching new digital financial products in the market and to increase bank coverage due to the opportunities in the MTS retain chain.

**SEPTEMBER.** MTS purchased for RUB 8.9 bln (with account of debt) from a group of private investors 100% of authorized capital of Avantage LLC, which owns one of the largest data centers (DC) in Russia by number of rack spaces in Lytkarino, Moscow region. The purchased DC has become tenth in the federal network of MTS data centers located in large Russian cities.

MTS has become the owner of 13.7% shares of Youdo Web Technologies Limited (Cyprus), which owns one of the largest Russian online services to search for contractors to solve domestic and business tasks Youdo.com. The transaction cost was USD 12 mln (RUB 824 mln). Youdo online service is the leader in the market of ads and applications for performance of cleaning, repair, freight, courier delivery and other services in C2C and B2B segments.

<sup>1</sup> Detailed information on key events for 2018 at: <https://moskva.mts.ru/about/obshhestvennosti-i-smi/soobshheniya-kompanii/finansovaya-otchetnost/>.

## Corporate News

**MARCH.** Alexey Kornya, the Vice President of MTS for Finance and Investment, Mergers and Acquisitions was appointed as the MTS President.

**APRIL.** The Board of Directors of MTS approved some appointments in the top-management of MTS Group. Alexandre Gorbunov was approved as the Vice President for strategy, and Andrey Kamensky assumed the position of Vice President for Finance and Investment, Mergers and Acquisitions.

**SEPTEMBER.** The Board of Directors of MTS approved several appointments in the top-management of the group: Valery Shorzhin was appointed as the Vice President for Digital Business Solutions; Alexey Goryachkin was appointed as the Vice President for Procurement and Administrative Issues; the position of Vice President of MTS for Financial Technologies was discontinued; Alexandre Gorbunov, the Vice President for Strategy and Development, was appointed as the manager of financial technologies area in MTS.

## Digital Transformation

**MARCH.** MTS has launched the accelerator MTS Startup Hub for technology startups. The first enrollment was made for six activities: cloud technologies, artificial intelligence, financial services, digital medicine, automation of purchasing and logistics, online training.

**APRIL.** MTS launched a cloud service for storage and processing of personal data for enterprises within compliance with the requirements of data protection in accordance with the Russian legislation.

**SEPTEMBER.** MTS entered the market of online education and launched the Smart University platform. The first area of Smart University was preparation for Unified National Exam in English.

## Internet of Things

**OCTOBER.** MTS issued NB-IoT SIM-cards for Internet of Things in 16 cities of Russia. New SIM-cards open access to the NB-IoT network, which makes it possible for business to significantly cut costs for introduction of Internet of Things in manufacturing due to advantages of a new technology over the existing standards: NB-

IoT provides for higher capacity of the network, high radio sensitivity, long service life of connected devices and low equipment cost. Devices with NB-IoT SIM-cards may operate without failures for up to 10 years without additional battery recharge.

## Network Development

**MAY.** MTS launched in the Republic of Bashkortostan the first commercial high-speed LTE-network of gigabit class in the Eastern Europe and Russia with support of LAA technology, having provided data transfer speeds up to 979 Mbit/sec at the expense of combining the regular licensed range of frequencies with non-licensed

spectrum of Wi-Fi networks. Such high utilization parameters were demonstrated in the fragment of the operating MTS network in the center of Ufa jointly with Ericsson and Qualcomm Technologies, Inc., a subsidiary of Qualcomm Incorporated.



# Message of the Board of Directors Chairman



**Dear Shareholders!**

We live in the era of total digital transformation, which transforms practically anything that we come across daily: methods of buying goods and services, formats of communication with business partners and close ones change, new entertainments and methods to realize one's creative potential arise. It is quite natural that such drastic changes are accompanied with as drastic changes of the business landscape, which today is a hyperdynamic and highly competitive environment with low barriers of entering the market and access to a mass consumer.

Nobody is surprised when a group of students, having successfully identified a need and generated a basic business idea, develops a mobile app, which within months becomes highly popular, starts influencing consumer behavior significantly and changes the world in a couple of years. To raise investment, such teams do not require experience, market position, international connections, a more or less significant start-up budget or a credit rating. Even when demonstrating totally negative economic efficiency, such projects are a center of interest for the investment community. In my opinion, the environment has never been that favorable for establishment of new businesses, and the extent



of competitive pressure at the existing players of the market—so high.

That is why for MTS, a company operating in parallel in two worlds—traditional telecommunications and high-tech digital environment—one of the key strategic issues is to understand its own identity and competitive differentiation against the environment. In this sense our strategic market positioning is determined by the following three key elements:

1. The dominant component of our business in respect to revenue (but not management efforts) is the telecommunications core. It makes it possible for use to generate a stable cash flow, which we turn into, first of all, the value for shareholders, and second—use as a source of financing for digital projects.
2. We radically shift the focus of our management efforts towards digital. First of all it affects the evolution of the internal organizational structure from function to product oriented. The focus of our attention, starting from 2018, is the product digital areas, for which certain teams are responsible, being at the same level and as critical as functional blocks for the telecommunications part of the busi-

ness. This structural transformation, in my opinion, is one of the most important achievements in 2018.

3. Apart from our own developments in digital areas, we are actively searching for opportunities to participate as shareholders in digital projects without aspiration to immediately integrate them into our management structure, leaving them as independent as possible. Here the overall isolation of the Russian market contributes as well, since global players are hardly present, and local teams capable of proposing a product of highest international level have limited capabilities of entering the global financial markets. This seemingly negative aspect opens the opportunity for the Russian investors to become aggregators of local digital projects, and we intend to use such opportunity to the fullest.

In our opinion, such positioning, on the one hand, will make it possible for us to effectively master digital business areas, and on the other hand will protect our investors against the threat of shareholder value dilution both short- and long-term. I hope you share the same opinion. I would like to thank you for your trust and support and pass the word to the management for detailed review of the operating results of the company's business in 2018.

Ron Sommer,  
Chairman of the MTS Board of Directors

**2**

**MANAGEMENT**





# Message of the President



Dear Friends and Colleagues,

2018 may be called a breakthrough year for MTS. Not only did we finish it with a record-breaking financial performance, demonstrated the dynamics of revenue growth, which the Russian telecom market has not seen for the last five years, and we also significantly increased the share of revenue outside the telecom sector, thus marking MTS's transformation into a business ecosystem. We continued to strengthen leadership in the telecom sphere – this core part of the business still brings the main share of revenue for MTS. Provision of high-quality services, including the actively growing data segment, to more than 105 million subscribers of MTS in four countries remains an unconditional priority

for the company. Nevertheless, for us it is especially valuable that a considerable contribution to MTS success in 2018 was made by new business areas of the Group, whose development we bet on today.

An important strategic step for us in 2018 was consolidation of MTS Bank. It opened for us broad opportunities to develop convergent services on the basis of digital bank products and fintech-solutions. Already today, we see the first results of bank integration into the MTS Group. Thus, thanks to the active use of Group Big Data, MTS Bank was able to develop and offer attractive financial services for MTS customers, which in its turn contributed to a sharp increase in sales of personal loans: in the second half of 2018 their volume increased by more than 33%.

Retail development became one more area in the focus of our attention in 2018. MTS not only significantly increased its revenue in this field (by 33%), but also went on developing its own online store, which in the future may become the principal MTS retail channel. MTS also became the owner of 13.7% shares of YouDo, which owns one of the largest Russian online services to search for contractors to solve daily and business tasks. The purchase of two leading Russian ticketing operators Ticketland.ru and Ponominalu.ru was another important acquisition of 2018. These transactions made it possible for MTS to occupy the leading positions in the promising market of selling tickets to entertainment events.

We also continued to develop solutions that promote digitization and at the same time improve security for the business of our customers. The cloud provider #CloudMTS has already become a noticeable player on the Russian market of cloud solutions, and we see a lot of potential in developing this area. Therefore, in 2018, MTS invested in acquisition of cloud assets of IT-Grad Group of Companies, one of the leading cloud pro-

viders on the Russian IaaS market, and in acquisition of one of the largest data centers in Russia, Avantazh, located in the Moscow region.

Back to the strategy of winning leadership of MTS on the market of digital solutions, it is important to note success in developing NB-IoT, Big Data and AI technologies, which serve as the foundation for building MTS's own digital ecosystem. We have already provided the NB-IoT network to more than 50 regions, on the basis of which our partners and customers may develop innovative IoT-solutions. Analysis of Big Data used by MTS to improve the efficiency of its own business processes and proposed for the external market, for two years of active use in MTS brought more than RUB 3.5 bln to the company. And our own chat-bot, one of the first MTS developments using AI, helps to robotize service to millions of MTS customers in Russia. But it is important to understand that this foundation is not an infrastructure developed once, but continuously improving technologies, therefore, despite the achieved success, we will continue to actively invest in their development.

When working on the MTS strategy, we focus on the long-term outlook and think about how to establish the foundation for a happy future. The benchmarks for us, in particular, are the sustainable development objectives defined by the UN. As a technological company, we see our role as developing innovative solutions that promote better quality of life for people, eliminate social inequality, develop the urban infrastructure and support informed consumption of limited natural resources. And the further we go from the viewpoint of technological development, the more we may contribute to achieving these objectives.

Construction of MTS networks in remote regions of countries where the company is present opens up opportunities for access to state-of-the-art digital services to residents in even the smallest settlements. The next step is development of specific products that solve global social problems. Therefore, going beyond the traditional telecom business for MTS, first of all, we launched products that promote better access to high-quality medicine (SmartMed), high-quality education (Smart University), development of an urban infrastructure based on responsible consumption, resource savings, environmental protection (solutions in the field of Smart City based on IoT, Big Data and AI).

In addition, the foundation for successful development of MTS is certainly not technologies, but the people who develop them. I am glad to note that the MTS team was reinforced by recognized leaders in their professional fields in 2018: Inessa Galaktionova became the Vice President for Sales and Customer Service, Alexander Gorbunov was appointed as MTS Vice President for Strategy; Andrey Kamenskiy occupied the position of Vice President for Finance and Investment, Mergers and Acquisitions. Within digital-transformation, we introduced the position of Vice President for Digital Business Solutions, which was occupied by Valery Shorzhin, and MTS Vice President for Home Digital Solutions, to which Kirill Dmitriev was appointed. Alexey Goryachkin was appointed as Vice President for Procurement and Administration.

Since the strategic objectives of MTS require rapid growth of expertise of the company for development of IT solutions, we mainly focused from the viewpoint of company development on engagement of the best IT experts and expansion of IT and product expertise of current employees. In 2018, we hired more than 1000 new IT experts, who work on development of existing and launching of new MTS products.

Literally a few years ago, it was hard to imagine that in a summary of another successful year we would be talking not about the telecom market, but rather about new business areas of MTS. Today, these are the areas of MTS strategic priority. It is comforting to see that new MTS businesses are already demonstrating high results, but we always remember that development of innovations is a game in the long run. Therefore, betting on areas beyond telecom is MTS's investment in the future, in the digital future of our customers and digitization of countries where the company operates.

Today, it is difficult to imagine the success in which markets we'll be telling you about in several years, but I am absolutely confident that these will be areas that make the life of each of you more comfortable, entertaining and versatile. This is the long-term priority of MTS, and I am confident that this is the key to our success.

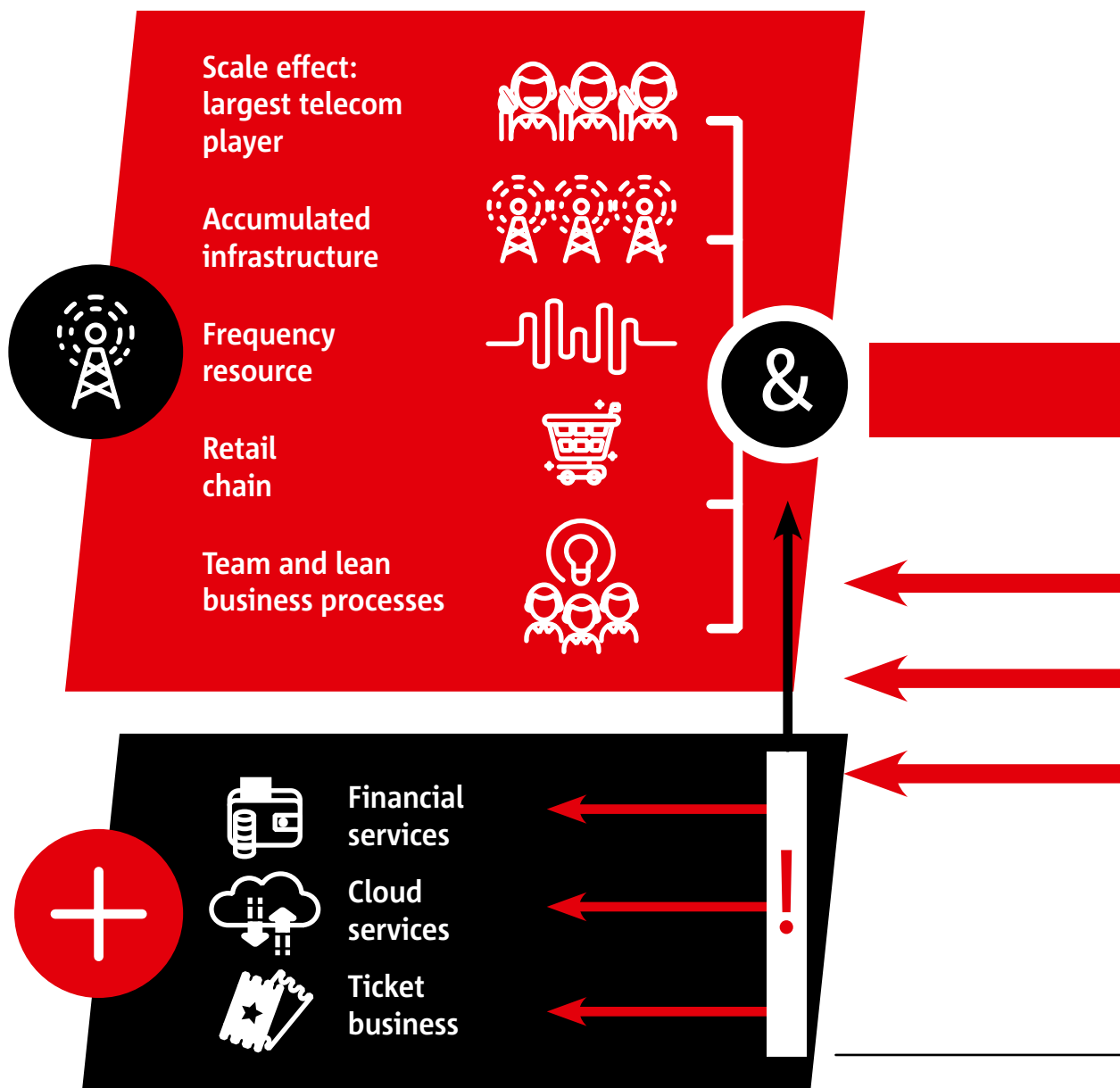
Respectfully,  
Alexey Kornya,  
MTS President



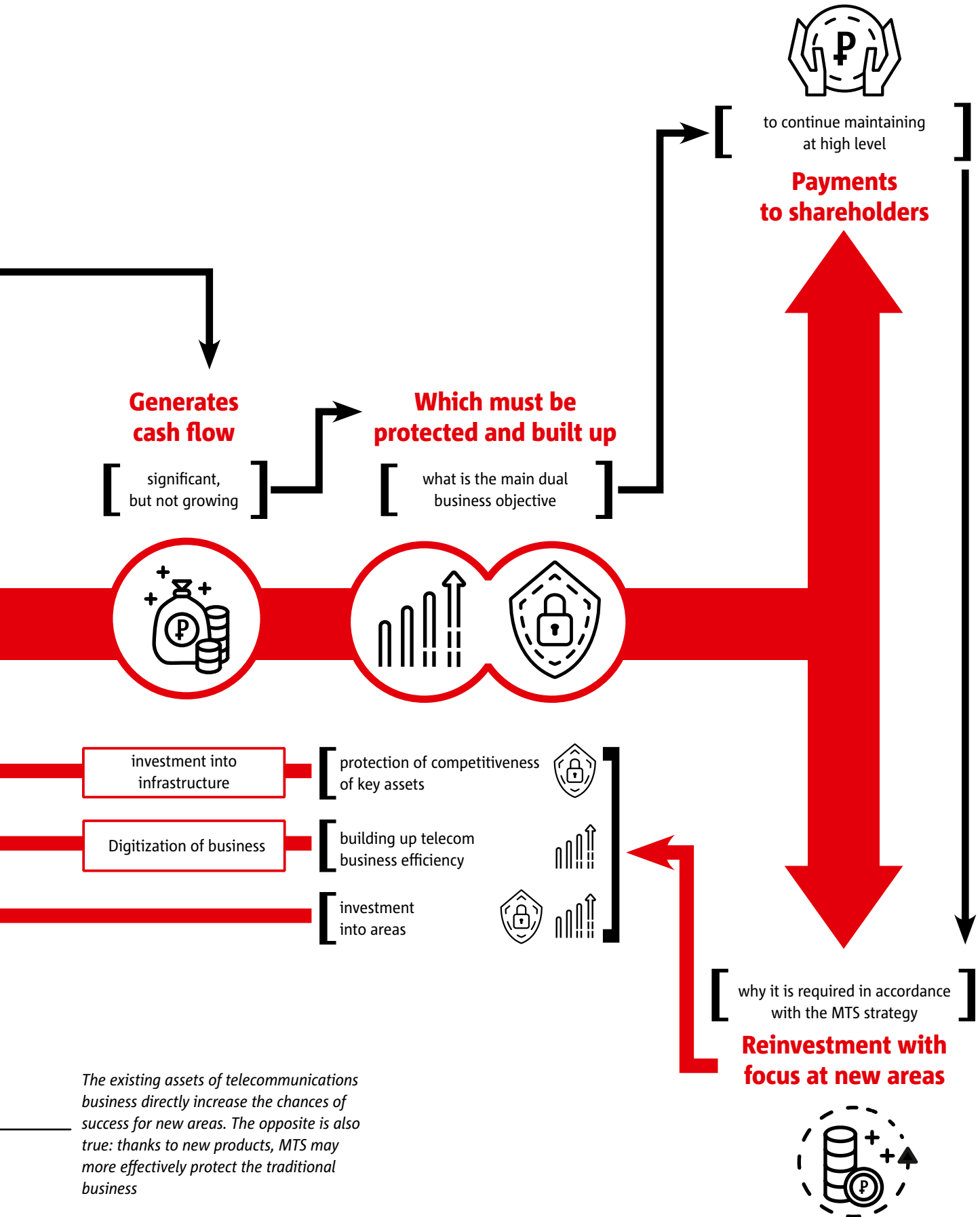
# TS Business Model: the Source of Your Dividends

**Existing telecom business**

[ at the expense of a combination of key advantages built up for the entire history of the company ]

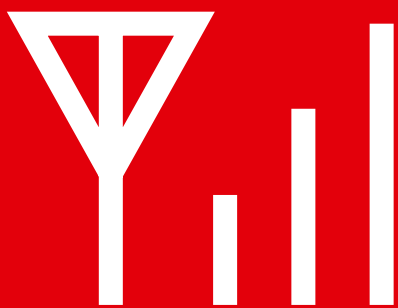


**Examples of new areas**



# O ur markets

## MTS Group Key Markets



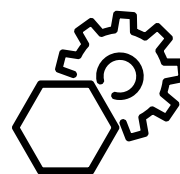
### **M**obile communications

The leading telecommunications operator in Russia in terms of income and subscribers



### **E**-commerce

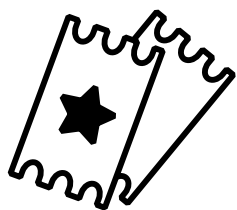
Best online store among Russian operators



### **S**ystem Integration

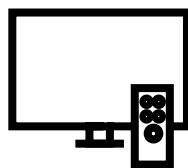
System integrator NVision Group PJSC  
17 years in IT-market,  
in TOP-20 largest IT-companies of Russia





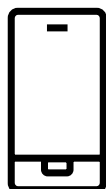
### **Ticket aggregator**

25% of the theater and concert e-ticket market



### **Pay TV**

MTS ranks among the TOP-5 Russian pay-TV operators



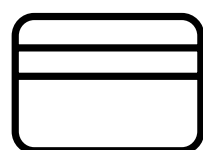
### **Telephones and smartphones**

The largest retailer of non-food products



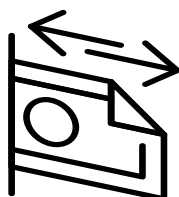
### **Fixed-line communication**

MTS is among the TOP-3 Russian broadband-access operators and is a leader in Moscow



### **Banking services**

MTS Bank — 37th place in Russia by household deposits\*

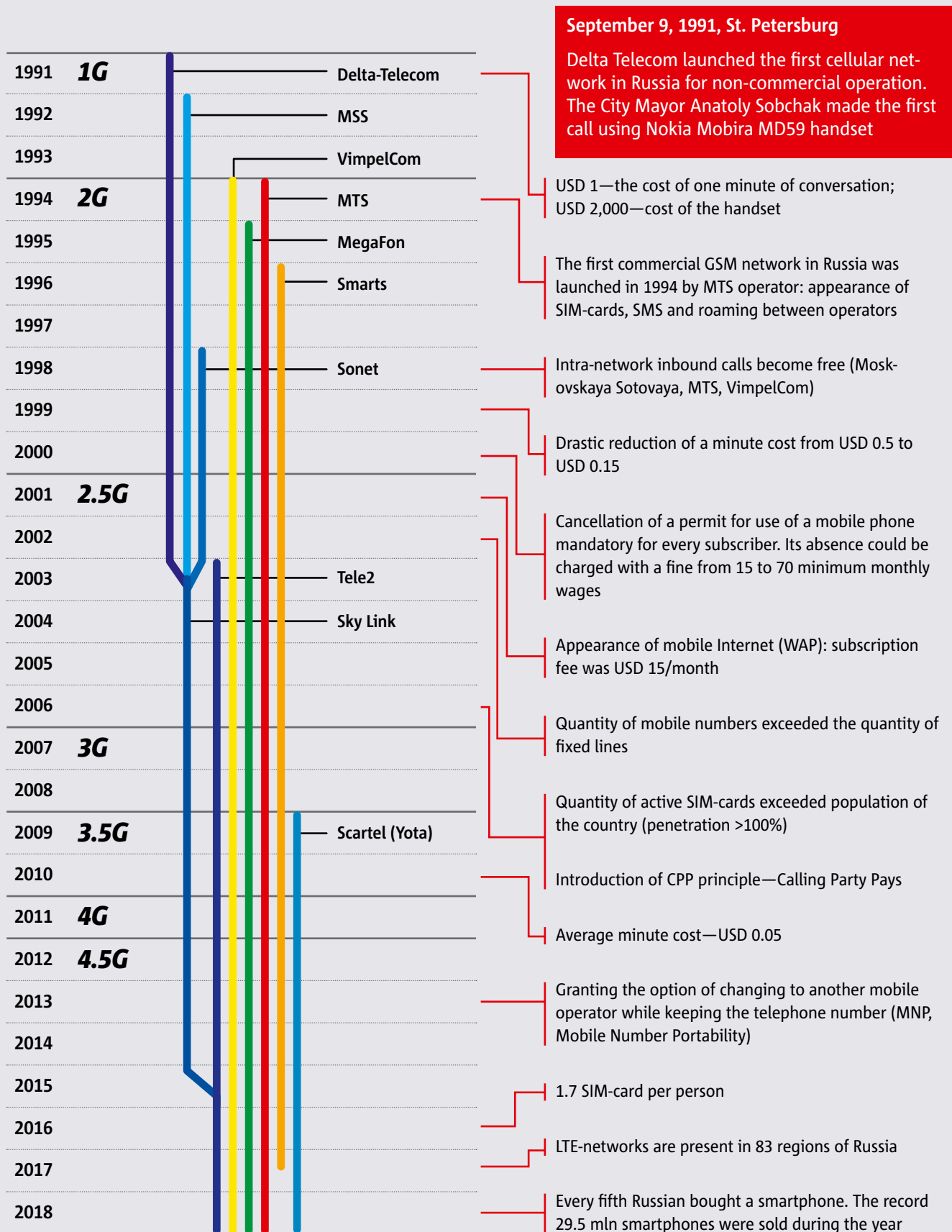


### **Financial services**

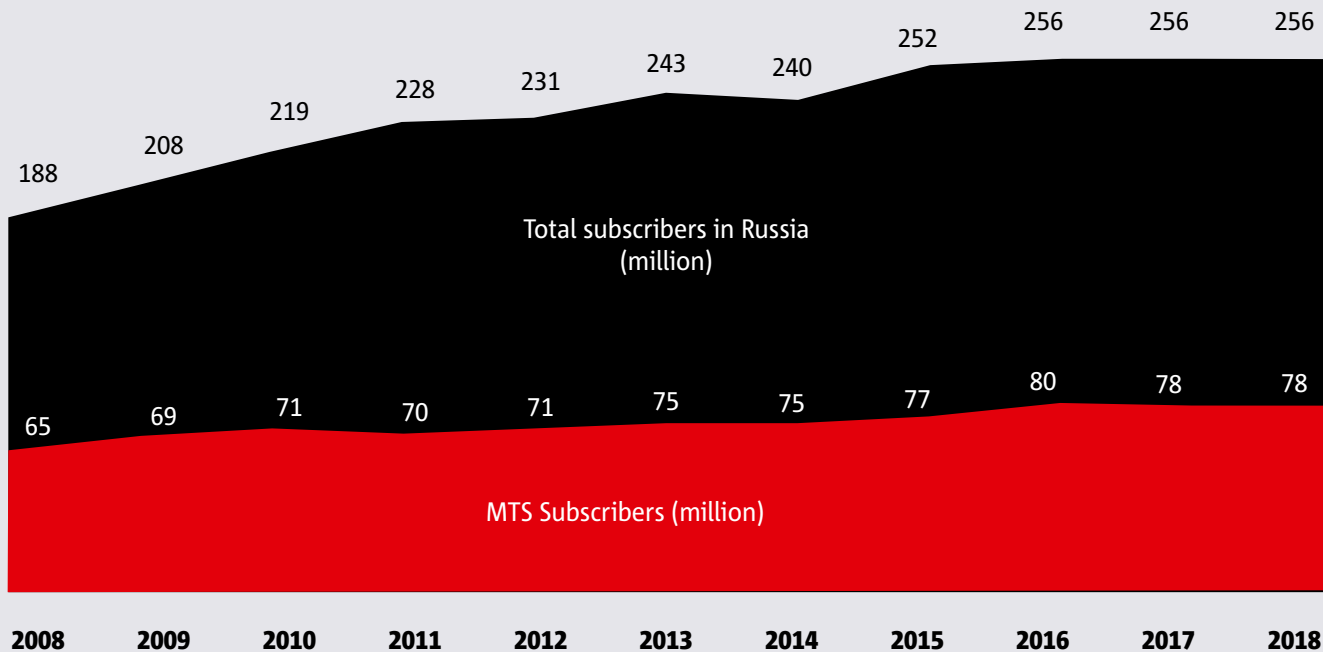
The largest provider of financial services among Russian operators

\* According to the methodology of Banki.ru, as of December 31, 2018.

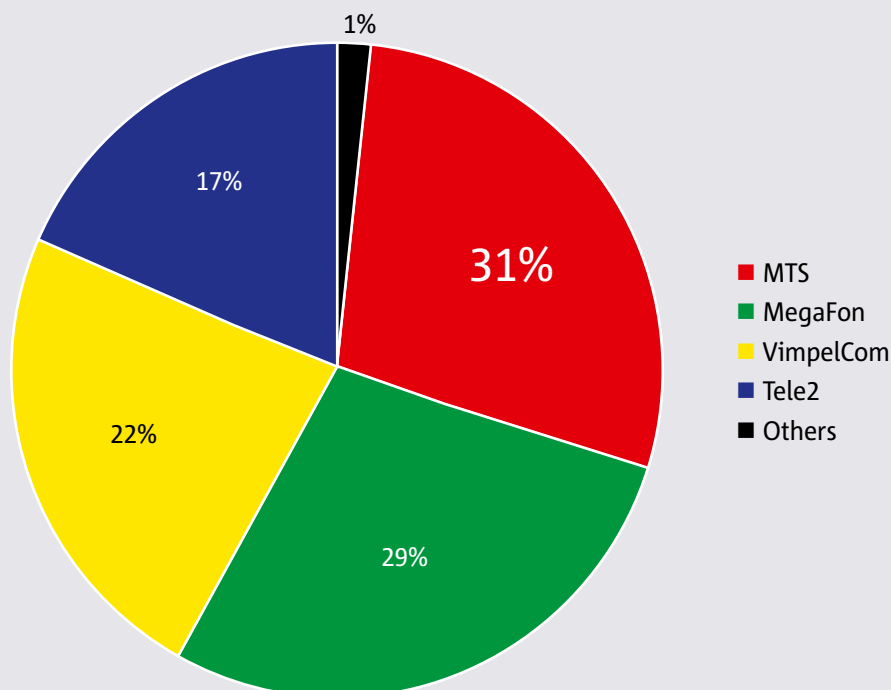
# Largest operators and evolution of standards



Total active base of cellular communication in Russia



Distribution of subscribers between operators as of December 31, 2018



According to data of AC&M Consulting

# Overview of the economic situation and market development

In 2018 MTS PJSC held the following licenses for operation:

- in the territory of the Russian Federation;
- in the territory of Ukraine: subsidiary VF Ukraine PrJSC;

- in the territory of the Republic of Armenia: subsidiary MTS Armenia JSC;
- in the territory of the Republic of Belarus: subsidiary Mobile TeleSystems JLLC.

More than 200 million people—the total population of the licensed area covered by MTS PJSC.

## Russia

The history of the Russian mobile telecom market starts from the first call made in September 1991 in St. Petersburg in the network of Delta Telecom. In a year, the mobile communication appeared in Moscow, Moskovskaya Sotovaya Svyaz and VimpelCom started operating. In October 1993, Mobile TeleSystems (MTS) company was established. The first MTS network was launched in the Moscow licensing zone in 1994.

Until 1998 mobile communications were considered an elite service, and less than 0.5% citizens used it, and then the explosive demand resulted in the fact that already in 2006 the number of subscribers registered in networks exceeded the country's population. Three operators—market leaders: MTS, Beeline and MegaFon—provided communication services to 85% of the subscriber base.

The reasons for fast growth of the communications market in Russia according to data of ACM-Consulting were:

transition of operators to a single European standard GSM-900MHz;

- introduction of federal numbers;
- reduction of services cost twice;
- introduction of free calls within the network and affordable roaming tariffs.

Factors that influenced further development of communications in Russia were:

- introduction of the CPP principle, Calling Party Pays, in 2006;
- option of Internet access, first using WAP technology, and since 2008 using 3G technology;
- provision of option in 2013 to change to another mobile operator while keeping the telephone number (MNP, Mobile Number Portability).

Today four federal operators operate in the Russian market of cellular communications: MTS PJSC, MegaFon PJSC, VimpelCom PJSC (VEON Ltd) and RT-Mobile CJSC (T2RTK Holding—joint venture of Rostelecom PJSC and Tele2). Several regional telecommunications companies and operators of virtual networks (MVNO) occupy around 1% of the market.

- >170%—level of cellular communications services penetration in Russia as of the end of 2018, which corresponds to the developed telecommunications markets of the world.
- The largest markets of cellular communications in Russia: Moscow, Moscow Region St. Petersburg, Leningrad Region (25% SIM-cards, > 230% — penetration of services).

The marketing policy of the Company shifts efforts from attraction of new subscribers towards ensuring

loyalty and increasing income of existing subscribers, for the opportunity to obtain specific and convergent services.

In the Company's traditional mobile-telephony segment, the most important factors are the maintenance in the overall level of basic communication-service utilization and more active consumption of extra services by subscribers.

MTS's national tariff proposals are developed and launched onto the market with account of regional specifics. Focus at promising technologies, expansion of channels for interaction with subscribers, improved

quality of communication are the eternal principles of MTS operation.

Data transfer and mobile Internet from an additional service transformed into a key factor of business growth:

- >58% subscriber base—loyal users of data transfer services;
- 1.5 times growth of the data transfer traffic consumption volume vs 2017;
- 1.3 times growth of the LTE penetration among mobile Internet users vs 2017.

## Ukraine

19.7 mln (36.8% of the market)—number of subscribers of VF Ukraine PrJSC as of the end of 2018.

126.5%—penetration of mobile telecom services.

Coverage as of the end of 2018:

- 98% of population—2G network
- 85% of population—3G network
- 45% of population—4G network

Main competitors: Kyivstar PrJSC, a subsidiary of Veon Ltd, and Lifecell LLC, a subsidiary of Turkcell.

In 2018 Vodafone Ukraine obtained licenses to introduce fourth generation communications and fully complied with the plan for construction of LTE network.

2 times growth of data transfer services consumption: main factors—launch of 4G technology, focus at LTE construction and active expansion of 3G network coverage by Vodafone Ukraine. The company improved the results of operating efficiency at the expense of growing the number of data-users and stabilization of the subscriber base.

Since May 1, 2019 it is planned to launch a service to change a mobile operator while keeping the telephone number (MNP).

## Other Markets

CIS countries as of the end of 2018: >120%—penetration of mobile telecom services.

Republic of Armenia (K-Telecom CJSC)—2.1 mln subscribers; main competitor—Veon Armenia CJSC (trademark Beeline).

Republic of Belarus (MTS JLLC is not consolidated into the financial statements of MTS Group)—5.5 mln subscribers; main competitors—Velcom and BeSt CJSC (brand life).

# Looking into the Future

## Global trends in the telecommunications sector

The overall development of the communications industry is still determined, on the one hand, by growth of demand for data transfer (mobile and fixed-line), on the other hand, by technological development (growth of technological capabilities), the major driver force of which are equipment suppliers, and also various institutional formations (from 3GPP and GSMA to governments of individual countries). Besides, at a global scale of the industry, it is possible to achieve both technological and market balance observing the interests of all three main groups: users (community), operators and equipment suppliers (both operator and subscriber equipment). However, such balance provides at best slow growth of revenue and profit for a “regular” operator. In connection with this, it is possible to identify the following efforts common for the industry and related to the desire to get out of this stagnation trap.

**Diversification**, organic or wider. Practically all major (by standards of their geographical markets) operators search for new areas of growth. It may be both development in adjacent areas (pay TV, complex B2B-services in the field of IT, own complex IoT-solutions) and attempts to enter new areas (financial services, content production, tele-medicine etc.). Such attempts of diversification will continue in the future as well, and their intensity will be growing.

**Digitization** of business processes and products of operators. Despite proximity to Internet and IT economy, operators as companies were not always at the cutting edge of digitization. However, switch to digital is declared by more and more companies, and is under-

stood as increasing efficiency of internal processes and development of a digital component of basic products. Extent of Big Data use directly determines operator’s competitiveness. Another rising trend in the field of digitization—use of Artificial Intelligence (AI) elements in daily business: voice recognition and chat bot technologies may considerably cut costs for call centers of operators successful in this area.

**Industry participation in digital economy** through IoT- and 5G-solutions. Many operators strive to become not only data providers, but also to gain a more significant role in areas related to “smart city,” “industry 4.0,” “smart infrastructure” and other manifestations of the digital economy, developing and providing products in a wide class up to E2E-solutions.

Separately, as a global trend, it is worth noting the **growth of state regulation**. Governments of an increasing number of countries are aware of the critical, from a security point of view, role of what is happening on the Internet, and, as a consequence, the importance of its control and regulation, including in terms of issues related to user access to the Internet. Such “struggle for the Internet” takes on various forms, including the manifestation of international “technological” wars over 5G, taxes on Internet giants, stricter requirements to personal data processing, etc. In any case, the role of large states will increasingly grow. Operators, as the simplest from the point of view of company regulation (and technologically close to the end user), will obviously first of all ensure the fulfillment of regulatory (or other political) requirements, which can have a negative effect on economic indicators.

# Russia and Ukraine markets development forecast for 2019 and medium-term prospect

## Russia

The overall macroeconomic situation in Russia in 2018 gives rise to cautious optimism: the dynamics of GDP is positive, real wages continue to grow (although the total cash income of the population is slightly decreasing), as evidenced by the growth in retail turnover, as well as growth of the market of new cars, air transportation and outbound tourism. Inflation was also at historic lows, although it rose in late 2018—early 2019. We expect that the economic situation in Russia will not worsen and will not become a limiting factor for consumer demand in the main markets of MTS presence in the near and medium term.

The market of **basic communication services** (mobile and fixed-line communications) will continue to grow at an annual rate of a few percent—with an assumption that significant risks (for example, increased regulatory pressure) will not be realized. The fundamental driver of revenue growth in the mobile segment is still the demand for broadband access services, which is growing both specifically per user (MBoU), and in connection with growing number of users of this service, whose penetration is still far from the limit values currently being demonstrated by the most advanced markets. It can also be assumed that operators will continue to smoothly increase average prices (including at the expense of cancelling “cheap” tariff plans), which will also contribute to the growth in revenue from mobile services.

Another fundamental factor in the mobile segment, which may positively impact in the medium term—the growth in demand for new services, from a technological point of view, provided by the network of LPWAN class (in particular, NB-IoT) and 5G. If there is a sufficiently large number of optimistic forecasts about the first direction (exponential **growth of M2M\IoT-type connections** in the urban economy, security, industry, etc.), then, regarding fundamentally new services that will emerge due to the deployment of 5G-networks, forecasts are much more cautious both in Russia and globally. As a conservative forecast, it is reasonable to consider currently a scenario, where in the medium term the **introduction of 5G** will have a positive effect

rather on the costs of mobile operators in Russia than on their revenues, due to the greater efficiency of the new technology, as well as the use of new frequency bands. However, in relation to 5G it should be noted that at present in Russia there is no certainty about the development scenarios of such networks. Regulatory authorities are considering various options, including the creation of a single 5G-network. The main problem is the lack of frequency resource, especially in the range of 3.4-3.8 GHz. The positive effect (or even its presence) for the industry from the introduction of 5G will depend on the rate of release and the way the spectrum is distributed among mobile operators. Probably during 2019 in the issue of 5G development in Russia there will be more certainty: for example, the state sets the objective of covering the largest cities with networks of the new generation in 2 years.

The **fixed broadband market** is gradually reducing its growth rate, but, like the mobile broadband segment, it has the potential to further increase the penetration of this service—also in terms of comparison with the countries that are most advanced in this area. Another positive growth factor may be the gradual consolidation of the market through the absorption (or closure) of small regional/urban providers.

The **pay-TV** market is (and will be) of greater interest in terms of the dynamics of development. First, the penetration of even simple, linear pay-TV is not high, which automatically ensures growth rates here of at least a few percentage points higher than in the (linked) segment of fixed broadband access. Second, the **Video-on-Demand segment** (VoD) will be growing at even greater rate—guaranteed double-digit in the medium term, mainly due to the activity of OTT-providers of this service. The success of Netflix (as an example), as well as the low penetration of VoD in Russia, together with the high current dynamics of the main local VoD players, makes it possible to speak about this with a high degree of confidence.

The important driver of **B2B- and B2G-segments development** will be IoT-services, including “vertical”

solutions. A significant role here is to be played by the demand from the state structures (including the constituent entities of the Russian Federation and the municipalities) in the framework of projects on the digitization of municipal services, housing and public utilities, security (“smart city,” etc.). In addition to IoT, a significant part of this area is based on the development of video surveillance and video analytics systems. Attempts to “nationalize” this area, when state-owned companies will get certain explicit and implicit advantages should be noted as risks of its development (in B2G-part). In B2B a segment of the so-called “cloud” services (and related data center market) begins to play an increasing role. It should be noted that digitization of the economy will require, both in the medium and long term, large computing and data storage and processing capacities, as well as the development and implementation of flexible universal platforms for various areas, which will further boost the demand for “cloud”/data center-services.

The separate **smartphone market** related to mobile communication market is likely to continue growing by a few percent (including to “ensure” the continued growth of smartphone penetration). In terms of money, however, the growth rate may be higher (as it was in 2018) due to the reorientation of consumers to more advanced (and expensive) devices. Obviously, an important factor of growth here will be the general economic situation in the country—in particular, the dynamics of household income and the ruble exchange rate.

Among the markets important for MTS business, the area of **financial services** should also be noted: the company has completed the consolidation of MTS Bank and now owns 95% of this organization. The forecast for the medium-term dynamics of retail (B2C) banking services in Russia is assumed to be higher than

general economic growth (GDP). This is due both to the winning back of the industry’s downfall during the crisis period of 2014–2016, and to the low (relative to the most developed countries) level of development of this industry in the country (measured, for example, by the number of bank cards per capita, level of debt load, volume of retail lending and other similar indicators). In addition, financial services will grow not only by virtue of classic products (loans, payments), but also as a result of the promotion of new services, such as brokerage and insurance. Besides, the banking industry, represented by its most advanced representatives, seeks to go beyond financial services, setting ambitious goals to form its own “ecosystems,” which will not only increase the demand for their basic services, but will take a share from players in markets where the banks are entering. Apparently, in the medium term, financial services will not only demonstrate good momentum, but will change and become more complex.

The role that **technological innovations** may play in markets’ development is common for all markets considered. It is worth mentioning the development of Big Data as well as elements of Artificial Intelligence among such innovations. Progress in these areas will significantly improve customer focus and efficiency of operations in the underlying markets (communications, banking services), and the impact will be diverse. Thus, Big Data will allow not only to predict the behavior of subscribers, but also to significantly improve the quality of network management by predicting and identifying problem areas; comprehensive analysis of customer behavior will allow to grant loans to him or her at a lower rate; development of voice recognition and biometrics will reduce the costs of attracting and servicing customers. All of this as a complex may significantly modify existing markets, including the business models of the companies working for them.



# Ukraine

It is expected that the economy of Ukraine will continue to strengthen with annual growth rates close to 3% for at least the next few years. This should have a beneficial effect on the dynamics of household income, which will increase the aggregate consumer demand, including for the services of the communications industry. From macroeconomic risks, it is necessary to note the continuing reduction in the population (both due to natural decline and migration) and the still negative trade balance (which increases the likelihood of hryvnia devaluation in the medium and long term).

The **mobile communication** market will continue to grow at rates higher than in Russia—primarily due to the development of the 3G and 4G networks, the construction of which is continued by all the operators, which allows to increase the number of users of mobile data transfer and the corresponding revenue. The later launch of such networks in Ukraine has led to a significant amount of pent-up demand for mobile broadband services, the potential of which will positively affect the industry for several more years. Another (long-term) growth factor is IoT services, including the development of SmartCity by several cities of Ukraine. In the future, market growth will depend, among other things, on the decision of the state to allocate additional (as well as reform existing) frequencies for 4G and 5G networks. So, it is possible to hold an auction on

“low” frequencies for LTE networks (800-900 MHz) in 2019-2020, however, with the operators fulfilling tough conditions on coverage of small towns and roads, which creates new business opportunities but will force the industry to incur additional costs.

Also, a number of other factors, if implemented, could have a significant impact on the industry, and already in 2019. Among them, it is worth noting the launch of **MNP** service, “**certification**” of the relationship between subscribers and operators, as well as the development of a “mono-brand” retail by all operators. The launch of the mobile number portability service (MNP) may lead to some redistribution of market shares, as well as pressure on prices, but in general, according to the experience of the MTS Group, does not usually have a significant impact on the major players. Implementation of the last two factors in an optimistic scenario may lead to streamlining the connectivity market and reducing costs in the medium term.

In addition to basic mobile services, it should be noted that all mobile operators in Ukraine continue developing financial services in one form or another. It appears that in the coming years these services will not make any significant contribution to the total revenue, but they will allow the industry to expand the range of services provided and find new areas for growth.

# MTS Innovation Center

## Chat-bot Smarty



**Smarty**

In 2018, MTS was actively engaged in developing its own chat bot based on artificial intelligence. The MTS bot will be used to serve customers throughout Russia, it will be able to advise on products, change the tariff, connect and disconnect services, check the balance and handle

complaints. Chat bot testing demonstrated that it reduced service time and made it possible to quickly interact with a large number of customers without increasing the number of operators. In 2019, the company intends to scale up the use of chat bots to all regions of its presence, as well as to offer the services of creating bots for the external market.

## Clouds—a technological base for introducing innovations

### About development of a cloud provider #CloudMTS



The volume of the Russian cloud market is growing at an average of 30% per year, corresponding to global trends. The transition to cloud technologies is a significant trend, part of the digital transformation of business, the economy and society.

Clouds are becoming the center of companies' digital ecosystems, providing a technological base for innovations. Cloud technologies provide the introduction of Internet of Things, Big Data, and artificial intelligence services.

MTS provides cloud services under the brand #CloudMTS based on its own data centers connected by the operator's main communication channels. In 2018 the cloud area of MTS was actively growing.

**In 2018: 3 times growth —revenue from cloud services, 7 times growth —the amount of stored and processed data (vs 2017).**

In order to strengthen market positions and expand MTS competencies in the cloud business, the company acquired one of the largest cloud providers in Russia, IT-Grad, for 2.5 RUB bln. In September 2018, MTS bought the data center Avantage (2,240 racks), one of the

largest in Russia. Over the past year, MTS has invested more than RUB 12.4 bln in cloud business development (including M&A transactions).

In 2018, new cloud services became available to MTS corporate customers, such as:

- Cloud solution Disk #CloudMTS for secure storage and exchange of corporate information. The service allows you to differentiate user access and integrate the cloud service into the customers' own IT infrastructure. During 2018, the number of service users grew on average by 30% per month.
- Service for working with personal data in accordance with the requirements of the Russian legislation. The service allows customers to store and process personal data of the third level of security (UZ-3) without independent building of the corresponding system. The provider created in its own cloud a certified segment in accordance with all requirements of the information security legislation.
- Cloud services based on the global platform for business Microsoft Azure Stack. MTS has become the country's first provider of Azure services from its own data centers located in Russia. Customers can create modern hybrid applications while using the capacity of local MTS data centers and the global infrastructure of Microsoft Azure.

- SaaS-services have become available that address the business daily tasks: e-mail from the cloud, corporate data storage and exchange services. Also such services as Disaster Recovery, backup, etc.

Companies use the cloud platform #CloudMTS to host popular corporate programs and applications: for example, solutions of the SAP line, 1C, and others. In the future, it is planned to launch a line of PaaS-services.

## SmartMed

<https://medsi.ru/smartmed/app/>



On April 19, 2018, MTS and Medsi Group JSC announced the launch of SmartMed, a telemedicine platform to be used for the development of a set of digital medical products and services<sup>1</sup>.

The first joint product of the companies is the app of the same name—SmartMed—for remote consultations with doctors and the storage of electronic medical records in the protected segment of the cloud #CloudMTS with instantaneous smartphone access. The app makes it possible to get consultations with MEDSI doctors by video call or in a chat from anywhere in the world, to call a doctor and make appointments with MEDSI clinics, and keep medical data in a smartphone, being confident in their protection. The app provides up-to-date information on MEDSI clinics and doctors, online

and offline consultation history (from the date of registration in SmartMed), and all the documents that have been saved by the patient or sent by the doctor, including prescriptions and test results.

For 2018, the SmartMed team achieved the following indicators:

- the application was installed by more than 100 thousand users;
- SmartMed tele-medicine was included into optional medical insurance by 23 insurance companies;
- from November 2018, customers of the RTK network in Moscow and the Moscow region can subscribe to SmartMed services;
- 38% of users seek remote consultation again.

## Smart University

<https://smart-university.ru/>



On September 19, 2018, MTS announced entering a market of online education, which was new for it, and the

launch of an innovative educational online platform—Smart University. The platform is designed for one-on-one classes with a teacher and is primarily focused on the market of additional school education and private tutoring, which are estimated only in Russia at RUB 130 bln and RUB 69 bln, respectively.

Lessons at Smart University are held by teachers remotely using a video call through an iOS and Android application or a service website. Communicating with the teacher, the student performs tasks in the framework of an interactive textbook specially created by famous authors.

The training program is built for each student individually using special adaptive algorithms that allow you to improve the quality of training up to 1.5 times. The program also allows you to take intermediate tests during the entire course and monitor the progress of your studies using the built-in statistics system. Progress tracking is also available for schoolchildren's parents.

The first area of the Smart University was the preparation for the Unified State Exam in English (the Unified State Exam—a unified state exam, which students pass after the 11th, final grade). The interactive English textbook includes more than 5,000 exercises, more than 22 hours of audio recordings with native speakers from the USA and the UK, as well as more than 30 variants of intermediate and trial tests and diagnostic tests.

Already on December 4, 2018, Smart University launched courses to prepare for the Unified State Exam in math for students in 10-11 grades. As with English,

<sup>1</sup> <https://moskva.mts.ru/about/obshhestvennosti-i-smi/soobshheniya-kompanii/press-relizi/2018-04-19/mts-i-medsi-zapuskeyut-platfomu-dlya-razvitiya-uslug-cifrovoj-mediciny>

the first math lesson is provided free of charge. At the introductory lesson, the Smart University teacher diagnoses the current level of user knowledge, and based on the data obtained, the special program creates a personalized training track and counts how many lessons are needed to achieve the goal specified by the student. An interactive math textbook includes over 3,000 exercises and over 35 interactive test options.

## Esports

### Start of streaming platform WASD.TV development<sup>1</sup>

<https://wasd.tv/>



In the second quarter of 2018, development of MVP of MTS own streaming platform began. In June 2018, the prototype was ready, and in August 2018, an extensive closed beta test of the platform for MTS employees was opened. About 1,200 employees took part in the testing, during this period more than 1,500 broadcasts were conducted on the platform.

By the end of the year, a basic amount of functionality was developed, which goes into open beta testing on March 13, 2019. This functionality also included technologically new features and tools, such as:

- cooperative streaming, which allows you to watch the broadcast of two streamers at the same time and unite their audience in a single chat
- own gamification system, which allows users to influence the success of streamers, as their level develops, to get additional options on the platform, for the streamers themselves—to access high-tech features and for the first time in streaming—the tools to promote their channel on the platform
- Oneclickstreaming application dramatically lowers the entry threshold for novice streamers. The application allows you to start the stream almost by clicking a few “Next” buttons

As part of the closed beta testing, the functionality of the League of Streamers was also tested, which will be used to increase PR activity and content volumes, with the start of open beta testing.

In 2019, the Smart University team plans to expand the product line by launching general English and business English courses for adults and the corporate segment, introducing a group of online classes, as well as spreading the service in Belarus and Ukraine.

### Synergy of WASD.TV with Gambit Esports

Together with L2P company, the league functionality was prepared with a complex system for evaluating participants. The League becomes a selection tool for creating personnel reserve in e-sports, and by the beginning of the open beta test, registration is started for the first Gambit Selection League, which will result in the selection of Gambit Esports Junior Teams.

### Gambit Esports

Several teams of Gambit Esports have demonstrated an explosive increase in results. The LoL team won three out of three continental tournaments and climbed to the 8th line in one of the world championships.

The Dota 2 team, which was assembled in September 2018, managed to be selected to one of the largest world championships and to win its first major online tournament.

In 2018, the new discipline, Fortnite, was opened, and at the final annual world championship, our player took the 7th position among the strongest representatives of this discipline around the world.

Gambit Esports players also took part in several MTS events for partners, and also became heroes of commercials for one of the tariffs and upcoming promotional materials to promote the WASD.TV platform

Over the year, the team with the MTS logo on their uniform visited several dozen international tournaments with a total number of views of about 500 million.

<sup>1</sup> <https://moskva.mts.ru/about/obshhestvennosti-i-smi/soobshheniya-kompanii/press-relizi/2018-01-16/mts-vihodit-na-ri-nok-kibersporta>

## Accelerator

<https://startup.mts.ru/>



The MTS StartUp Hub corporate accelerator was launched in March 2018 and became a key element of the system for MTS interaction with young technology companies.

In 2018, MTS StartUp Hub sourced twice for a corporate accelerator, when MTS experts reviewed a total of over 1,000 applications from technology projects from 13 countries. The partners of StartUp Hub program include one of the largest American accelerators 500 Startups, Sberbank, NRU HSE and others.

60% of the pilot projects that MTS StartUp Hub conducted have been successful. A number of teams have already begun to scale, among them: Containerum—a platform to reduce the time to bring IT services or their updates to the market; Doczilla—a project to automate the preparation of contracts; Compensair—a platform

for receiving compensation from airlines in case of delay or cancellation of a flight; Pay2U—a platform and user interface for automating partnerships and CashBack processes; Sarex—a platform for searching sites for antenna mast structures and evaluating their condition in automatic mode using drones. Projects make it possible to speed up and cheapen the process of introducing new technologies, and thus strengthen market positions in the face of fierce competition.

In 2018, MTS allocated about RUB 30 mln for the development of startups. According to the forecast by MTS StartUp Hub, the potential economic effect from the introduction of startups in the short term will amount to hundreds of millions of rubles.

In 2019, MTS StartUp Hub plans foreign expansion into the markets of Israel, Singapore and Europe. As part of working with foreign partners, it is planned to scout local startups and to export Russian projects to international markets.

# O ur Strategy

In 2018 the Company continued to follow the strategic formula “3D: Data. Digital. Dividends” in its operations with a certain adjustment of strategic priorities and focus shift.

The Company concentrated on implementation of initiatives within a specially allocated subject matter “Digital Transformation,” which serves as a foundation for all three components of 3D. It includes actions to modify internal processes of the company with orientation at digital technologies and supporting changes of the corporate culture and management methods. A fundamental decision has been taken on the gradual reformatting of the management structure from function-oriented to product-oriented, and first of all it concerns digital lines of business. This decision does not mean a complete rejection of functional units, but the main role in the implementation of product projects will now be played by dedicated teams with broad authorities (including resource management), the most flexible structure and freedom in choosing their methods of work. Such automation or, as we call it, “atomization” of the product and business line management structure best suits the objective of penetration and success in new promising areas.

With account of analysis of results obtained in the process of working in the Digital area, the main business areas were divided into several categories:

- traditional products,
- adjacent high-synergistic areas,
- nonadjacent digital businesses (projects far from the telecommunication environment, but operating in the dimension of the digital economy and having the significant growth potential).

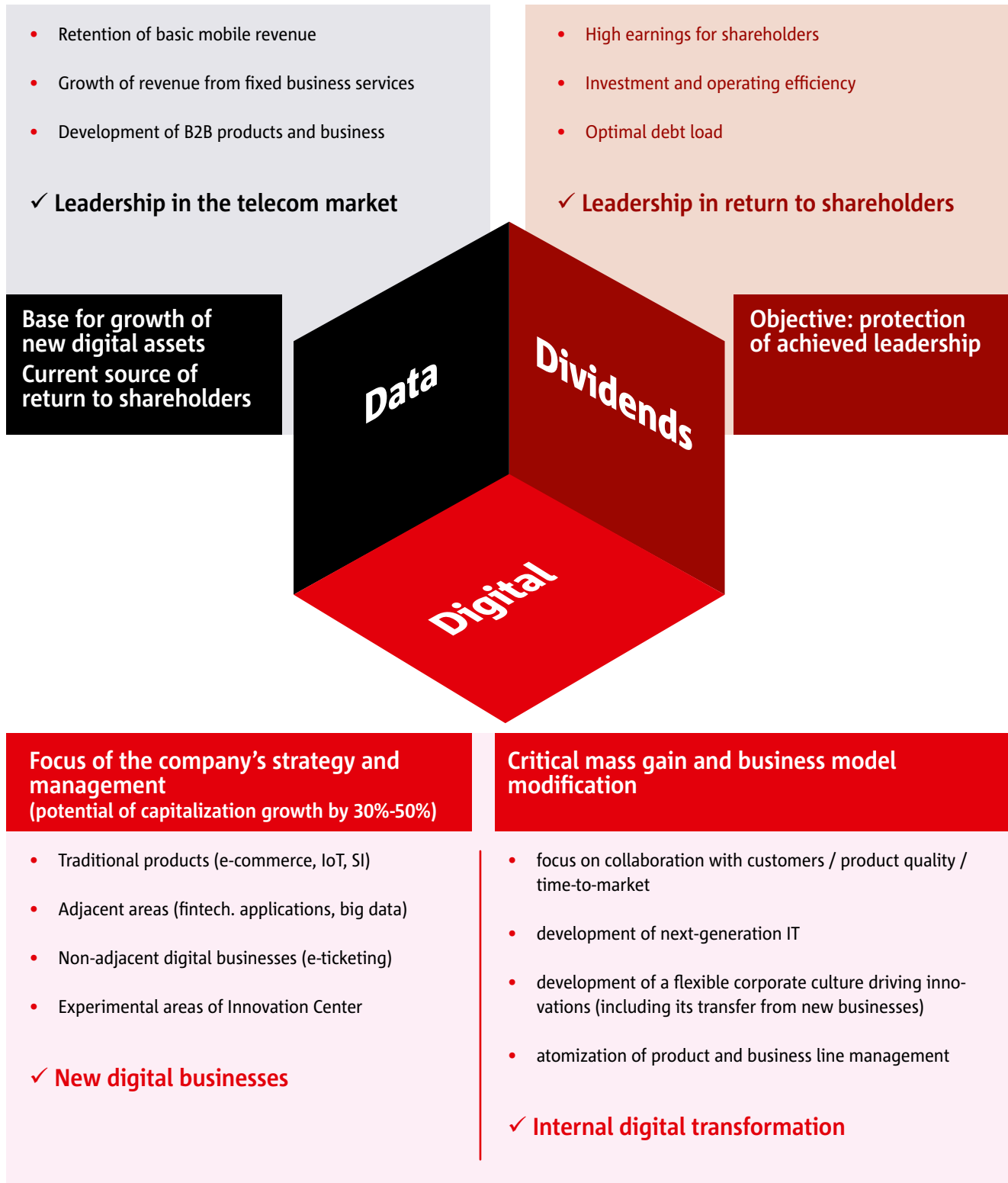
The company finds MTS approach in respect to the Data and Dividends weighted, suitable for the current situation, and confirms that targeted positioning of the company here is still determined by the aspiration to remain the market leader.

[More detailed information is available on p. 39.](#)

**T**he current strategy of MTS is based on transformation from the traditional telecommunications operator, providing for the basic level of services, to a service company, which enables the customers to use a digital ecosystem, including a wide range of products aimed at satisfaction of customer needs both in the mass and corporate segment. The basis for development of new digital services and convergent products are the fundamental innovative technologies: up-to-date high-speed data transfer networks, including 5G and NB-IOT; big data analytics and artificial intelligence. Based on these technologies, apart from traditional areas of Mobile and Home, we are developing three main digital business lines: B2B-services, financial technologies and entertainment.

*Alexey Kornya, MTS President*

# Our Strategic Priorities



“Data” is a part of our business associated with the telecommunications environment, and includes a full range of relevant products and services for the mass and business market. This is the basic layer of customer experience, whose role is to provide the possibility of communication and reliable access to the information environment in its broadest sense. This component remains the main source of income for us, a resource that allows us to move into new digital areas and ensure the fulfillment of obligations to shareholders. A key priority for us here is to maintain market leadership positions, ensuring the highest level of quality of services, timely and consistent development of new technological standards, active actions to increase customer satisfaction and loyalty.

“Digital” is a set of promising business areas outside the traditional telecommunications market, where we see the main source of our future growth. For their development, we implement a multi-level approach, which includes: formation of competencies, teams and product projects based on internal search within the existing functionality; search for and crystallization of new businesses within the framework of the Innovation Center functioning in the company, which created the conditions that were most favorable to their growth and proactive in the area of M&A.

“Dividends” reflects our desire to be a highly reliable partner for our investors, an absolutely predictable source of dividend payments and shareholder value formation. The main priorities in this area for us are constant work to improve business efficiency, primarily through the processes of digital transformation, as well as ensuring a balanced level of debt, optimal cost and structure of debt obligations.

“Digital transformation” is associated with the implementation of a comprehensive program of organizational change required to move from the structure aimed at achieving success in one—the telecommunications industry—towards a multi-tasking and multi-purpose system that can operate simultaneously on different, sometimes only vaguely related markets. In the process of transformation, we decentralize the mechanism of product line management, form independent project teams, empower them with resources and provide considerable freedom of action to achieve the main goal for them—the successful cultivation of the area assigned to them. At the same time, we are take a major step back from tough corporate practices, encourage flexibility, a tendency towards experimentation, creative search and courage in making non-standard decisions.



## Implementation of the strategy in 2018

In 2018 MTS Group exceeded the announced forecast levels of key performance indicators.

2018 has become for us a year of active functioning within the adopted “3D” strategy development: “Data. Digital. Dividends.” The achieved specific results for each of its components prove that the areas were chosen correctly, and that is confirmed by our leading positions in the market and economic efficiency of operations. We do not change the main course, we only make some adjustments and clarifications due to the changing environmental conditions and competitive situation.

### Data

The main objective of the Data area is still to retain leadership and maintain our long-term competitiveness in the core business—retaining mobile revenues (including through potential gaining of a competitive spectrum in 5G), ensuring sustainable growth of fixed-line and satellite TV services, and accelerated development of B2B services.

#### Development of our networks

In total, in 2018, the MTS Group built more than 21,500 base stations in 83 regions of Russia, of which more than half were base stations of LTE standard. 4G coverage reached 68% of the population. The penetration of smartphones into the MTS network reached 70.1%, and the penetration of the mobile Internet—58.8%. We

continued to expand the trunk fiber optic lines. Penetration of FTTB and GPON networks reached 93.2%.

MTS continued active expansion of mobile data transfer networks in Ukraine: 3G network coverage reached 85%, 4G network—45% of the populated territory.

MTS launched in the Republic of Bashkortostan the first commercial high-speed LTE-network of gigabit class in the Eastern Europe and Russia with support of LAA technology, providing data transfer speeds up to 979 Mbit/sec at the expense of combining the regular licensed range of frequencies with non-licensed spectrum of Wi-Fi networks.

When preparing for the world football championship, we deployed Europe's largest network based on

#### Company's key performance indicators<sup>1</sup>

Indicator (MTS Group)	2018		2017		2016	
	Objective	Actual <sup>2</sup>	Objective	Actual	Objective	Actual
Revenue change, %	+ 4-6%	+ 8.9%	0 /+2%	+ 1.7%	+ 2-3%	+ 2.1%
OIBDA change, %	~ 2%	+ 6.2%	+ 5%	+ 6.2%	- 4%	- 4.4%

<sup>1</sup> Detailed analysis of operating indicators is provided in the section “Financial Overview.”

<sup>2</sup> Without effect of new IFRS standards.

Massive MIMO technology in LTE-TDD 2600 standard in seven of the 11 cities of the tournament. Massive MIMO technology will be widely used in communication networks of the fifth generation. This solution due to the use of multiple antenna elements at base stations increases the bandwidth throughput and capacity of the cell, as well as increases the radius of its coverage during data transmission due to the simultaneous formation of controlled directional radio beams from a base station to several subscriber devices at a single frequency.

We also launched a large-scale program for the construction of LTE2100 mobile networks in small and remote settlements in Russia at the frequencies of the previous 3G generation. The company was the first among Russian telecom operators to start refarming (transition) of the 2,100 MHz band, originally intended for UMTS (3G) networks, for faster and more capacious 4G (LTE) communication networks. To date, MTS has launched LTE2100 networks in 19 regions of Russia. The widespread application of the principle of technological neutrality in the available ranges allows us to overcome the shortage of frequencies, to accelerate the deployment of LTE networks in the country, to increase data transmission speeds and to expand stable 4G coverage areas.

We also launched Wi-Fi Calling and VoLTE services in major cities—Moscow and St. Petersburg and surrounding regions. For the first time, these services became available in Russia as a combined product.

## Development of convergent offers

In 2018, a memorandum was signed with Huawei on the creation of a single multimedia platform for the development of all MTS television products, including mobile, cable, satellite television and IPTV. This will make it possible to implement the services of content recommendation of third-party applications based on Big Data and to connect customers to cross-discount programs for MTS services. The development within a single platform will also allow to double the number of channels in HD- and UltraHD-format and triple the number of movies and TV shows available to users of

these TV services in five years. A full transition of all MTS TV services to the new platform is planned to be completed before the end of 2019.

In April 2018, a new affiliate program for monetization of content services “1Click” was launched. Thanks to the new strict requirements to the quality of services and closure of services that do not meet the requirements of the program, it became possible to drastically reduce the level of complaints from subscribers in this category within a short period of time. The growth of NPS Russia has also been observed since the low-quality services were disconnected against the background of a decline in competitors.

In May, we launched the new “ivi Subscription Option”- two months of subscription and unlimited access to the largest Russian online cinema ivi. Films, TV shows, as well as high-quality cartoons can be watched online or offline on a smartphone or tablet, as well as on other devices—a computer or TV.

We also combined unlimited mobile and home Internet in a single service in almost 70 cities across Russia. MTS customers can connect wired and mobile Internet to one personal account and use it without traffic restrictions. In January 2019, we launched packaged convergent offers of mobile communication, mobile Internet and satellite TV, which will provide users with access to high-quality digital content, mobile Internet and voice communication within a single package and personal account. Products are primarily focused on residents of small cities and rural areas, where satellite TV is the best way to access television services, and mobile services are the only way to access the Internet and use voice services.

The creation of convergent products is one of the strategic areas for development of MTS Group, which has the necessary experience and licenses to bring such solutions to the market. MTS has successfully implemented the market launch of convergent solutions for mobile and fixed-line services and will continue to develop this area. Launch of new products allows us to provide our subscribers with the most relevant services with maximum convenience and minimal costs.

# Digital

In 2018, we focused our efforts on several key vectors of Digital development, depending on the extent to which they correspond to and complement our core telecom business.

## The first vector

### Traditional digital products:

- cloud technologies (eClouds),
- the Internet of Things (IoT),
- eCommerce,
- IT and system integration

## The second vector

### Adjacent digital areas with high synergy effect:

- financial services (mobile banking, Internet banking),
- mobile applications (Over The Top—OTT),
- Big Data,
- Artificial Intelligence (AI),
- Machine Learning (ML)

## The third vector

### The new non-adjacent digital services:

- ticket services (e-ticketing),
- online platforms to searching for executors of instructions to solve various tasks (YouDo)

## The fourth vector

### Experimental areas of the Innovation Center:

- eSports,
- eHealth,
- online education (Smart Education), etc.

# 12.4 bln RUB

— MTS investments in the development of cloud services in 2018 (including M&A transactions)

## Cloud business solutions (eClouds)

We have provided a significant increase in computing power and expanded the technological base to provide corporate customers with new cost-effective services. In 2018, Russian companies most actively used IaaS-solutions, whose share exceeds 80% in the total volume of #CloudMTS contracts. Companies migrated both supporting and critical functions to the cloud: client online portals, CRM systems, accounting applications and databases.

In 2018, we expanded the capabilities of the cloud platform #CloudMTS, launched new services for business:

- mail cloud services,
- a service for storing and sharing corporate information,
- a dedicated segment for handling personal data.

Investments in the development of cloud services, taking into account the M&A transactions related to the purchases of the data center Avantage and the cloud provider IT-Grad, over the last year exceeded RUB 12.4 bln. We have provided a significant increase in computing power and expanded the technological base to provide corporate customers with new cost-effective services.

**MTS was the first in Russia to launch services** on the Microsoft Azure Stack platform on the basis of its data centers.

In 2018, MTS built **Russia's first federal network** for services and devices of the Internet of things in the LTE standard based on the NB-IoT technology.

We also brought a cloud B2B service to the market for storing and processing personal data, designed to help enterprises protect the personal data of their customers and employees in accordance with the latest requirements of the Russian legislation. MTS both provides for data storage in the cloud and helps customers to issue documents for certification and inspections. The service is based on the dedicated protected segment of the cloud #CloudMTS. The service makes it possible to place in the cloud information systems that participate in the process of personal-data collection and processing—HR management systems, corporate content, interaction with customers, etc.

MTS was the first in Russia to launch services on the Microsoft Azure Stack platform on the basis of its data centers. Thanks to the launch of Azure Stack in Russia as part of the cloud provider #CloudMTS, customers can create modern hybrid applications while using the capacity of the local MTS data centers (DC) and Microsoft Azure global infrastructure.

## Internet of Things (IoT)

MTS continues to actively develop IoT services in its portfolio. We built Russia's first federal network for services and devices of the Internet of Things in the LTE standard based on the NB-IoT technology. Successful launches of the NB-IoT network have already taken place in 20 cities of Russia. In 2018, MTS provided full NB-IoT coverage in all million-plus cities and in a number of large cities in Russia, and also provided services for working with smart devices. NB-IoT provides for higher capacity of the network, high radio sensitivity, long service life of connected devices and low equipment cost. Devices with NB-IoT SIM-cards may operate without failures for up to 10 years without additional battery recharge.

In April, we signed an agreement with the administration of St. Petersburg on strategic partnership in the framework of the implementation of programs aimed at developing the innovation infrastructure of the city. The priority area of cooperation is the development of technologies related to the digitization of urban infrastructure in St. Petersburg. To implement the project "Smart City St. Petersburg," MTS launches the first pilot zone of the Internet of Things based on NB-IoT networks. For the next two years, the company plans to invest about RUB 4 bln into development of the region.

In partnership with Ericsson, we have opened a joint research and development center in the Republic of Tatarstan for the creation and release of innovative products and solutions based on 5G technology and Big Data in the Russian and global markets, as well as

the development of mobile networks for unmanned vehicles and industrial IoT solutions.

As part of Startup Village, MTS and the Skolkovo Technopark signed an agreement on cooperation in the sphere of “digital city” technologies development. The first step in the implementation of the agreement was the launch of the Internet of Things pilot zone based on NB-IoT networks in the territory of the technopark.

The Nokia IMPACT IoT platform was launched on the MTS infrastructure. As a result of MTS and Nokia partnership, the companies that use industry-specific platforms and solutions, applications, services and sensors are now able to centrally manage all of their IoT components.

## IT and system integration

In 2018 MTS entered the market of IT outsourcing, providing corporate customers with the services of system integration, network infrastructure and IT systems maintenance, business applications and other internal customer services management. The company will use the expertise of its subsidiary system integrator NVision Group and staff of more than five thousand IT specialists across the country. MTS guarantees the service level through a service level agreement (SLA). The duration of the contract may be from 1 to 5 years.

In November, MTS and Kirovsky Zavod PJSC announced a strategic partnership in the field of automation of production activities and increasing the efficiency of industrial production with the help of innovative IT technologies. The result of the project will be the appearance of a new class of IT solutions in the market—an industrial communication platform that will expand the capabilities of industrial enterprises in the field of digitization.

In the city of Innopolis, we installed the first terminal issuing SIM-cards in Tatarstan with the function of personal identification, and similar devices were installed in the Moscow metro. The device is equipped with technologies for processing personal and biometric data, as well as a special software package that provides high protection of personal data against external and internal network attacks during transmission over communication channels.

## Applications (Over the Top—OTT), financial technologies (Fintech) and eCommerce

In February 2019, MTS brought its share in the capital of MTS Bank to 95%. Acquisition of a share package in the bank is necessary to successfully achieve cross-synergies between telecom and banking products, to accelerate the launch of projects and to implement a financial services strategy aimed at building a unified digital ecosystem of innovative services for customers.

In cooperation with MTS Bank, MTS Group continued the development of financial services—one of the key activities of the company. By the end of 2018, the number of MTS Money customers reached 5.4 million users due to the further expansion of the portfolio of convergent products, and the total loan portfolio increased to RUB 21.6 bln.

In 2018, the bank integrated the most popular consumer products, including requests for credit cards and personal loans, into the My MTS Application, which will make it possible to radically expand its customer base. The introduction of a unified scoring strategy will allow the bank to provide a potential customer with a combined set of banking products. This implementation will increase customer satisfaction while avoiding credit risks.

MTS, MTS Bank and Mastercard announced the launch of the first Russian virtual credit card MTS Credit Online for secure purchases on the Internet and in retail outlets using smartphones. To get a card, the MTS subscriber does not need to visit the bank’s office or fill in an online application form—you may issue a virtual card in mobile applications or on the MTS website.

MTS also continues to successfully develop ecommerce. In early 2018, we launched a new technology platform for our online store, which made it possible to increase the convenience of online shopping for consumers. The company has increased the speed and reliability of the website, as well as expanded logistics capabilities and improved courier delivery service. The volume of MTS online sales for the year grew by 33.8% and exceeded RUB 6.9 bln. In addition to this, MTS significantly improved credit opportunities for online customers and optimized the service of personalized device recommendations through the My MTS application, as well

**Russia's first virtual credit card —  
MTS Credit Online**

# 14.1 mln

— the number of monthly users of the My MTS self-service application

as launched two new services—placement of online orders for B2B clients and the trade-in calculator.

The number of the My MTS mobile app users continues growing. The number of monthly users reached 14.1 million. My MTS is actively used as a platform for promoting other digital services and a “showcase” for various MTS branded products, as well as sales of phones based on big data algorithms and personalized recommendations. The company has expanded the functionality of the application, which now integrates the MTS Money, MTS Cashback services and online tickets.

## Big Data, Artificial Intelligence (AI) and Machine Learning (ML)

In 2018, the Big Data project at MTS was three years old. Since the launch, the project team, which initially consisted of 20 employees, has grown to 250 experienced experts, and the net economic effect for all the time of its work is estimated at RUB 3.5 bln.

A project from the Workforce Management category was one of the most illustrative in this regard—centralizing and optimizing workforce planning at the level of each of more than 5.5 thousand of our retail stores, improving service quality and staff satisfaction while reducing payroll costs. Two-fold reduction in the number of workers employed in “non-peak” hours provided significant savings: we managed to reduce the payroll costs by 10%. Importantly, there was no outflow of personnel, and at the same time sales increased slightly.

Thanks to active use of Group big data capabilities, MTS Bank was able to develop and offer attractive financial services for MTS customers, which contributed to a sharp increase in sales of personal loans in the second half of 2018.

In September we launched the platform for digital advertising—MTS Marketer, which will allow entrepreneurs and small and medium-sized businesses to carry

out targeted communications with customers in a digital environment. Platform users will be able to improve the accuracy and relevance of advertising, customizing communications by more than 120 parameters, which MTS constantly improves using Big Data algorithms and machine learning. The cloud platform MTS Marketer unites the opportunity to target advertising on the Internet, SMS, Viber and e-mail, as well as to charge customers cashback for purchases in one user interface. Having connected to the platform, the user may independently, without additional calls and messages to the operator’s offices, start communication with its customers.

In November, MTS integrated the Detectum developer technology based on machine learning and data analytics into the online shop shop.mts.ru. The solution allows you to track customer requests in the search box, taking into account possible corrections and interpretations, and also remembers user preferences by categories and brands. Based on these data, the system provides the most appropriate samples of goods to the buyer. If there are many relevant products found at the user’s request, the system automatically offers context-sensitive filters—the most important parameters with the most popular values. The algorithm is automatically trained on the events and actions of users. The aim of the project is to increase the conversion of search sessions into purchases and the potential increase in the average check.

## e-Ticketing

In 2018, we became a member of the entertainment market, through the acquisition of two leading Russian ticket operators—Ticketland.ru and Ponominalu.ru brands. Transactions aimed at business diversification made it possible for MTS to occupy the leading positions in the promising market of selling tickets for theaters, concerts, musicals and festivals, and to provide a service of e-tickets purchasing to subscribers with its integration into the program of loyalty and ecosystem of MTS mobile apps. Using Big Data tools related to subscriber analysis, we managed to increase ticket sales due to significant increase in click-through rate (CTR): from 4 to 10% of people respond to messages about events tailored specifically for their interests.

In 2018, growth of Ticketland.ru and Ponominalu.ru income amounted to 9%. MTS is actively developing the synergies of the ticketing business with other areas of its activities. The key cross-areas of MTS and the ticket business in 2018 were event sponsorship, development of recommendations and Big Data, integration of ticket sales in MTS retail outlets, creation of digital ticket windows for MTS subscribers, development of payment

tools to pay for tickets, and integration of ticket sales into digital products of MTS.

### Online platform to search for executors of instructions to solve various tasks (YouDo)

In September MTS announced purchase of 13.7% shares of Youdo Web Technologies Limited, which owns one of the largest Russian online services to search for contractors to solve domestic and business tasks YouDo.com, for \$12 mln. This online service holds the leading positions in the market of ads and applications for performance of cleaning, repair, freight, courier delivery and other services in C2C and B2B segments. The service has five million registered users, of which more than 800 thousand are verified executors.

### eSports

As part of the Innovation Center established at MTS, we have created a special eSports unit responsible for the development of MTS in the eSports market. In January we acquired Praliss Enterprises Company, which manages Gambit Esports—an organization, which combines four teams (16 players) in the game disciplines that are most popular today—Counter-Strike: Global Offensive, League of Legends, Dota 2 and FIFA. Entry into the eSports market is in line with the MTS strategy for the development of digital areas and products beyond the boundaries of traditional telecom. Our goal is to make the new MTS services become part of the lifestyle of those who are used to using state-of-the-art technologies, first of all, young people. In order to achieve this goal, it is important for us to be where our customers are and to create products that fully meet their interests. Therefore, we decided to bet on eSports, which is rapidly gaining popularity today, especially among young people.

### eHealth

In 2018, we launched the SmartMed telemedicine platform for remote consultations with doctors and storing an electronic medical card in a secure #CloudMTS cloud segment with instant access from a smartphone in cooperation with MEDSI, one of the leading private federal medical networks in Russia. The app makes it possible to get consultations with MEDSI doctors by video call or in a chat from anywhere in the world, to call a doctor and an ambulance, make appointments with MEDSI clinics.

### Online education (Smart Education)

In September 2018 we entered the market of online education and launched the Smart University platform. The first area of Smart University was preparation for Unified National Exam in English, then math courses were added. The platform offers a personalized program that is developed individually for each student (one-to-one) using a special algorithm that takes into account the level of knowledge, the available time for classes and the score that the student plans to receive at the Unified National Exam.

### Partnerships

**Vodafone Group.** We have extended the strategic partnership agreement with the Vodafone Group, concluded in 2008. In addition to the previously provided cooperation in the field of procurement, technology and marketing, the companies agreed to assist Vodafone in the digital transformation of MTS business, to develop and bring innovative technologies and products of MTS to the market until the end of 2020.

**Apple.** In May 2018, we signed an agreement with Apple to provide Apple Music services to MTS subscribers, according to which the subscription to the Apple music service is paid from a mobile phone balance. MTS subscribers may listen to more than 45 million songs on Apple Music anytime and anywhere by signing up for an exclusive offer—6 months of Apple Music for free. Only eight operators around the world, including MTS, offer this Apple Music service.

**ASUS.** In July, we entered into a strategic partnership with ASUS to promote mobile devices and develop new products. We plan to provide special smartphones for gamers in the Russian market with a powerful processor and a battery with a dock station and professional gaming accessories, which will make it possible to turn a telephone into a full-scale gaming station.

**Sberbank.** In October MTS and Sberbank agreed on partnership in the field of support and development of innovative technological projects in Russia. Within the partnership, the corporate accelerator MTS StartUp Hub, jointly with the accelerator of Sberbank and one of the largest American accelerators—500 Startups, will select the promising startups and estimate the potential chances of teams for pilot projects and gaining the contract with one of partners of the program.

**RAS.** We also executed an agreement on cooperation with the Russian Academy of Sciences in the field

of development of information and communication technologies. The agreement provides for cooperation during fundamental and applied scientific research, joint expertise of scientific and technical programs and projects for practical introduction of developments for

the benefit of MTS and Russian ICT industry, organization of actions to exchange information and experience jointly with popularization of state-of-the-art technologies and scientific knowledge.

## Dividends

MTS remains one of the most attractive companies for shareholders in the industry, providing for high income and return on invested capital at the expense of operating efficiency and optimum debt level.

On July 2, 2018, MTS launched a new program for redemption of its ordinary shares and ADRs for the amount of up to RUB 30 bln for two years, including funds for purchase of shares from Sistema Finance.

Following the results of 2018, the quotations of MTS shares demonstrated the best dynamics among players of the Russian telecommunications market, which made it possible for the Company to increase even more the significant gap from our competitors by level of capitalization.

## Digital Transformation

Innovative projects in the field of Digital, which are the main drivers of the Company's development and strengthen our competitive position in the market, cannot be successfully implemented if there is no appropriate internal environment consisting of the organizational structure and business processes, corporate culture, motivation system and personnel working methods. Therefore, digital transformation penetrates deeply into the company, permeates through each of its structural elements and affects its every action.

As part of this strategy, in 2018, MTS began implementing the iDA—Internal Digital Automation project—a program to digitize internal business processes in all areas of the company. The program is designed for

initiatives “from below” to search for and implement ideas to simplify and increase the speed of business processes, reduce the complexity and the number of manual, transactional operations. The key elements of iDA initiatives implementation are functional units as generators of ideas for digitization and automation of their business processes, the project office as a single entrance window and an assistant in the implementation of initiatives, a special simplified scheme for coordinating investment and procurement financing, and, finally, the joint implementation of functions and project office digitization projects.

Work on the study of business processes covered units with a total of 17 thousand people. In addition to the survey, more than 500 interviews were conducted. According to the results of the study, a register of more than 300 hypotheses and initiatives for digitization was formed.

Another important component of the company's digital transformation is the creation of a multitude of product teams responsible for managing digital products and business lines. Digital World dictates new rules of the game, where traditional telecom solutions often become ineffective. Since the telecommunications business is a foundation for us, we build on its basis the successful agile teams of new areas on the “atomic” level with a flexible organizational structure,

**52** bln RUB,

or RUB 26.0 per ordinary registered share (RUB 52 per one ADR)—MTS paid in 2018 in accordance with the dividend policy of the company for 2016–2018



a separate budget, maximum autonomy and speed of decision-making, freedom of action in investments and time to market (time-to-market). Teams compete for promotion and sales channels by the criteria for the effectiveness of their use. They do not have rigid integration into the structure and processes of the “basic” MTS, however, there is a curator in the management and a committee to prioritize and solve problems and conflicts, their activities are constantly strictly monitored and evaluated.

To meet the challenges of reducing the time it takes to develop new products and improve their quality, we are increasing our human resources and actively restructuring our company’s IT landscape. We are transforming our IT departments with the change in their management model from functional to product-oriented, as well as creating product thinking among employees. We have many times increased the cost of their training, regularly hold special events (hackathons, agile day, agile cafe, etc.), develop state-of-the-art

**3** thousand experts

For 2018 the number of IT experts in the Company increased up to 3 thousand people, while the costs for R&D of the IT Block increased more than five times.

office infrastructure and professional communities. As a result, the first 9 product lines and 25 product teams have already been formed. We also create IT platforms for basic services—a single product catalog and a monetization platform, a digital container for applications, a single sales and omnichannel interaction platform.

## **S**trategy in the Field of Mergers and Acquisitions

The company monitors the opportunities of inorganic growth both in the markets of its operation and beyond. MTS PJSC has sufficient experience in the integration of acquired companies that allows incorporating them into the business structure efficiently and getting a positive economic effect as quickly as possible.

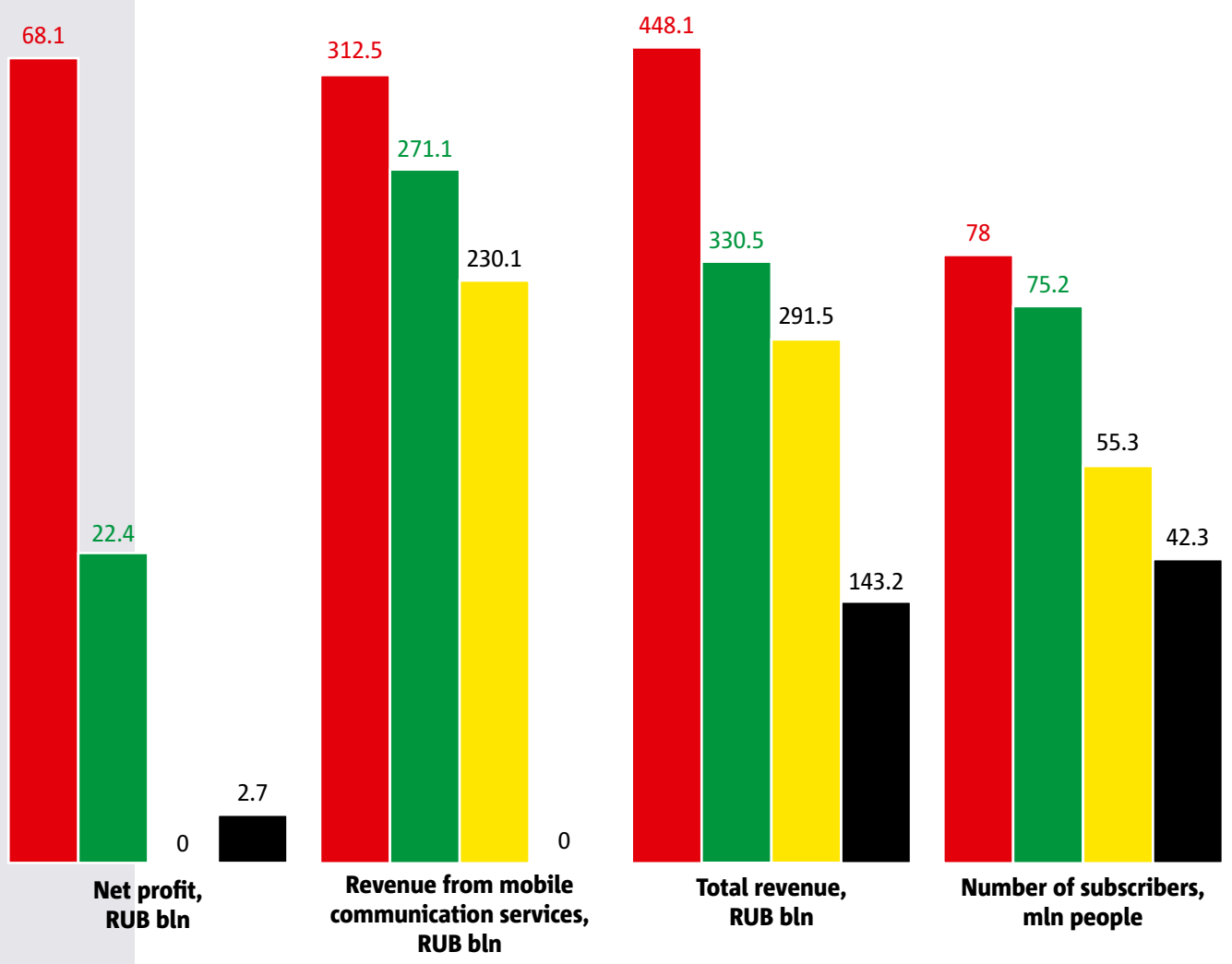
**Our objective** is to reduce the product time-to-market 10 times.



# Business Overview

## Mobile Business

MTS and competitors in 2018

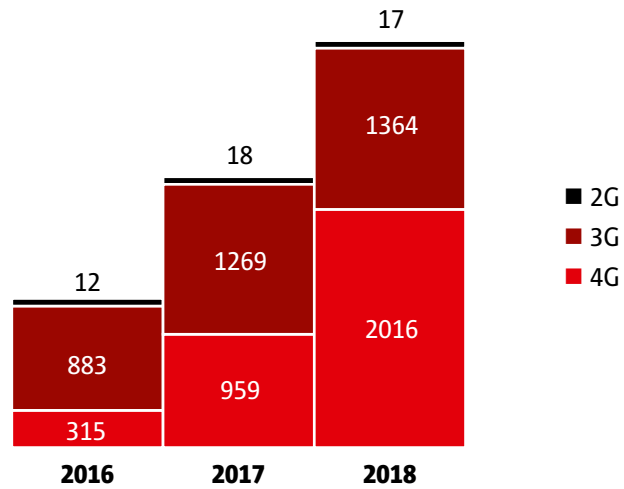


- MTS
- MegaFon
- VimpelCom
- Tele2

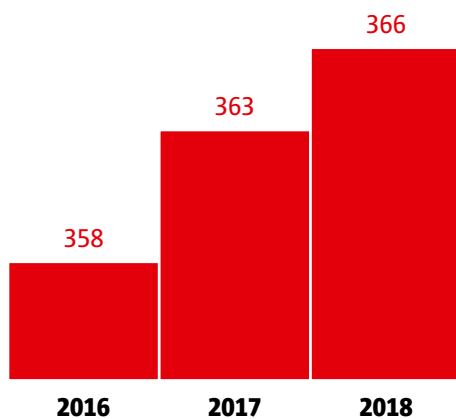
## Russia

Since 2013 till present time the lineup of SMART data plans is the main sold offer of MTS Company. The Voice&Data package is oriented at the fast-growing segment of smartphone users and meets the needs of current market subscribers. For a particular subscriber fee, the data plan includes packages of minutes, SMS and Internet traffic. With a significant increase in mobile-traffic consumption, both in absolute terms and per subscriber, our subscribers retained the same level of voice-service consumption, which made it possible for us to stabilize the ARPU level. The share of subscribers served under package tariffs exceeded 55% of the subscriber base.

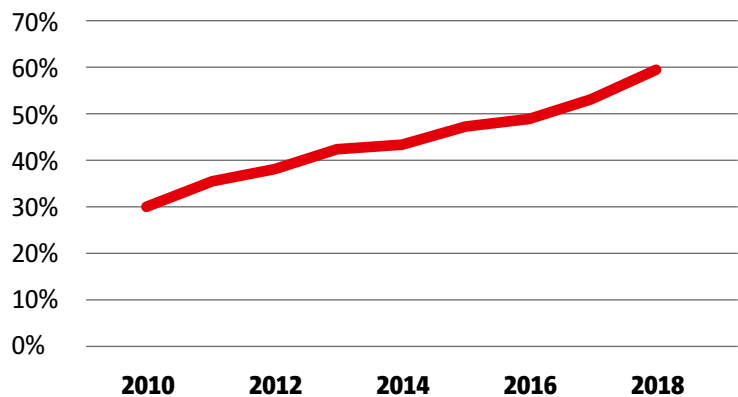
## Mobile traffic, PB



## Voice traffic, mln min



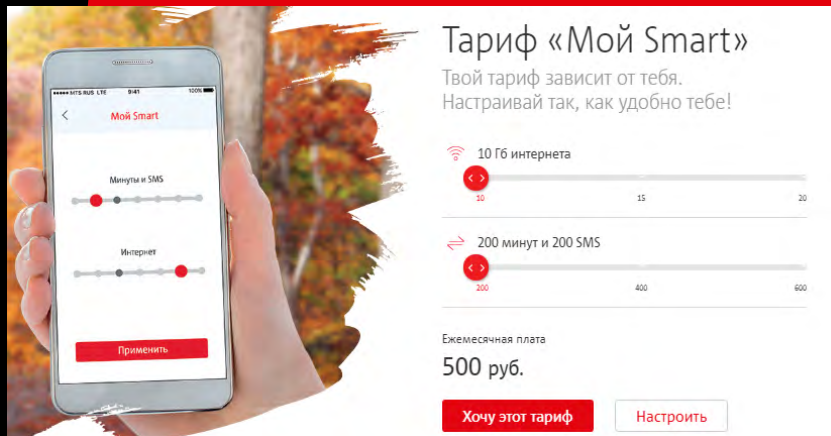
## Penetration of mobile internet users, in % of monthly active users, 2010–2018



In 2018 MTS Group demonstrated high financial results. We have significantly advanced on the way of implementation of our business digital transformation strategy and noticeably strengthened the positions in the Russian market of device sales. At the same time our main telecommunications business continued growing through common price environment in Russia and stable growth of Internet consumption in all markets of Group presence.

We remain optimistic about prospects of our business, taking into account the stable improvement of market and competitive situation, as well as continuous growth of data transfer services consumption. Despite impact of regulatory changes, we firmly believe that the demand for our services will continue to grow, maintaining our financial stability and strengthening leading positions in the industry.

Alexey Kornya, MTS President



In January 2018, the first tariff constructor was launched, within which the subscriber may independently select the optimal size of the voice and Internet traffic in accordance with their communication style and needs.

For the fast-growing market of Internet of Things (IoT of devices), MTS proposes a tariff plan oriented at the profile of consumption of these devices and the possibility to pay for communication services once per year.

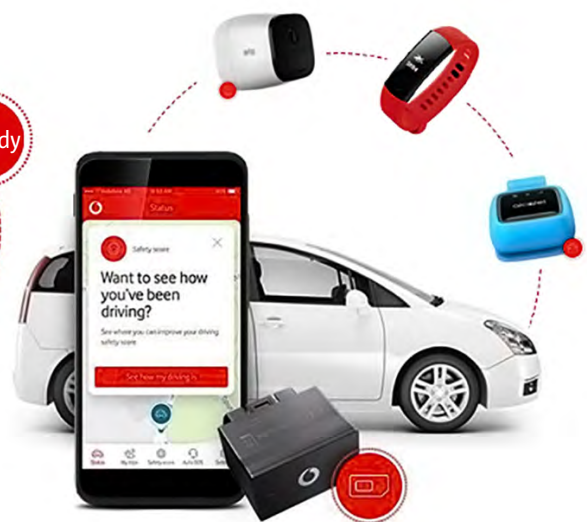
For travelling subscribers, MTS offers options for the primary data plan, which make it possible to cut roaming costs and enjoy unlimited communication. More than half of subscribers travelling beyond the Russian Federation use BIT Abroad and Zabugorishche options. Zero without Borders option was improved: now the

privileged traffic volume includes both inbound and outbound calls.

The most popular services in 2018: APPLE MUSIC, MTS Music, IVI and others are now included into the primary set of tariffs, which made it possible to expand the expertise of experts and to acquire new users of content services.

## Which devices may be used?

- Watches and fitness bracelets
- Audio-dongles and “smart” devices for vehicles
- Collar
- Tracker of things
- Smart socket
- Home sensors
- Video surveillance camera
- SOS button for the elderly / cane for the elderly with SOS button



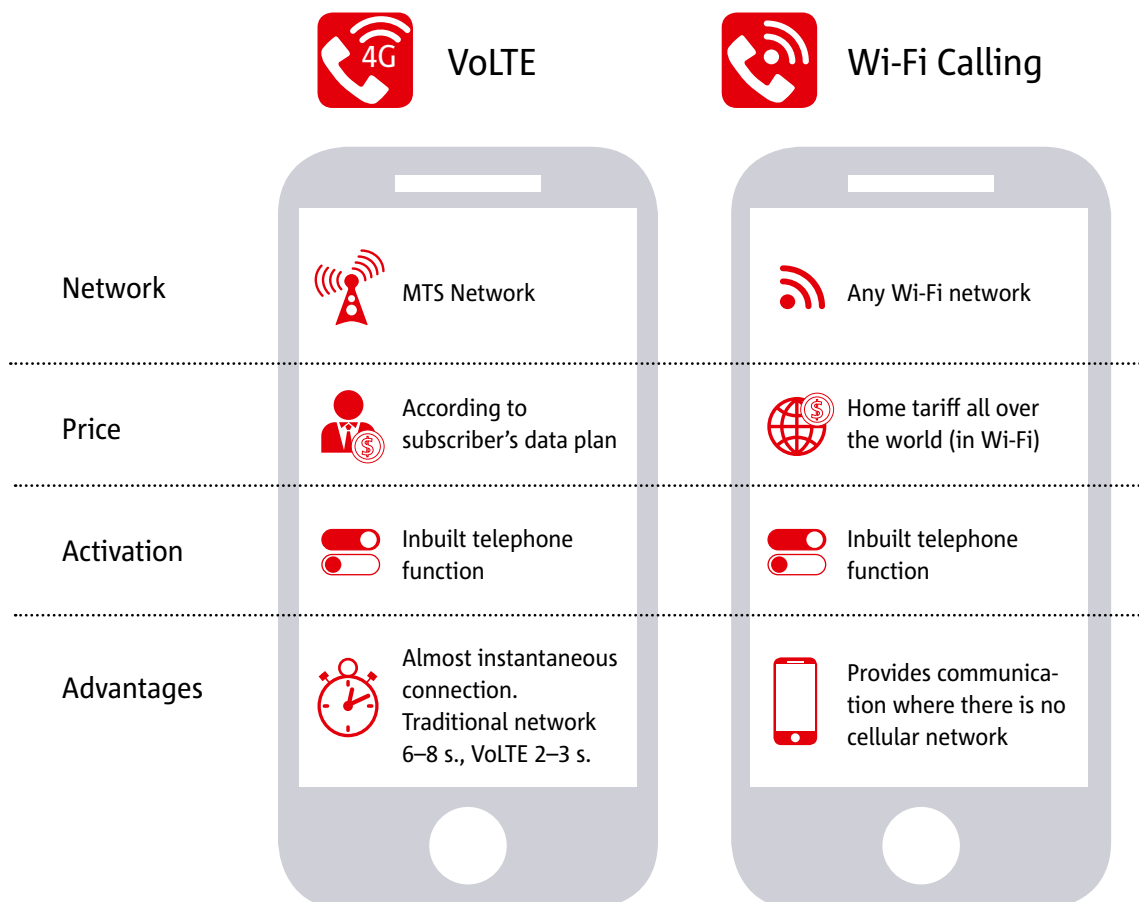
## VoLTE and Wi-Fi Calling

VoLTE and Wi-Fi Calling were launched on the basis of LTE network in 2018.

VoLTE technology allows a subscriber to make calls through the LTE network, eliminating the need for subscribers to switch to 2G/3G technology, which significantly reduces the connection establishment time in a few seconds and, due to the ability to work at low signal levels, provides the ability to make calls in places with insufficient 2G/3G network coverage. VoLTE is fast connection, high quality sound, the ability to simultaneously talk on a smartphone and use 4G-Internet. Calls for a subscriber are charged in the same way as regular calls. At the same time, the operator is able to save frequency resource and reduce the load on the 3G network, which in turn improves the quality of the services provided.

Wi-Fi Calling Technology—the ability to call and send text messages (SMS over IP) via a wireless Wi-Fi network where the smartphone is unable to catch the signal of the operator’s base station. When Wi-Fi Calling functionality is activated, the Wi-Fi point plays the role of a cellular network. Calls for a subscriber are charged in the same way as regular calls, which makes it possible for subscribers to save on calls from abroad, and for the operator to provide subscribers with a connection even where there is no MTS network coverage via other operators’ Wi-Fi networks.

Currently, the share of traffic in the regions with the maximum penetration of VoLTE services, Moscow and St. Petersburg, reaches 15%. Voice traffic moves both from 3G networks (in areas with a good 3G signal level) and from 2G networks (due to the possibility of working in areas with an insufficient 2G level or lack of a 2G network signal). In the future, such transition will contribute to the release of additional 2G/3G resources and help their refarming in LTE.



## Fixed-line communication

Growth rates of the Russian Internet broadband-access (BBA) market are falling—in 2018, subscriber growth was 2.3% (in 2017—4.1%, in 2016—4.4%, forecast for 2019—0.6%). The service is mainly being developed thanks to the growth in the number of private users, but, considering the penetration close to 60% at the end of 2018, the market is saturated not only in the large cities but also in the majority of medium-sized cities. ARPU as of the end of 2018 amounted to RUB 346, which is 2% higher than the actual of 2017 (RUB 343). It is related to revision of the operators' tariff lines—cancellation of low-speed tariffs and “recovery” (prices in the broadband access market were held back for quite a long time, while the cost of equipment and the cost of services themselves was rising).

As of year-end 2018, penetration in cities with a population of more than 50 thousand people exceeds 69%. With that, the competitive situation in these cities is generally quite tough—services are offered

by at least three operators, both federal and local. In centers with a population below 50K people, penetration is still low—at the level of 35%. The operators have already exhausted the opportunities for organic growth. Nevertheless, according to the results of 2018, MTS showed an increase in subscriber base by 6% and income by 9%.

In the context of market saturation, the main strategy in the fixed-broadband market is the attraction and retention of subscribers through the promotion of bundled offers, access speed, and the introduction of convergent services. In 2018, the leading providers suggested transition to the convergence of fixed and mobile services. As of year-end 2018, mobile-communication services (including in MVNO format) were available in the offers of all TOP-5 BBA operators in Russia. MTS launched a convergent proposal in all regions of fixed business presence.

## **F**ixed-Line Telephony Services

MTS continues to systematically follow the strategy of improving the quality of our fixed-line products by upgrading the networks, launching digital and interactive TV services, and expanding the capacities of the main channels for growing the speed rates of subscribers.

MTS was the first of terrestrial paid TV operators to launch the UltraHD channel in its cable network DVB-C and on the satellite platform. Broadcasting in UltraHD format is considered by MTS as one of the paid TV market growth drivers for the short-term. Supersharp UltraHD broadcasting was always the prerogative of the satellite TV market. Launch of UltraHD in the cable segment, directly in MTS, will give momentum to the development of Russia's next-generation TV market, stimulate demand and open new opportunities and markets for owners of high-quality content. We provide more than 175 TV channels of digital quality, including more than 40 HD channels and 4 TV channels in ultra-high definition 4K standard.

DTV penetration increased to 90% (compared to 85% in 2017). The basic package includes more than 130 channels, including more than 20 HD channels. It is the largest basic package of the regional markets, which

is also included in all package offers with broadband access and telephony. The average consumption rate of broadband subscribers increased by more than 17% (2017—55 Mbps; 2018—64 Mbps). When technically possible for all subscribers of low-speed data plans, the speed of Internet access in 2018 was increased at least to 50 Mbps. Besides, in 2018, in a number of regions, broadband tariffs were launched with Internet access speeds of up to 330 Mbps.

In 2018, MTS continued the development of a new TV platform that extends the capabilities of conventional TV through interactive components. In 2018, MTS actively promoted Interactive TV, a service the subscriber uses to access a large number of channels, including HD quality, premium packages and advanced interactive services. Such apps as Yandex.Disc, Wiki TV, Mego-go, Amediateka and Easy Payment were integrated into MTS Interactive TV in 2017. In 2018, MTS integrated Tvigle Karaoke app, having provided its subscribers with access to the online movie theater with premieres of movies and TV shows START and the largest online movie theater Ivi. In the “Video-On-Demand” catalog in the Interactive TV service there are more than 6.5K units of content.


# C onvergent

Combining the options of fixed-line and mobile communications, the company develops convergent services. All MTS data plan is a package of services in three telecommunication areas: home Internet + TV + mobile communication. As of the end of 2018 the geography of convergent services provision covers 48 regions of Russia.

- protection of children against unwanted content in the interactive package;
- MTS mobile communications discounts;
- payment of all services from a single account—mobile telephone number.

All existing services of mobile and fixed-line communications are available for additional connection in the All MTS package:

- thematic/premium TV packages;
- high-speed home Internet;
- rewind and record function in interactive TV;



### Весь МТС Супер ТВ

Домашний интернет + Цифровое ТВ + Мобильная связь в подарок

**МОБИЛЬНАЯ СВЯЗЬ**

- ∞ Интернет Безлимит
- ↔ Минуты/SMS 500/500
- ∞ На МТС России Безлимит

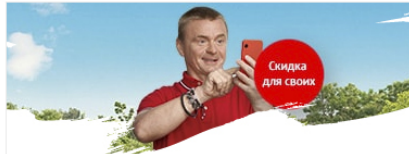
**ДОМАШНИЙ ИНТЕРНЕТ И ТВ**

- ↔ Интернет 300 Мбит/с
- 📺 141 канал IP-телевидения

Преимущества

**950 руб./мес.**

[Подключить](#) [Подробнее](#)



### Весь МТС

Домашний интернет + Мобильная связь в подарок

**МОБИЛЬНАЯ СВЯЗЬ**

- 🌐 Интернет 2 Гб
- ↔ Минуты/SMS 350/350
- ∞ На МТС России Безлимит


**ДОМАШНИЙ ИНТЕРНЕТ И ТВ**

- ↔ Интернет 300 Мбит/с

Преимущества

**650 руб./мес.**

[Подключить](#) [Подробнее](#)



### Весь МТС Спутник

Спутниковое ТВ + Безлимитный интернет 4G

📺 от 190 каналов (34 в HD, 4 в UHD)

**Мобильная связь**

Интернет 4G	Безлимит
(до 4Мб/сек)	

- Скидка на 4G-WiFi Роутер и комплект Спутникового ТВ

**670 руб./мес.**

[Подробнее](#)

# Retail distribution

## Sales channels

The MTS retail chain remains the primary channel for attracting MTS subscribers, more than 50% of all SIM-cards are sold at MTS outlets.

MTS remains the largest non-food retailer in Russia. Following the results of 2018, the number of MTS outlets amounted to almost 5.9 thousand outlets, including 1.8 thousand outlets operating under the franchising model.

At MTS offices, subscribers receive a full range of services provided by the operator, including services involving broadband access to the Internet and television. Any new service released by the Company automatically becomes available for sale at the retail chain office. What's more, we offer to retail chain customers an extensive list of financial services, such as: consumer lending, money transfers, credit repayment, life insurance (voluntary medical insurance), product insurance and MTS Money cards.

Our own sales channel enables us to more effectively manage the number and quality of activations, as well as to maintain service level.
































The main priorities of MTS sales-channel management in 2018 were as follows:

- sales of V&D rates;
- leadership in service quality among mono-brand retail;
- increased operating efficiency;
- joint sales with data-generating devices;
- sales of key products of MTS Group (MTS Bank, Satellite TV, broadband access to Internet);
- maintaining high customer flow at MTS outlets.





## Non-core services of MTS

	Online tv	 + 
	Financial services	 + 
	IoT- solutions	
	System integration	
	Online-cash registers for business	
	E-sports	
	Big data	
	Telemedicine	 + 
	Ticket aggregators	
	Cloud services	
	Messenger	
	Music	 + 
	Press and books	 + 

 Own       Partnerships

## Quality and improvement of customer experience

Improving the quality and customer experience is one of the key strategic objectives of MTS. The consistently high level of voice and mobile Internet quality is the main focus of our activities. According to forecasts, by 2021 LTE will become the core network not only for data transfer, but also for voice. That is why in 2018 the first part of the four-year program for the construction of high-speed LTE coverage was implemented in all regions of the country. Over the past year, a record number of new sites were built. The pace of construction YoY increased almost doubled.

In addition to high-quality communication, we strive to provide our customers with reliable high-tech products. Under the influence of market changes, new offers become more difficult, the time-to-market for products is reduced, and competition goes far beyond the telecom industry. This results in the need to build a quality management system at each stage of the product life cycle. In 2018, a project was launched to transform the product quality management system: we move away from the old system, which monitors the performance of specific IT platforms, and build a new system of coordinates, where quality is monitored and controlled according to user products based on end-to-end indicators, starting from the process of its development and launch until the moment of closure. In this new system, the underlying indicators are the ratings of the users themselves for these products.

Also in 2018, we continued to develop our large-scale program to study customer opinion and to increase

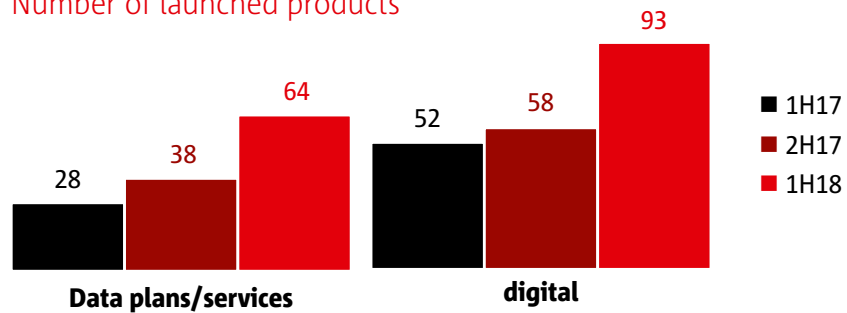
loyalty. Communication with the client is automated to the maximum and transferred to digital environment, however, at the same time, we try to maintain “live” communication with those for whom this is important. Our customers may be confident that at any point of contact they have the opportunity to inform us about the problem, this message will not be ignored, and the problem will be solved without fail. Customers who rate the quality of our work high will be certainly appreciated. MTS tries to create an interactive system, where customers feel involved with the Company and fully perceive their impact on the quality of its work. The Company plans to expand this project on digital channels (website, personal account, My MTS application, social networks, product web pages, etc.), where it is possible to cooperate with customers interactively and through animation, thereby involving them into communication with the company and creating an emotional connection with the brand.

## Quality management is carried out at every step of product life cycle

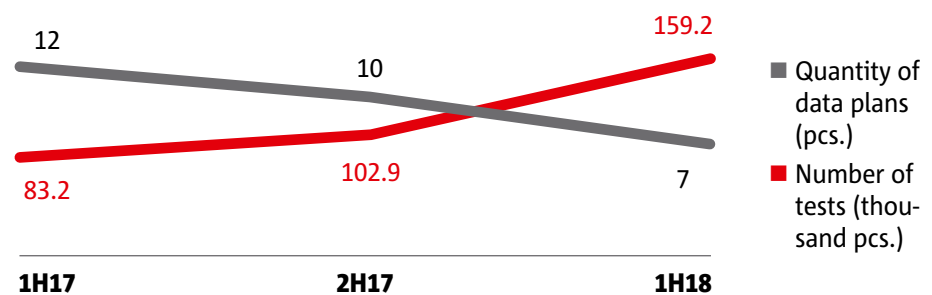
### Current market conditions:

**1** Total number of launched products is continuously increasing

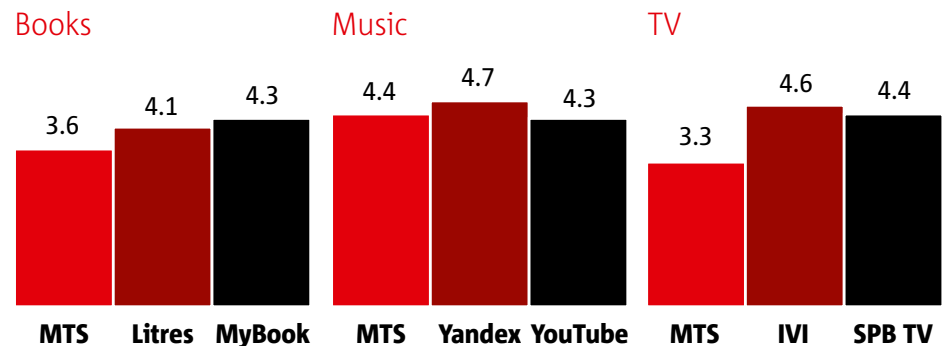
Number of launched products



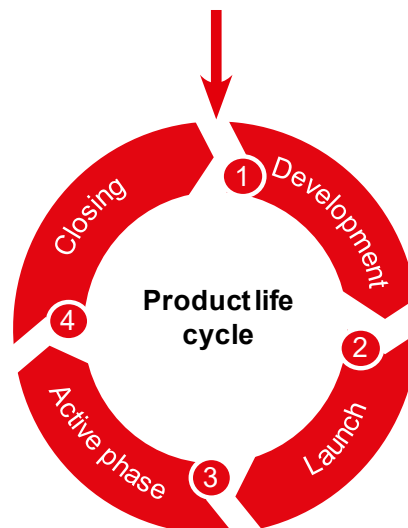
**2** Parameters of new products become more complicated



**3** Product competition happens not at BIG4 level, but at the level of Google and Apple



### Quality and customer experience management system at all stages of product life cycle



## Business in the markets of our presence

### Ukraine

In the territory of Ukraine the mobile telecom services of GSM 900/1800, UMTS, LTE 1800/2600 standard under the Vodafone trademark are provided by PrJSC VF Ukraine.

The key event of the year was the acquisition of frequencies, deployment and launching of LTE networks by leading market operators. Now Vodafone Ukraine subscribers can use mobile Internet and 4G-based services much more actively, such as HD TV streaming, online games, actively use cloud services, as well as new areas: Internet of Things, telemedicine, smart energy and agriculture management mobile e-wallets.

Development and successful launch of new tariff offers and services on the market made it possible for PrJSC VF Ukraine to improve operating performance and to stabilize the subscriber base, to interest all the main segment groups:

- for prepaid subscribers, Vodafone SuperNet (Start, Pro, Unlim) tariffs are offered with a large mobile Internet package;
- for business customers a digital signature service based on Mobile ID technology was launched;
- for those who want to upgrade their phone, a special promo is launched—20% cashback when you buy 4G smartphones from Nokia 3 or Nokia 5 in Vodafone stores;
- new roaming tariffs have been offered to travelling subscribers for communication in more than 75 countries around the world with more affordable mobile Internet and lower cost of calls in roaming.
- for corporate subscribers the Vodafone Red Business line-up increased the volumes of mobile Internet and added the option to connect unlimited mobile Internet or Microsoft Office service for a certain period;
- for contract subscribers, new Vodafone Red (S, M, L, XL and XXL) and Vodafone Ultra (Ultra, Ultra VIP) tariffs are offered;

As of the end of 2018, 4G Vodafone network is available in all areas of the country, covering 45% of the population, the 3G network is available to 85% of the population.

Key objectives of Vodafone Ukraine for 2019 include following the trends in the development of new technologies, digital and financial services, IoT services.

# A rmenia

Since September 2007, MTS has owned a leading operator in the Armenian market— MTS Armenia CJSC (formerly K-Telecom CJSC).

Under the VivaCell-MTS trademark, our Company offers telecommunication services in the standard GSM 900/1800, UMTS and LTE. VivaCell-MTS subscribers are granted access to innovative rates and services, as well as convenient service formats meeting international standards applicable in MTS Group.

VivaCell-MTS maintains its leadership by a landslide from its competitors. The market share at the end of 2018, according to our estimates, remained at the level of 58%.

The main priority of MTS in the Armenian market in 2018 was the launch of new tariffs in addition to the existing Viva line. New tariff plans Y and X are

focused on current trends of using social networks and messengers.

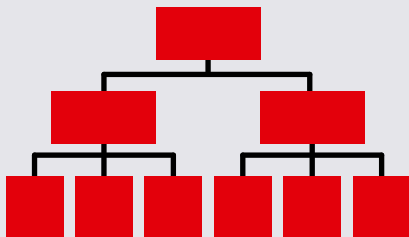
2018 business results:

- maintained high market share in terms of subscribers and incomes;
- number of mobile Internet users increased by more than 10% compared to last year;
- growth of Voice&Data tariff users amounted to +20% compared to last year.

# Atomization as an approach to organizing management

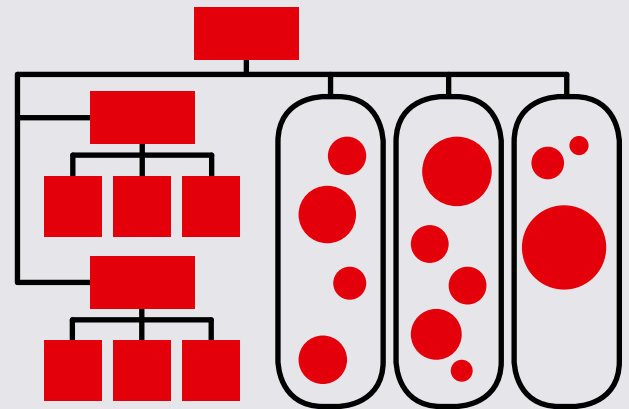
## Yesterday

Classic company in a mono-market  
Functional hierarchical structure



## Today

Flexible company of many markets  
Matrix product-centric structure

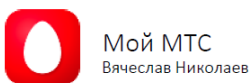


## Key atomization principles

- transfer of business functions, powers thereunder and responsibility to the created business lines.
- Atomic agile teams inside business lines with maximum autonomy
- Support and synergy with expert examination and communal resources of Big MTS
- Own P&L and KPIs of business lines and teams inside them

MTS will maintain an efficient and tough functional organization for the core business, developing in parallel a flexible organization of autonomous, “atomic” teams for new business lines

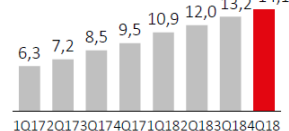
## Success stories from external and internal product teams



Гордей Бородин

Бизнес	ИТ
23	79

Пользователи приложения Мой МТС, MAU млн. аб.



Кол-во релизов с каждым годом увеличивается на 30%

Самый успешный мобильный продукт самообслуживания среди операторов в России

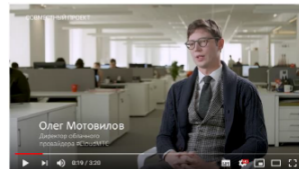
ТОП 1 в App store за 2018 год в категории «Производительность»

Оценка в App store – 4,6



Олег Мотовилов

Бизнес	ИТ	Техника
84	59	54



<https://www.youtube.com/watch?v=QuOU7yxQnhA> - Совместный проект с РБК

За короткое время #CloudMTS из стартап превратился в крупного облачного провайдера с сотнями клиентов по всей стране.



Олег Кискин

Бизнес	ИТ
30	12

МТС запустила площадку по торговле поддержанным ИТ- и телекомоборудованием

<https://www.vedomosti.ru/technology/articles/2019/01/29/792640-mts>

В этом году площадка выйдет на оборот 600 млн. рублей



Дмитрий Курин

Бизнес
11

МТС выпустит стартапы на свою базу абонентов

<https://www.vedomosti.ru/technology/articles/2018/03/22/754656-mts-startapi>

Номинарованы на «Самая инновационная корпорация» <http://pitch-award.ru/award>

1000 стартапов в воронке, 36 прошли акселерацию и 15 уже масштабируются в МТС

# Mobile apps for MTS customers<sup>1</sup>

## My MTS

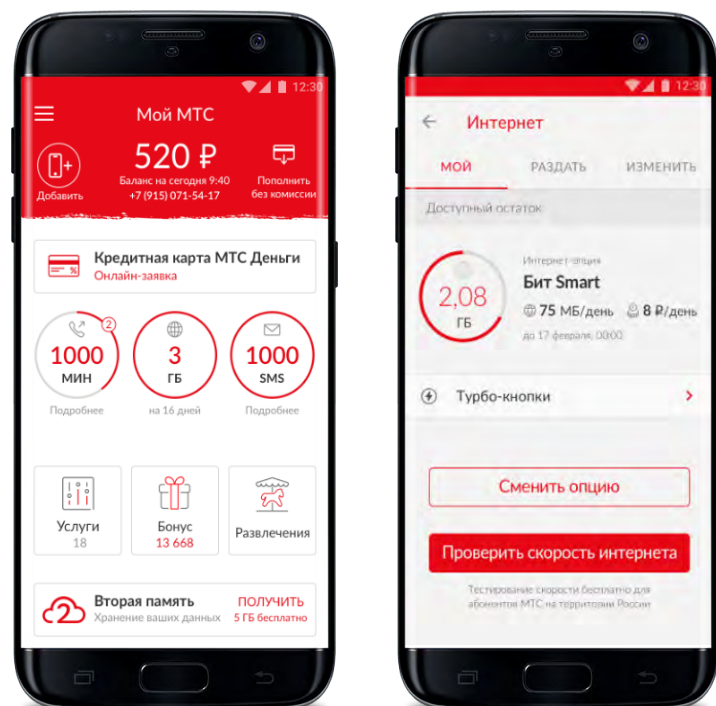
My MTS app—a mobile personal account for subscribers of the operator—was included in the TOP-20 best free programs of the Russian App Store in 2018.

With My MTS a user no longer has to visit operator’s outlets on most of the issues arising from subscribers.

### Major changes made to the My MTS app in 2018:

- A section called “Expense Control” has appeared, which graphically displays all subscriber expenses broken down by category and provides the option to study transaction history.
- The convenient roaming mode has been activated, which is automatically on when you are abroad, while the application’s Internet traffic remains free, and the subscriber is offered tariff options to optimize the cost of communication abroad.
- In the “Traveling” section, it became even more convenient to compare services that allow travelers to cut communication costs.
- A widget for tracking the balance and remaining MBs, minutes and SMS in connected packages has been improved.
- The application has made it possible to purchase tickets through the major online services Ticketland.ru and Ponominalu.ru.

By the end of 2018, the My MTS multiplatform mobile application had more than 33.5 million installations. A team of several dozen people is constantly working on the software. The key objective of the development team is to make the application a single functional center for managing all the services that are provided under the MTS brand. Therefore, in 2019, the application will continue to change, its design will be improved, and several new features for users will appear at once.



<sup>1</sup> Key mobile apps as of the end of 2018

# MTS Music

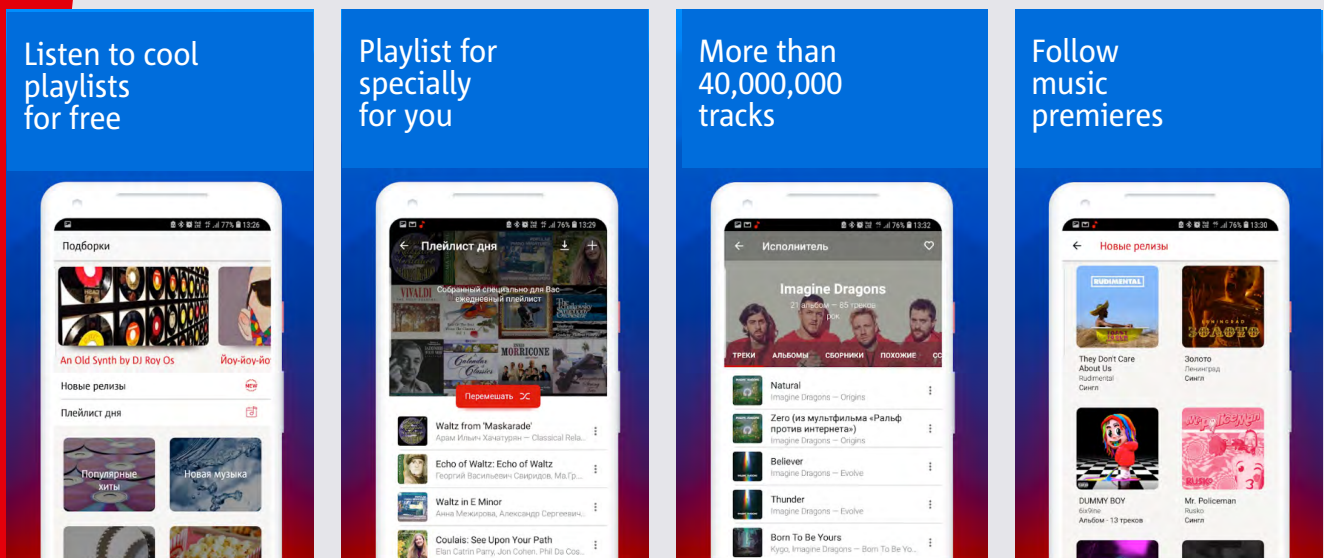
MTS Music app provides access to MTS music portal and the ability to listen any music on your device, and is optimized to run on Android and IOS.

## Main achievements of 2018

- Complete redesign of Android/IOS applications
- Promotional codes functionality for 1, 3, 6, 12 months implemented
- A free section “New Releases” was launched
- IOS rating increased from 3.1 to 4.4
- Android rating increased from 4.0 to 4.6

## Key objectives for 2019

- Growth of the active users base.
- To open applications for all mobile operators.
- Running the application on the MTS/Yandex Auto platform.
- Integration into MTS Cashback







MTS TV—a convenient application for watching movies, TV shows, cartoons and television programs. Ability to watch TV online on a smartphone, tablet, TV set and computer through the website <https://www.mtstv.ru/>.

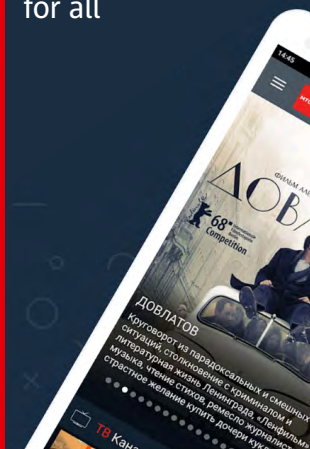
#### Main achievements in 2018

- A free package of 20 TV channels has been launched for subscribers of any mobile operators.
- Promotional codes functionality for 1, 3, 6, 12 months implemented.

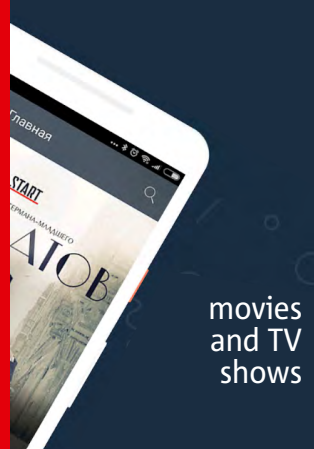
#### Key objectives for 2019

- Growth of the active users base.
- Running the application on the MTS/Yandex Auto platform.
- Redesign of the home page in February 2019.
- Integration into MTS Cashback

20 TV-channels  
for free  
for all

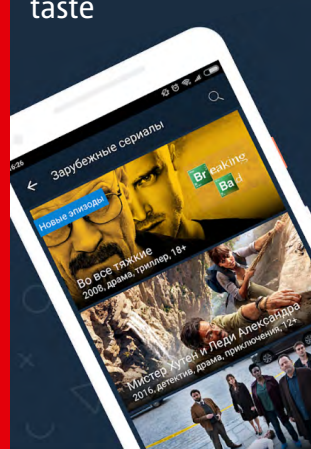


Huge  
selection

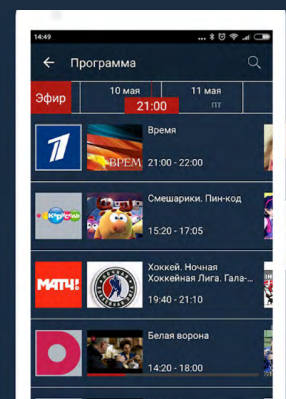


movies  
and TV  
shows

130 TV-channels  
that fit any  
taste



Shows  
recorded



# M

## TS Digital Partnerships

### Subscription to Apple Music and 6 months free for MTS subscribers



In May 2018, MTS, in partnership with Apple, launched a joint digital product on subscription—Apple Music.

Only 15 operators in the world, including MTS, have a similar operator's offer for their subscribers. Thanks to a partnership, this project has the strongest offer in terms of a free trial period for its customers—6 months of Apple Music for free.

The operational indicators of the project have one of the highest results, both in dynamics and absolutely. The actual project performance is 4 times higher than planned.

Partnership with Apple made it possible to not only increase the base of the MTS users who use digital services, but also to increase the loyalty of subscribers to MTS, NPS, NSAT indicators, to increase mobile Internet usage and to create a precedent as the strongest digital partnership in the Russian market.



One of the best advertising ATL campaigns of 2018

### Subscription to ivi with unlimited traffic and two months for free



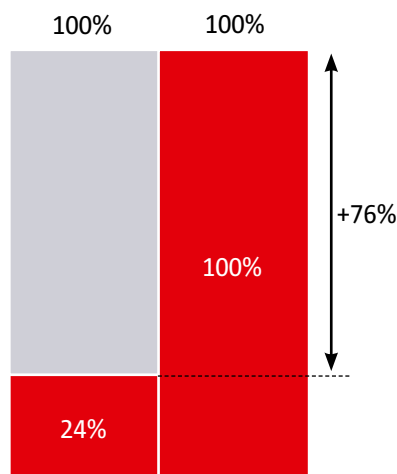
In May 2018, MTS, together with ivi, launched a subscription to the online movie theater ivi with unlimited traffic and two months free for MTS subscribers.



# M TS Connect app

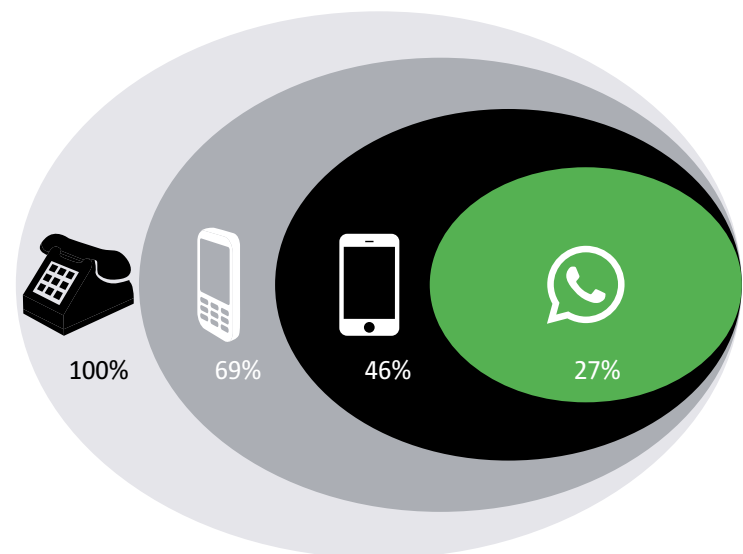
Millions of subscribers around the world have become users of instant messaging applications—a service for making multimedia calls and sending messages, such as WhatsApp, Viber, WeChat. MTS, assessing the interest of consumers in this communication option, at the end of 2015, developed and launched its own application “MTS Connect.” Updated in 2018, the application in some areas has become more advantageous for the subscriber than other market offers.

- In MTS Connect app, it is possible to call any number, including fixed-line, short, of another operator, etc.
- MTS Connect users can connect to Wi-Fi and make a call, being outside the Russian Federation, at a home rate.
- No additional payment is charged for calls through the MTS Connect app. Calls to MTS are free of charge, other destinations are charged in accordance with the tariff.



WhatsApp MTS Connect

- All Russian Federation phone numbers
- Where it is possible to call and accept a call



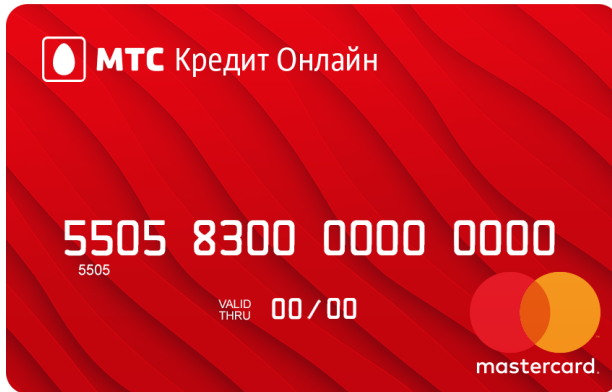
- All telephones of Russia (370.64 mln)
- All mobile telephones of Russia (258.3 mln)
- All smartphones of Russia (172.2 mln)
- Smartphone with WhatsApp (101.5 mln)

In MTS Connect app, it is possible **TO CALL ANY NUMBER**, including fixed-line, short, of another operator etc.

\* According to the data of the official website of the Federal Agency of Communication (ROSSVYAZ)

# MTS Money

In 2018, the integration of MTS and MTS Bank was further developed. The main guidelines are the digitization of financial products, improvement of customer interface usability and launch of new services that satisfy customer needs.



Subscribers' demand of payments from mobile account also has a significant effect on the development of the MTS financial services and the ongoing improvement of customers' expertise and performance of this type of services.

In 2018, mobile account payment growth exceeded 40%, despite the competition of payment instruments and the general trend of development in bank card payments.

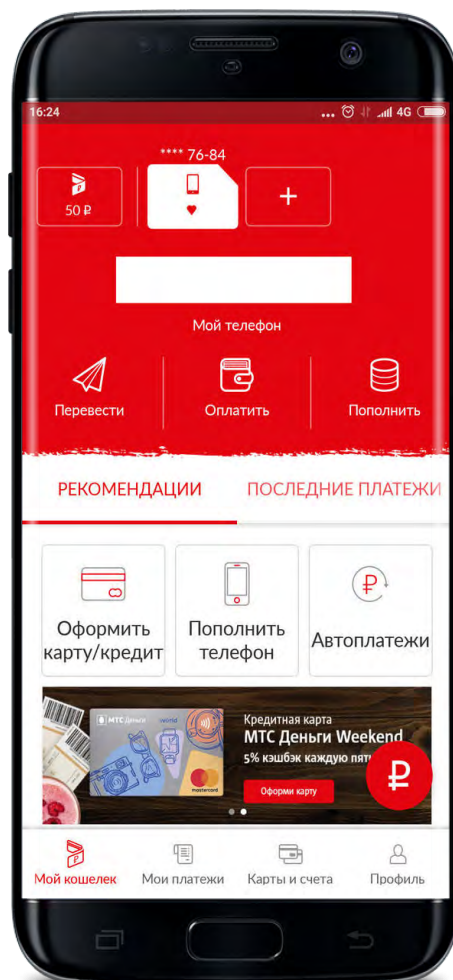
## Virtual card MTS Credit Online

MTS and MTS Bank were the first in Russia to launch a virtual credit card for safe purchases online and in retail outlets with the help of smartphones. To use a card, an MTS subscriber should not visit an MTS outlet or a bank branch. A virtual card may be issued practically by several clicks on the MTS website or in the mobile app.

The virtual credit card MTS Credit Online is available to MTS subscribers, who upon execution of an MTS subscriber contract expressed their consent to receive remote services of MTS Bank. The MTS Credit Online card is available for issue, when there is a personal offer with pre-approved credit limit from MTS Bank. A card may be used to pay in online stores and added to apps of Apple Pay, Samsung Pay services to pay in sales outlets equipped with contactless payment terminals.

## Increased number of issued POS-credits

Volumes of issued POS-credits of MTS Bank in MTS outlets increased in 2018 vs 2017 by 35%



## Contactless payment services

Realization of the option to pay by cards of any issuing banks added to Apple pay/Google pay/Samsung Pay made it possible for MTS customers to get an innovative payment method in the MTS Money, My MTS, MGTS applications, on mts.ru, payment.mts.ru websites.

On the second month of Apple Pay launch in the MTS Money app, over 20% of payments are made using this payment method.

Besides, MTS Bank cards may be loaded into Apple Pay and Samsung Pay payment services directly from the MTS Money and My MTS applications.

## Payment of bills for Muscovites

MTS Money and My MTS apps now have a convenient service that makes it possible to pay for kindergarten, activities and additional educational paid services in Moscow. Now bills are automatically collected in the application, without filling in long details.

To use the service, just go to the section “Bills to Pay,” specify one or more documents (parent’s passport, Insurance Individual Account Number or birth certificate of the child) and save the template.

The service will check for bills in the Moscow database and, after checking, will display them in the application.

## Remote Banking by MTS Bank in MTS Money app

MTS Bank’s customers got access to remote banking services options in the MTS Money application. After linking the bank account, the application automatically displays the MTS Bank cards and accounts, their balance and transaction history. Thus, MTS Bank’s customers have a unique opportunity to combine the most demanded mobile banking functionality with the payment functionality from the phone balance, by downloading cards to Apple Pay and Samsung Pay payment services, linking cards of any banks and other options of the MTS Money application.

**15.6** bln RUB

Total Income

**1.9** bln RUB

Income from mobile account payment

**24.66%**

Percentage of users from MTS digital customer base

## Mobile commerce—Growth of payment from a mobile phone balance

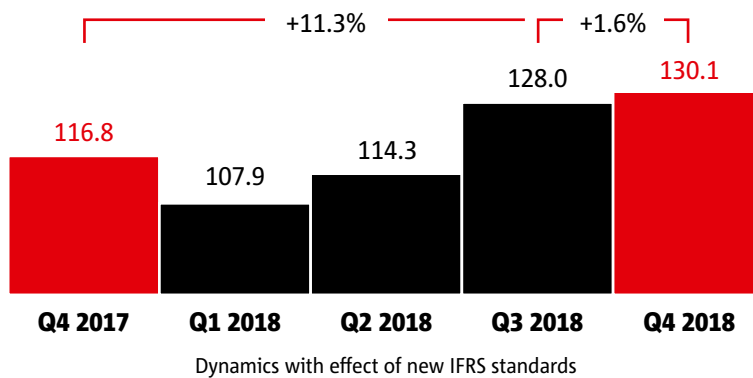
In 2018, speed up in the turnover and income of mobile commerce increased, despite the competition of payment tools and the general trend of bank card payments development.

Growth of income from mobile commerce amounted to 40%.

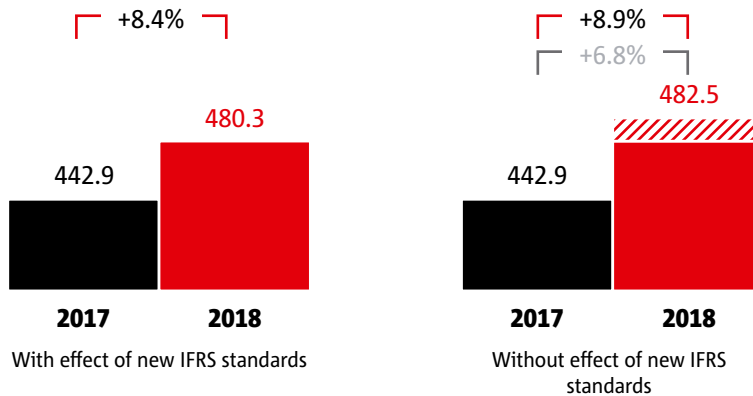
# Financial Overview

## Financial Indicators of the Group

Revenue of the Group (bln RUB)



MTS Group demonstrates the best dynamics of revenue since 2012

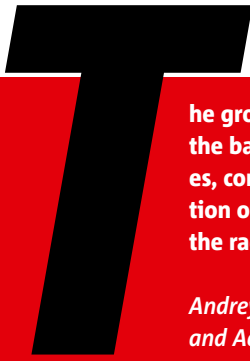


 MTS Bank

Information on the consolidated financial and operating results of MTS Group for Q4 2018 and 2018 is available on the company's website: <https://moskva.mts.ru/about/obshhestvennosti-i-smi/soobshheniya-kompanii/finansovaya-otch-etnost/>

In 2018 MTS Group demonstrated high financial results. We have significantly advanced on the way of implementation of our business digital transformation strategy and noticeably strengthened the positions in the Russian market of device sales. At the same time our main telecommunications business continued growing through common price environment in Russia and stable growth of Internet consumption in all markets of Group presence. We remain optimistic about prospects of our business, taking into account the stable improvement of market and competitive situation, as well as continuous growth of data transfer services consumption. Despite impact of regulatory changes, we firmly believe that the demand for our services will continue to grow, maintaining our financial stability and strengthening leading positions in the industry.

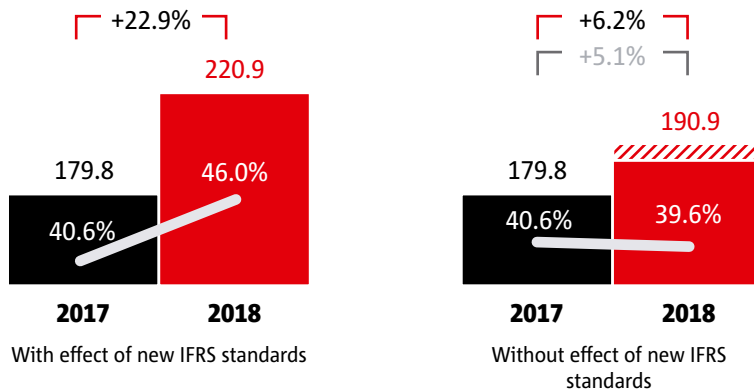
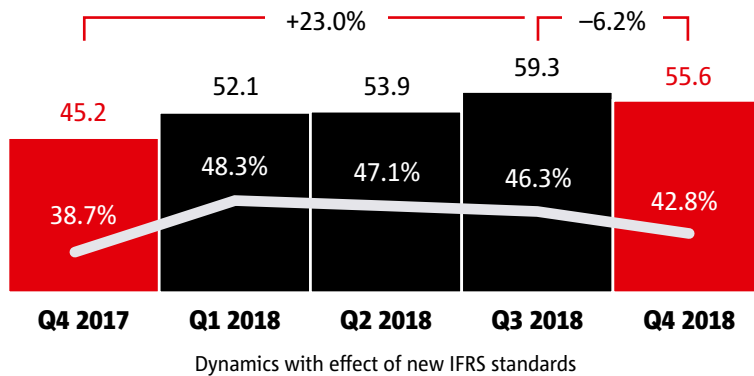
Alexey Kornya, MTS President



The growth in the adjusted OIBDA of the Group was due to strong results in Russia and Ukraine against the background of improved market conditions, increased use of data transfer and other digital services, continued implementation of the strategy to strengthen control over expenses, as well as consolidation of MTS Bank results. The adjusted OIBDA was adversely affected by an increase of the fee for using the radio frequency spectrum in Russia by approximately 40%.

Andrey Kamensky, Member of the Management Board, Vice President for Finance and Investment, Mergers and Acquisitions, MTS

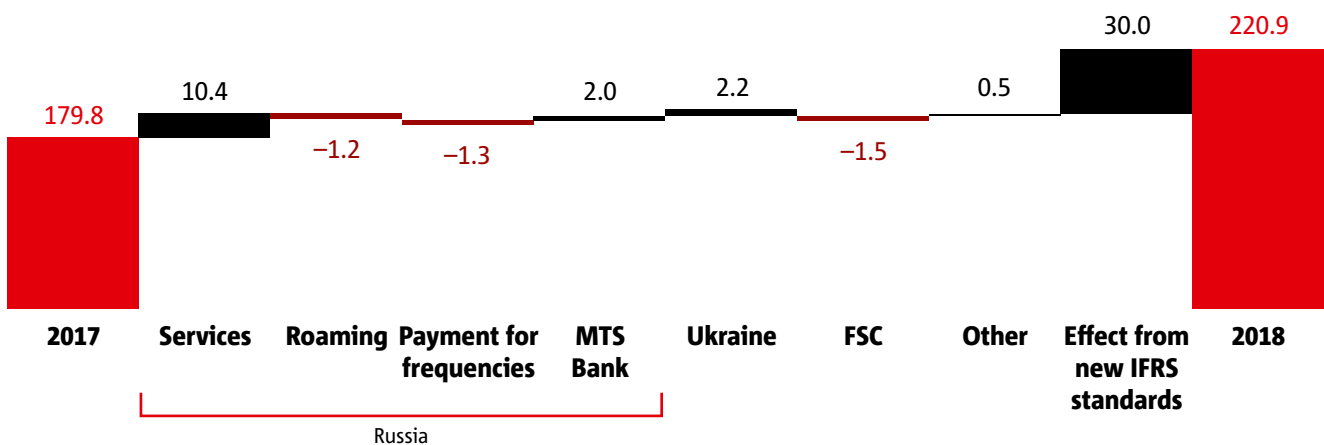
Adjusted<sup>1</sup> Group OIBDA and OIBDA margin (bln RUB)



MTS Bank

<sup>1</sup> The adjusted OIBDA parameter does not include loss from depreciation of non-current assets in the amount of RUB 1.1 bln, RUB 2.6 bln, RUB 3.8 bln and RUB 0.1 bln for Q3 and Q4 2017, full 2017 and Q4 2018/full 2018, accordingly.

Factor analysis of adjusted Group OIBDA (bln RUB)

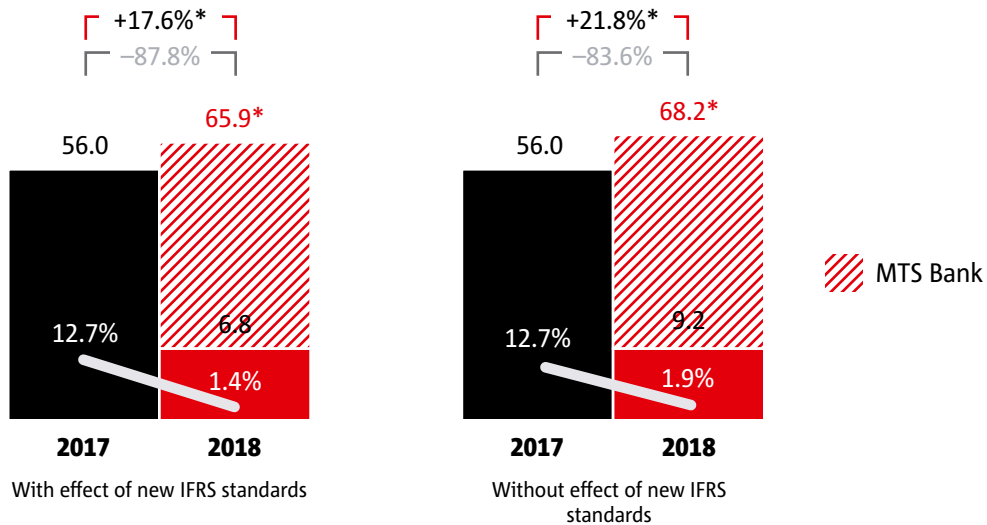
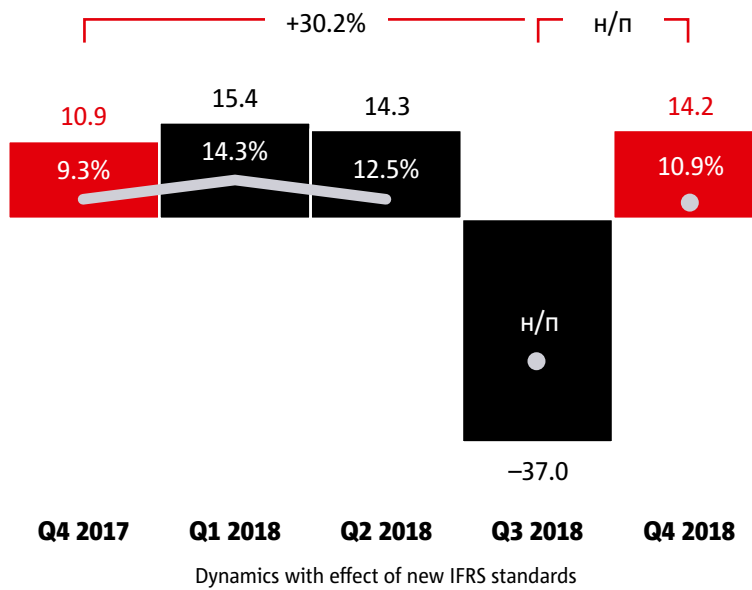




The positive results of MTS Group in 2018 are largely due to the results obtained in Russia due to the increased use of data services, sales of smartphones and equipment, as well as the growth of system integration services and other digital services: user applications, cloud services, IoT and Big Data. The Group's revenue was influenced by the growth in income from data transfer services in Ukraine, which is due to the active development of the 4G standard.

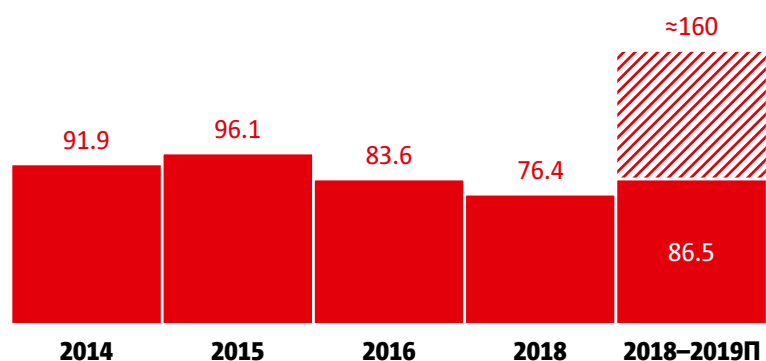
Andrey Kamensky, Member of the Management Board, Vice President for Finance and Investment, Mergers and Acquisitions, MTS

Net income and net profit margin of the Group (bln RUB)





## Capital expenditures of the Group (bln RUB)



	2017		2018	
	Capital expenditures (bln RUB)	As % of revenue	Capital expenditures (bln RUB)	As % of revenue
Russia	65.2	15.8%	75.1	16.8%
Ukraine*	10.3	39.4%	9.3	31.4%
Armenia	0.9	12.5%	2.0	26.4%
Turkmenistan	0.1	3.9%	–	–
<b>Group*</b>	<b>76.4</b>	<b>17.3%</b>	<b>86.5</b>	<b>18.0%</b>

\* Without costs in amount of RUB 5.5 bln related to 4G license purchases in Ukraine in 2018

In 2018 MTS Group:

- Built more than 21,500 base stations in 83 regions of Russia, of which more than half were base stations of LTE standard.
- Continued to expand the trunk fiber optic lines. Penetration of FTTB and GPON networks reached 93.2%.
- Continued active expansion of mobile data transfer networks in Ukraine: 3G network coverage reached 85% of the populated territory, 4G network—45%.

Capital expenditures of the Group as of the end of 2018 amounted to RUB 86.5 bln without costs of license purchases in Ukraine, with the ratio of capital expenditures to revenue at the level of 18.0 percent. The company increased the amount of investments into development of networks in Russia, focusing on provision of the best LTE coverage. For the reporting period, MTS built more than 21,500 base stations in 83 regions of Russia, of which more than half were base stations of LTE standard. As of the end of 2018, 4G coverage reached 68% of the population. MTS also continued to expand the trunk fiber optic lines. As of the end of 2018, penetration of FTTB and GPON networks reached 93.2%.

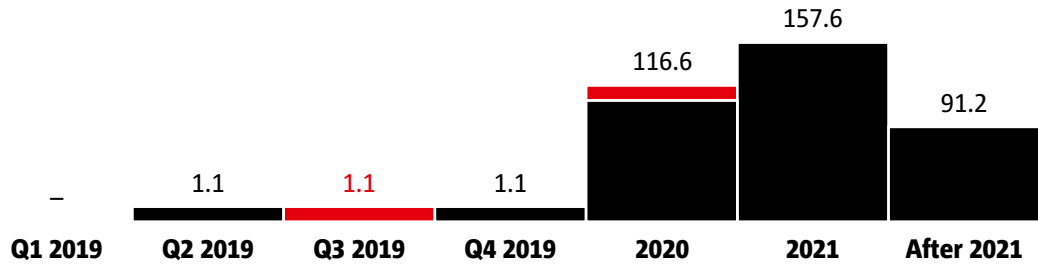
*Andrey Kamensky, Member of the Management Board, Vice President for Finance and Investment, Mergers and Acquisitions, MTS*

## Liabilities<sup>1</sup>

Total Group debt<sup>2</sup> = RUB 368.7 bln

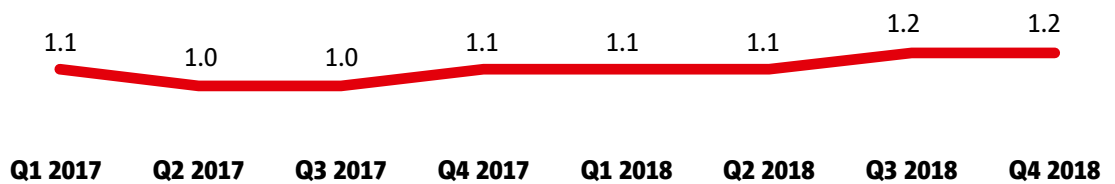
Group net debt = RUB 232.8 bln

Debt payment schedule (bln RUB)

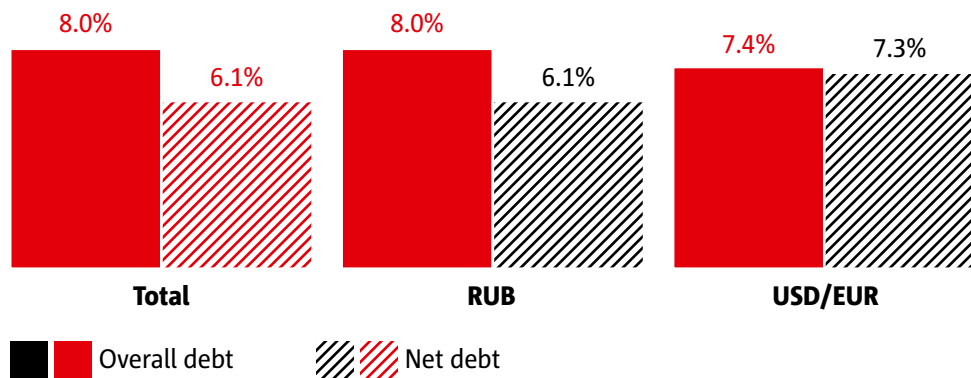


■ Ruble bonds BO-02 and BO-02 contain put options that as of December 31, 2018 may be exercised in September 2019 and March 2020, respectively

Net debt (RUB bln) to LTM of adjusted OIBDA<sup>3</sup>



Weighted average interest rates



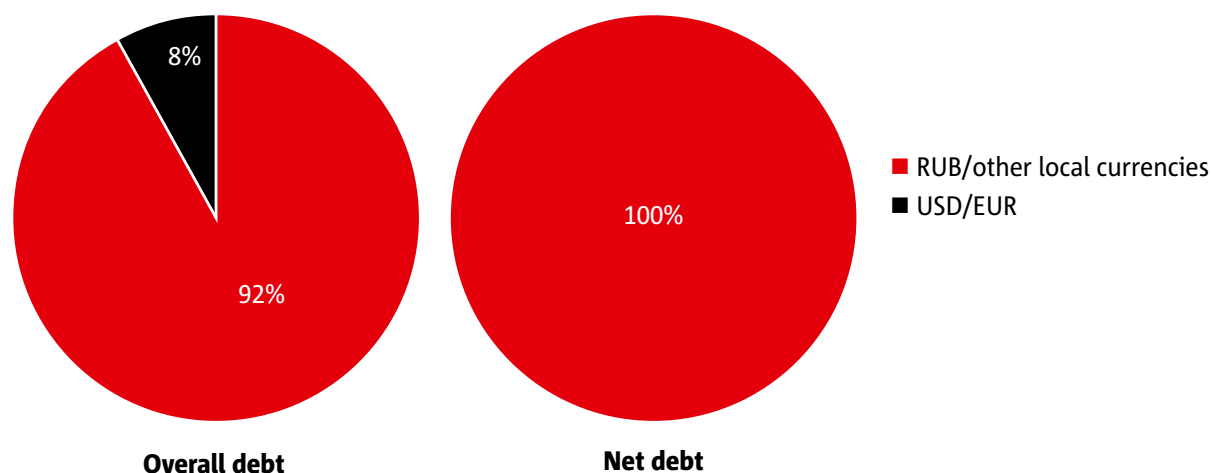
- Ratio of net debt to adjusted OIBDA remains at the comfortable level 1.2x, which makes it possible to maintain financial stability and capability of the company to both maintain the level of investment and high yield for shareholders

<sup>1</sup> Without leasing obligations as of December 31, 2018

<sup>2</sup> Without expenses for fundraising as of December 31, 2018

<sup>3</sup> Without effect from transition to new IFRS reporting standards 9, 15 and 16

### Debt structure by currencies<sup>1</sup>



<sup>1</sup> With account of currency hedging for USD 463.9 mln as of December 31, 2018

## Subscriber base in countries of Group presence

### Mobile subscribers (mln)

	Q4 2018	Q3 2018	Change of Q4 2018/Q3 2018, %	Q4 2017	Change of Q4 2018/ Q4 2017, %
Mobile subscribers	105.3	105.5	-0.2%	106.5	-1.1%
Russia	78.0	78.0	0.1%	78.3	-0.4%
Ukraine <sup>1</sup>	19.7	19.9	-1.3%	20.8	-5.5%
Armenia	2.1	2.2	-1.1%	2.1	0.4%
Belarus <sup>2</sup>	5.5	5.4	1.1%	5.2	4.5%

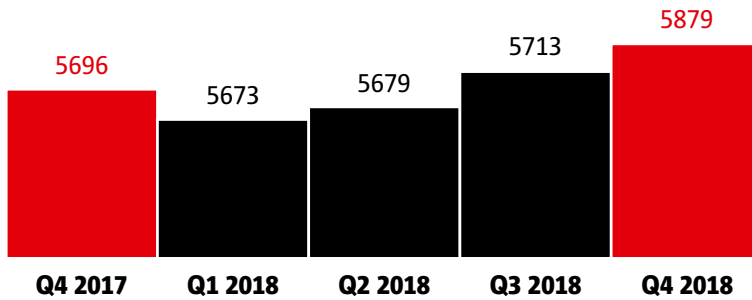
<sup>1</sup> Including CDMA users.

<sup>2</sup> MTS owns 49% of the shares in MTS LLC in Belarus, which are not consolidated.

- Stabilization of connection rates in Russia due to positive changes in the market.
- Growth of subscriber base in Belarus against the background of mobile data transfer services development.
- Subscriber base reduction in Ukraine is due to unavailability of communication services in some territories of the country.
- The number of subscribers consuming more than one service and using MTS mobile, fixed and digital services increased, stimulating a reduction in churn and increasing revenue.

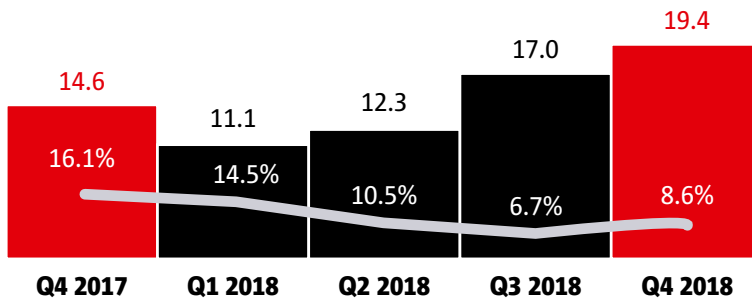
## Development of retail and self-service

Number of MTS retail outlets (number of outlets as of the end of the period<sup>1</sup>)

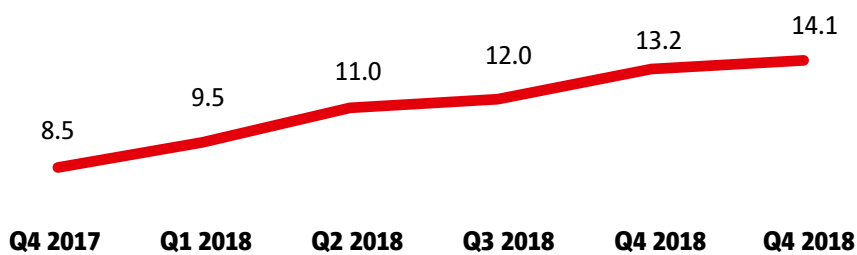


<sup>1</sup> Including franchising outlets

Sales of telephones and accessories and gross margin of sales (bln RUB)



One-month users of My MTS users (mln)

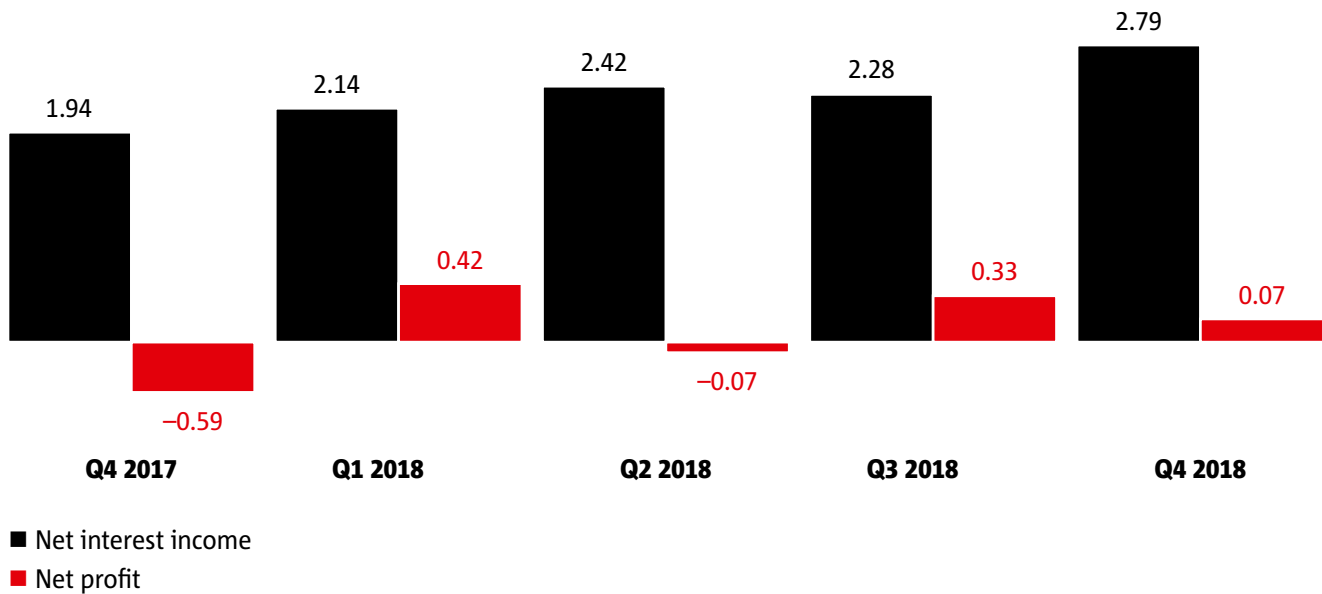


In 2018 the number of MTS retail outlets slightly increased up to 5,879. In the current competitive situation, the effective number of outlets is in the range of 5,500-6,000 outlets. Penetration of smartphones into the network as of the end of 2018 achieved 70.1%. Penetration of mobile Internet reached 58.8%. Growth in e-commerce segment continued: volume of online sales for the year increased by 33.8% and exceeded RUB 6.9 bln.

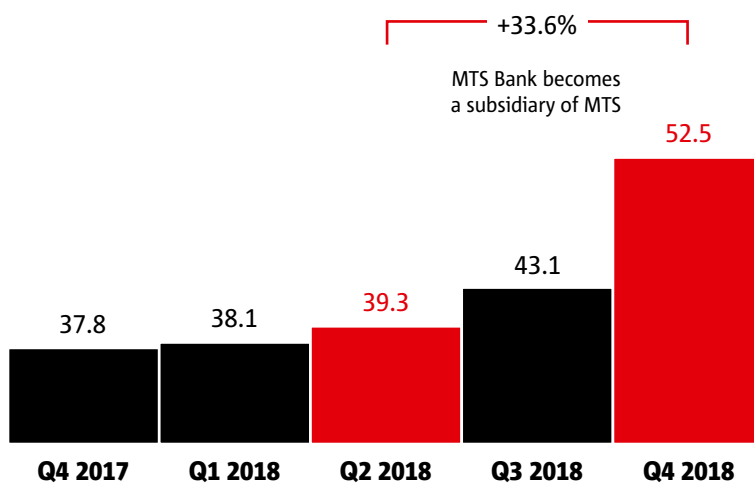
*Inessa Galaktionova, Member of the Management Board, Vice President for Sales and Service, MTS*

## MTS Bank

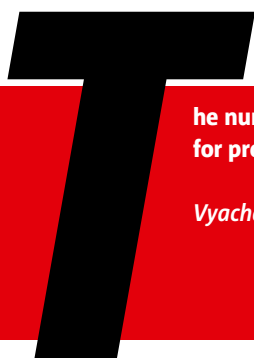
Net interest income and net profit /(loss) (bln RUB)



Personal loans (bln RUB)



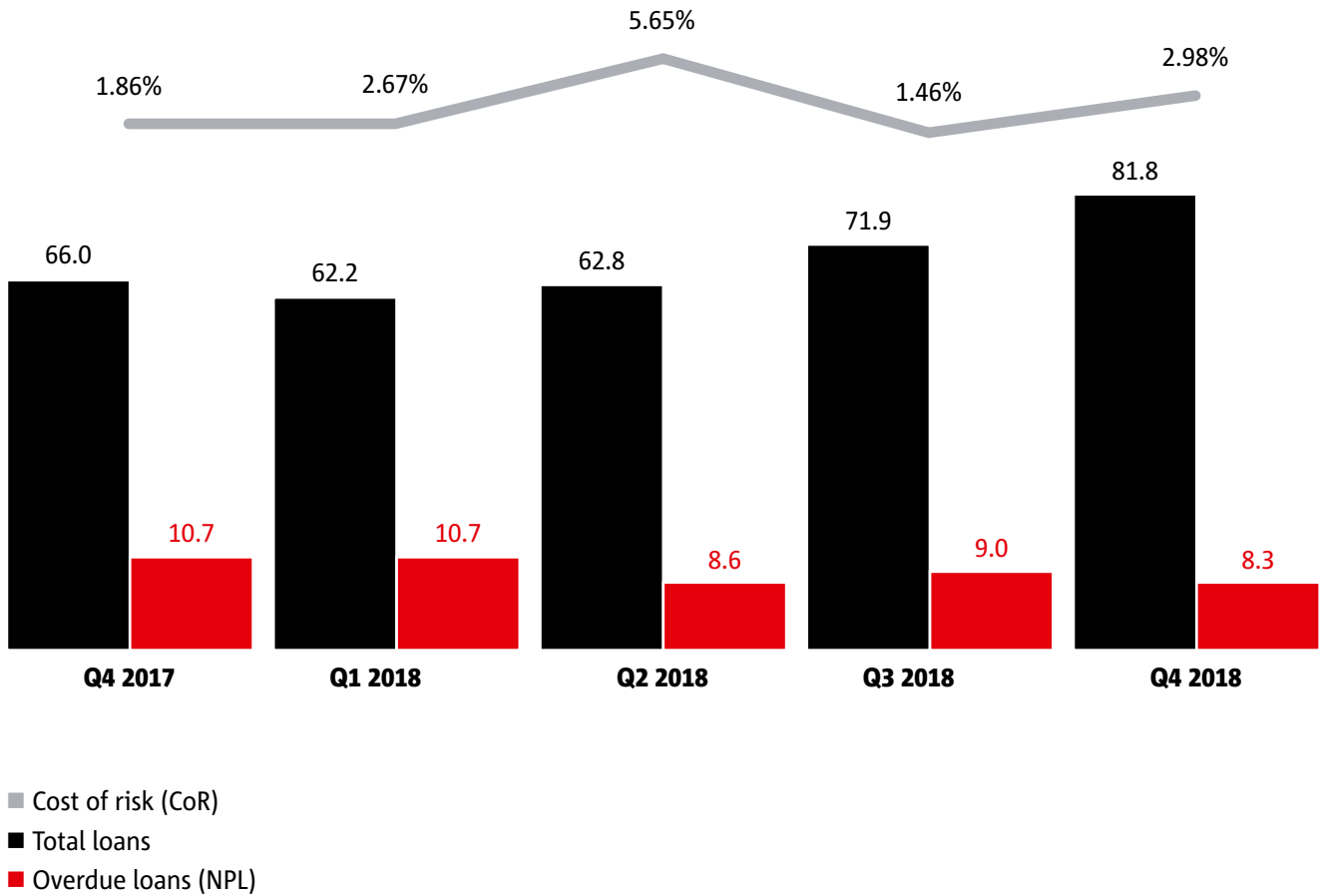
Source: MTS Bank financial reporting (MSOO)



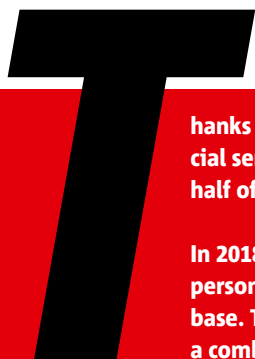
The number of monthly users of My MTS app for self-service reached 14.1 mln. This app is also used as a platform for promotion of other digital services

*Vyacheslav Nikolaev, Member of the Management Board, Vice President, Marketing, MTS*

Loans and NPL (bln RUB)



Source: MTS Bank financial reporting (MSOO)



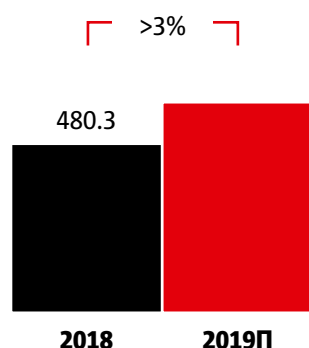
**Thanks to active use of Group big data capabilities, MTS Bank was able to develop and offer attractive financial services for MTS customers, which contributed to a sharp increase in sales of personal loans in the second half of 2018.**

**In 2018, the Bank integrated the most popular consumer products, including requests for credit cards and personal loans, into the My MTS application, which will make it possible to radically expand the customer base. The introduction of a unified scoring strategy will allow the bank to provide a potential customer with a combined set of banking products. This implementation will increase customer satisfaction while avoiding credit risks.**

*Andrey Kamensky, Member of the Management Board, Vice President for Finance and Investment, Mergers and Acquisitions, MTS*

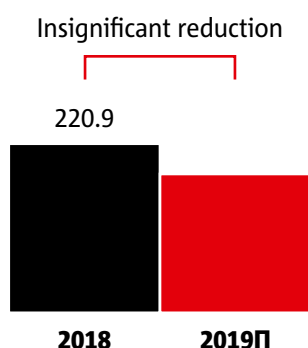
## 2019 Forecast

Forecast of Group revenue (bln RUB)

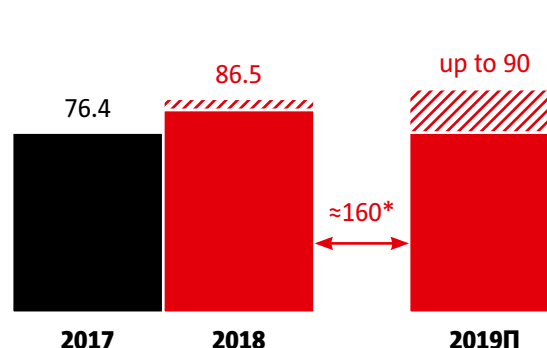


With effect of transition to new IFRS standards and consolidation of MTS Bank

Forecast of adjusted OIBDA (bln RUB)



CAPEX forecast (bln RUB)



Additional investments required to comply with the Yarovaya law

\* Excluding additional investments to comply with the Yarovaya law

### Group revenue<sup>1</sup>

MTS predicts Group revenue growth in 2019 approximately by 3%. The revenue forecast takes into account the following factors:

- increased data-traffic volume with decreased level of voice-service use due to the replacement of voice services with data services and improved penetration of services based on mobile Internet;
- competitive dynamics in retail and reduced level of SIM-card sales in Russia;
- changes of the regulatory framework, including cancellation of intra-network roaming and increased VAT in Russia;
- intra-network roaming cancellation impact;
- increased sales of telephones in Russia;
- continued growth of revenue in Ukraine, nominated in Ukrainian hryvnias;
- dynamics of revenue of foreign subsidiaries and volatility of currencies against the Russian ruble.

### Adjusted Group OIBDA

MTS tries to maintain OIBDA at the previous level, however, expects potential slight decrease of adjusted OIBDA at the expense of the following:

- high base effect in 2018;
- changes in the regulatory framework;
- Growth of competition level and continued uncertainty against the backdrop of optimization of retail distribution channels;
- Increased personnel costs;
- Consumer conduct and growth of high income products consumption, such as roaming;
- Business development in foreign subsidiaries;
- Macroeconomic changes and volatility of currencies in the markets where the Company operates.

### Capital expenditures of the Group

In 2019 MTS plans to maintain the capital expenditures forecast at the level of around RUB 160 bln in 2018-2019. The forecast of capital expenditures level takes into account the following projects for investment:

- Continued development of LTE networks;
- Implementation of projects on infrastructure and frequency-spectrum sharing with other operators in Russia;
- LTE network development in Ukraine;
- Introduction of evolutionary 5G solutions in the Russian market;
- Continued investments in the development of digital products.

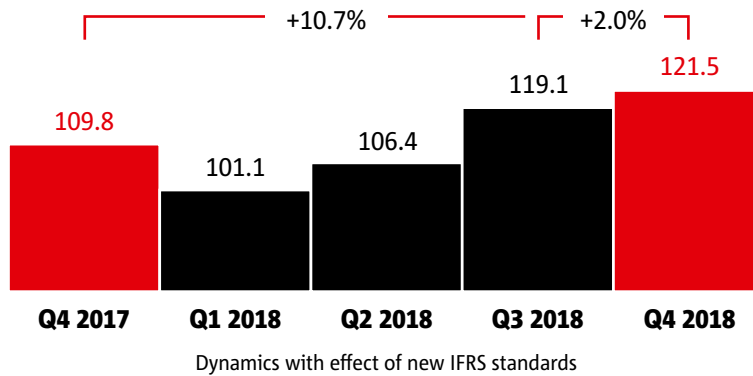
Yarovaya Law: MTS decreases the estimate of additional investment necessary to comply with the Yarovaya Law down to RUB 50 bln for five years from RUB 60 bln for the same period. In general in 2019 MTS expects that capital expenditures of the Group will amount to around RUB 90 bln (including investments required to comply with the Yarovaya Law).

<sup>1</sup> The forecast is provided with account of impact from consolidation of MTS Bank

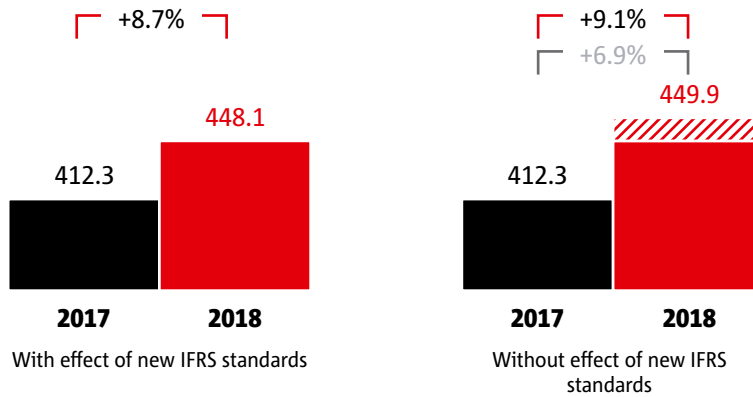
# Key Markets

## Russia

Revenue in Russia (bln RUB)



MTS Group demonstrates the best dynamics of revenue in Russia since 2012



MTS Bank

Revenue growth at the expense of the following:

- Increased consumption of mobile Internet services
- Growth of sales of smartphones in a high pricing category, which provide access to state-of-the-art digital services to subscribers.
- Contribution of recently purchased assets of the Group to the total revenue—e-ticketing operators Ticketland.ru and Ponominalu.ru, as well as esports club Gambit and MTS Bank



TS revenue in Russia in 2018 increased by 8.7% vs the previous reporting period and reached RUB 448.1 bln, which to a significant extent is due to growth of revenue from mobile business, impressive dynamics of device sales in the MTS retain chain and consolidation of MTS Bank.

In 2018 the business in Russia demonstrated positive dynamics of revenue in all segments, apart from fixed-line business.

*Andrey Kamensky, Member of the Management Board, Vice President for Finance and Investment, Mergers and Acquisitions, MTS*

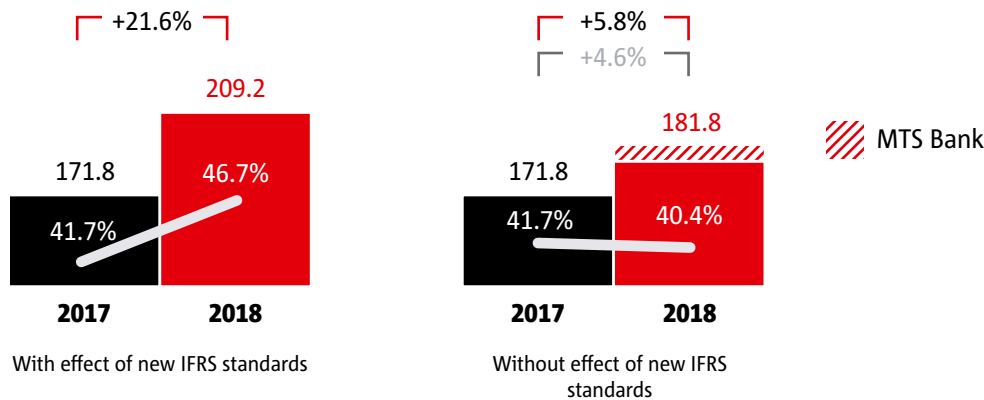
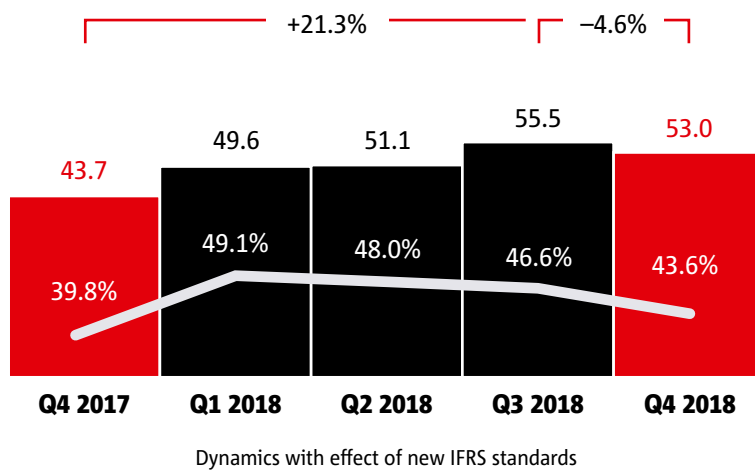




The adjusted OIBDA in Russia for the reporting period increased by 21.8% vs the previous reporting period due to the effect from using new IFRS standards and growth of total revenue and amounted to RUB 209.2 bln. The constraining factors that influence the dynamics were increased annual fee for use of radio frequency spectrum in the Russian Federation and intra-network roaming cancellation. In 2018 the margin of adjusted OIBDA in Russia with account of influence of new standards amounted to 46.7%, which is 5 percentage points higher than in 2017.

Andrey Kamensky, Member of the Management Board, Vice President for Finance and Investment, Mergers and Acquisitions, MTS

Adjusted<sup>1</sup> OIBDA and OIBDA margin in Russia (bln RUB)



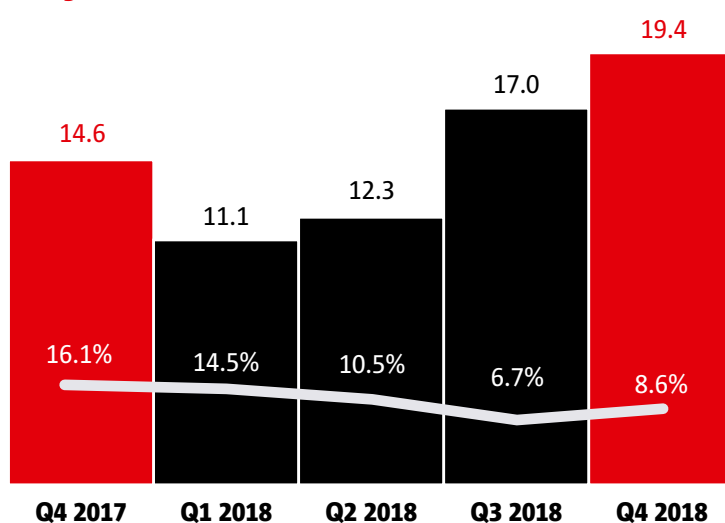
- OIBDA strengthening due to high level of consumption of Internet services and other high margin services
- Effect from MTS Bank consolidation at OIBDA according to new IFRS standards is around RUB 2.1 bln

<sup>1</sup> The adjusted OIBDA parameter does not include loss from depreciation of non-current assets in the amount of RUB 1.1 bln, RUB 2.6 bln, RUB 3.8 bln and RUB 0.1 bln for Q3 and Q4 2017, full 2017 and Q4 2018/full 2018, accordingly.

## Revenue from fixed business (bln RUB)

	Q4 2018	Q4 2017	Change, %	2018	2017	Change, %
Total	15.3	15.3	-0.4%	60.4	60.8	-0.6%
B2C	7.7	7.5	1.7%	30.3	30.0	1.0%
B2B+B2G+B2O	7.6	7.8	-2.4%	30.1	30.7	-2.3%

## Sales of telephones and accessories (RUB bln) and gross margin of sales (%)



Mobile business results demonstrate high indicators, as a result of trends of the market recovery and increased usage of data-services. Revenue in this segment increased by 2.8% to RUB 312.6 bln.

As of the end of December 2018, the number of MTS subscribers in Russia was 78.0 mln.

MTS fixed business demonstrated moderate revenue reduction by 0.6% vs the previous year, which reflects trends in the market of fixed line telephony.

As of the end of Q4 2018 the number of services users in GPON networks reached 1.95 mln, as a result of active campaigns to attract users to the leading FTTH GPON network from MGTS in the market. By the end of Q4 2018 the share of the company in the market of broadband access B2C in Moscow increased up to 38.0%, and the share of paid TV market—up to 43.0%<sup>1</sup>.

Starting from Q3 2018, MTS started to include MTS Bank results into Group indicators after consolidation of 55.24% shares in July 2018, which resulted in increased revenue in Russia by RUB 11.9 bln.

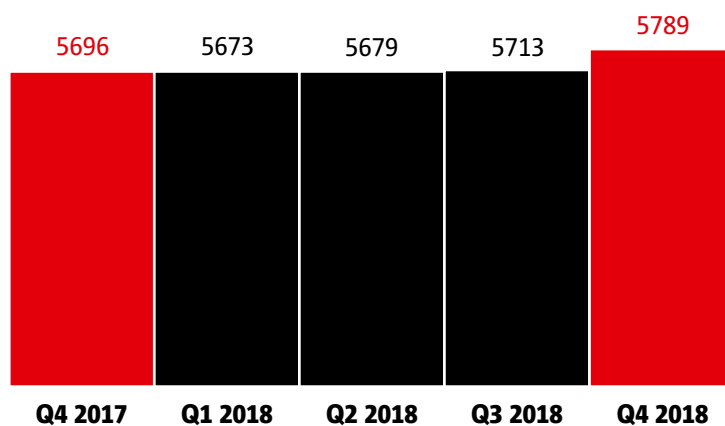
Revenue from MTS system integration services in 2018 demonstrated growth: in Q4 2018 it amounted to RUB 2.7 bln, and the annual revenue reached RUB 7.4 bln by 2018 as a result of increased number of projects and growth of technical support services.

Revenue of segment of other services (ticket services and esports) demonstrated significant growth due to seasonal factors.

For the reporting period, the revenue from sales of goods demonstrated impressive growth by 31.7% mainly by increased sales of telephones and accessories and software. Sales of software products increased 1.5 times vs the previous year as a result of several large contracts of NVision Group to supply Microsoft licenses.

Growth of mobile telephone sales is stimulated by great deals in the MTS retain chain, such as cashback

## MTS retain chain (number of sales offices as of the end of the reporting period, including franchising outlets)



<sup>1</sup> According to MGTS data

and trade-in programs, which motivates the users to renew their smartphones more frequently. The most effective method to attract customers was cashback program—in 2018 half of all smartphones in MTS retail chain was purchased within this program.

In 2018 the average price of smartphones in Russia increased by 32% year-on-year up to RUB 15,600, which was due to high consumer demand for expensive devices. Sales leaders were smartphones of Huawei, Samsung and Apple brands.

As of the end of Q4 2018, the gross margin of sales of devices and accessories amounted to 8.6%.

In 2018 the number of MTS retail outlets slightly increased up to 5,879.

MTS continued to strengthen its leadership in e-commerce segment.

In 2018 the volume of online sales exceeded RUB 6.9 bln, which is 33.8% higher than in 2017. For the reporting period MTS expanded functionality of the online store shop.mts.ru, having launched two new services—placement of online orders for B2B-customers and trade-in calculator.

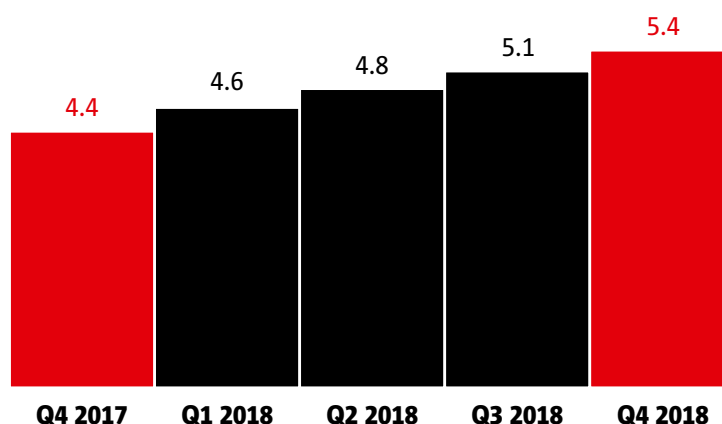
As of the end of 2018, the penetration of smartphones into the MTS network reached 70.1%, and the penetration of the mobile Internet—58.8%.

MTS Group continues development of financial services. MTS Bank consolidation made it possible to accelerate launch of convergent fintech products. One of the key events was launch of the service, within which new customers may sign a contract with the operator and the bank simultaneously.

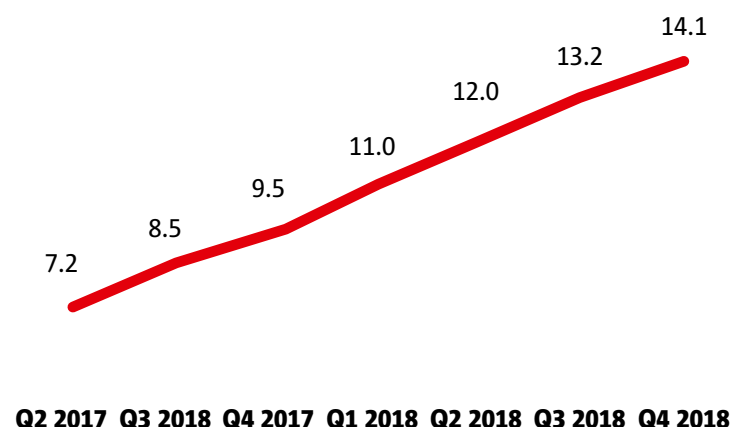
By the end of the reporting period, the number of issued MTS Money cards amounted to 5.4 mln, and the total credit portfolio increased up to RUB 21.6 bln.

MTS observes the growing popularity of My MTS self-service app. As of the end of 2018, the number of users per month reached 14.1 mln people.

Issue of MTS Money cards (mln cards)

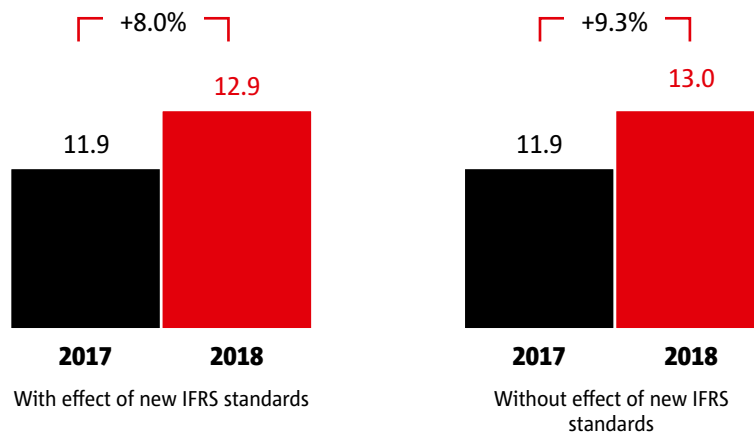
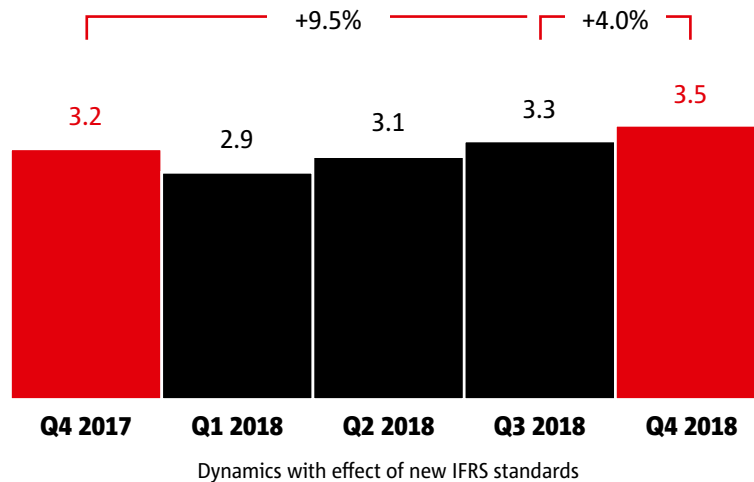


Number of active users of My MTS app (mln, 1-month base)



## Ukraine

Revenue in Ukraine (bln hryvnia)



- Growth of revenue in Ukraine at the expense of growth of mobile Internet services consumption, increased number of data-users and their migration to package offers.
- In March the company rolled out the 4G network in Ukraine. As of the end of 2018 the “fourth generation” network covers more than 45% of the populated territory of the country. The number of users of smartphones and consumers of Internet services for the year increased by 7.9% and 9.9% respectively.

**In Ukraine the revenue in 2018 increased by 8.0% vs the previous year due to growth in consumption of data transfer services as a result of increased penetration of smartphones into the base and migration of users to package offers. Growth of product sales also supported revenue growth.**

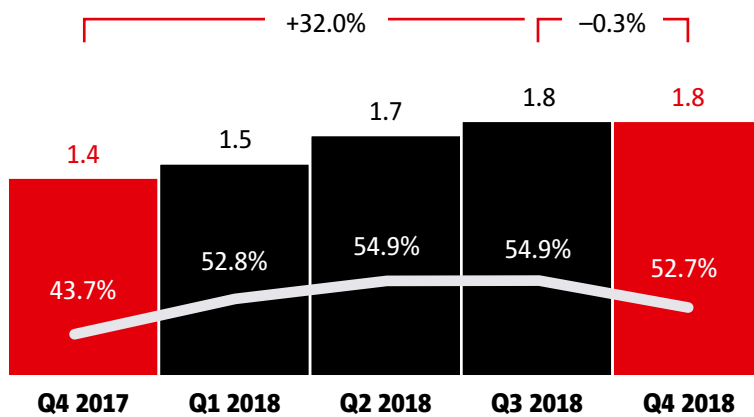
*Andrey Kamensky, Member of the Management Board, Vice President for Finance and Investment, Mergers and Acquisitions, MTS*



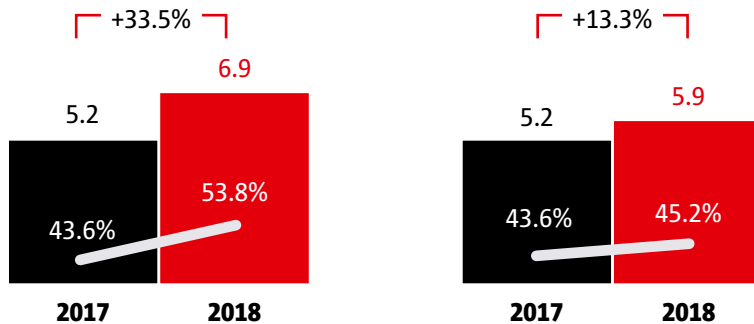
New IFRS standards positively influenced OIBDA, which for 2018 increased by 33.5% year-on-year up to 6.9 bln hryvnias. Without new standards, the indicator increased by 13.3% against the background of revenue growth. OIBDA margin of the Ukrainian business increased for the reporting period by 10.2 percentage points and reached 53.8%.

Andrey Kamensky, Member of the Management Board, Vice President for Finance and Investment, Mergers and Acquisitions, MTS

OIBDA and margin in Ukraine (bln hryvnia)



Dynamics with effect of new IFRS standards



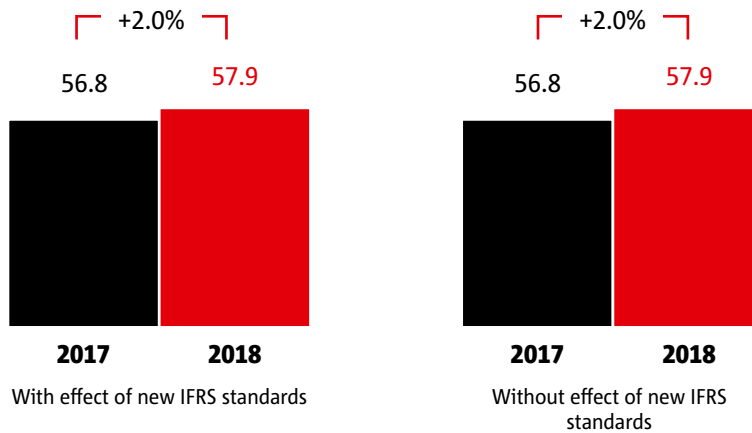
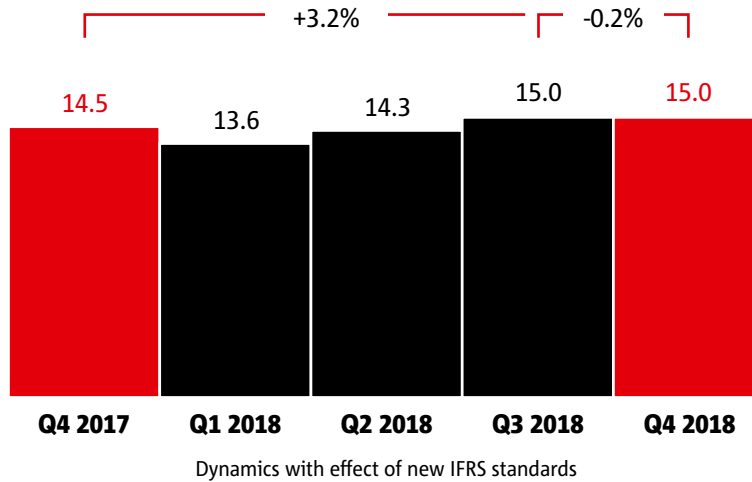
With effect of new IFRS standards

Without effect of new IFRS standards

- Growth of OIBDA at the expense of data transfer services consumption, which is due to active expansion of 3G and 4G networks coverage
- In 2018 the Group continued to focus on network construction and quality of services. As of the end of 2018 3G coverage reached 85% of the population, and 4G coverage—45% of the population. The number of users of smartphones and consumers of data-services for the year increased by 7.9% and 9.9% respectively. In January and March 2018 the Group obtained licenses for provision of services in LTE standard.
- The subscriber base of the MTS Group subsidiary in Ukraine as of the end of the reporting period amounted to 19.7 mln subscribers, having demonstrated reduction by 5.5% vs 2017.

## Armenia

Revenue in Armenia (bln AMD)



Revenue growth at the expense of the following:

- expansion of use of mobile data transfer services;
- growth of smartphone sales as a result of effective marketing initiatives.

**In 2018 the revenue in Armenia slightly increased by 2.0% vs 2017 against the background of rapid growth of revenue from sales of goods in Q4 2018.**

*Andrey Kamensky, Member of the Management Board, Vice President for Finance and Investment, Mergers and Acquisitions, MTS*

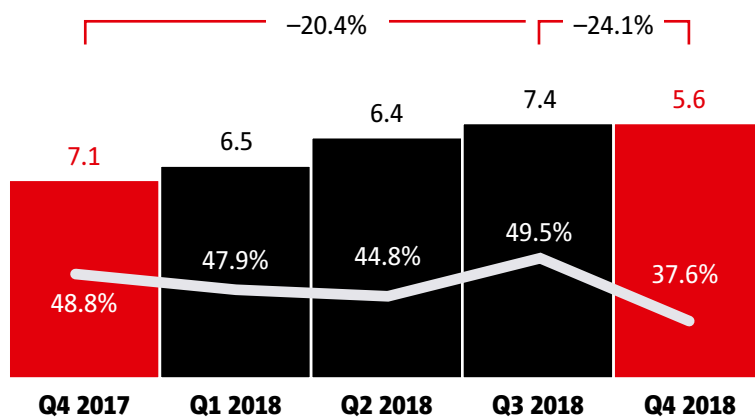


IBDA for the full 2018 year-on-year remained at the same level and amounted to 26.0 bln drams as a result of transition to new IFRS standards, while OIBDA margin slightly decreased by 0.9 percentage points down to 44.9%. Without effect of new standards, OIBDA decreased by 9.1%. Reduction was caused by one-off effect from depreciation of material assets.

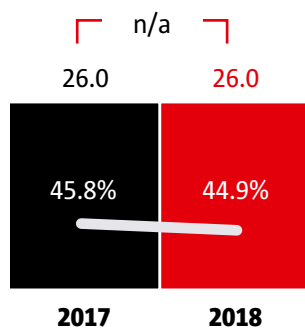
The MTS subscriber base in Armenia slightly increased by 0.4% up to 2.1 mln customers.

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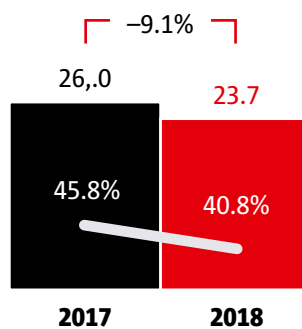
OIBDA and margin in Armenia (bln AMD)



Dynamics with effect of new IFRS standards



With effect of new IFRS standards

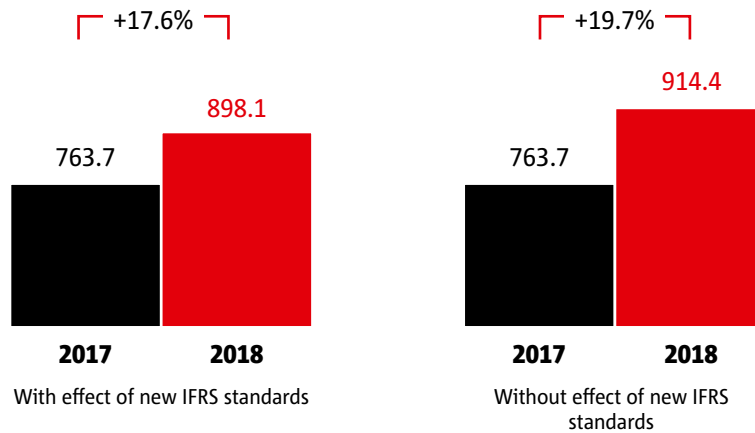
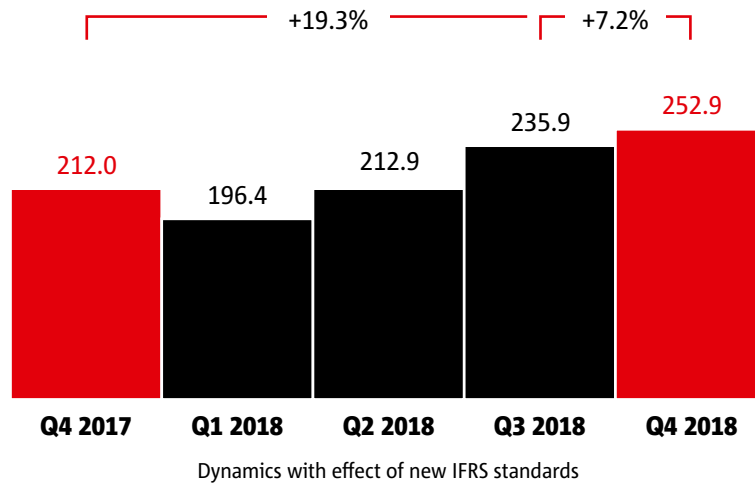


Without effect of new IFRS standards

- Reduction of OIBDA in Q4 was caused by one-off effect from depreciation of material assets.

## Belarus

Revenue in Belarus (mln BYR)



Revenue growth due to:

- Growth of revenues from data transmission services and VAS services;
- Significant growth in sales of handsets and accessories;
- Subscriber base growth by 4.5% to 5.5 million users amid active development of the 4G network.

**TS Belarus continues to maintain leadership positions in the market by revenue. In 2018 the income of the company increased by 17.6% year-on-year up to 898.1 mln Belarussian rubles, which was due to continuing growth of data transfer services and VAS-services usage, as well as increased sales of telephones.**

*Andrey Kamensky, Member of the Management Board, Vice President for Finance and Investment, Mergers and Acquisitions, MTS*

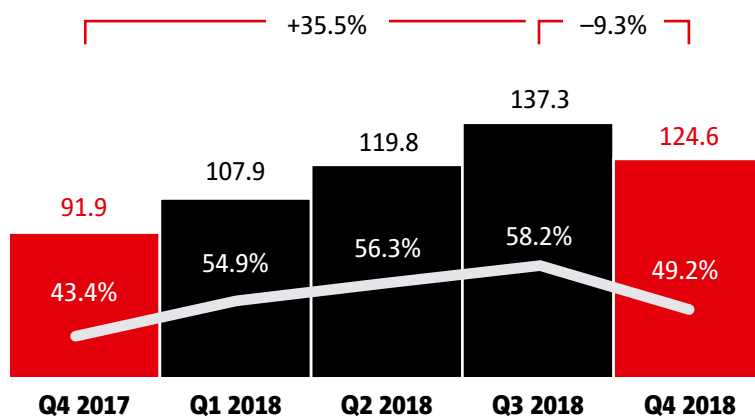




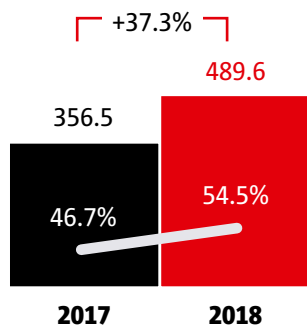
IBDA for the reporting period increased by 37.3% with account of new IFRS standards and by 17.0%, excluding effect of new standards vs the same period of the last year. Indicator growth is explained by increased revenue. Business profitability in Belarus amounted to 54.5%. Subscriber base increased by 4.5% to 5.5 mln users.

Andrey Kamensky, Member of the Management Board, Vice President for Finance and Investment, Mergers and Acquisitions, MTS

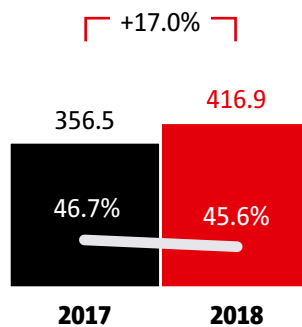
OIBDA and margin in Belarus (mln BYR)



Dynamics with effect of new IFRS standards



With effect of new IFRS standards



Without effect of new IFRS standards

- The OIBDA indicator increased in accordance with revenue dynamics.

## **E**ssential Affiliates of MTS PJSC<sup>1</sup>

### **Russian Telephone Company Closed Joint-Stock Company**

Location: 5 Vorontsovskaya Str., Bldg 2, 109147 Moscow, Russia

The share of MTS PJSC in the authorized capital of the affiliate, %: 100

Primary business: sales of MTS PJSC services.

Sole executive body: Alexander A. Mosyakin

### **VF Ukraine Private Joint-Stock Company**

Location: 15 Leipzigsкая Str., 01601 Kiev, Ukraine

The share of MTS PJSC in the authorized capital of the affiliate (indirect participation through subsidiaries Preludium B.V. and Allegretto Holding S.a.r.l), %: 100

Primary business: rendering of cellular radiotelephone communication services under the Vodafone trademark in the territory of Ukraine.

Sole executive body: Olga Vladimirovna Ustinova

Official website: <http://www.mts.ua>

### **Moscow City Telephone Network Public Joint-Stock Company**

Location: 25 Bolshaya Ordynka Str., Bldg 1, 119017 Moscow, Russia

The share of MTS PJSC in the authorized capital of the affiliate, %: 94.7

The share of the affiliate in the authorized capital of MTS PJSC, %: 0.38

Primary business: rendering of fixed-line communication services in the territory of Moscow.

Sole executive body: Pavel Vladimirovich Kuznetsov

Official website: <https://mgts.ru>

### **Public Joint-Stock Company MTS Bank**

Location: 18 Andropova Pr., Bldg 1, 115432 Moscow, Russia

The share of MTS PJSC in the authorized capital of the affiliate (indirect participation through subsidiary Mobile TeleSystems B.V.), %: 94.47

Primary business: banking operations.

Sole executive body: Ilya V. Filatov

Official website: <https://www.mtsbank.ru>

<sup>1</sup> As of December 31, 2018

## **D**ata on changed degree of control over a controlled legal entity of substantial value for the company

### Public Joint-Stock Company MTS Bank

As of December 31, 2017 MTS Group owned 26.61% shares of MTS Bank PJSC.

In July 2018 MTS PJSC purchased from Sistema PJSC 28.63% shares in MTS Bank PJSC, having increased the share up to 55.24%.

In February 2019 MTS Group increased the share of ownership of MTS Bank PJSC up to 94.72% by acquisition of 39.48% shares of MTS Bank PJSC from Sistema PJSC.

No changes occurred in other affiliates for the reporting period.

## **I**nformation on Significant Transactions of Affiliates

In the reporting period RTC JSC and VF Ukraine PrJSC closed major transactions.

Information is available at the corporate website of MTS PJSC at: <http://ir.mts.ru/investors/financial-center/annual-reports-and-form-20-f/default.aspx?LanguageId=1>.

## **M**TS Issuer Credit Ratings<sup>1</sup>

Credit agencies Fitch and Standard & Poor's assigned the following ratings to the Company's debentures

Standard&Poor's	BB+, stable
Fitch	BB+, Negative
Expert RA	ruAA, Stable

<sup>1</sup> As of December 31, 2018

# Risk Management

## Risk Management System

Risk management is carried out in MTS Group within the accepted conceptual risk management frameworks (document “Company Risk Management. Integrated Model” of the Committee of Sponsoring Organizations of the Treadway Commission (COSO)). The integrated risk management process is functioning efficiently in accordance with the needs of the Group and international standards. Risk management policy aims to minimize unexpected losses from risks and to maximize capitalization, taking into account the relationship between the risk and return of investments acceptable to the shareholders and the management of MTS Group.

The Integrated Risk-Management Policy is approved at MTS Group<sup>1</sup>. Integrated risk management is aimed at ensuring a reasonable guarantee of the achievement of the Company’s strategic objectives and the maintenance of a certain risk level for MTS Group within the limits acceptable to Company management.

Integrated risk management includes the construction and quarterly maintenance of an effective system for the detection and systematic analysis of Company risks, mandatory accounting of considerable risks when making management decisions, distributing responsibility for risk management, developing Additional Actions

The main principles of the risk-management process



### Integration principle

provides for a systemic approach to the management of all types of risks inherent to MTS’ business, throughout the entire organizational structure and geography of MTS Group presence. Cross-functional collaboration and coordination of business units is maintained to manage risks outside the framework of their specialization, as well as accounting of mutual effect of risks from various units. A single Company-management notification channel is provided for the whole risk spectrum to guarantee the completeness, quality and comparability of the information provided for each level of decision-making



### Continuity principle

consists of the implementation of a set of ordered risk-management procedures on a regular basis



### Justification principle

provides for analysis of the relationship between the costs for a reduction in assessed risks and the potential damage that would be entailed by their occurrence

<sup>1</sup> <https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/dokumenti-pao-mts/politika-integrirovannoe-upravlenie-riskami>.

and plans of response to considerable risks and control over their implementation, monitoring risks and the effectiveness of their management, and accumulation of knowledge in the field of integrated risk management.

The Risk Management Department at the Corporate Center (RMD CC) assesses the most significant risks on the basis of a long-term financial model and regularly conducts simulations for obtaining key financial indicators considering the risk and probability distributions of these indicators. RMD CC applies econometric techniques for the analysis of individual risks.

A report on the status of the MTS Group risks is reviewed quarterly by the Risk Committee, which discusses the key company risks and makes collective decision on the elaboration of measures for their

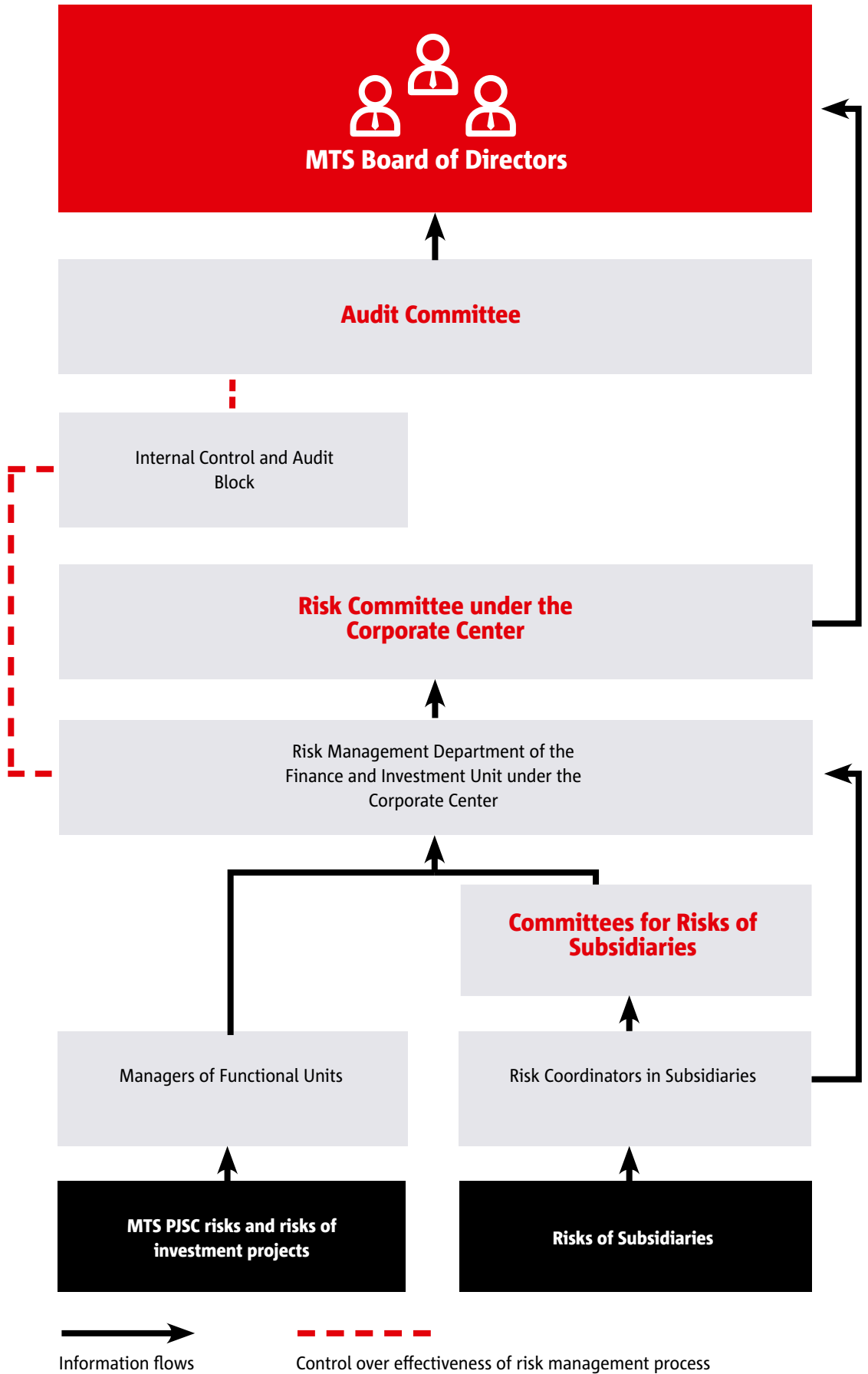
mitigation. The Chairman of the Risk Committee is the MTS President. The committee includes Management Board members, Vice Presidents, and other managers. The competence and responsibility of the committee includes consideration and approval of the following: objectives for development of the process of integrated MTS risk management; risk-management methodology; MTS risk portfolio and priority of actions to manage risks with account of the feasibility of their costs and restriction of resources; MTS risk-portfolio management strategy, etc.

Notification of MTS Group management is carried out taking into account the whole risk spectrum to ensure the completeness, quality and comparability of the information provided for each level of decision-making.

## rganizational Risk-Management Support

Risk management activity is distributed among the functional units of the Company:

- RMD CC is responsible for developing a risk assessment methodology, regular collection of information and reporting the results of this assessment to the Risk Committee and the company executives. RMD CC also carries out operational control of the process and provides cross-functional interaction between units within the company's integrated risk-management. Cross-functional interaction with the risk owners at subsidiaries is provided by the risk coordinators at such subsidiaries.
- The risk owners are the heads of functional units, whose achievement of goals is affected by the risks. The owners are responsible for the analysis, evaluation and implementation of risk-management measures and reporting on the activity taking place within the process of integrated risk management.
- The Risk Committee makes collective decisions in the field of integrated risk management.
- The efficiency of the risk management process is estimated by the Unit for Internal Control and Audit, this information is also presented to the Audit Committee.
- The Audit Committee monitors the risk management efficiency, as well as the assessment of procedures used by MTS Group to identify the principal risks and evaluation of appropriate control procedures (including the procedures for loss control and risk insurance) in order to determine their adequacy and efficiency.
- The Board of Directors operates directly or through its committees within its competence and resolves the issues of assessing the political, financial and other risks affecting the Company's operation. The MTS Board of Directors delegates the monitoring of risk-management efficiency to the MTS Audit Committee, and also reviews the Audit Committee's reports.



## Integration of risk management into decision-making processes

Risk management process is an integral part of all processes of the Company. In particular, it is integrated into processes of policy development, strategic, business-, budget and investment planning, into processes of change management, into the process of procurement procedures.

### Strategic planning

- Identification of risks related to various conditions of environment;
- Analysis and accounting of key risks within the selected macro-scenario;
- Definition of substantial risks influencing strategic objectives, but not resulting in their revision, and development of actions to manage such risks.

### Business planning and budgeting

- Analysis and accounting of risks related to failure to achieve main financial KPIs.

### Investment planning

- Analysis and accounting of project risks related to failure to achieve NPV and other parameters of projects.

### Procurement procedures

- Analysis and accounting of risks in selection of suppliers.

The risk-management process passed all stages of implementation, automation and integration into the company business processes (processes of strategic and investment planning, as well as into cross-functional projects and the preparation of external reporting), which now makes it possible to identify and consider the risks when making key decisions for the guaranteed achievement of goals and strengthening of business leadership.

## 2018 Key Activities

- Corporate Center MTS, VF Ukraine, MGTS and RTC Risk Committees meetings were held.
- 20-F risk section updated for the New York Stock Exchange.
- RMD assessed the principal risks in the framework of the MTS Group strategic session.
- RMD has assessed the risks of investment projects related to modernization and construction of the network, development of new products.

## Plans for 2019

In 2019 updating 20-F section of the annual report for the New York Stock Exchange and regular meetings of Risk Committees are planned. It is also planned to further integrate into the decision-making processes, including to provide analytical conclusions for individual projects within functional units.

The most significant risk factors that could potentially influence MTS PJSC business results are provided below. For details on these and other risks, see section “Item 3—Key Information—D. Risk Factors” of the Annual Report according to the form 20-F<sup>1</sup>, and the quarterly reports of MTS PJSC<sup>2</sup>.

<sup>1</sup> <http://ir.mts.ru/investors/financial-center/annual-reports-and-form-20-f/default.aspx>

<sup>2</sup> <https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/raskritie-informacii/ezhekvartalniye-otchety>

# Risk Factors

## Strategic risks

Risks	Mitigation Measures	Impact at Objectives
<p><b>Depreciation of our services and loss of competitiveness, difficulties in developing additional sources of income</b></p> <p>Continuous improvement of technology, development of new products and services, increased competition associated with the emergence of new players in the market, as well as increased use of IP-telephony and other services provided via the Internet, may adversely affect the ability to maintain subscriber base, lead to a reduction in market share and operating margin</p>	<p>To ensure the highest level of quality of basic communication services, we are systematically increasing the capacity and bandwidth throughput of the network, which is extremely important in the context of the observed continuous increase in the volume of data traffic consumption. We comprehensively approach the issue of network development, make the necessary investments in 3G and 4G infrastructure, ensure the possibility of further network evolution in the direction of the fifth generation, including deployment and operation of 5G test zones, carry out pilot projects in the NB-IoT area. From the point of view of marketing activity, an effective method for leveling the adverse impact of VOIP-solutions are integrated V&amp;D tariffs that combine voice and data services.</p>	<ul style="list-style-type: none"> <li>• retention of basic mobile revenue;</li> <li>• compensation for traditional telecom revenues decrease caused by active development of digital products portfolio;</li> <li>• leadership in the mobile Internet and data services segment</li> </ul>
<p><b>Loss of control over activities and assets in the countries of presence</b></p> <p>The risk of termination, suspension of operation or claims by regulators may adversely affect business, financial state and results of operations.</p>	<p>We are monitoring the political situation in the markets of presence of the Group of Companies, and we strive to respond quickly to changing conditions in the markets.</p>	<ul style="list-style-type: none"> <li>• achieving sustainable business development</li> </ul>
<p><b>Risks of acquisitions, investments and mergers with other companies</b></p> <p>New acquisitions make it possible to diversify the business of MTS PJSC. At the same time, there may be additional risks associated with the obligations of the acquired companies, as well as risks of failure to achieve the initial financial and operational goals, problems with the integration of acquired assets, risks associated with a lack of experience in new markets, including political, economic, social, legal and regulatory risks, competition risks, etc.</p>	<p>We see opportunities for growth through our participation in promising new businesses in the digital economy, which enables us to significantly expand the range of services we provide and to enter new markets. When closing transactions in the field of M&amp;A, we conduct a thorough audit of companies, where we plan to participate as a shareholder. Assessment of the feasibility of investments occurs with the involvement of independent consulting companies and takes into account the strategic position, financial results and features of the operating activities of such companies. Further implementation of MTS rights as a shareholder in them corresponds to the best practices of corporate governance. Integration of the acquired business into the management structure of MTS (if such decision is made) is carried out by a special unit with a wealth of experience of this kind.</p>	<ul style="list-style-type: none"> <li>• expansion of the Company's business and faster entrance into new markets;</li> <li>• product line expansion;</li> <li>• achieving operational synergies between different business areas;</li> <li>• mutual exchange of best practices in management and operations</li> </ul>



**Inability to successfully develop the network**

In connection with the development, construction and maintenance of the communications network, we need to make purchases of equipment and software, which is associated with significant capital investments. In addition, limitation of the frequency spectrum available for the development may prevent gaining all the expected benefits from network construction and weaken expansion effect. Network deployment may be connected with difficulties to obtain sites for base stations on commercially viable terms, to collect permits and certificates for telecommunications equipment and/or import and export permits for certain network equipment, which may delay procurement and interfere with network development plans.

While further investing into the development of infrastructure, we see the opportunity for gradual reduction of our capital expenditures with maintained quality of the services provided. MTS with a number of partners conducts joint procurement procedures, as well as carries out joint construction and operation of network infrastructure elements. In addition to the economic benefits, within the framework of cooperation, technical and functional requirements, approaches and methods are unified.

- increasing network capacity and data rates to meet growing demand;
- effective network planning and investment optimization

**Inability to realize the benefits of investing in radio communications systems**

Key risks:

- impossibility to build 4G and NB-IoT networks in accordance with the planned terms or in accordance with the terms stipulated by the license conditions;
- difficulties in ensuring quality and required level of service;
- demand for 4G services (including NB-IoT) in the markets of presence of MTS PJSC and its subsidiaries will be lower than expected

We have significant experience in dealing with hardware and software vendors, as well as with regulatory authorities. This enables us to reach agreements under the most comfortable conditions for us, including in terms of delivery times and construction. We take all necessary measures to comply with licensing conditions and other regulatory requirements, as well as carry out timely renewal of licenses and permits.

We conduct regular monitoring of communication quality parameters and promptly react in case of identifying the need for additional capacity and bandwidth throughput in local areas of the network, which enables us to maintain a consistently high level of service quality. With the help of marketing tools, we stimulate usage of data transfer services, thus increasing the degree of network resource utilization.

- ensuring the best compliance with IoT technology requirements and infrastructure readiness for 5G implementation
- efficient capital expenditures planning
- increased operational efficiency by optimizing the operating costs associated with network operation

## External environment risks

Risks	Mitigation Measures	Impact at Objectives
<p><b>Economic and social instability</b> Economic and social instability, just as possible future downturns or a slowdown of economic growth in the countries where we operate may lead to a decrease in demand for the provided services, and have a negative impact on the financial condition of our corporate customers and partners, including financial institutions, which could lead to a decrease in our revenues and performance indicators and adversely affect the security of our assets.</p>	<p>We are monitoring the macroeconomic situation in the markets of presence of the Group of Companies, promptly and effectively respond to changes in the general economic background with the help of, first and foremost, tariff tools. We are aimed at constantly expanding the range of our services and stimulating consumption, increasing the level of satisfaction of our customers in the corporate and mass segments. We pay great attention to ensuring optimal conditions for raising outside financing for us, controlling the level, cost and structure of debentures, which makes it possible, in particular, to neutralize the negative effects of currency exchange rates variations under conditions of high volatility of foreign exchange markets.</p>	<ul style="list-style-type: none"> <li>• achieving sustainable business development</li> </ul>
<p><b>Regulatory risks</b> Our business in the countries where we operate is regulated by governments; in particular, through licensing and laws. Legislation in the field of communication services is constantly changing. For example, the Ministry of Communications of the Russian Federation is currently considering the possibility of changing the concept and regulation of inter-operator interaction. In addition, the issue of changes to the existing approaches and rules in the field of regulating prices for the services of interconnection and traffic transit is being considered. On 06.07.2016 Federal Law No. 374-FZ "On Amendments to Certain Legislative Acts of the Russian Federation Concerning Additional Measures to Counter Terrorism and Ensuring Public Security" was adopted, according to which telecom operators are required to store for 3 years in the Russian Federation information on the facts of reception, transmission, delivery and/or processing of voice information and text messages, images, sounds, video or other communications by telecom service users, as well as the contents of all these communications and voice information for up to 6 months. The procedure, timing and volume of storage of the information is established by the Government. Compliance with these requirements will require significant material investments.</p>	<p>We conduct regular monitoring of the legislation in order to meet the requirements set. As market representatives, we participate together with the regulatory authorities in the working groups on optimization of the regulatory framework in the communication industry. Regulatory risks are given special attention within the framework of strategic planning.</p>	<ul style="list-style-type: none"> <li>• achievement of good operating indicators;</li> <li>• ensuring compliance with regulatory requirements</li> </ul>

In April 2019, the State Duma endorsed the bill aimed at ensuring a safe and steady functioning of the Internet in the territory of the Russian Federation. Within the framework of this initiative, operators will be required to install in the network a new equipment capable of influencing its stability and quality of the communication services provided. Besides, the operators incur additional expenses required to maintain and operate this equipment.

It is still unclear how these initiatives will be implemented, and at the moment it is difficult to estimate how such changes will affect the Company's activity.

These and other potential regulatory changes in the future may entail a decrease in revenues/ additional costs for the operator, which may adversely affect its financial position and performance.

## Operational risks

Risks	Mitigation Measures	Impact at Objectives
<p><b>Financial risks</b></p> <p>A considerable part of our expenses, costs and financial obligations, including capital expenses and loans (credits and Eurobonds) is denominated in USD and/or EUR, while a large portion of income is denominated in the local currency of the countries where we operate.</p> <p>The situation in our markets, including stability of the banking system, inflation, change in the exchange rates of local currencies against the USD and/or EUR, the possibility for the free conversion of currencies and making currency payments impacts our operating performance and business results.</p> <p>Rate of the Company's development and its financial standing, among other factors depend on debt financing. Crisis of financial markets, external limitations and sanction may restrict the ability of the Company to raise debt financing.</p>	<p>A number of portfolio-structuring measures have been taken in order to reduce dependence on exchange-rate fluctuations, including implementation of the currency-risk hedging program.</p>	<ul style="list-style-type: none"> <li>• maintenance of investment appeal through:</li> <li>• ensuring growth of investment and operating efficiencies</li> </ul>
<p>Contracts related to certain issues of our bonds and bonds of our controlling shareholder, and also some loan agreements, include restrictive provisions that limit our opportunities to raise loans and engage in various activities. Failure to comply with such contractual provisions could have resulted in default and, as a result, in a request to immediately repay the debt, which might have had negative effects on our business.</p>	<p>We are monitoring the implementation of the provisions of contracts and agreements for granting loans in order to comply with the financial covenants contained in the loan documentation.</p>	<ul style="list-style-type: none"> <li>• maintenance of investment appeal through:</li> <li>• maintenance of optimal debt level</li> </ul>

### Risks of technological failures

The ability to continuously provide communications services is one of the basic conditions of licenses and subscription contracts. Technological breakdowns during the servicing of our network stemming from system failure, accident or the violation of network security may adversely affect our ability to provide services to the subscribers, as well as our reputation.

In order to ensure the stability of the network and continuity of communication-service provision, the network-management system is centralized, and the operation system provides for the regular maintenance and use of backup telecommunications equipment. Information security in network management is provided by a complex system of technical and organizational information-security measures.

- achievement of good operating indicators
- achieving sustainable business development

## Compliance with requirements

Risks	Mitigation Measures	Impact at Objectives
<p><b>Compliance risks</b></p> <p>MTS securities are traded in the U.S. stock market, we are subject not only to Russian, but also to American anti-corruption legislation (US Foreign Corrupt Practices Act), and potentially to the anti-corruption law of the UK (UK Bribery Act). If an inconsistency of our actions with these requirements is revealed, this may result in criminal and/or civil law sanctions against us.</p> <p>In March 2014, MTS PJSC received a request for information from the US Securities and Exchange Commission and the US Department of Justice regarding the investigation of the former subsidiary in Uzbekistan. In the Q3 report, MTS specified the reserve in the amount of RUB 55.8 bln as a potential commitment in connection with the ongoing investigation of the Securities and Exchange Commission of the United States of America and the Department of Justice of the United States of America regarding the previous activities of MTS in Uzbekistan. The group continues to cooperate on issues related to the investigation. At the moment, there may be no certainty as to the form, timing and conditions for a possible resolution of the investigation. The Group agreed with the restraining order (“Order”) issued by the U.S. Securities and Exchanges Commission.</p> <p>The district court of the Southern District of New York approved the agreement on deferral of prosecution concluded by the Group and the agreement on admission of guilt concluded by the Group’s subsidiary company in Uzbekistan. In accordance with the terms and conditions of the agreement with the U.S. Department of Justice, the Group agreed to pay a penalty in the amount of USD 850 million (59,1 billion Rubles as of December 31, 2018). The Group has assessed a provision for payment of the penalty in the amount of USD 850 million (55,8 billion Rubles as of the date of accrual) in the consolidated statements for the year ending on December 31-st 2018 as part of the loss caused by ceased operations.</p>	<p>Starting from 2012, when a separate compliance division was established at MTS, the company has been systematically developing a system of anti-corruption compliance in accordance with the best international practices. The Company has special rules and procedures in place for the prevention of corrupt practices, both on the part of employees and with respect to contractors.</p> <p>Main documents governing anti-corruption requirements within MTS are the Code of Business Conduct and Ethics, Policy “Compliance with anti-corruption legislation.” Besides, procedures for assuring compliance with anti-corruption legislation are fixed in regulations of Company’s business-processes.</p>	<ul style="list-style-type: none"> <li>• support of fair and ethical business conduct and abuse prevention</li> </ul>

In accordance with the terms and conditions of the Order and the Deferred prosecution agreement, the Group agreed to introduction of independent monitoring over compliance with their requirements. Under the terms and conditions of the Order and the deferred prosecution agreement, monitor shall be introduced over a period of three years and the monitoring period can be reduced or extended depending on certain circumstances to be established by the U.S. Securities and Exchanges Commission and the U.S. Department of Justice.

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**Tax risks**

The system of taxation in the countries where we operate is undergoing constant change; legislation in this area may be interpreted ambiguously. For example, poorly drafted Russian transfer pricing rules may increase the risk of price adjustment by tax authorities and lead to additional tax burden within transfer pricing control. This may complicate tax planning and related business processes, and may also have adverse material impact on our business, financial standing and operating results.

We meet the requirements of the tax legislation in the countries where the Group operates. We respond to any changes promptly and follow the current trends in law-making, as well as tax laws of Russia and foreign jurisdictions, which allows making timely integrated decisions in the field of tax planning and customs regulation. We frequently draw on the expertise of qualified consultants.

- achieving sustainable business development;
  - compliance with requirements
-

# S

## ystem of managing the key risks associated with the social aspects of business

The ability of MTS PJSC to maintain its position in the competition and implement its business strategy largely depends on the work of employees. Care for employees is one of the main priorities of the Company, determining the success of our activities in the contemporary market. We are constantly improving social and labor relations in the following areas: occupational safety and health of employees, social support, opportunities for career and personal growth.

For effective communication with personnel, a number of opportunities are provided to enable any employee of the Company to contact the management, as well as express their views on the prospects and plans of MTS development, to submit proposals for optimizing certain business processes and services, and introducing new services. To assess the internal climate of the Company, we regularly conduct sociological studies that enable us to verify the strategy and tactics of HR-work with the actual expectations of our employees.

Personnel safety is the main component of corporate social responsibility of the Company

Labor protection activities carried out by MTS PJSC are aimed at:

- ensuring the priority of preserving life and health in the workplace;
- improving of the OSH management system;
- Timely training of managers and specialists on labor protection;
- organization of preventive and periodic medical examinations of employees; timely provision of employees with special clothing and other personal protective equipment;
- organization of the production control and evaluation of special conditions of employment.

We strictly adhere to the requirements of labor legislation and try to take into account the interests of personnel as much as possible. The H&S management system at MTS PJSC has been recognized at the regional and district levels. In 2017, some MTS branches became prize winners of various H&S review competitions.

### Risks related to violations in the field of health and safety

Description of risks	Mitigation Measures
Possible risks of violations in the field of health and safety associated with training of employees, medical examination, provision of personal protective equipment, compliance with sanitary and epidemiological requirements, special assessment of working conditions, etc.	<p>MTS PJSC operates an OHSAS 18001: 2007 certified Occupational Health and Safety Management System (OHSMS). OHSMS includes the following: organizational structure; planning; distribution of responsibility; procedures; processes and resources for developing, implementing goals, analyzing the effectiveness of health and safety policies and measures. The main objectives of OHSMS include monitoring compliance with laws and other regulatory legal acts on health and safety. Health and safety specialists are regularly trained.</p> <p>MTS adopted a number of local regulatory documents governing the main issues in the field of health and safety. The documents contain all the basic requirements and instructions in the field of health and safety, including the procedure for conducting internal control over status of working conditions.</p>

# S

## ystem of managing the key risks associated with the environmental aspects of business

For the purposes of compliance with the requirements of nature-conservation legislation and ensuring environmental safety at MTS facilities, the Company developed the Policy of Environmental Safety and Protection, the fundamental principles of which were:

- compliance with the requirements of the nature-conservation legislation of the Russian Federation;
- compliance with the requirements of national and international standards in the field of environmental protection;
- improved level of environmental awareness and education among all company employees;
- implementation of environmental socially significant projects;

- openness and availability of environmental information;
- reduced level of negative impact on the environment and aspiration for sustainability.

The social responsibility of MTS business is based on the principle of an attitude of care towards nature—the Company strives to exert minimum impact on the environment and reduce such impact, whenever possible.

The work on environmental protection is aimed at the implementation of measures of organizational, technological and sanitary-hygienic nature with the aim to prevent and reduce the harmful effects of economic activities on the nature and health of people.

### Risks related to violations in the field of ecology

Description of risks	Mitigation Measures
<ul style="list-style-type: none"> <li>• Failure to meet the requirements of environmental reporting provision</li> <li>• Doing business without state registration of the negative environmental impact facility</li> <li>• Failure to meet the requirements in the field of environmental control and monitoring</li> <li>• Doing business without permits issued in accordance with the established procedure for emissions of pollutants into atmospheric air, waste handling</li> </ul>	<p>For the purposes of compliance with the requirements of nature-conservation legislation and ensuring environmental safety at MTS facilities, the Company developed the Policy of Environmental Safety and Protection.</p> <p>The environmental policy has fixed/provided for a set of processes that ensure compliance with environmental legislation. Namely: need for issuing permits and updating data, objectives for planning, financing and logistical support for implementation of environmental programs and environmental protection (EP) measures need to undergo training in the field of environmental protection, conducting industrial environmental monitoring (a set of preventive actions aimed at eliminating the possibility of an emergency and damage to the environment)</p> <p>At the level of CC and the regions, changes in the requirements of environmental legislation are monitored.</p> <p>MTS on a regular basis bears the costs associated with waste management and atmospheric air protection, as well as with the reduction of risks associated with government regulation in the field of environmental protection and maintaining the image of the company's environmental sustainability</p>

# Compliance and Culture of Good Faith Behavior

## MTS PJSC Code of Business Conduct and Ethics

The Code of Business Conduct and Ethics of MTS PJSC (hereinafter referred to as Code) includes key principles, a minimum set of standards and requirements accepted at the Company with the purpose of maintaining fair and ethical business and preventing abuse. In its business, the Company complies with the laws, follows generally-accepted business ethics standards and will not tolerate any other methods of doing business that contradict with such regulations.

The Code defines the rules and standards that employees must follow in their daily work. When it is required to apply higher standards compared to those accepted in commercial practice, or a regulation of higher legal force according to existing legislation, MTS will use such high standards.

In 2018 the new version of the Code has taken effect. The general trend of document changes was intended to simplify the wording for simplicity of its understanding by all employees of MTS and third parties, all sections have been refined and updated. New important sections were added to the Code\*.

Sections of the Code that establish the responsibility of the Company to all stakeholders and the public:

- MTS and employees,
- MTS and customers,
- MTS and society,
- MTS and laws,
- Role of managers\*,
- Interacting with partners and suppliers\*,
- Protection of intellectual property\*,
- Communicating and reporting Code violations.

The Code also contains information about all compliance programs of the MTS unified compliance system.

The Code applies to members of the Board of Directors, management and other Company employees. All employees shall be liable for compliance with the Code and are personally responsible for their own actions.



# Unified Compliance System of MTS PJSC

Since 2016 MTS has been actively developing the Unified Compliance System on the basis of the norms of applicable laws, recommendations of regulatory authorities, the specific nature of the industry and best practices in this sphere.

In 2018 the scope of risk areas (compliance programs) of the unified compliance system did not change:

- Anti-Corruption Compliance;
- Inside Compliance;
- Personal-Data Processing Organization;
- combatting laundering of criminal funds and financing of terrorism and mass destruction weapons spread financing (CML/TF/MDWSF);
- System of Antitrust Risk Prevention (Antitrust Compliance);
- Labor Protection Management System;
- Observance of Human Rights at the Workplace;
- Ecology.

These compliance areas are supervised by the relevant functional units, each of which implements its compliance program and risk minimization system. Coordination of the implementation and operation of the Unified Compliance System is entrusted to the Compliance Department of MTS.

In 2018 systematic and progressive development of the unified compliance system continued. The company completed a project of in-depth assessment of compliance risks at the level of business processes for six compliance programs with no such risk assessment previously conducted (in-depth assessment of risks under compliance programs of anti-monopoly compliance and anti-corruption compliance, and also business ethics was carried out earlier). The project was implemented by an external consultant. In addition to the generated risk maps for the risk areas, recommendations were given to the programs to improve the control environment. The results of the risk assessment are taken into account in the Company's overall risk management system and are reviewed on a regular basis. This makes it possible for the management and management bodies of the Company to gain a more structured under-

standing of the existing compliance risks and to take these factors into account when making management decisions, which has positively affected the Company's overall performance.

## Supervisory audit of conformity of the Company's unified compliance system with the standards ISO37001:2016 and ISO19600:2014

In 2018 MTS received the certificate of the Unified Compliance System's compliance with international standards ISO19600:2018 "Compliance Management Systems" and ISO37001:2014 "Anti-Corruption Compliance Management Systems." The MTS Unified Compliance System confirmed its compliance with the above-mentioned international standards during the first Supervisory Audit of the Company.

The international team of auditors—the recognized world experts in the field of compliance—conducted 69 interviews with the President and top management, managers and employees in the Corporate Center and regions, studied more than 160 internal documents of MTS and other evidence of development and efficiency of the unified compliance systems and its compliance programs, as well as verified the implementation of recommendations received during the 2017–2018 Certification Audit to improve the unified compliance system.

According to the results of the Supervisory Audit of 2018, there were significant improvements in development of the MTS unified compliance system. The recommendations of auditors given following the results of the Certification Audit 2017–2018 were fully implemented. The company has received new recommendations to improve the system, and the results of that work will be presented by MTS during the second Supervisory Audit that completes the cycle of compliance testing.

## Compliance Committee

In 2016, the Company established the Compliance Committee under the President of MTS, which included the President, the managers in his direct subordination; the Director of the Compliance Department, who is the Chairman of the Committee.

# October 23 —

the corporate Day of Ethics and Compliance in MTS

The Committee was established to make decisions on issues of the formation and implementation of compliance programs comprising the Unified Compliance System; the main tasks of the Committee are the implementation of policy in the field of compliance risk management and making proposals on the development priorities of MTS Group in this area. Six meetings of the Committee were held in 2018. Key performance indicators (KPIs) on compliance were established for employees who are functionally responsible for the compliance programs and execute instructions of the Compliance Committee within the work team under the Committee.

## Anti-corruption (Anti-corruption compliance and business ethics)

MTS, as a public company, is aware of the need to develop a favorable business environment in the markets of its presence, and makes efforts to promote the best compliance practices, and always adheres to high standards of business ethics, transparency and the rule of law.

The anti-corruption compliance program in MTS establishes measures to control regulatory risks, to protect the Company from any manifestations of corruption (both within the Company and attempts to involve the Company in corrupt activity from the outside), to improve the corporate culture, introduce and develop in the Company the best corporate management practices, as well as standards of responsible business behavior.

You may review the principles of MTS approach, formed in compliance with recommendations of the regulatory bodies, relevant international organizations and adherence to best practices in the area of corporate anti-corruption compliance programs development in the 2017 Company's Annual Report (pp. 82-83).

## Day of Ethics and Compliance

For the fourth year in a row, on October 23, 2018, the Company celebrated the corporate Day of Ethics and Compliance. The holiday lasted four days under the motto: "Compliance is a good habit!" All employees of the Company received a letter with the message of the Compliance Department Director on the good-faith conduct culture. In addition to the federal (main) program, compliance representatives in the branches independently organized competitions in their regions. More than 1200 employees took part in training sessions, workshops, quizzes and creativity competitions. 45 employees won the competitions and were awarded with books and diaries with the compliance logo.

Apart from general events implemented within the framework of development of the unified compliance system, each risk area (compliance program) also performed independent development.

In 2018, the Company implemented many projects and initiatives within the framework of development of the anti-corruption compliance program and strengthening of compliance culture:

- the regional presence of the compliance function was strengthened significantly: new positions of compliance managers were introduced in Nizhny Novgorod, Krasnodar, Yekaterinburg, Vladivostok;
- external consultants implemented projects for independent assessment of corruption risks in three subsidiaries, and efficiency of the anti-corruption compliance program was evaluated in one subsidiary;
- employees were trained in the field of anti-corruption compliance:
  - full-time training in the field of anti-corruption compliance was attended by more than 15,000 employees of MTS Group Companies (including top management);

— classroom training on the subject of MTS principles and requirements in the field of anti-corruption compliance was attended by 166 employees of the company contractors;

— about 30,000 employees of MTS PJSC and employees of subsidiaries and affiliates received electronic training;

- in addition to events with participation of top management that have already become a tradition, which demonstrate involvement and support of top management in the field of compliance initiatives (“tone from the top”), the Company has been actively developing the “tone in the middle”—demonstration of a personal example of good conduct by middle management. The regional development directors and the directors of the branches spoke to the employees on the subject of compliance in person and reminded them of the importance of compliance training and conducted activities in the regions.
- A training compliance app was launched, through which the Company’s employees may receive the required information on compliance and communicate with the Department of Compliance;
- internal communications actively covered compliance topics, in particular, the Company’s employees received updates on quarterly monitoring of the regulatory environment during the year, news were published about MTS receiving a certificate of compliance with international standards ISO 19600:2014 and ISO 37001:2016 and MTS inclusion in TOP-10 companies with the largest index of transparency within the framework of the study “Transparency International—Russia,” announcements of training webinars, FAQs, information on approval of the new edition of the Code of Business Conduct and Ethics and changes to anti-corruption local regulations of the Company were published. A message to the employees by the Compliance Department Director about the importance of adherence to the requirements of compliance and business ethics, a message of the President of MTS PJSC Alexey Kornya, dedicated to the International Day against Corruption, were published. During the year, the corporate magazine published four articles on compliance.
- compliance and business ethics section was updated on the external website of the Company;
- the compliance representative program designed to increase the involvement of business representatives in the operation of the anti-corruption

In 2018 MTS was included into TOP-10 companies with the highest index of transparency within the Transparency of Corporate Reporting research prepared by Transparency International Russia. MTS is the leader among telecommunications companies in Anti-Corruption Documents and according to the final rating.

compliance program was further developed. As of the end of 2018, the program involved 19 volunteer employees from various business functions, who provided counseling and training for employees and actively participated in the projects of the Compliance Department. Two compliance representatives became full-time compliance managers in the Company and a subsidiary of MTS; the video “Compliance Representatives” is posted on the Company’s internal website;

- during the year, work was also in progress to improve internal compliance controls: 9 new controls were introduced, 17 controls were amended. In total, as of the end of 2018, around 150 compliance controls were introduced to the Company’s local regulations in 50 documents.

In order to spread the best compliance practices and exchange experience, in 2018 representatives of the Compliance Department took part in 15 external events in the field of compliance in Russia and abroad, including the ICA annual conference “Compliance Management: Looking Into the Future, Preparing Today,” the annual conference “Compliance and Anti-Corruption in Russia and the CIS,” the annual C5 Conference “Women in Compliance” in London.

## Handling conflicts of interest

For the purposes of establishing a uniform and efficient system for the management of actual and potential conflicts of interest, as well as defining employee-conduct requirements whose observance makes it possible to minimize the risks of decision-making under the influence of personal interests and connections, there is a “Conflict-of-Interest Management” Policy effective in the Company, with an Annex “Disclosure of Information About Conflicts of Interest” and a clause on family relatives in government structures. Compliance with the Policy is the obligation of all Company employees, irrespective of their official position. Employees holding management positions are obliged to show the example of law-abiding and ethical conduct and active-

ly support execution of the Policy “Conflict of interests management.”

When hired all employees familiarize themselves with this Policy, fill in and sign the form “Disclosure of information about the conflict of interests.” As conflicts of interest arise, each situation must be reviewed and resolved.

At the end of 2018, the Company conducted an annual certification of compliance with the Code of Business Conduct and Ethics and Anti-Corruption Policy, which was attended by 503 MTS managers. Besides, during 2018, data was inspected and assessed by experts on 85 situations regarding the presence of conflicts of interests: 6 actual COIs and 15 potential COIs were settled, in 64 situations there was no conflict of interests.

## ystem of antitrust risk prevention (antitrust compliance)

Since 2015, the antimonopoly compliance of MTS has been successfully functioning and developing in the light of changes in antitrust laws and trends in the development of law enforcement practice. MTS is also continuously monitoring the antitrust laws, analyzes antitrust practices and risk-prevention experience at other companies, improving its control procedures and adapting training and informational materials for its personnel.

In 2018, the Company’s management was actively involved in the business processes and development of the antitrust risk prevention system. All mandatory procedures were implemented, which were necessary for the effective functioning of the program: the annual risk reevaluation was completed, which found no substantial changes in the Company’s antitrust risk map, employee consulting was performed on a regular basis, the antitrust compliance manager participated in business processes that are significantly exposed to antitrust risks: pricing, execution of agreements, cooperation with communication operators and many more.

Employee training is an important element of the compliance system. In 2018, the training of employ-

ees on antitrust requirements continued, including introduction of remote training, which made it possible to expand training geography and involve more employees compared to previous periods. The company regularly communicates information about antitrust requirements to employees, using various formats of such communication to achieve maximum effect. The ultimate goal of this work is not only to provide employees with theoretical and practical knowledge in the field of antitrust regulation, but also to develop “zero tolerance” to violations of antitrust laws within the Company. The MTS also operates the “Unified Hotline,” where employees and other persons may report a violation in the area of antitrust compliance.

According to the results of the Company’s internal audit of individual antitrust controls that confirmed their efficiency, in 2018 measures were taken to improve and strengthen the controls, in particular in the area of pricing in the B2B market. In 2019, the improvement of antimonopoly controls will continue, taking into account, among other things, changes in the regulatory environment.

## Inside Compliance

MTS, being a company striving to maintain a high level of corporate governance, whose securities are being traded in Russia and the US, pays great attention to maintaining an effective system of inside compliance.

The person responsible for exercising control over compliance with the requirements of the legislation on the use of insider information has been appointed to the MTS: Elena Pavlova, Director of the Corporate Law Department.

The Company operates a system of measures, processes and procedures aimed at preventing violations of legislation on the usage of insider information, built in due consideration of best Russian and international practices.

In compliance with the requirements of the Russian legislation, the Company adopted the Policy “Compliance with Insider Information Legislation” and, in compliance with applicable US requirements, the Regulation “On Principles and Procedures Relating to the Prevention of Transactions Using MTS Insider Information.” These regulatory acts establish the procedure for usage of insider information, access procedures, regulate the procedure for maintaining the insider list, list of insider information, impose certain prohibitions and liability for insider transactions as well as define the procedure for submission of information upon requests from the Bank of Russia and the Moscow stock exchange.

In accordance with best practices, the Company set limits for all employees regarding the performance of operations involving MTS securities in so-called closed periods. Another “closed” period starts on the first day of every financial quarter and ends two business days after the publication of MTS PJSC financial results for the preceding financial quarter.

In order to ensure compliance with the requirements for “closed” periods, the system provides for the quarterly reporting (twice per quarter) of employees and members of management bodies on their beginning and end. In addition, a special calendar has been created in a special information system for the members of management bodies, which contains up-to-date information on the current “closed” or “open” period.

Since 2014, a full-time regular training program for all of the Company’s insider employees has been operating in the Company, covering their duties, the requirements and prohibitions of applicable legislation on the

### MTS principles with respect to transactions involving the use of insider information

1. None of the officers, directors or employees of the Company possessing insider information relating to securities shall have the right to buy or sell these securities, directly or through relatives or other persons, irrespective of whether the issuer of such securities of the Company or an other public company.
2. No officer, director or employee of the Company shall sell or purchase securities of the Company during the period commencing on the first day of the financial quarter of the Company and ending two business days after the publication of data on the Company's revenue for the previous fiscal quarter (hereinafter the “Closed period”), except for exercise of options not related to the sale of securities of the Company.
3. Transactions with securities of the Company may be made not earlier than on the third business day after public disclosure of financial results for the fiscal quarter or year, subject to other restrictions contained in the Regulation “On Principles and Procedures Concerning the Prevention of Insider Trading of MTS.”
4. Under no circumstances shall insider information be transferred by officials, directors and employees of the Company, directly or through other persons, to third parties outside the Company or even to persons within the Company, except for those who have a need to know such information.
5. If a person has doubts as to whether concluding a particular transaction is permitted, it is better to refrain from concluding the transaction.

use of insider information, as well as the procedures for insider-information protection in place at MTS. In addition, when hiring, each employee is familiarized with MTS regulatory documents aimed at preventing violations of insider laws.

We are aware of the severity of sanctions that may be applied to any of its employees in case of the violation of insider legislation. Therefore, in order to prevent such negative consequences, in 2017, an interactive course was developed and launched for all company employees, dedicated to insider-law fundamentals.

Risks related to the violation of insider legislation are recorded in a specialized automated system and are reevaluated on a quarterly basis.

Russian regulation in the field of preventing insider trading has its own specifics. For this reason, the Company maintains a list of insiders. Thus, in addition, MTS pays close attention to the monitoring of insiders,

insider counterparties, and especially insider members of meetings of MTS management bodies.

In order to maintain an effective program of inside compliance, the Company audits the program's controls: on an annual basis through the efforts of employees involved in the operation of the inside compliance program (verification of compliance with specific insider-program requirements); as necessary (on the basis of a risk-oriented approach)—by the internal audit department, headed by a person accountable to the Board of Directors.

In 2018 project was completed for audit of internal business processes and building of a formalized risk map in the field of inside compliance, and the main areas for the development and optimization of control procedures were identified. In 2019 it is planned to implement the planned actions aimed at both elimination of defects identified as a result of the audit, and ensuring compliance with the updated inside legislation requirements coming into force this year.

## **P**ersonal-Data Processing Organization

The main and most significant event within the program in 2018 was the unscheduled on-site inspection of elimination of violations (comments) issued following the scheduled on-site inspection of MTS PJSC for compliance of the Company's business with the requirements of Russian Federation legislation in the field of personal data conducted by the MTS PJSC regulator in the field of personal-data processing—Directorate of the Federal Service for Supervision in the Sphere of Communications, Information Technology and Mass Media (Roskomnadzor) in the Central Federal District. According to the results of the audit and the materials (documents) submitted for review, it was established that the previously issued order to eliminate the revealed violations was fully implemented.

Apart from the above cooperation with regulatory bodies, development of the main elements of the

compliance program did not stop in 2018. For example, within the process of awareness-raising among Company employees in the field of personal-data processing, the remote training course "Personal-Data Processing at MTS PJSC" in accordance with the requirements of Federal Law No. 152 was attended by 6735 MTS employees.

To determine applicability of GDPR to MTS PJSC and the Companies of the Group, the necessary information was collected and the collected data was analyzed and evaluated. As a result, business areas have been identified that could potentially lead to the use of the GDPR. The risk is included in the Company's risk map and will be regularly reassessed.

## **C**ombatting the legalization (laundering) of criminal proceeds, the financing of terrorism and/or mass destruction weapons spread financing (CML/TF/MDWSF)

The CML/TF/MDWSF program has been developed in accordance with applicable legislation, which is monitored on a regular basis.

As part of implementation of the program's activities, the Department of Regional Security conducts a daily audit of the subscriber base to check whether any of the subscribers are included on the List of Terrorists/Extremists. When the Company's subscribers conduct high-risk operations, a check is carried out using the invalid-passport database and the List of Terrorists/Extremists.

The Company also carries out the daily monitoring of the termination of communication-service contracts with repayment of the balance, as well as the monitoring of other suspicious subscriber transactions in accordance with Order No.103 of the Federal Service for Financial Monitoring dated 08.05.2009 "On the Approval of Recommendations for Development Criteria for the Definition and Identifying Signs of Unusual Transactions."

On an ongoing basis, events are held to inform regional leaders on the implementation of CML/TF/MDWSF legislation requirements.

In 2018 in the Company:

- the new version of the Policy "Rules of Internal Control for the Purposes of Combatting the Legitimization (Laundering) of Proceeds of Crime and the Financing of Terrorism" was approved;
- the order of the President of MTS PJSC approved the List of positions of MTS PJSC employees to be trained in the field of CML/TF/MDWSF. external training was organized for 17 employees from the management team;
- a permanent section "Countering Money Laundering" is posted on the Company's internal website;
- the process of checking candidates and current employees in the List terrorists/extremists has been automated;
- the inspection in the area of compliance with the requirements of the CML/TF/MDWSF legislation in MTS PJSC branch in Ivanovo carried out by the Service for Supervision of Communications, Information Technology and Mass Media was completed successfully.

## **H**ealth and Safety Management System<sup>1</sup>

Personnel safety is the main component of corporate social responsibility of the Company.

When building "Occupational Safety Management System" compliance program, the Company is guided by the applicable Russian and international legislation, as well as by local regulatory documents on labor protection.

The Company operates a two-tier system of H&S management, focused on creating a safe working envi-

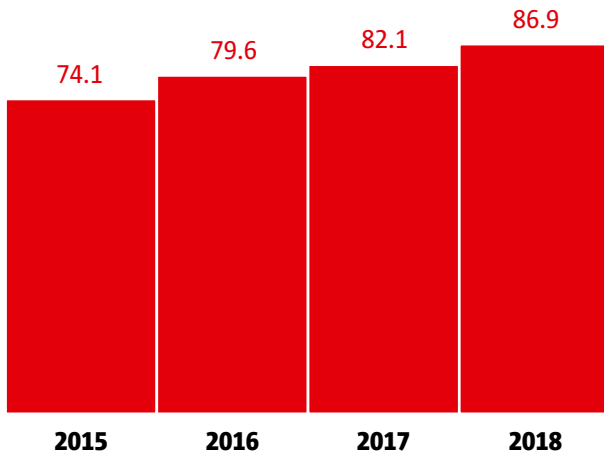
ronment, the prevention of occupational injuries and personnel training on safe work rules.

The following is provided within the program:

- special evaluation of labor conditions and production monitoring, for the purposes of identifying and minimizing risks;
- medical examinations;
- training of employees and experts in the field of health-and-safety;

<sup>1</sup> Detailed information on the program is provided in the section "Our Employees."

Total amount of health-and-safety expenses (mln RUB)



- provision of the employees with the special clothing, safety shoes and other personal protective equipment;
- various events and communications with the purpose to promote health and safety issues;
- control procedures at various levels;
- cooperation with regulatory authorities is also provided.

## Ecolology<sup>1</sup>

In its activities, MTS strives not only to have a minimal impact on the environment, but also to reduce this impact. In achieving this objective, the Company is guided by applicable environmental legislation, as well as by the principles of responsible business conduct, and strives to improve the environmental culture of its employees and partners and to implement services based on advanced technologies.

Within the scope of development of the “Ecology” compliance program, in 2018, the MTS Environmental Safety and Environmental-Protection Policy was approved, which reflects the Company’s position with respect to the environment at its administrative facilities and the implementation of sustainability principles in the current context.

As of the end of 2018:

- compulsory periodic training for persons responsible for ecological safety and directors of branches was conducted;

- all branches in due time prepared the necessary reporting to the executive authorities (Federal Service for the Oversight of Natural Resources and the Federal State Statistics Service).
- 18 branches developed the draft regulations of maximum permissible emission of hazardous substances into atmosphere and the permits for pollutant emission into atmosphere by stationary pollution sources were received;
- 29 branches developed design documentation— Draft waste generation norms and waste disposal limits; the documents to approve the waste generation norms and waste disposal limits in accordance with the requirements of the legislation were received;
- the environmental campaigns “Caps of Kindness” and “Batteries, Surrender” were launched.

<sup>1</sup> Detailed information on this area is disclosed in MTS Sustainability Report: <https://moskva.mts.ru/about/socialnaya-otvetstvennost/novosti-i-otcheti/otchet-ustoychivogo-razvitiya>



# H

## uman Rights at the Workplace

MTS fully shares the generally-recognized global approach to respect for human rights.

The main and most significant event in 2018 was the self-assessment of the Company's activities for compliance with the recommendations of ISO 26000:2010 "Guidance on social responsibility." Key conclusions were drawn that the Company's activities in the field of human rights were consistent with the recommendations of the standard, and compared with the results of 2015 assessment, there were positive changes in terms of due diligence and avoiding complicity. Areas for development were also identified, an action plan for which will be formulated in 2019.

In 2018, the Company continued developing and promoting the "Human Rights at the Workplace" program. The new version of CSR Policy was approved with the annex "Human Rights" mandatory for review by all MTS employees. The CSR section was finalized, including human rights issues, in the MTS Supplier Code of Business Conduct. The Company operates a unified hotline, where employees can send their questions and get qualified answers from responsible business units.

As of the end of 2018:

- amendments were made to regulations on provision of additional paid days off to employees who adopted a child or took custody/patronage over a child;
- an informational video "Human Rights at the Workplace" was developed for MTS employees;
- the MTS conference was held with the practical solution of business cases "Managing Sustainable Business Development: Corporate Social Strategies" for MTS regional employees and employees of functional units participating in the implementation of CSR projects (including employee rights issues);
- the project of external risk assessment at the business processes level was completed for 6 compliance programs, including the "Human Rights at the Workplace" program.

**COORPO**

**CO**

**OPERATE**

**GO**

**VERNANCE**



# Report of the Board of Directors

## **R**esults of the year in the context of implementing the Company's strategy

The basic principles and targets that are adhered to by the MTS management when controlling the Company are specified in the 3D strategy that we adopted earlier: Data. Digital. Dividends. In addition to the three key components reflected in this wording, the complex of digital transformation processes is also a separate important part of the strategy, and it was the area that we paid special or even paramount attention during 2018. Concentration on the internal environment and internal changes is quite natural given the radical expansion of our operations, which required development of new competencies, management methods and a corresponding shift in the focus of management efforts.

The most important achievement of 2018 from the point of view of the internal corporate environment was the transition from a functional to a product-oriented management structure in that part of our business that relates to digital areas. This means that part of the tasks that were previously solved by divisions within the functional blocks, has been now transferred to the management of the newly created product teams, united into larger structures, which may be conventionally called business lines. Vivid examples of such concept implementation are the ready lines: "Digital Business Solutions" and "Home Digital Solutions." From their names it already follows we are gradually moving from thinking with categories of data plans, service packages or convergent products, as the market is getting ready, towards complex solutions that combine several layers of customer experience. Moving vertically from the basic level of communication services, we are filling our market offer with more complicated content, eventually creating an individual solution for each specific end user.

It is extremely important that the leaders of many product centers are employees who have grown out of our internal environment, have deep product expertise, a clear vision of customer needs, built up internal and external relations, ready to act without delay, without pausing for adaptation in the Company. The objective of the top management here is to provide such managers and their teams with the necessary resources, powers and freedom of action, as well as their motivation to achieve a sustainable long-term result and a balanced and timely assessment of the effectiveness of their actions.

Development of new digital areas adjusted our approach to M&A practice as well. When considering transactions, in addition to dry figures of financial statements and operational efficiency, we pay special attention to the general business dynamics, rates of increase in market share, technological effectiveness of digital platforms, and customer interaction interfaces. We understand and accept the fact that the management of new dynamic digital projects within the corporate environment may be ineffective; therefore,

integration of acquired assets to some extent loses its relevance. Instead, the priority is given to the objective of motivating the project team to achieve a certain state of the business corresponding to our expectations in the medium and long term. One of the effective tools for such motivation is structuring a transaction with reference to intermediate results, which requires deep understanding of the project trajectory and significantly increases the degree of involvement of all decision makers in the transaction, including, of course, the Board of Directors.

Thus, summing up the company's activities during 2018, we should note not only the successful achievement of target values for key financial and operational indicators, but also a less obvious result from the point of view of the external observer, which is the rapid adaptation of the management structure to the changed conditions and environmental requirements, ability to acquire new competencies and dynamic involvement of the management in solving problems outside the usual business practices.

As for specific issues that were discussed during 2018 in meetings in praesentia and meetings in absentia of the Board, they can be attributed to the following main areas:

- In the field of strategic management, the main result of our activity was the review and approval of the adjusted strategy of the MTS Group<sup>1</sup>, formed in the process of the regular annual cycle of strategic planning. In addition, we reviewed the strategies of the most significant subsidiaries, thus exercising control over the implementation of MTS rights as a shareholder of these organizations.
- The extremely important decisions of this year, in our opinion, are a number of organizational changes aimed at an even greater focus of management efforts on promising digital areas. In particular, the positions of Vice President for Digital Business Solutions and Vice President for Home Digital Solutions with the status of Management Board Members, were introduced to the company's staff. In addition, the management team was strengthened by the position of Member of the Management Board, Vice President for Strategy and Development, which reflects our desire to more actively search for promising business areas in an extremely wide range of digital markets.
- In the field of M&A in the past year, several transactions were submitted for review by the Board, the largest of which was the decision to participate in MTS Bank PJSC. Due to criticality of the project to increase the ownership in MTS Bank PJSC, a special committee under the Board was established, the main objective of which was a comprehensive and complete analysis of the conditions, process and consequences of the transaction.
- In order to maintain an effective level of debt burden and debt structure, as well as to optimize cash flow, the Board made a number of decisions relating to the issuance of commercial and stock exchange bonds of MTS, as well as raising borrowed funds in the form of loans.
- As part of the capital investment control function, the Board reviewed and approved several key projects related to the expansion of the telecommunications infrastructure and the company's overall capital expenditure program.
- Controlling the observance of shareholders' rights, we made the necessary decisions regarding the payment of dividends and repurchase of our own shares in accordance with the previously stated targets. It should be noted that MTS invariably adheres to the previously adopted dividend policy, confirming its own absolute reliability for shareholders, which is not affected by the general economic environment, market conditions, or decisions of the regulator.
- The category of other issues that the Board worked upon in 2018 includes approval of the MTS annual report, preparation and holding of a general annual meeting of shareholders, approval of the company's annual budget, consideration of issues related to management

<sup>1</sup> Detailed information on the strategy is provided in the section "Our Strategy."

## **E**valuation of the Board of Directors' performance

Determining the right business development strategy is one of the main components of its success. The Board of Directors is responsible for strategic management of the company; therefore it is very important that its activities always remain effective. This goal can be achieved through evaluation of the performance of the Board of Directors.

In 2016, we revised the methodology for evaluation of the performance of the Board of Directors, focusing, among other things, on the recommendations of the Corporate Governance Code.

In 2018, we conducted a self-assessment of the Board of Directors' work efficiency according to the new methodology for the third time. You can find more details about its results further in this section.

## **D**evelopment of the Corporate Governance System and Plans for 2019

In the reporting year, we continued to improve the Company's corporate governance system.

Our main efforts were focused on compliance with the Corporate Governance Code and introduction of its specific practices. For example, we reviewed the Board of Directors' remuneration system to make fixed annual remuneration the only monetary form of remuneration and paid much attention to matters of continuity in the Board of Directors.

For details on fulfilment of the Code please see the section on observation of principles and recommendations of the Corporate Governance Code.

In our opinion, it is vital to both implement the best practices conforming to our corporate governance

model and understand the expert community's opinion of our corporate governance system, which gives us an objective assessment of the company's position. Therefore, we regularly analyze results of the benchmarking of corporate governance practices and are pleased to note that we remain in the group of leaders of Russian corporate governance.

However, despite the results so far achieved, we understand the need and possibility to further develop our system. Next year we will focus on implementing MTS PJSC corporate governance standards in other companies of the Group.

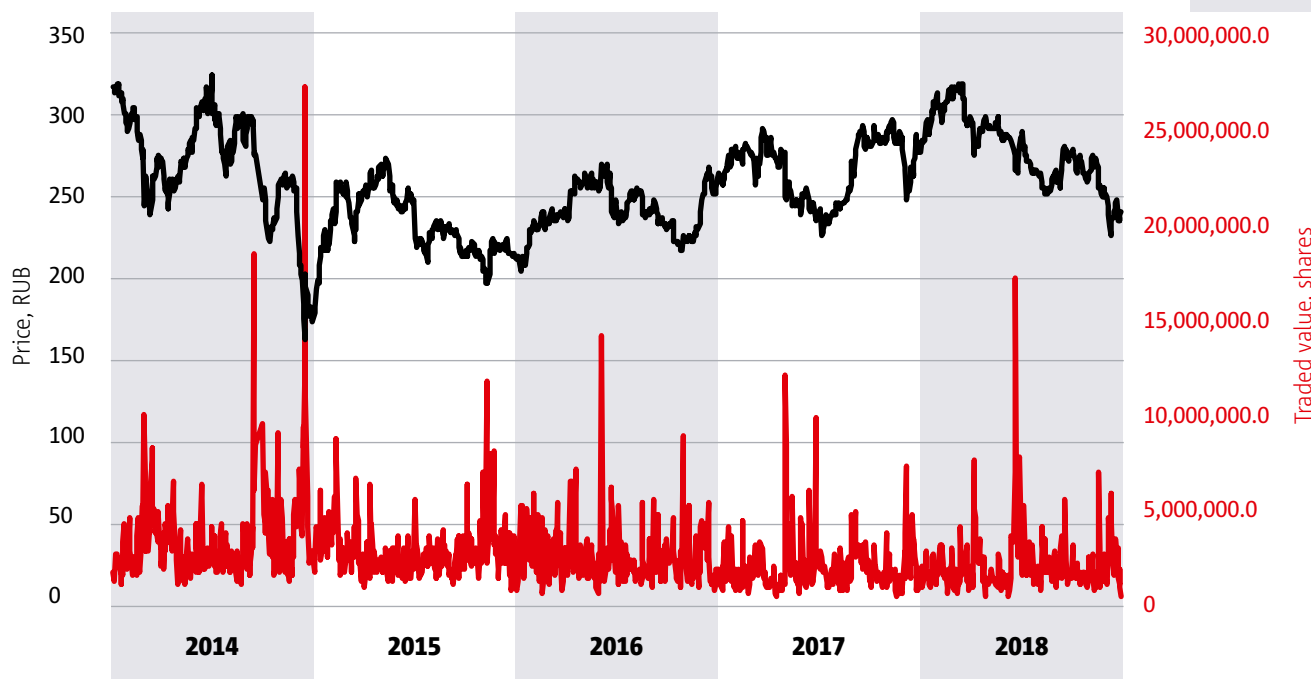
Ron Sommer,  
Chairman of Board of Directors, MTS PJSC

# Interaction with Shareholders and Investors



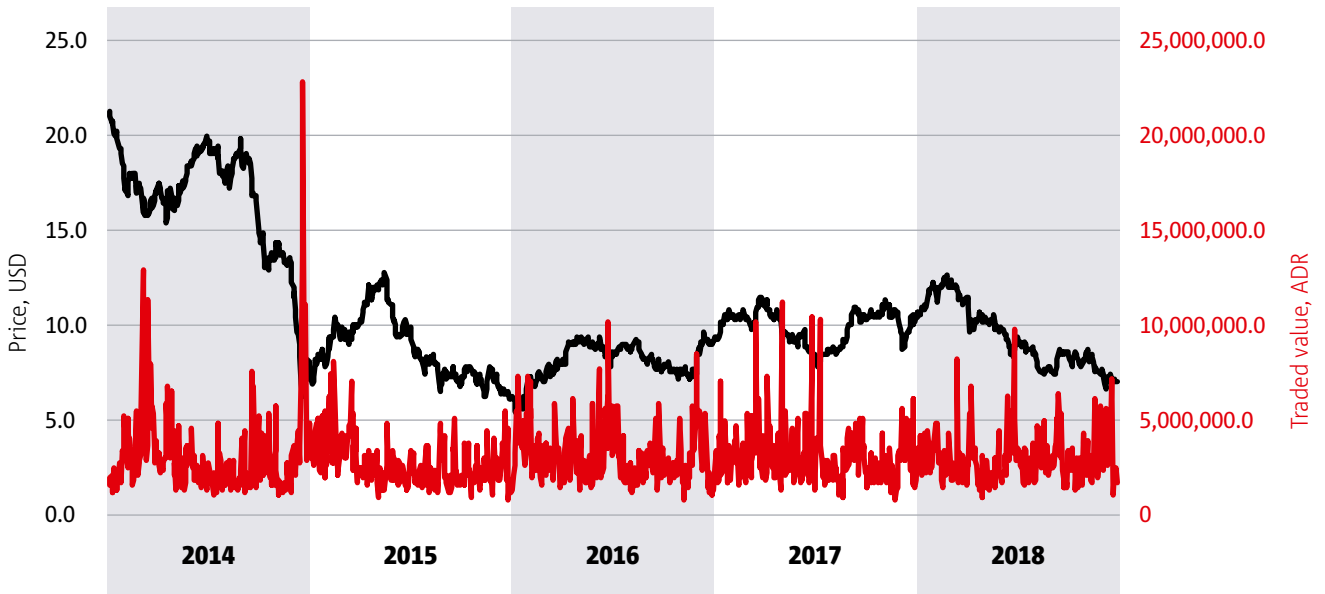
Dynamics of prices and volume of trading in MTS PJSC common shares

Trading platform: MOEX (Moscow), issuer code MTSS

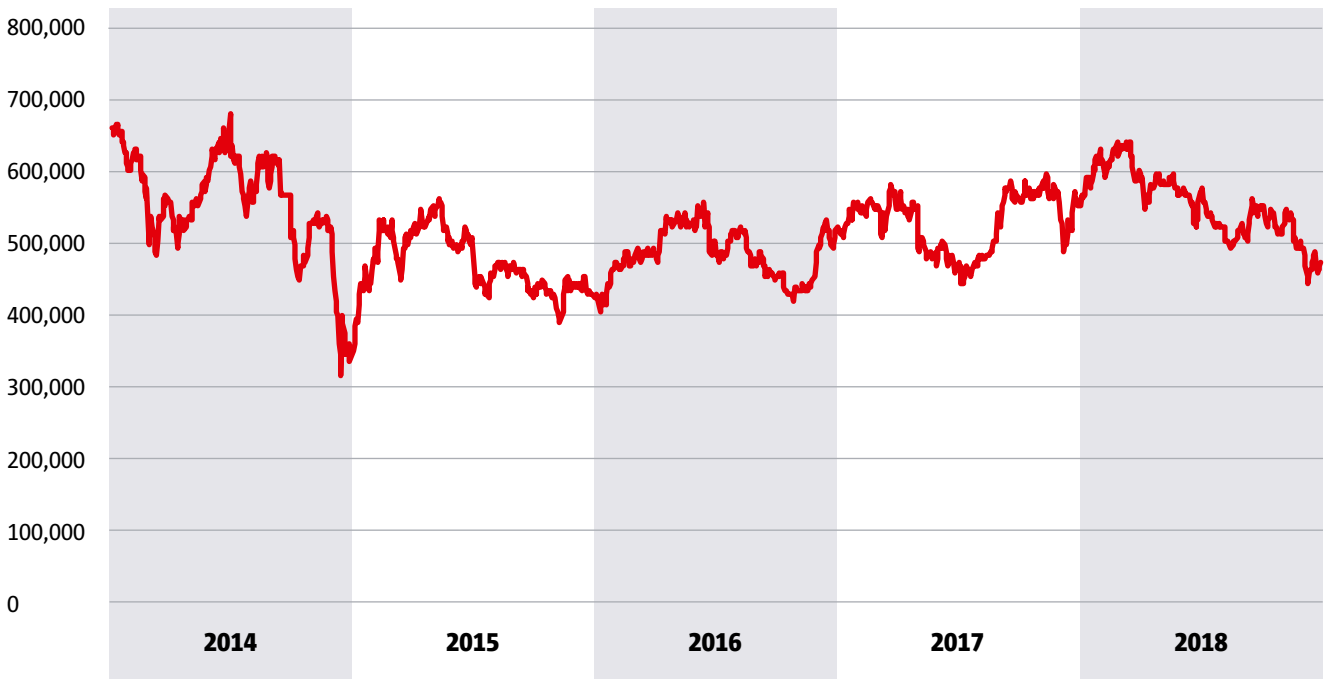


### Dynamics of prices and volume of trading in American Depository Receipts of MTS PJSC

Trading platform: NYSE (New York), issuer code MBT



### Market capitalization of MTS PJSC, bln RUB (MOEX)\*

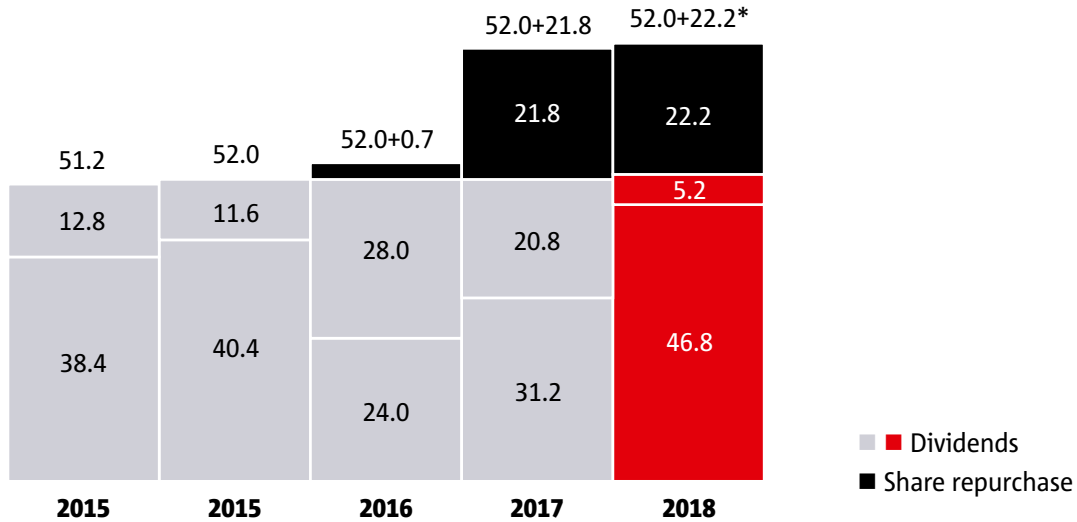


\* Bloomberg data

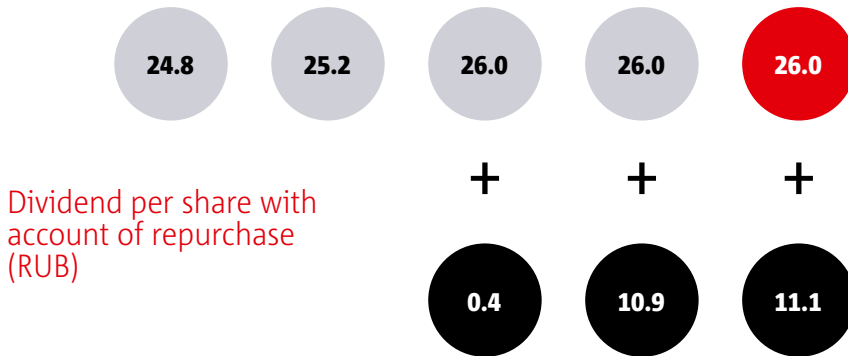


# Dividends and share-repurchase program

Dividend history (bln RUB)



Dividend per share (RUB)



\* Including the previous program of share repurchase ended in March 2018

The amount of annual dividend payment was recommended by the Board of Directors and is subject to approval at the Annual Shareholders Meeting to be held on June 27, 2019.

## History of dividend payment in 2018

For 2018 calendar year MTS paid RUB 26.0 per ordinary share (RUB 52 per one ADR), which corresponds to payments of previous years.

More detailed information on dividend payment at <https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/dividendi>.

## 2018 share repurchase program

On July 2, 2018, MTS launched a program for repurchase of its ordinary shares and ADRs for the amount of up to RUB 30 bln for two years, which includes funds spent to purchase company shares from Sistema Finance. The company may purchase within the Purchase Plan in accordance with the Rule 10b5-1 of the Securities and Exchange Act 1934 as amended. Repurchase shall be implemented through 100% subsidiary Bastion LLC.

In 2018 Bastion LLC purchased 55,854,178 ordinary shares of MTS (including ADR), which amounts to 2.79% of the MTS authorized capital.

All together from the moment of share repurchase program launch, Bastion LLC purchased 113,487,402 ordinary shares (including ADR), which amounts to 5.68% of authorized capital issued by MTS. The transaction includes ordinary shares purchased from Sistema Finance.

Repurchase of shares	Number of shares, including ADS	% of authorized capital	Average price per share, RUB <sup>1</sup>	Total amount spent, RUB <sup>1</sup>
Shares acquired in 2018 under the Repurchase Plan launched on July 2, 2018	55,854,178	2.79%	266.83	14,903,579,224
Total shares acquired during the Repurchase Plan launched on July 2, 2018	113,487,402	5.68%	262.72	29,815,238,438

<sup>1</sup> Actual average price and total spent amount may differ from the calculated price because of commissions, fees and other associated expenses.

## Events after the reporting date

On March 21, 2019, the MTS Board of Directors approved a new dividend policy for 2019-2021, according to which the dividend yield target is at least RUB 28.0 per ordinary share of MTS PJSC (RUB 56.0 per ADR) during each calendar year.

The new dividend policy, as before, provides for dividend payment in two parts during a calendar year—annual payments based on the results of the previous year and payment of interim dividends for the first half of the current year. When determining dividend payments, MTS will take into account a number of factors, including operating cash flow, capital expenditures and debt position.

In addition to regular payments within the framework of the dividend policy, the Company may increase the

shareholders' benefit by implementing a program of share redemption in the open market. When deciding on the launch and size of the redemption program, the Board of Directors will take into account the current availability of funds, operating performance indicators, the amount of debt, the Company's future cash requirements and the overall market situation.

The previous dividend policy for 2016–2018 established a dividend yield of up to RUB 25.0–26.0, but not less than RUB 20.0 per ordinary share (RUB 50.0–52.0 per ADR) during each calendar year.

The full text of the new dividend policy is available at: <https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/dividendi>

## Interaction with Shareholders and Investors

One of the most important goals of MTS is to maintain strong trustful relationships with shareholders and investors, based on the principles of direct dialog in accordance with the effective legislation and prevalent international practices.

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The effective information disclosure system is built taking into account requirements of listing rules of the Moscow and New York stock exchanges, operates in the Company and assures compliance with the transparency principle.

In order to improve its activities in the sphere of compliance with the interests of investors and shareholders, as well as the fostering of trusting relations with its partners, MTS continuously strives to improve the level of its transparency and openness.

In accordance with the public-availability principle, the Company publishes information on significant events on the website of the US Securities and Exchange Commission<sup>1</sup>, the Russian Information Agency (newsfeed)<sup>2</sup>, on the official website of MTS: for shareholders<sup>3</sup> and investors<sup>4</sup>.

MTS also publishes other information on its official website. The section "For investors and shareholders"<sup>5</sup> includes internal corporate documents, annual reports, reports on sustainable development, materials for shareholder meetings, information on the registrar and auditor, information on dividend policies, quarterly financial statements under IFRS and RAS, information on quoted prices of shares and bonds. Annual Report of MTS PJSC is also published in iTunes<sup>6</sup>.

The Company management is involved into maintenance and development of the effective dialog with

equity market participants. MTS representatives regularly participate in international conferences, hold road shows and meetings with investors, organize days of analysts. Quarterly publication of financial results is carried out with phone conferences involving MTS managers. Financial statements are published as supported by presentation materials for better coverage of achieved results and presentation of the Company's strategy.

MTS continuously improves interaction with investors and shareholders, using the best experience of other companies and monitoring the latest legislation changes and key standards in this area.

In order to react promptly to requests from employees and contractors, as well as to increase the employees loyalty, "Single Hot Line" Information Resource has been created to the Company. Messages can cover a wide range of issues related to various activities of MTS and its subsidiaries, which enables employees and contractors to obtain exhaustive information in response to their questions.

Main stakeholders of MTS PJSC: shareholders, investors, employees, customers/subscribers, mass media, government, local communities, business.

In case of question related to MTS activities the investors may contact the services on interaction with shareholders and relations with investors.

### Corporate Governance Development of MTS PJSC:

Maxim Kalinin (Director for Corporate Governance)  
Tel.: +7 (495) 911 6555. Fax: +7 (495) 911 6569. E-mail: [shareholder@mts.ru](mailto:shareholder@mts.ru)

### Investor Relations Department, MTS PJSC:

Polina Ugryumova (Director of the Department)  
Tel.: +7 (495) 223 2025.  
E-mail: [ir@mts.ru](mailto:ir@mts.ru)

<sup>1</sup> <http://www.sec.gov>.

<sup>2</sup> <http://www.disclosure.ru>.

<sup>3</sup> <http://www.company.mts.ru/comp/ir/control/data/>

<sup>4</sup> <http://www.mtsgsm.com>.

<sup>5</sup> <https://moskva.mts.ru/about/investoram-i-akcioneram>

<sup>6</sup> <https://itunes.apple.com/ru/app/godovaa-otchetnost-gruppy-mts/id919440557?mt=8/>.

## Investor's calendar for 2019

You may review the specified information on MTS website at <https://moskva.mts.ru/about/investoram-i-akcioneram/drugoe/kalendar-investora>

## Matters of interest for investors

Matters of interest for investors in 2018 may be divided into three main blocks.

### Macroeconomic matters:

- investment appeal of the Russian market;
- main macroeconomic parameters and their impact at company's business.

### Industrial matters:

- main trends and drivers of the industry;
- competition;
- pricing policy;
- surplus retail optimization;
- auction on 5G frequencies, start of 5G networks construction in Russia;
- regulatory environment.

### Matters related directly to the company's business and performance:

- company's strategy;
- development of digital areas;
- M&A transactions;
- MTS Bank consolidation;
- launch of new services and products;
- dividend policy and redemption program;
- capital investments, Yarovaya Law;
- impact of IFRS 9, 15 and 16 standards at company's reporting.

# O ur achievements



The Chairman of the Board of Directors, **Ron Sommer**, won the “Director of the Year” Award in the nomination “Chairman of the Board of Directors: Contribution to Corporate Governance Development.”



The independent Director **Stanley Miller** entered the rating of the “Top-50 Independent Directors” within the “Director of the Year 2018” National Award ceremony.



The independent director **Thomas Holtrop** entered the rating of the “Top-50 Independent Directors” within the “Director of the Year 2018” National Award ceremony.



**Maxim Kalinin** was included into TOP-50 Directors for Corporate Governance in the ratings of TOP-1000 Russian managers of 2018.



The annual report of MTS PJSC 2017 won the prize of the XXI Annual Competition of the Moscow Stock Exchange in the nominations “Best Disclosure of Corporate Governance Information in Annual Report” and “Best Design and Navigation of Corporate Website.”



# TS Group Governance System

Model of Group management supposes a single development strategy for the Group’s companies with regard to priorities and business specifics.

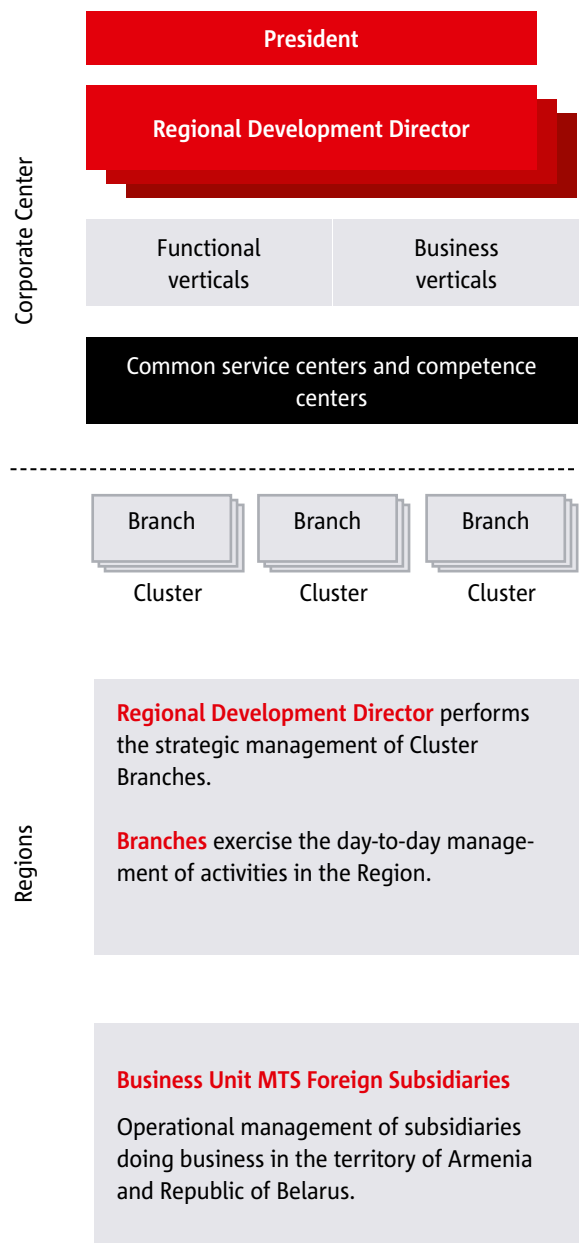
### Corporate Center:

- determines common strategy of the Group, uniform standards, regulations and management procedures,
- looks for new points of growth through the development of new businesses by the creation and commercial manufacture of innovative products
- develops strategy and implements the investment policy,
- manages the brand,
- defines operational and functional norms, regulations and key indicators for all Business Units,
- controls fulfilment of the business plan by all units of the company,
- carries out large-scale purchases of media resources, equipment and IT products in the interests of the entire Group,
- assists in distribution of best practices within the Group.

MTS PJSC is successfully implementing the goals of strengthening its leadership and maintaining high business efficiency thanks to the effective management of the Group of Companies

Coordination Commissions by the main areas of activities are operating for the discussion of strategic and operational issues at the expert level.

### Targeted organizational model



## Main business areas of the Group

### Telecommunications

Key competence, core business. Our accumulated intellectual, organizational and management potential is used as the basis for identifying points of growth on adjacent markets, using the synergistic effect of interaction with the parent company.

### Retail (MTS Retail Chain)

is the key channel of customers attraction and service. Our subscribers can always receive in MTS offices a full range of services provided by the operator, including of services of the broadband access to the Internet and television. MTS' own retail network, having combined the opportunities of telecommunications and banking technologies, is the key tool for integration of the operator and MTS Bank. Using this channel to sell financial services and promote the consumption of data-transfer services, including by selling our own range of branded subscriber devices, encourages an increase in operational efficiency.

### Verticals along separate business areas of the Group are formed to build up competencies and to research the possibility to achieve significant synergies

#### Digital Solutions for Business Market

**A new vertical combines Cloud, IoT, System Integration areas**  
Development of strategic business area M2M/IoT Provision of cloud services for large business in all regions of presence in Russia. Cloud platform, own, branched network of trunk and city communication channels and purchase of cloud provider IT Grad and Avantage DC.  
Provision of complex services in the field of IT, communication and system integration.

### Home Digital Solutions

#### The vertical is formed to work on home digital products

Digitization of households becomes the base for development of a large number of solutions that may increase the level of comfort and quality of people's life.

High competencies of MTS PJSC due to convergence of fixed and mobile networks of MTS in Russia and MGTS expertise have become the basis for the decision to allocate operation on digital products for home as a separate business area.

#### Design and development of billing platform (MTS-IT)

Ensuring a unified structure engaged in development of the billing system and some other key IT systems, for all business verticals, simplification and acceleration of software-product testing processes and the optimization of internal IT expenses.

#### Banking and Financial Services (MTS Bank)

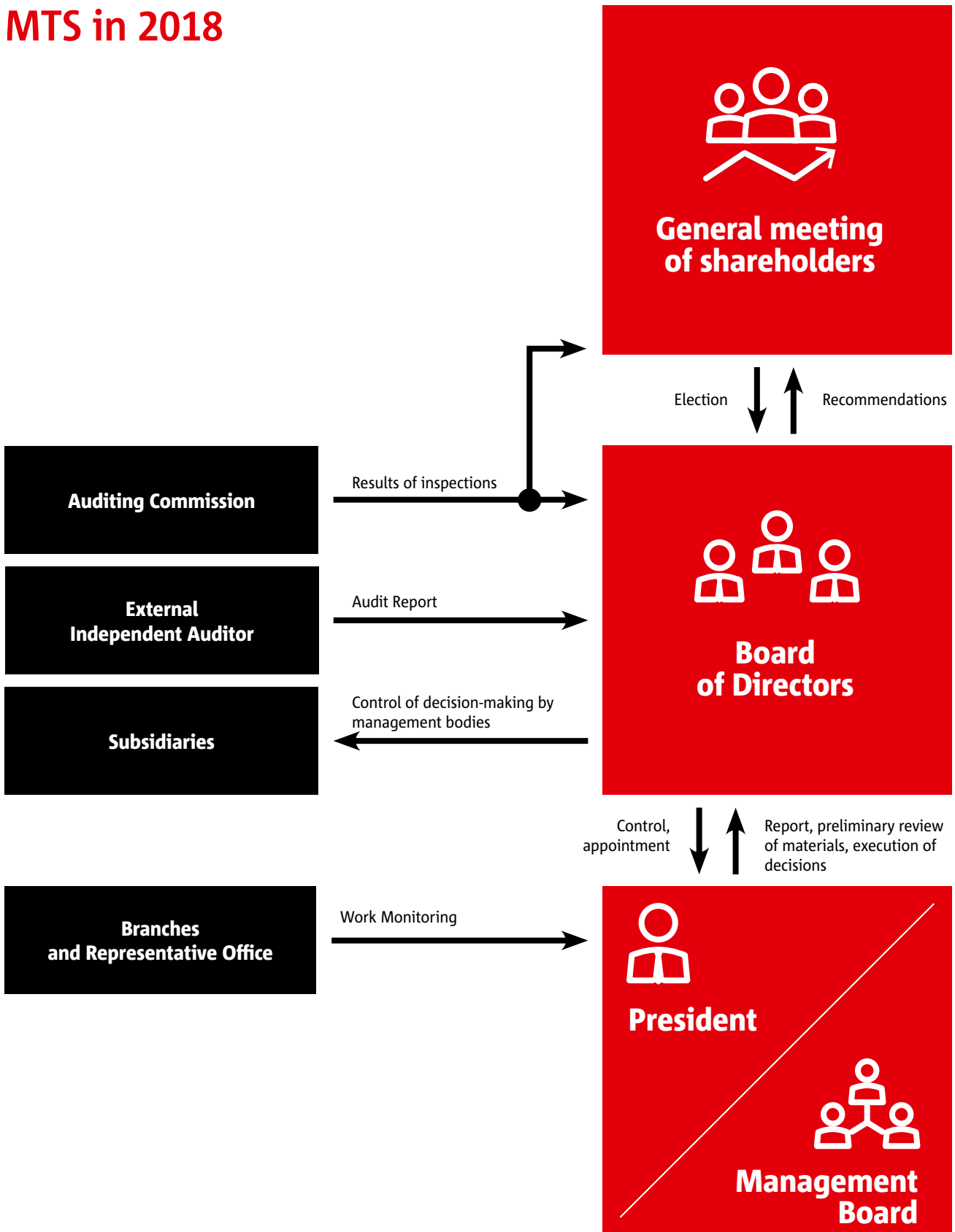
Increased share in MTS Bank authorized capital allowed us to become an integrated provider of telecom and financial services, use the synergy of the two areas to increase the loyalty and monetization of customers, become the first provider of financial services for the largest subscriber base in Russia in order to increase the loyalty and service life of subscribers and boost ARPU. The unified vertical to manage Group's financial services was created.

#### Satellite TV

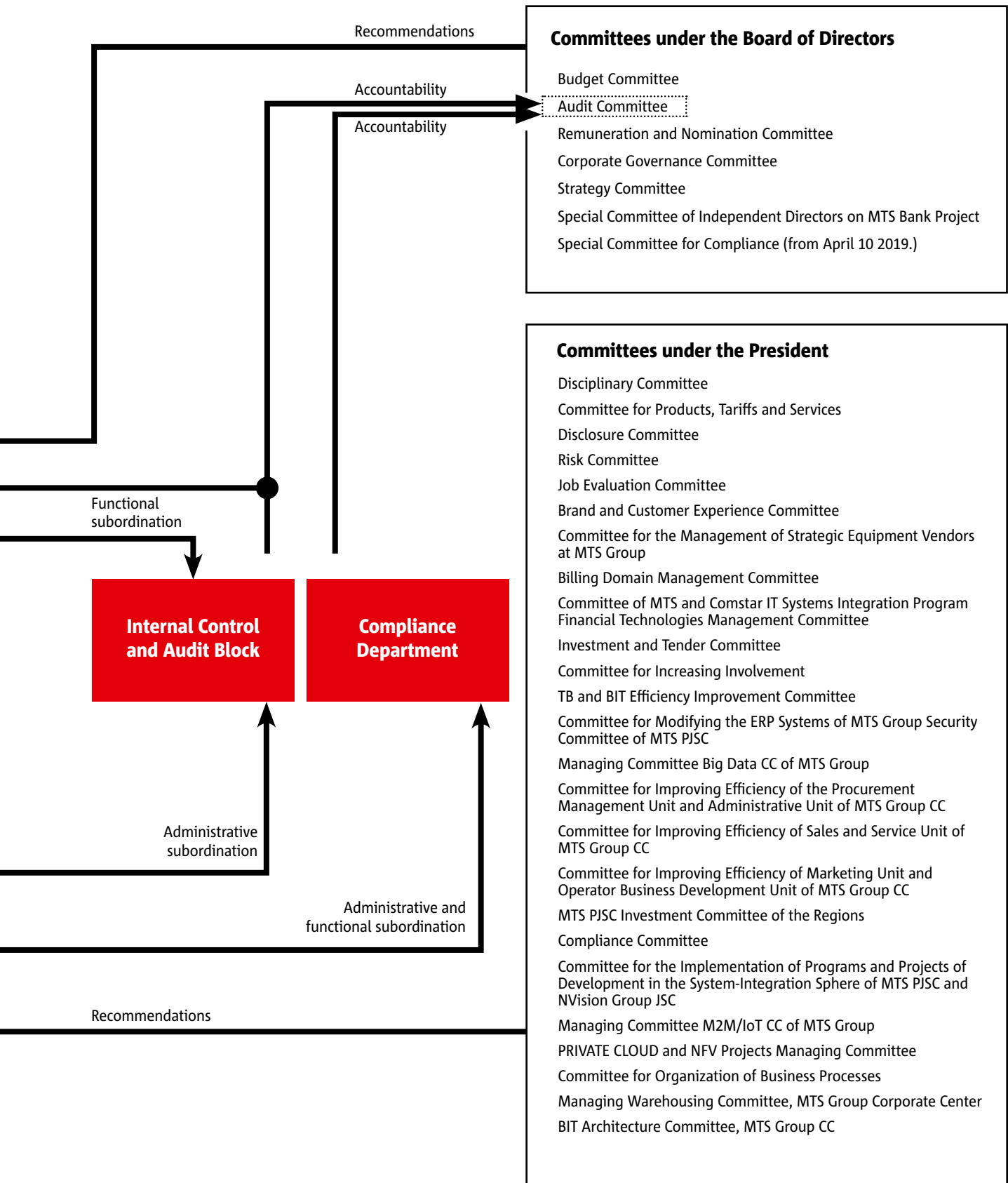
Entering the satellite TV market was a logical development of the largest carrier business in Russia, which enables us to achieve the additional synergy of existing resources and present a fundamentally-new product for Russia that combines the advantages of satellite TV and mobile communication.

Differentiation is associated not only with our intention to generate value in promising markets, but also with the desire to diversify our service portfolio, thereby mitigating the industry risks and strengthening the competitive position of MTS. We are taking a broader look at the areas of our operations, going beyond the status of a conventional telecommunications operator, and covering not only a full range of communication services but also related areas such as financial services, M2M, geo-location and cloud-based services, online cash registers, and also purely innovation services for MTS: telemedicine, cybersport, online training, ticket sales. For each area, we choose our particular operating strategy: purchase or development of new companies, business areas, method of their integration and interaction with the main business. We are looking to create differentiating factors that will enable us to significantly differ from our competitors, to deliver a special value, to provide our customers with a unique customer experience, to create products and services that would not only motivate people to choose MTS, but would also significantly increase our customers' loyalty.

# Structure of Management and Supervisory Bodies of MTS in 2018







# Structure of management and control bodies

## Governing Bodies

General meeting of shareholders	<p>Higher Governance Body of MTS PJSC.</p> <p>Procedure for the General Shareholders' Meeting is aimed at assurance of adherence to the rights of shareholders, and meets all the requirements of the Russian Federation legislation.</p> <p>Procedure for preparation, convocation, holding and summarizing results of the General Shareholders' meeting is defined by the Charter and Regulation on the General Meeting of MTS PJSC Shareholders<sup>1</sup>.</p>
MTS Board of Directors	<p>Board of Directors exercises a general management of MTS PJSC activities. It is a key element of the corporate governance system of the Company, representing interests of shareholders through the effective management organization.</p> <p>Establishment procedure, status, composition, functions, purposes and goals, powers of the Board of Directors, its operating procedure and interaction with other management bodies of the company are determined by the Charter and Regulation on the Board of Directors of MTS PJSC<sup>2</sup>.</p>
Management Board	<p>Collective executive body of MTS PJSC.</p> <p>It shall organize an effective day-to-day management of current activities of the Company, including implementation of decisions taken by the Board of directors within its current competences.</p> <p>Number and identities of the Management Board members shall be approved by the Board of Directors upon a proposal of the President. Management Board Chairman is the President of the Company.</p> <p>Management Board follows the Charter and the Regulation on Management Board of MTS PJSC in its activities<sup>3</sup></p>
President	<p>Sole executive body of MTS PJSC who exercises a day-to-day management of current activities of the Company.</p> <p>Activities of the President shall provide for profitability and competitiveness of the Company, its financial and economic stability, enforcement of rights of the shareholders and social guarantees of Company's employees.</p> <p>The President governs the Company's activities in accordance with the Charter and the Regulation on President of MTS PJSC<sup>4</sup></p>

<sup>1</sup> <https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/dokumenti-pao-mts/polozhenie-obobshhem-sobranii-akcionerov-paomts/>

<sup>2</sup> <https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/dokumenti-pao-mts/polozhenie-osovete-direktorov-paomts>

<sup>3</sup> <https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/dokumenti-pao-mts/polozhenie-opravlenii-paomts/>

<sup>4</sup> <https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/dokumenti-pao-mts/polozhenie-o-prezidente-pao-mts>

Internal Control System	
Audit Committee under the Board of Directors	The Audit Committee is a collegial advisory body of the Board of Directors that reviews issues related to the monitoring of risk-management and internal-control system performance, compliance and corporate governance system, reliability of the financial statements of MTS Group, independence and objectivity of internal and external audit functions performance, consideration of nominees and assessment of the performance of external auditors, and also provides recommendations to the Board of Directors for it to make decisions on such issues.
Auditing Commission	Auditing Commission is a permanent elective body of the Company, exercising periodic control over the financial and economic activities of the Company, activities of its management bodies and officers. Its activities are regulated by the Charter and the Regulation on Auditing Commission of MTS PJSC <sup>5</sup>
Internal Control and Audit Block	The Internal Control and Audit Block is an independent structural subdivision of MTS PJSC and consists of the Internal Audit Department, Control Department, Methodology and Coordination Department <sup>6</sup> . Head of the Internal Control and Audit Block is the Director for Internal Control and Audit, who is functionally subordinated to the Board of Directors of MTS PJSC, and administratively subordinated directly to the President of MTS PJSC. Objectives, tasks, obligations, principles of functioning and powers of the Internal Control and Audit Block are set in the "Internal Control and Audit" Policy <sup>7</sup> . The Internal Control and Audit Block regulates its activities complying with the mandatory guidance of the international Institute of Internal Auditors, which includes the Main Principles of Professional Practice of Internal Audit, Code of Ethics, International Professional Standards of Internal Audit and Internal Audit Definition.
Department of Internal Control Systems	The Internal Control Systems Department is a business unit, which is included into the Finance and Investment Block of MTS PJSC Corporate Center and comprises the ICS Development and Methodology Department, Certification and SoD Analysis Department, ICS Development and Support in CD Department, Center of Training Competence of ICS in SSC, and also the distributed Internal Control Systems Center in five regions of the Russian Federation. The Internal Control Systems Department is headed by the Director of the Department, which is directly subordinate to the Management Board Member, Vice-President for Finance, Investments, Mergers and Acquisitions of MTS PJSC and is accountable to the Audit Committee under the Board of Directors of PJSC MTS
Compliance Department	The Compliance Department is an independent structural unit consisting of compliance-system development, subsidiary relations, unified compliance-system coordination groups, the compliance communication group and the control compliance group. The Director of the Department is directly subordinate to the President of MTS PJSC and is accountable to the Audit Committee of the Board of Directors and the Board of Directors of MTS PJSC. The activities of the department are regulated by the Regulations on Compliance Department
Auditor	Independent assessment of reliability of accounting (financial) statements of the Company. In order to audit and approve the annual financial statements of the Company, the General Meeting of Shareholders shall annually approve the Auditor.

<sup>5</sup> <https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/dokumenty-pao-mts/polozhenie-orev-izionnoy-komissii-paomts>

<sup>6</sup> <https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/kontrol-i-audit>

<sup>7</sup> <https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/dokumenty-pao-mts/politika-vnutren-niy-kontrol-i-audit>

# The General Meeting of Shareholders

The General Meeting of Shareholders is the supreme management body of the Company, exercising its activities in accordance with provisions of the Company's Charter, Regulation on the General Meeting of Shareholders of MTS PJSC<sup>1</sup>, and the requirements of legislation of the Russian Federation.

In making decisions at the General Meeting of Shareholders, the Company's shareholders take part in governance over the Company and may significantly influence its business. In particular, powers of the General Meeting of Shareholders on their meetings encompass the approval of annual report and financial statements, distribution of profit, including payment of dividends, election of key management and control

bodies of the Company, approval of significant deals and a number of other important matters.

Procedure for the General Shareholders' Meeting is aimed at assurance of adherence to the rights of shareholders, and meets all the requirements of the Russian Federation legislation.

## **N**otifying shareholders on holding of the General Meeting of Shareholders

Shareholders shall be notified on holding of the General Meeting of Shareholders through publication of this information at the official website of the Company ([www.mts.ru](http://www.mts.ru)) at least in 30 (thirty) calendar days before its date.

The message on conductance of the General Shareholders' Meeting may be additionally sent to the persons entitled to participate in the General Shareholders' Meeting and registered in the Company's shareholders register, by registered mail to the address specified in the register of the Company's shareholders, or delivered personally to such persons against signature simultaneously with sending or handing over the voting ballots.

With regard to recommendation of the Corporate Governance Code, aimed at creation for the shareholders of best possible conditions for participation in the

general meeting; model proxy form shall be published at the official website of the Company.

Within the framework of preparation to the General Meeting of MTS Shareholders the shareholders get the opportunity to ask members of executive bodies and Board of Directors on issues of the agenda of the General Shareholders' Meeting, and to voice their opinion on issues of the Meeting's agenda by sending e-mails to the address [shareholder@mts.ru](mailto:shareholder@mts.ru).

We are trying to present materials for the General Meeting in a comprehensible form. That is why we create a special section (micro-site) dedicated to the Annual General Meeting of Shareholders where we publish required documents (presentations, document comparisons, comments to them, details on candidates) and provide an access to the online broadcasting of the Annual Meeting.

<sup>1</sup> <https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/dokumenty-pao-mts/polozhenie-obobshhem-sobranii-akcionerov-paomts/>

## Holding of the General Meeting of Shareholders

Shareholders may implement their voting right by most simple and convenient for them ways without any encumbrance. Voting at the General Meetings of Shareholders is carried out through a direct participation in the meeting or filling and sending to the Company (and to its registrar) of ballots for voting on the agenda issues.

Organization and holding of the General Meetings of Shareholders shall be arranged in a way allowing for an unburdensome access of all the shareholders. General meetings held in the form of a joint attendance shall be organized only in the city the Company is located

(in Moscow) at addresses convenient for coming and personal participation of the shareholders and their representatives.

Over the last years we have been giving our shareholders the opportunity to follow the meeting in real time on MTS website. Video record of the meeting is available after the end of the meeting at MTS website in the “General Meetings of Shareholders” section. Besides, activities allowing to demonstrate innovative technologies of MTC and to receive consultation on various projects of the Company were arranged during the registration of shareholders and during the break.

## Electronic services for shareholders

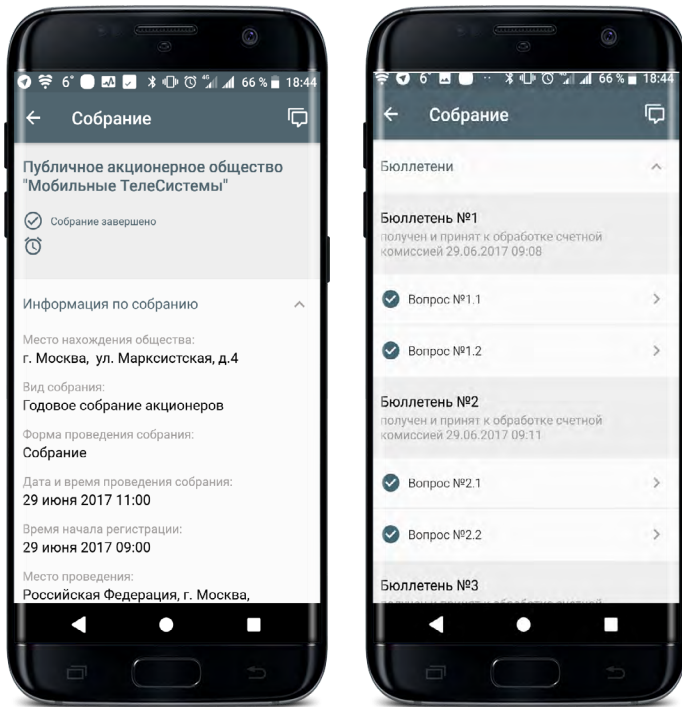
### E-voting, Shareholder’s Personal Account, mobile app for shareholders

In 2018, we continued successful experience in using e-voting through Internet when holding shareholders’ meetings. For the first time MTS shareholders voted electronically at the extraordinary general meeting of shareholders on September 30, 2016. For three years of using e-voting the number of shareholders voting through the Internet increased almost 7 times. At the

annual general meeting of shareholders on June 28, 2018, 60% of individuals who participated in the meeting voted electronically.

For remote participation in the annual and extraordinary general meeting of shareholders on June 28 and September 28, 2018, the MTS shareholders used convenient online services developed by the MTS registrar — NRK — R.O.S.T. JSC: Personal Account of MTS Shareholder and Shareholder.online mobile app. With

The screenshot displays the 'Personal Account of the Shareholder' interface for MTS. At the top, there is a navigation menu with icons for Portfolio, Dividends, Inquiries, Execution of documents, Information, Voting, and Notices (1). The main content area shows the Issuer as 'Mobile TeleSystems Public Joint Stock Company'. Below this, the 'Status of meeting' is 'Meeting completed', with a link to 'HIDE INFORMATION ABOUT MEETING'. The meeting details include: Company location (109147, Moscow, ul. Marksistskaya, 4), Meeting type (Annual meeting of shareholders), Form of the General Meeting of Shareholders (Meeting), Date and time of the General Meeting of Shareholders (June 29, 2017, 11 am), Registration start (9 am), Meeting venue (Crystal Hall, Lotte Hotel, 8 Novinskiy boulevard, building 2, Moscow, Russian Federation), The date when the persons entitled to participate in the General Meeting of MTS PJSC Shareholders are defined (recorded) (May 26, 2017), and Date and time of ballot acceptance end (June 26, 2017, 11:59 pm).



their help they received notifications about start of voting, studied the materials and other useful information, voted online. There is also special functionality to report to the Presidium of the meeting in the personal account and mobile app.

During the annual general meeting of MTS shareholders on June 28, 2018, the shareholders through the MTS shareholder's personal account not only watched progress of voting in online mode, but also observed the meeting broadcasting in real time mode from the screens of their gadgets.

During 2018 we together with the MTS registrar — NRK— R.O.S.T. JSC added several new functions in the MTS shareholder's personal account:

- **Remote registration through Gosuslugi** — to connect the personal account, MTS shareholders do not need to attend the meeting or the registrar's office. They can access the remote registration on the account page using a verified account on the Gosuslugi portal. This significantly increased the availability of e-voting for MTS shareholders.
- **Chat bot "Ask MTS"** — shareholders use the chat bot developed by MTS to get answers to questions about MTS shares and dividends, corporate governance in the Company and its registrar.
- **Visualization of information from the ballot** — after voting online, shareholders are able to confirm their vote with a qualified, enhanced electronic signature of the registrar NRK — R.O.S.T. JSC. At the meeting, the registrar performs the functions of the counting commission and therefore confirms the receipt of an electronic ballot form filled out via the Internet from the shareholder, and a qualified enhanced electronic signature protects this document from being modified.
- **Requests for information from the register** — extracts and certificates from the register of shareholders are requested and received by shareholders in electronic form through the MTS shareholder's personal account. An extract from the register, a certificate of operations and a certificate indicating the share of the shareholder in the authorized capital of the company are available for ordering. The extracts and certificates are signed by a qualified, enhanced electronic signature of the registrar, which makes them legally relevant documents. The function is available to shareholders who register the rights to MTS shares in the register of shareholders.

# G eneral Shareholders' Meetings in 2018

Two General Shareholders' Meetings were conducted in 2018.

**Annual General Meeting of MTS PJSC shareholders  
June 28, 2018  
In the form of joint attendance  
(minutes No. 43 dated June 28, 2018)**

**Extraordinary General Meeting of MTS PJSC shareholders  
September 28, 2018  
in the form of absentee voting  
(minutes No. 44 dated October 1, 2018)**

The Annual General Shareholders' Meeting approved the Annual Report for 2017 and annual accounting statements for 2017. A decision on the profit distribution was taken, and the dividends were announced on the results of the reporting 2017. New compositions of the Board of Directors of the Company and Audit Committee were elected.

The extraordinary General Meeting of Shareholders decided to distribute the profit (payment of dividends) of MTS PJSC based on the results of the first half of 2018, as well as made decision on participation of MTS PJSC in non-profit organizations: Association of Joint Audits of Suppliers and Kirov Union of Industrialists and Entrepreneurs.

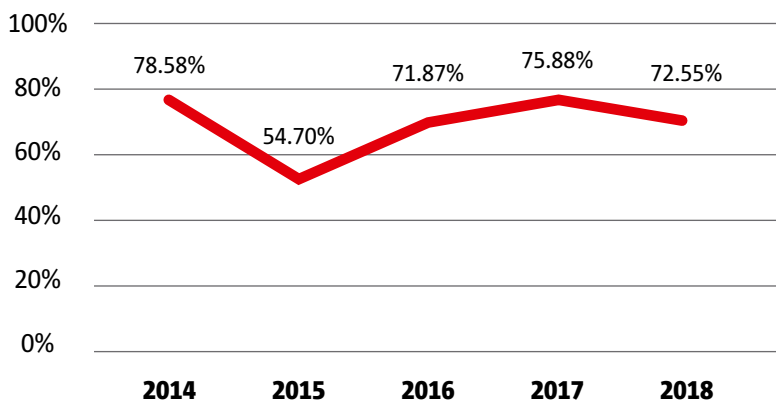
Company's auditor was appointed.

Amendments to the Charter related to reorganization and reduction of authorized capital were approved, the revised Charter was approved, revised Regulations on the Board of Directors, Regulations on Remunerations and Compensations to Members of the Board of Directors of MTS PJSC were approved.

The decision was made on reorganization of MTS PJSC via subsidiaries incorporation into MTS PJSC: Stream Digital LLC and CCB JSC.

New revisions of the documents were drawn up with regard to legislative changes, requirements of regulatory bodies and recommendations of the Corporate Governance Code.

## Quorum of MTS PJSC Annual General meetings of shareholders of over the past 5 years



## Board of Directors

A high-quality corporate governance system and an efficiently operating Board of Directors are the most important prerequisites for long-term sustainable development of a modern company.

In companies aimed at long-term successful development, the role of the Board of Directors increases dramatically, since the members of the Board of Directors are charged with acting reasonably and in good faith for the benefit of the company and its shareholders.

The Board of Directors is a strategic management body, whose main objective is the implementation of general (directing) management of the company's activities, as well as execution of supervisory and overseeing functions. First of all, its competence include the most important issues of the Company's management, such as strategy definition, investment and budget planning, developing management motivation and evaluation system, as well as supervision of the company's assets, reliability and effectiveness of risk management systems, internal control, internal audit and corporate governance system.

Board of Directors of MTS PJSC exercises a general governance over Company's activities in accordance with provisions of the Company's Charter, Regulation on the Board of Directors of MTS PJSC<sup>1</sup>, and the requirements of legislation of the Russian Federation.

The main purposes of the Board of Directors are:

- development and analysis of general corporate strategy, control over its implementation;
- providing for the control over executive bodies and chief executives of the Company, and evaluation of their activities;
- increase of capitalization of the Company, expansion of its market positions, achievement and preservation of the Company's competitiveness;
- maintenance of a stable financial standing, increase of revenues and profitability;
- protection of rights and lawful interests of Company's shareholders.

## **O**rganization of the Board of Directors' activities

At least six meetings in praesentia shall be conducted each year in accordance with the approved plan of meetings of the Board of Directors. If necessary, it is possible to participate in a joint meeting through video conferencing. Extraordinary meetings shall be convened to take decisions on urgent matters. Meetings in the form of absentee voting shall be conducted to vote on issues that members of the Board of Directors don't have significant contradictions over.

Plan of Board of Directors' activities for the next year shall be approved in December of the current year. Dates, periods and locations of meetings shall be

determined according to the schedules of activities of the Board of Directors members in order to provide for participation of all the directors.

Traditionally the plan of activities includes the main issues of Company's operation: strategy, finances, budget and risks, HR matters. Such plan shall be prepared with regard to the suggestions of the Board of Directors members and Company's managers. All issues of the BoD meeting agenda shall normally be reviewed by dedicated committees, allowing to discuss and draw up recommendations for a final decision of the Board of Directors.

<sup>1</sup> [http://www.company.mts.ru/comp/ir/control/regulations/board\\_of\\_directors\\_new/](http://www.company.mts.ru/comp/ir/control/regulations/board_of_directors_new/).



Meetings in praesentia meetings of the Board of Directors are usually held in Moscow headquarters. First meeting of the newly elected Board of Directors shall be held in praesentia, on the day of the General Shareholders' Meeting which decided on election of the Board of Directors.

To hold the meeting in the headquarters it is necessary to plan and approve the schedule of activities for two days: meetings of committees under the Board of Directors, briefing with BoD members (PreBoard), the meeting of the Board of Directors, and to make all practical arrangements: on provision of simultaneous translation, services on hotel booking, transfers, catering, etc.

Chairman of the Board of Directors holds monthly meetings/consultations in the form of audio conferencing with representatives of shareholders and/or man-

agers of the Company. Main topic of such meetings is a matter of the management of strategic changes. This allows to initiate global strategic changes outside of routine management and to change the focus of a common perception of Company's systems and processes.

We believe it is a good practice allowing to share ideas and observations from their experience of working with other companies and businesses, which at the end of the day enriches our discussions in the Board of Directors and forms a strong base for right decisions of the executives.

Our Company has the practice of field meetings of BoD. This approach allows for BoD members to combine discussion of planned meetings' issues with analysis of Company's operation in specific regions, and business meetings with the heads of Company's branches.

## **E**lectronic document management system — “Portal of the Board of Directors

MTS (Board of Directors, Management Board, Committees of the Board of Directors and the President) and subsidiaries of MTS Group effectively operate an electronic document-management system—Portal of the Board of Directors, installed on the personal tablets of members of the management bodies. The portal of

the Board of Directors enabled to accumulate, in the single information space, the necessary and relevant as of today set of options for activities of members of the Company's collective management bodies, automate their work, and also ensured the mobility of process participants for taking important managerial decisions.

**11** meetings

The year 2018 saw 11 meetings of the Board of Directors, including six meetings in praesentia and five meetings by absentee voting.

## Participation of directors in meetings of the Board of Directors in 2018

Director	Meeting in praesentia	Meeting in absentia
Ron Sommer	6/6	5/5
Artem Zasursky	6/6	5/5
Alexey Katkov <sup>1</sup>	4/6	2/5
Alexey Kornya <sup>2</sup>	4/6	2/5
Stanley Miller Independent Director, not a member of MTS PJSC executive management	6/6	5/5
Vsevolod Rozanov	6/6	5/5
Regina von Flemming Independent Director, not a member of MTS PJSC executive management	6/6	5/5
Thomas Holtrop Independent Director, not a member of MTS PJSC executive management	6/6	5/5
Wolfgang Schüssel <sup>3</sup> Independent Director, not a member of MTS PJSC executive management	4/6	2/5
Michel Combes <sup>4</sup> Independent Director, not a member of MTS PJSC executive management	1/6	1/5
Andrey Dubovskov <sup>5</sup>	2/6	3/5
Alexander Gorbunov <sup>6</sup>	2/6	3/5

<sup>1</sup> Elected as a member of the Board of Directors on June 28, 2018

<sup>2</sup> Elected as a member of the Board of Directors on June 28, 2018.

<sup>3</sup> Elected as a member of the Board of Directors on June 28, 2018.

<sup>4</sup> Powers of the Board of Directors member terminated on June 28, 2018.

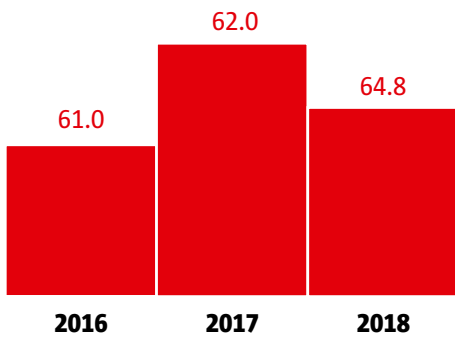
<sup>5</sup> Powers of the Board of Directors member terminated on June 28, 2018.

<sup>6</sup> Powers of the Board of Directors member terminated on June 28, 2018.

## Duration of meetings of the Board of Directors and committees in 2018 r.

Meetings (in praesentia)	Number	Average duration (h)
MTS Board of Directors	6	3.1
Audit Committee	11	1.5
Remuneration and Nomination Committee	8	1.5
Corporate Governance Committee	5	1.2
Strategy Committee	5	2.2
Budget Committee	5	2
Special Committee	5	1

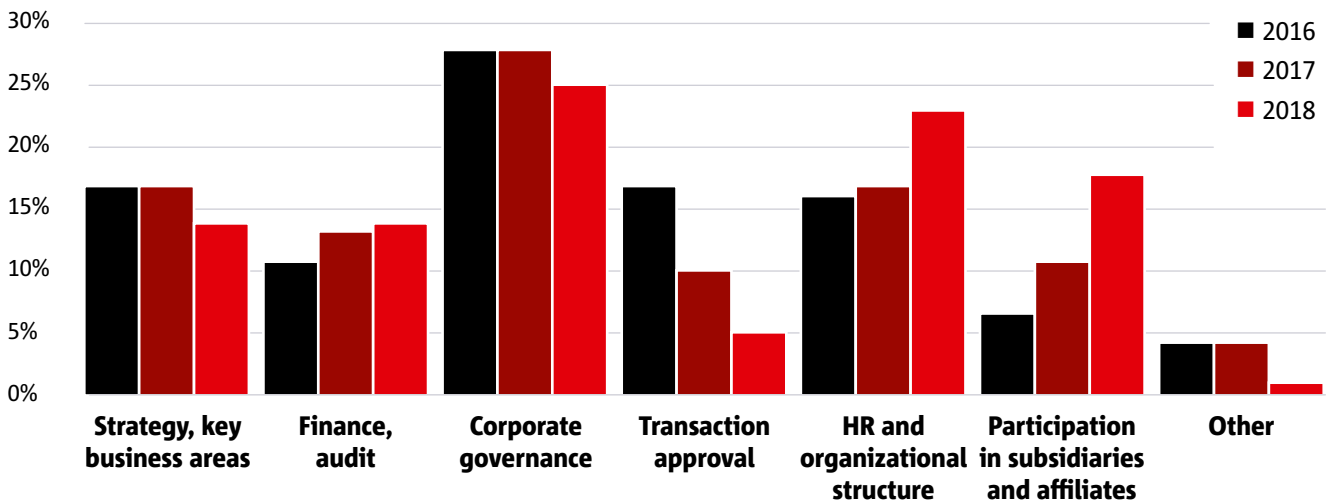
Average percentage of participation the Board of Directors members in the meetings, 2016–2018



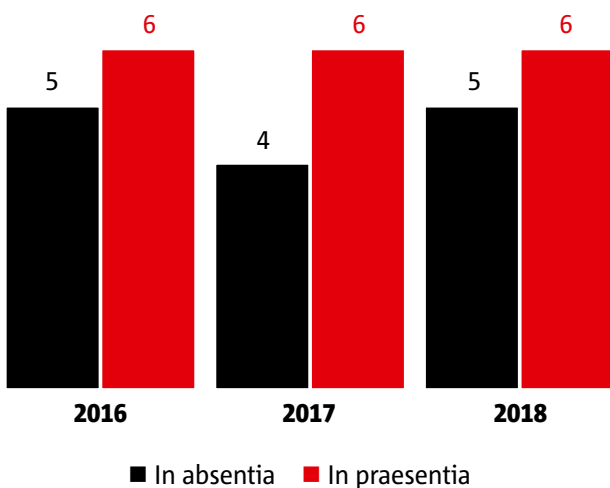
Over **90%**

meetings of the Company's Board of Directors were held with 100% participation of the Board of Directors members

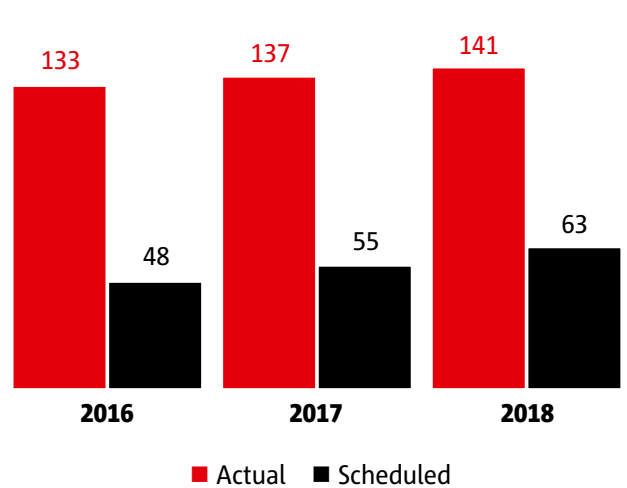
Structure of issues reviewed at meetings of the Board of Directors in 2016–2018



Number of meetings held by the Board of Directors in 2016–2018



Number of issues considered at meetings of the Board of Directors in 2016–2018



# A genda items of the meetings of the Board of Directors of MTS PJSC in 2018, decisions on which had significant importance for the Company

1. MTS Group strategy for 2019–2021.
2. Review of the results of MTS Group budget fulfilment for 2017, on MTS Group budget adoption for 2019.
3. Procedure of implementation of the MTS PJSC bond-option program.
4. Recommendations of the Board of Directors on the payment of dividends for 2017 and the first half of 2018.
5. Acquisition of subsidiaries, participation of MTS PJSC in other organizations.
6. Approval of the repurchase price of MTS PJSC shares.
7. Approval of loan agreements between MTS PJSC and Sberbank PJSC, VTB Bank (PJSC).
8. Increasing the share of participation of Mobile TeleSystems B.V. in MTS Bank PJSC.
9. Creation of the Special Committee under the Board of Directors.
10. Approval of the revised Code of Business Conduct and Ethics.
11. Review of reports:
  - on risk management;
  - on development of the Unified Compliance System;
  - on CSR program implementation;
  - on evaluation of completion of individual tasks of the President and Management Board members;
  - on the business status of essential subsidiaries of MTS PJSC;
  - on results of assessment of MTS PJSC Board of Directors' performance;
  - on operation of the units of internal audit, control and compliance, including the report on risk-management system efficiency;

Members of the Board of Directors get information on the status of completion of Board's assignments at each in-praesentia meeting.

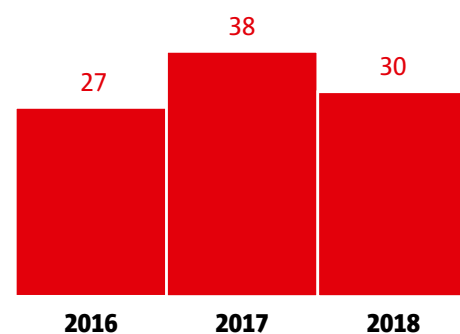
Proper completion of the Board of Directors' assignments is one of the conditions for awarding the Company's personnel.

In 2018, the Board of Directors gave

**30** instructions

to managers of the Company

Instructions of the Board of Directors given to managers of the Company



## C omposition of the Board of Directors

The composition and structure of the Board of Directors affects its performance, and thus performance of the entire Company; with that, the important aspect is the balance of the composition in terms of qualifications of its members, their experience, knowledge and business qualities.

A member of the Board of Directors should, first and foremost, be able to communicate effectively with people, participate efficiently in a discussion, and understand a complex situation based on the information prepared by management, relying on their experience and ability to quickly analyze information, checking responses to the questions asked.

The quantitative composition of the Company's Board of Directors is permanent. The Board of Directors was elected at the annual General Meeting of MTS PJSC Shareholders on June 28, 2018, and for the duration of 2018 it consisted of 9 members. This number of members of the Board of Directors makes it possible to form a composition that is balanced from the standpoint of the professional qualifications, experience and business skills of the members of the Board of Directors, to ensure the high efficiency of work, and fully meets the needs of the Company and the interests of its shareholders. Issues related to the needs of the Board of Directors in the field of the professional qualifications, experience and business skills of the members of the Board of Directors, and also to its quantitative composition, were considered within the framework of the procedure for assessment of the Board of Directors' work (in more detail—section "Assessment of the Performance of the Board of Directors").

A qualitative corporate-governance system and effectively-operating Board of Directors are critical conditions of the long-term, sustainable development of any contemporary company.

We recognize that independent directors must be included in the composition of the Board of Directors for the effective implementation of its functions and the making of informed decisions, ensuring control over management in the interests of the company's owners. Independent directors make it possible to ensure a reasonable balance of interests among all concerned parties: the Company itself, its shareholders and other stakeholders. For the independent directors to be able to influence the decisions taken by the Board of Direc-

tors, their number must be equal to at least one third of the total composition of the Board of Directors. In this connection, the number of independent directors in our Board of Directors is over one third.

In June 2015, we increased the number of independent directors in the Board of Directors to four. The increase of the independent directors' number allows the independent standpoint within the Board of Directors to exercise greater influence on the business decisions taken, on the Company's corporate policy and strategy.

Criteria of independence of the Board of Directors' members are defined in the Regulation on the Board of Directors of MTS PJSC<sup>1</sup> and correspond to state-of-the-art international practices of corporate governance.

The NYSE listing also adds additional obligations for us related to the composition of the Board of Directors: we are required to have at least one member of the Board of Directors (on the Audit Committee) with expertise in accounting or relevant financial management experience (financial expert). The Audit Committee of the Board of Directors is headed by Thomas Holtrop, who has experience and knowledge in the preparation, analysis, evaluation and audit of financial statements.

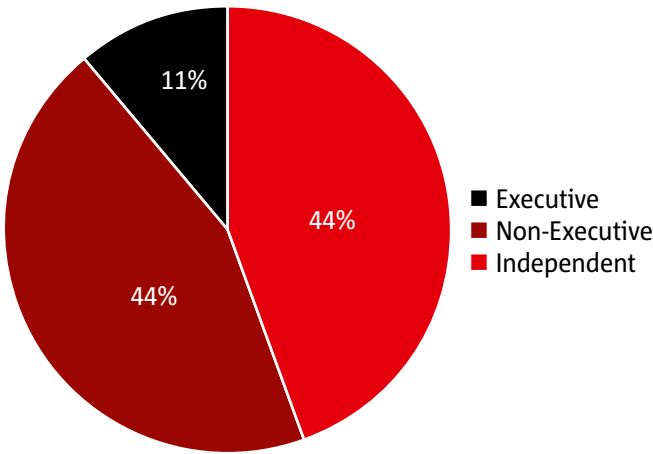
According to the recommendations of the Code, key committees: Audit Committee, and also the Remuneration and Nomination Committee, are formed exclusively from independent directors. Other committees include at least two independent directors.

For key projects, the Board of Directors establishes Special Committees, which also include independent directors. For example, such a committee, consisting only of independent directors, was established in 2018 for the project envisioning MTS PJSC's share increase in the authorized capital of MTS Bank PJSC.

An important factor for the company is the professional experience and reputation of its independent directors. As a rule, it is the care for reputation and profession-

<sup>1</sup> <https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/dokumenty-pao-mts/polozhenie-osovete-direktorov-paomts/>

Composition of the Board of Directors as of December 31, 2018

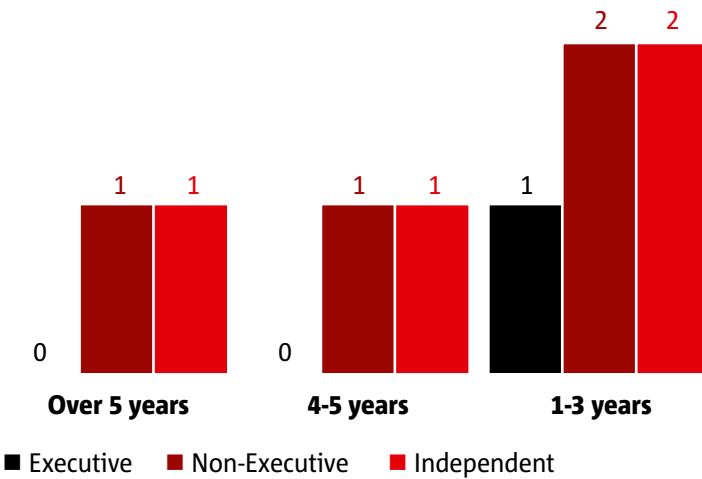


alism of a person that help him take very seriously the work in the Board of Directors, observe the principles of absence of conflicts of interests, carefully study the materials and make informed decisions when voting at meetings of the Board of Directors.

From the moment BoD included independent members their role and contribution to representation of interests of our Company got stronger.

Independent Directors participate in strategic sessions for discussing the Company's strategy update with participation of the BoD members, representatives of the majority shareholder and managers of the Company. Following the strategic sessions results, the matter of update of the Company's strategy and development plan shall be presented to the Board of Directors for consideration.

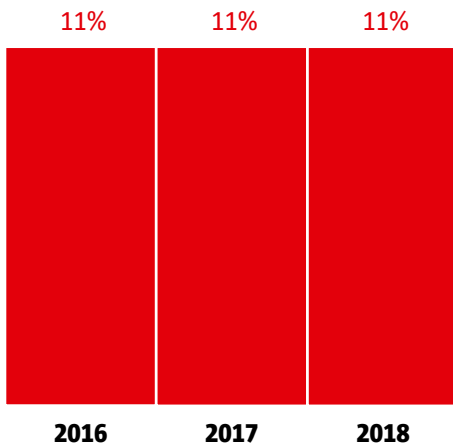
Duration of work in the Board of Directors



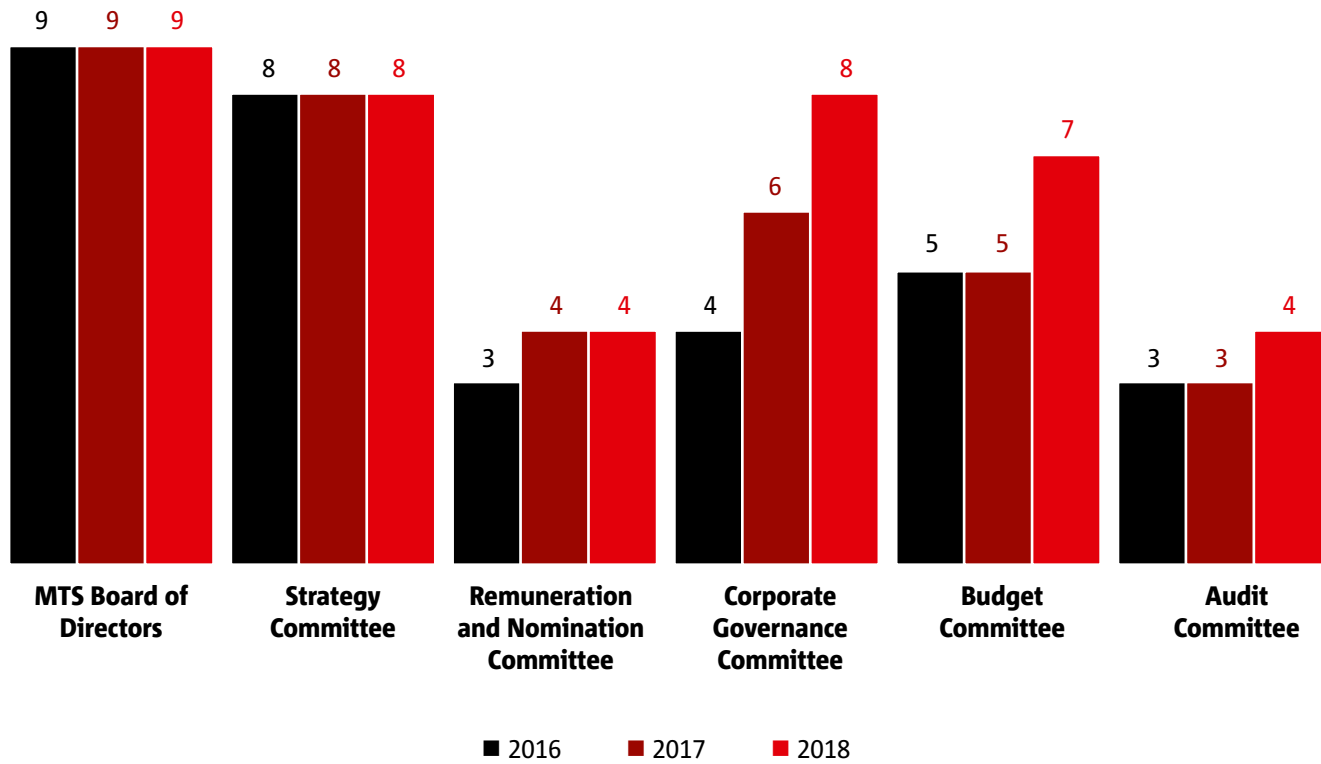
Independent Directors are actively involved in preliminary discussions of related-party transactions before their review by the Board of Directors. The Company also implements a practice of preliminary review of transactions at the meetings of the Audit Committee under the Board of Directors consisting only of Independent Directors. As common practice shows, this noticeably facilitates the work of independent BoD members as to approval of and agreeing upon transactions.

Our Independent Directors are professional managers, whose experience and knowledge make a significant contribution to the development of the Company's corporate governance system. Mastering of the best practices, great managerial experience, understanding of business needs and HR management specifics, proactive approach, strategic thinking, openness in discussions: all this makes an invaluable contribution not only to the results of the activity of the Board of Directors, but also to those of the Company in general.

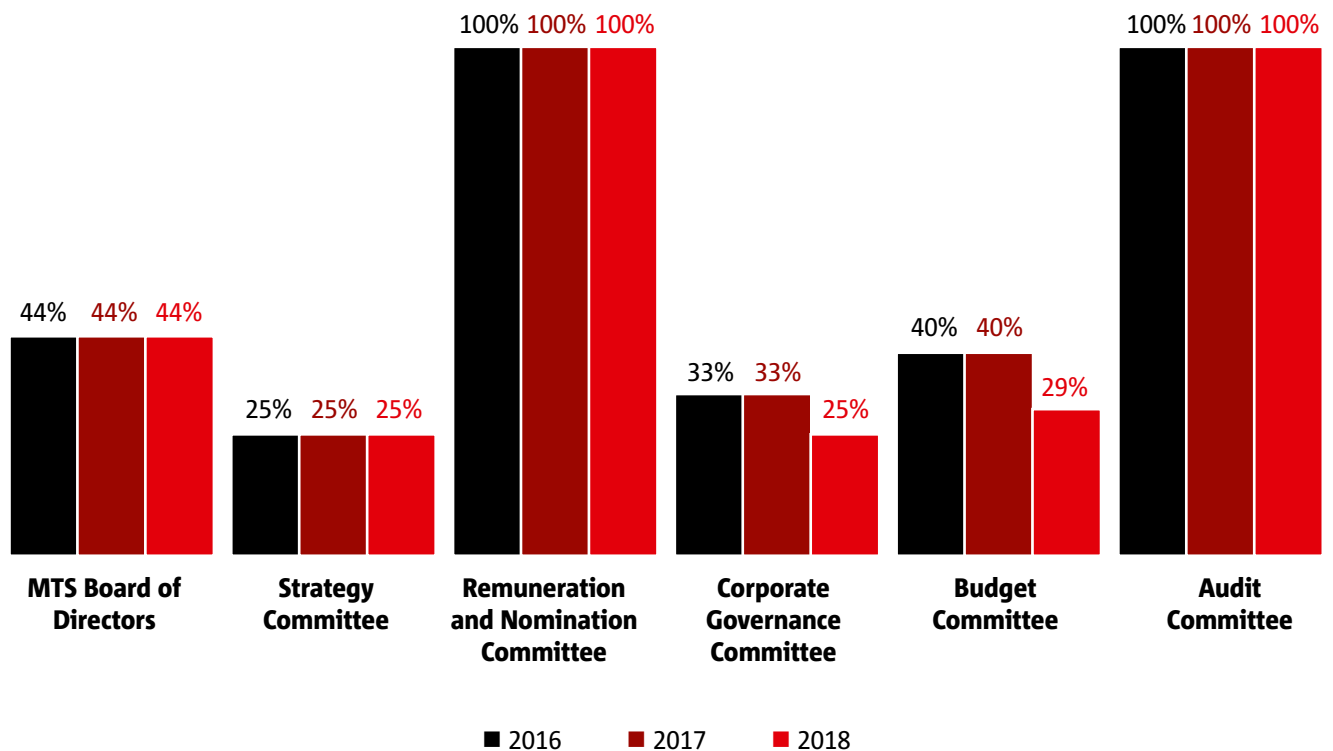
Share of female directors in the composition of the Board of Directors in 2016–2018



Numerical composition of the Board of Directors and Committees in 2016–2018



Share of Independent Directors in the composition of the Board of Directors and Committees in 2016–2018



## Information on members of the Board of Directors as of December 31, 2018



### Ron Sommer

Non-Executive Director

Chairman of the Board of Directors

Chairman of the Strategy Committee under the Board of Directors

Member of the Budget Committee under the Board of Directors

Member of the Corporate Governance Committee under the Board of Directors

In 2018 won the “Director of the Year 2018” Award in the nomination “Chairman of the Board of Directors: Contribution to Corporate Governance Development”

Born in 1949 in Haifa.

In 1971 he graduated from the University of Vienna and earned Ph.D. in Mathematics.

#### Professional experience

In 1980, took the position of executive director at the German branch of Sony Group; in 1986, became the Chairman of Sony Deutschland Management Board.

1990–1993: President and Chief Operating Officer of Sony Corporation (USA).

1993–1995: President and Chief Operating Officer of Sony Europe.

1995–2002: Chairman of the Management Board of Deutsche Telekom AG.

2004–2009: Member of Motorola Inc. Board of Directors (USA).

2004–2012: Member of the International Advisory Board of Blackstone Group.

In 2005, as an independent director he joined the Board of Directors of JSFC Sistema OJSC, where he also acted as a Chairman of the Investor Relations Committee.

2006–2009: Member of the Board of Directors at WEATHER INVESTMENTS (Italy).

2009–2011: First Vice President and the Head of “Telecommunication Assets” business unit of JSFC Sistema OJSC.

2009–2015: Chairman of the Board of Directors of SHYAM TELESERVICES Limited (India).

1998–2018: Member of the Supervisory Board of Munich Reinsurance.

Member of the Supervisory Board of Munich Reinsurance company, member of the Board of Directors of Tata Consultancy Services, Chairman of the Supervisory Board of VF Ukraine PrJSC, member of the Board of Directors of Sistema PJSC.

Citizenship: Germany.

He was elected as a member of the MTS PJSC Board of Directors for the first time at the General Shareholders’ Meeting on June 25, 2009.

As of December 31, 2018, he owned ordinary registered shares of MTS PJSC in the amount of 129,770 shares.



## Artem Zasursky

Non-Executive Director

Member of the Strategy Committee under the Board of Directors

Member of the Budget Committee under the Board of Directors

Member of the Corporate Governance Committee under the Board of Directors

Member of the Special Committee for Compliance under the Board of Directors (since 10.04.2019)



Born in 1979 in Moscow.

In 2005 graduated from the fellowship of the Faculty of Journalism in Lomonosov Moscow State University.

In 2001 he graduated from the Lomonosov Moscow State University with a degree “Social and Economic Geography of Foreign Countries, Translator/Interpreter.”

### Professional experience

2002–2003: Director, Directorate of Development Department, Crossmedia Solutions LLC.

2003–2005: founder of several companies in the field of digital services and content.

2005-2006: Executive Director of Game Territory, LLC.

2007–2011: General Director, Dragonara LLC.

2011–2011: Development Director, Stream LLC.

2012–2013: Vice President, Development, SMM OJSC.

2013–2016: General Director, Stream LLC.

2016 to the present day: Vice President, Head of the Strategy Complex, JSFC Sistema PJSC.

Member of the Board of Directors of Medsi Group of Companies JSC, System-BioTechnologies LLC, Sistema Finance S.A.

Citizenship: Russian Federation.

He was elected as a member of the MTS PJSC Board of Directors for the first time at the General Shareholders' Meeting on June 29, 2017.

As of December 31, 2018, he didn't own shares of MTS PJSC (directly/indirectly).



## Alexey Katkov

Non-Executive Director

Member of the Strategy Committee under the Board of Directors

Born in 1977 in Moscow.

In 1999 he graduated from the Academy of the National Economy under the Government of the Russian Federation, Moscow

### **Professional experience:**

2000–2015: Sales Director, Vice President and Commercial Director, Director for International Development of Mail.RU LLC.

2015–2016: Member of the Management Board, First Vice President, Operations Director, SMM JSC.

2016 till present: President, Member of the Board of Directors of Sistema Venture Capital JSC.

2016 till present: President, SVK Fund LLC.

2018 till present: Managing Partner, Member of the Management Board, Sistema PJSC.

Member of the Board of Directors of Detsky Mir PJSC, Sitronics JSC, Sistema-Consult LLC, member of the Board of Directors of Maxima Advertising Agency JSC, SVK Fund LLC, Ozone Holding LLC and other companies.

Citizenship: Russian Federation.

He was elected as a member of the MTS PJSC Board of Directors for the first time at the General Shareholders' Meeting on June 28, 2018.

As of December 31, 2018, he didn't own shares of MTS PJSC (directly/indirectly).

## Alexey Kornya

President

Chairman of the Management Board of MTS PJSC

Executive Director

Member of the Corporate Governance Committee under the Board of Directors



Born in 1975 in Bryansk.

In 1998 he graduated from St. Petersburg State University of Economy and Finance.

### Professional experience:

2000: PricewaterhouseCoopers Audit CJSC, Consultant-Auditor.

2000–2004: North-West Telecom OJSC, Chief Financial Consultant, Chief Specialist on Financial Consultation.

2004–2007: MTS PJSC, in July 2004—Financial Director of the branch of MTS PJSC of Urals macroregion; in October 2007—Director of the Financial Planning and Analysis Department of the Financial Unit of MTS Group.

2007–2008: MTS PJSC, Controlling Director of the Finance and Investment Unit.

2008–2009: MTS PJSC, Deputy Vice President for Finance and Investments, Acting Vice President for Finance and Investments.

2010–2013: MTS PJSC, Vice President for Finance and Investments.

2013–2016: MTS PJSC, Member of the Management Board, Vice President, Finance and Investments.

2016–2018: Member of the Management Board, Vice President for Finance and Investment, Mergers and Acquisitions, MTS PJSC.

2018 till present: MTS PJSC, President, Management Board Chairman.

Member of the Board of Directors of Mobile TeleSystems JLLC, MTS Bank PJSC, RTC JSC, Sistema Capital MC LLC, Member of the Supervisory Board of PrJSC MTS Ukraine, Member of Sistema Charity Fund, member of the Board of GSM Association (GSMA).

Citizenship: Russian Federation.

He was elected as a member of the MTS PJSC Board of Directors for the first time at the General Shareholders' Meeting on June 28, 2018.

As of December 31, 2018, he owned ordinary registered shares of MTS PJSC in the amount of 148,624 shares.



## Stanley Miller

Independent Director

Member of the Remuneration and Nomination Committee under the Board of Directors

Member of the Audit Committee under the Board of Directors

Member of the Corporate Governance Committee under the Board of Directors

Member of the Strategy Committee under the Board of Directors

Member of the Special Committee under the Board of Directors for the Project to Increase MTS PJSC Interest in the Authorized Capital of MTS-Bank PJSC

In 2018, entered the rankings of “50 Best Independent Directors” during the ceremony of “Director of the Year 2018” National Awards

Born in 1958 in Winberg, Cape Town, South Africa.

Citizen of Belgium and South Africa. Resides in Belgium.

Degree in Law and Administration from South Africa University and degree in Personnel Management from Management and Trade University in Capetown (South Africa).

He completed several programs of business administration including the Proteus Leadership program in London Business School.

### Professional experience

1988–1991: CEO of the Group on Operations in South Africa of Electronic Media Network company.

1991–1997: various positions at NETHOLD.

1994 to the present day: Chief Executive Officer of Athena Investment Holdings SA Luxembourg.

1997 to the present day: Chief Executive Officer of Leaderman—NV Belgium.

1998–1999: Chief Executive Officer of KPN Orange.

1998–2010: Chief Executive Officer of Royal KPN NV.

1999–2001: Chief Executive Officer of KPN Mobile NL & Benelux.

1999–2001: Non-Executive Director of IP Global Net NV.

2000–2001 President of KPN Mobile NV, the Netherlands.

2000–2001: Non-Executive Director of Hutchinson 3G UK.

2001–2010: Chairman and CEO of BASE NV Belgium; President of KPN Mobile International.

2002 to the present day: Chief Executive Officer and owner of ULS BVBA Belgium.

2004–2010: Chairman, Executive Member of the Board of Directors of E-Plus Germany.

2005 to the present day: Chief Executive Officer and owner of Milvest BVBA Belgium.

2006–2010: Member of the Board of Directors of Royal KPN NV; President of International of KPN.

2006–2010: Chairman of the Board of Directors at E-Plus GMBH Germany.

2011–2018: Chairman of the Ice Group Board of Directors.

Director and owner of Main Branch Pty South Africa, director of Arrow Creak Investments 75 (PTY) LTD South Africa, Non-Executive Director of MTN Group Limited.

Citizenship: Belgium and South Africa.

He was elected as a member of the MTS PJSC Board of Directors for the first time at the General Shareholders’ Meeting June 24, 2010

As of December 31, 2018, he didn’t own shares of MTS PJSC (directly/indirectly).

## Regina von Flemming

Independent Director

Chairman of the Remuneration and Nomination Committee under the Board of Directors

Member of the Budget Committee under the Board of Directors

Member of the Corporate Governance Committee under the Board of Directors

Member of the Audit Committee under the Board of Directors

Member of the Special Committee under the Board of Directors for the Project to Increase MTS PJSC Interest in the Authorized Capital of MTS-Bank PJSC

Member of the Special Committee for Compliance under the Board of Directors (since 10.04.2019)



Born in 1965 in Lubeck.

In 1992 she graduated from Free University of Berlin with specialty in Political Science, and from

Institute for Policy Studies (Paris).

In 1993 the fellow of INSEAD Business School (Paris), and also a refresher course at the German Development and Trade Institute (Germany).

### Professional experience

1996–1999: CEO of Krone Russia.

1999–2000: CEO of Ehrmann AG.

2000–2003: Vice President of the American-Russian Investment Fund “Delta Capital.”

2003–2009: founder and owner of the consulting company Flemming & Partner GmbH Berlin.

2005–2015: CEO of Axel Springer Russia Publishing House.

2018 till present: Advisor to General Director of ALLC Accenture.

Member of the Board of Directors of Wirtschaftsforum, Member of the Guardianship Board of the Russky Standard Charity Foundation, Member of the Board of Trustees of the German-Russian Forum in Berlin, Member of the Board of the Russian-German Foreign Trade Chamber, Member of the Management Board of the Jewish Museum Donation Fund in Moscow.

Citizenship: Germany.

She was elected as a member of the MTS PJSC Board of Directors for the first time at the General Shareholders' Meeting on June 25, 2015

As of December 31, 2018, she didn't own shares of MTS PJSC (directly/indirectly).



## Vsevolod Rozanov

Non-Executive Director

Deputy Chairman of the Board of Directors

Chairman of the Budget Committee under the Board of Directors

Chairman of the Corporate Governance Committee under the Board of Directors

Member of the Strategy Committee under the Board of Directors

Member of the Special Committee for Compliance under the Board of Directors (since 10.04.2019)

Born in 1971 in Moscow.

He graduated from the Economic Department of Moscow State University n.a. M.V. Lomonosov with specialty in Economics of Foreign Countries.

### Professional experience

1993–2001: various consulting positions in Bain & Company in Moscow, London and Stockholm.

2002–2004: Deputy CEO for Economics and Finances in MTU-Inform CJSC.

2004–2006: Deputy CEO for Economics and Finances in KOMSTAR—United TeleSystems OJSC.

2006–2008: Vice President for Finance and Investments, Management Board member of MTS OJSC.

2008–2013: President of SISTEMA SHYAM TELESERVICES LIMITED (India).

2013–2018: Senior Vice President, Head of the Finance and Investments Complex, Management Board Member at Sistema PJSC.

2018 to present: Managing Partner, Member of the Management Board, Sistema PJSC.

Chairman of the Board of Directors in MTS-Bank PJSC, Deputy Chairman of the Board of Directors in SISTEMA SHYAM TELESERVICES LIMITED, member of the Board of directors in MC Sistema Capital LLC, EAST-WEST UNITED BANK S.A., Sistema Asia Fund Pte, Management Board member in Sistema Charity Fund.

Citizenship: Russian Federation.

He was elected as a member of the MTS PJSC Board of Directors for the first time at the General Shareholders' Meeting on June 27, 2012.

As of December 31, 2018, he owned ordinary registered shares of MTS PJSC in the amount of 72,792 shares.

## Thomas Holtrop

Independent Director

Chairman of the Audit Committee under the Board of Directors

Member of the Remuneration and Nomination Committee under the Board of Directors

Member of the Budget Committee under the Board of Directors

Member of the Special Committee under the Board of Directors for the Project to Increase MTS PJSC Interest in the Authorized Capital of MTS-Bank PJSC

Member of the Special Committee for Compliance under the Board of Directors (since 10.04.2019)

Finance Expert

In 2018, entered the rankings of “50 Best Independent Directors” during the ceremony of “Director of the year 2018” National Awards



Born in 1954 in Dortmund.

He studied psychology in University of Freiburg and business administration with the specialty in economics and production organization in the German Academy of Civil Employees.

### Professional experience

1990–1999: Vice President of American Express International Inc. in New York, Frankfurt and London, member of the Board of Directors in Bank 24 AG and Deutsche Bank 24 AG.

2001–2004: President of T-Online International AG.

2002–2004: Member of Deutsche Telekom AG Board of Directors.

2005–2006: Chief Executive Officer of Thomas Cook AG.

2005–2011: Member of the Supervisory Board of Gruner + Jahr Publishing House (Hamburg).

2009–2011: Member of Komstar-OTS OJSC Board of Directors, Chairman of Audit Committee, Strategy Committee and Remuneration and Nomination Committee under the Board of Directors of Komstar-OTS OJSC.

Citizenship: Germany.

He was elected as a member of the MTS PJSC Board of Directors for the first time at the General Shareholders' Meeting on February 14, 2013.

As of December 31, 2018, he didn't own shares of MTS PJSC (directly/indirectly).



## Wolfgang Schüssel

Independent Director

Member of the Audit Committee under the Board of Directors

Member of the Remuneration and Nomination Committee under the Board of Directors

Member of the Strategy Committee under the Board of Directors

Member of the Special Committee for Compliance under the Board of Directors (since 10.04.2019)

Born in 1945 in Vienna.

Earned a degree in the field of economy and law in the Vienna University, defended doctoral degree.

**Professional experience:**

1975–1991: General Secretary of the Austrian Economic Association

1979–2011: member of the Austrian National Council

1989–1995: Minister of Economy

1995–2007: Chairman of the Austrian People’s Party

1995–1999: Vice Chancellor and Foreign Secretary

2nd half of 1998: Chairman of the EU Board for General and Foreign Affairs

2000–2007: Federal Chancellor of the Austrian Republic

1st half of 2006: Chairman of the EU Board

2008 till present: President of Foreign Policy and Association of the United Nations of Austria (UNA-Austria)

2013 till present: President of United Europe.

Member of the Supervisory Board of RWE AG, member of Advisory Board of Deutsche Vermögensberatung (DVAG) and Investcoprp (UAE), chairman of the Guardianship Board of Konrad Adenauer Foundation, chairman of the Supervisory Board of Zoo Vienna, member of the Guardianship Board of Allensbach Institute.

Citizenship: Austria.

He was elected as a member of the MTS PJSC Board of Directors for the first time at the General Shareholders’ Meeting on June 28, 2018.

As of December 31, 2018, he didn’t own shares of MTS PJSC (directly/indirectly).



# K

## Key competencies of Board of Directors members

Member of the Board of Directors	Duration of work in the Board of Directors	Key competences							
		Strategy	Finance and Audit	Industry Specialization (Telecom)	Legal Matters and Corporate Governance	HR Management	Risk Management	M&A	GR/IR
Ron Sommer	8 years (since June 2009)	■	■	■	■	■	■	■	■
Artem Zasursky	2 years (since June 2017)	■	■	■	■	■	■	■	■
Alexey Kornya	1 year (since June 2018)	■	■	■	■	■	■	■	■
Alexey Katkov	1 year (since June 2018)	■						■	
Stanley Miller	7 years (since June 2010)	■	■	■	■	■	■	■	■
Vsevolod Rozanov	5 years (since June 2012)	■	■	■	■	■	■	■	■
Regina von Flemming	3 years (since June 2015)	■	■		■	■			■
Thomas Holtrop	4 years (since February 2013)	■	■		■	■	■	■	
Wolfgang Schüssel	1 year (since June 2018)	■	■	■	■		■	■	■

According to the information available to the Company, in the reporting year there were no conflicts of interest among the members of the Board of Directors, including those related to the participation of these persons in the management bodies of competitors of MTS PJSC.

Board of Directors members didn't make transactions with the Company's shares in the reporting year.

None of the Board of Directors members received loans (credits) from the Company in 2018.

## **R**ole of the Board of Directors Chairman

The key figure on the Board of Directors is the Chairman; his energy, experience and tact affects the entire work climate and, ultimately, performance of the Board.

The Chairman of the Board of Directors in its work, first of all, serves as a “manager.” Secondly, he must be a strategist who interprets the global picture and the external environment of the company, initiates changes, understands value creation process and determines the business strategy. Thirdly, he is a “mentor,” which gives feedback to the General Director and key managers, focusing on their development and personal growth. Finally, he plays the role of facilitator, creating a productive working environment in the Board, professionally moderating the discussion and encouraging directors to speak on the substance of the issues discussed.

The chairman of the Board of Directors of MTS OJSC since 2009 is a non-executive director — Mr. Ron Sommer.

The extensive experience of Ron Sommer in the management bodies of Russian and the largest foreign companies, including in the telecom industry, in combination with his high qualifications, make a substantial contribution to the effective organization of the work of our Company’s Board of Directors.

A Deputy Chairman of the Board of Directors was elected to provide for efficient BoD and its committees operation, its competence has been determined:

- Vsevolod Rozanov: operational and financial control, management of debt and exchange risks of MTS Group.

## Corporate secretary<sup>1</sup>

The Corporate Secretary shall ensure effective ongoing interaction with the shareholders, coordination of the Company's actions for protection of the rights and interests of shareholders, support of the effective work of the Board of Directors.

The functions of the Corporate Secretary at MTS PJSC are performed by a special structural subdivision—the Corporate Governance Department, whose main functions, rights and obligations are defined in the Regulations on the Corporate Governance Department<sup>2</sup>.

Functions of the Corporate Governance Department at MTS PJSC include:

- participation in the improvement of the Company's corporate governance system and practice;
- participation in the organization of the preparation and holding of the Company's general meetings of shareholders;
- provision of the work of the Board of Directors and Committees of the Board of Directors of the Company;
- participation in the realization of the Company's policy on information disclosure, and also provision of Company's corporate documents storage;
- provision of interaction of the Company with its shareholders and participation in the prevention of corporate conflicts;
- provision of the implementation of the procedures established by the Law and internal documents of

the Company ensuring the rights and legitimate interests of shareholders and control over their exercising;

- provision of the Company's interaction with regulators, trade organizers, the registrar, other professional participants of the securities market within the powers assigned to the Corporate Secretary;
- immediate notification of the Board of Directors of all identified violations of the Law and internal documents of the Company, the observance of which is within the functions of the Corporate Governance Department.

The Corporate Governance Department is headed by the Director of Corporate Governance, an officer of the Company reporting to the Company's Board of Directors.

The Board of Directors approves the nominated Director of Corporate Governance as the manager of the unit serving as the Corporate Secretary.

The Director of Corporate Governance Department in the reporting period was Corporate Governance Director of MTS PJSC, Maxim Alexandrovich Kalinin.

<sup>1</sup> <https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/departament-korporativnogo-upravleniya>.

<sup>2</sup> [http://static.mts.ru/uploadmsk/contents/1655/Regulations\\_on\\_MTS\\_CG\\_Department-rus.pdf](http://static.mts.ru/uploadmsk/contents/1655/Regulations_on_MTS_CG_Department-rus.pdf).

## Secretary of the Board of Directors

Main purpose of the BoD Secretary of MTS PJSC is to ensure compliance of the Company's management bodies with the requirements of legislation and internal regulatory documents of the Company which guarantee the enforcement of rights and interests of its shareholders.

Regulatory base for implementation of BoD Secretary's functions, besides the Charter, is the Regulation on MTS PJSC Board of Directors.

Secretary of the Board of Directors:

- carries out an instatement of newly elected members of the Company's Board of Directors
- informs members of the Board of Directors and invited persons on forthcoming meetings of the Board of Directors;
- sends to members of the Board of Directors materials on issues of the Board of Directors agenda;
- upon request, provides to members of the Board of Directors an additional information on Company's activities;
- calculates the votes on issues put to a vote and keeps record of the Board of Directors meetings;
- ensures storage of the Board of Directors documents;
- controls implementation of the Board of Directors decisions;
- assists the Chairman of the Board of Directors in planning for activities of the Board;
- ensures communication of members of the Board of Directors with management;
- assists in solving organizational and technical issues.

The BoD Secretary since 2005 is the Corporate Governance Director of MTS PJSC, Maxim Alexandrovich Kalinin.

## Maxim Kalinin

Maxim Kalinin was included into TOP-50 Directors for Corporate Governance in the ratings of TOP-1000 Russian managers of 2018



Born in 1972 in Moscow.

In 1997 he graduated from Lomonosov Moscow State University with the specialty in Law.

Before coming to the Company, he worked in private business with foreign participation: was responsible for legal support in the sphere of corporate management, real estate and contractual work.

In June 2001, he joined MTS. He worked in the Investments and Securities Department: was responsible for projects of mergers and acquisitions in the territory of the Russian Federation and CIS, supported reorganization of MTS Group subsidiaries, was responsible for corporate governance in MTS and subsidiaries. He went through a legal counsellor to a deputy director of the department.

From 2005 to the present day exercises the powers of BoD Secretary of MTS PJSC.

In 2010 he won the Vth National Awards “Director of the Year” in the nomination “Corporate Governance Director—Corporate Secretary.”

For the last years, he was regularly included into the rankings of 25 best Corporate Governance Directors and Corporate Secretaries during the ceremony of “Director of the year” National Awards.

He is a member of the Council of Corporate Secretaries National Association (CSNA), which allows MTS to exchange experience in the corporate governance

sphere and promotes a development of the institute of corporate secretaries in general.

Corporate Governance Director of MTS PJSC is also responsible for:

- preparation and holding of meetings of the shareholders of MTS PJSC;
- management of MTS Group subsidiaries;
- ensuring the timely disclosure of information in accordance with the requirements of securities-market legislation;
- development of the Corporate Governance System of MTS Group;
- complex management of intangible assets;
- other functions.

Citizenship: Russian Federation.

He doesn't own (directly/indirectly) neither MTS PJSC shares nor stocks or shares of MTS PJSC subsidiaries; he is not a relative of any persons who are members of management and/or control bodies overseeing financial and business activities of MTS PJSC.

According to the information available to the Company, in the reporting year there were no conflicts of interest among the Secretary of the Board of Directors, including those related to his participation in the management bodies of competitors of MTS PJSC.

## Committees of the Board of Directors

Committees of the Board of Directors serve as a tool for preliminary in-depth study of issues before they are submitted to the meeting of the Board of Directors. Members of the committee study in detail the considered issue and propose to the members of the Board of Directors the elaborated alternative decisions making it possible for them to join issue-discussion faster.

The following committees operated under the Board of Directors in order to increase the efficiency of decisions taken by the Board of Directors, to exercise a detailed preliminary review of the most topical matters and to prepare the corresponding recommendations by the end of 2018: Budget Committee, Audit Committee, Remuneration and Nomination Committee, Corporate Governance Committee, Strategy Committee, Special Committee for the Project to Increase MTS PJSC Interest in the Authorized Capital of MTS-Bank PJSC.

The powers of the committees and the requirements binding on their composition shall be determined by

the respective committee regulations approved by the Board of Directors. Committees may involve external experts and advisors in order to resolve their tasks. Results of review of agenda issues by the Committees shall be communicated to Board of Directors members before each BoD meeting.

Each BoD member is also a member of one to three committees. Representation of Company's managers in the committees allows for a meaningful dialog during the committee meetings.

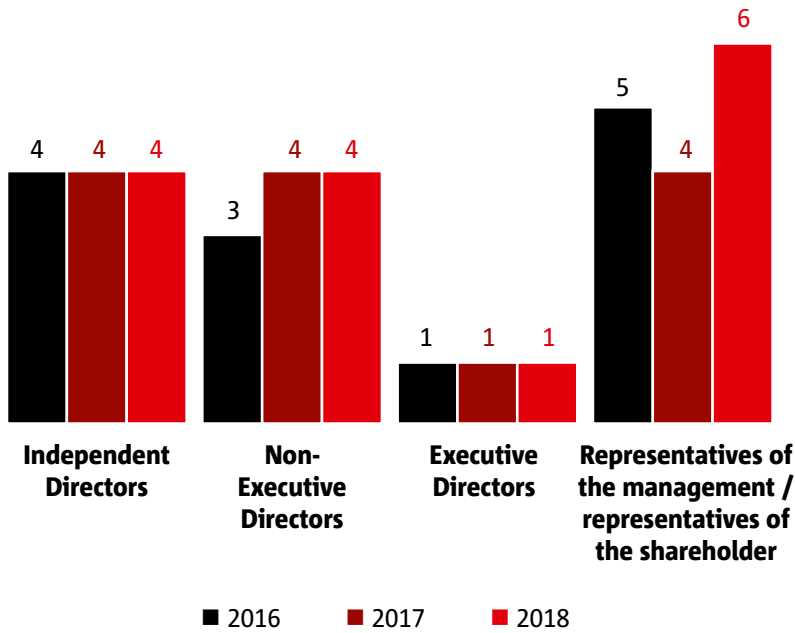
Committee	Committee Overview
Budget Committee	Preparation of recommendations to the Board of Directors on issues of preparation, approval, correction and supervision over the performance of budgets, long-term business plans and investment plans of the Company
Audit Committee	Preparation of recommendations to the Board of Directors with respect to supervision over the financial and operational activities of the Company
Remuneration and Nomination Committee	Preparation of recommendations to the Board of Directors on issues of HR policy, determination of the remuneration system of the first persons, generation of the Company's corporate culture development strategy
Corporate Governance Committee	Preparation of recommendations to the Board of Directors on issues of preliminary review of internal regulatory documents, annual report, sustainability report of the Company and the development of corporate governance practices
Strategy Committee	Preparation of recommendations to the Board of Directors upon review of the strategic development of key functions, projects and the Company in general, and implementation of investment projects and long-term investment programs
Special committee of independent directors under the Board of Directors of MTS PJSC on the project involving the increased interest of MTS PJSC in the charter capital of MTS Bank PJSC	Preparation of recommendations to the Board of Directors on issues of transaction closing terms and related risks, development of an opinion on the feasibility of transaction closing

\* Events after reporting date

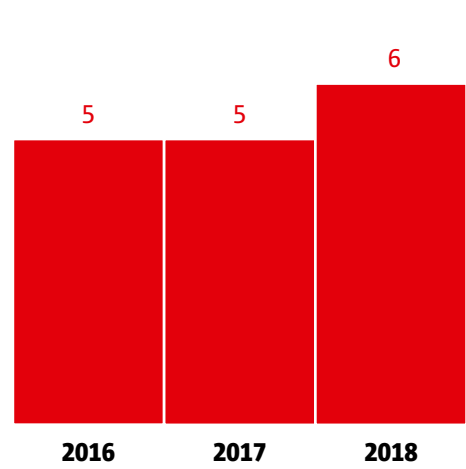
The decision of the Board of Directors of MTS PJSC dated April 10, 2019 established the Special Committee of the Board of Directors of MTS PJSC on compliance.

The objectives of the Committee as the following: general supervision in the sphere of compliance, review of issues and preparation of recommendations for the Board of Directors on compliance issues.

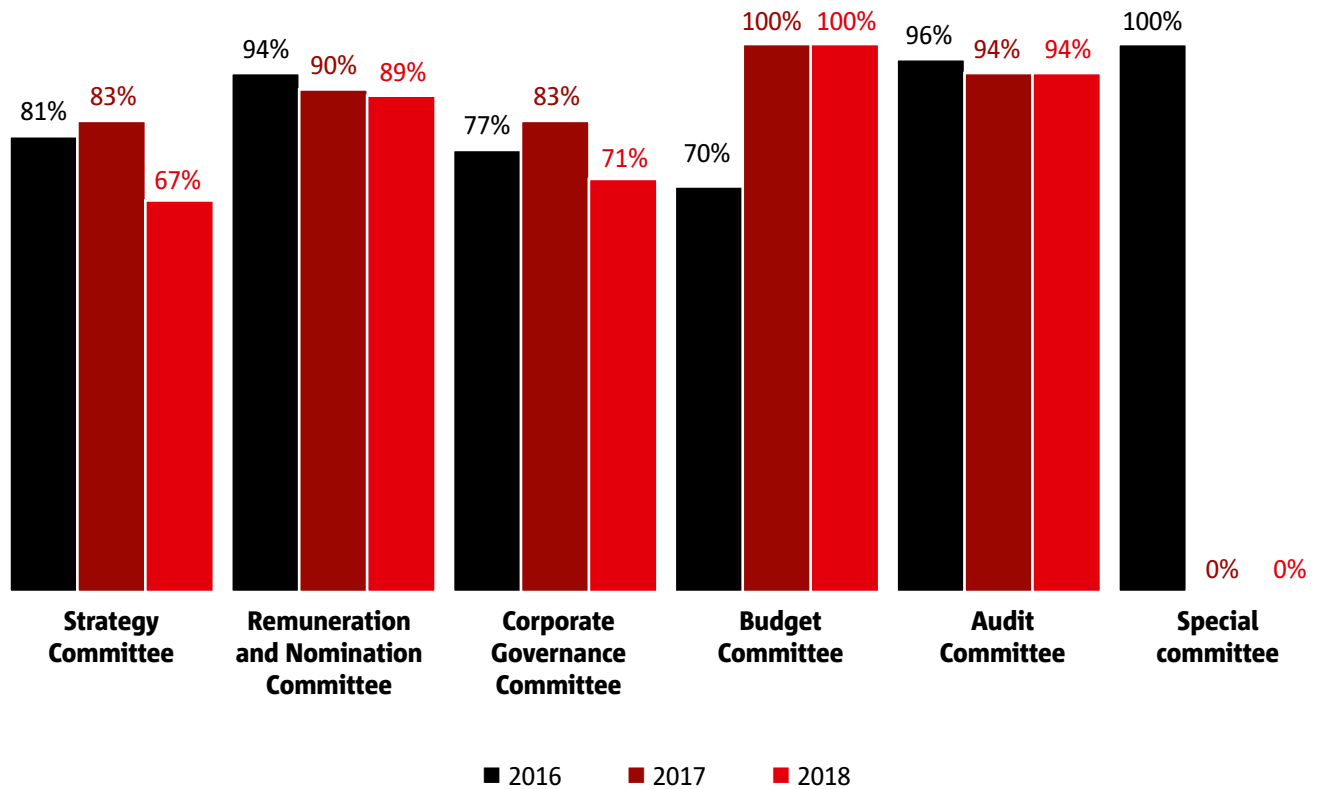
Structure of composition of committees of the Board of Directors in 2016–2018



Number of committees of the Board of Directors in 2016–2018



Average level of attendance of the meetings of the Committees in 2016–2018



## Attendance of Committee meetings in 2018<sup>1</sup>

Committee Member	Remuneration and Nomination Committee	Audit Committee	Budget Committee	Strategy Committee	Corporate Governance Committee	Special Committee on the project of acquisition of MTS Bank
	(9 meetings including 8 meetings in praesentia and 1 meeting in the form of absentee voting)	(14 meetings including 11 meetings in praesentia and 3 meetings in the form of absentee voting)	(5 meetings in praesentia)	(5 meetings in praesentia)	(5 meetings in praesentia)	(5 meetings in praesentia)
Ron Sommer <sup>2</sup>			1/2	5/5	3/3	
Artem Zasursky <sup>3</sup>			0/1	5/5	0/1	
Alexey Katkov <sup>4</sup>				3/3		
Alexey Kornya <sup>5</sup>			1/3		2/3	
Stanley Miller Independent Director, not a member of executive management MTS PJSC	9/9	14/14		4/5	5/5	5/5
Vsevolod Rozanov			5/5	2/5	4/5	
Regina von Flemming <sup>6</sup> Independent Director, not a member of executive management MTS PJSC	9/9	6/7	4/5		5/5	5/5
Thomas Holtrop Independent Director, not a member of executive management MTS PJSC	9/9	14/14	3/5			5/5
Wolfgang Schüssel <sup>7</sup> Independent Director, not a member of executive management MTS PJSC	3/4	7/7		2/3		
Ruslan Ibragimov					5/5	
Vyacheslav Nikolaev				3/5		
Andrey Kamensky <sup>8</sup>			3/3			
Alexander Gorbunov <sup>9</sup>			3/3	5/5		
Vladimir Travkov <sup>10</sup>			1/1			
Andrey Shmakov <sup>11</sup>					1/3	
Andrey Dubovskov <sup>12</sup>				0/2	0/2	
Sergey Shishkin <sup>13</sup>					0/2	
Michel Combes <sup>14</sup> Independent Director, not a member of executive management MTS PJSC	0/5	3/7		0/2		0/3

<sup>1</sup> As of December 31, 2018.

<sup>2</sup> Elected as Member of the Corporate Governance Committee and Budget Committee since June 28, 2018.

<sup>3</sup> Elected as Member of the Corporate Governance Committee and Budget Committee since October 25, 2018.

<sup>4</sup> Elected as Strategy Committee member since June 28, 2018.

<sup>5</sup> Elected as Member of the Corporate Governance Committee, powers of the Member of the Budget Committee terminated since June 28, 2018.

<sup>6</sup> Elected as the Member of the Audit Committee since June 28, 2018.

<sup>7</sup> Elected as the Member of the Audit Committee, Remuneration and Nomination Committee, Strategy Committee since June 28, 2018.

<sup>8</sup> Elected as Member of the Budget Committee since April 10, 2018.

<sup>9</sup> Powers of the Budget Committee member terminated on June 28, 2018.

<sup>10</sup> Elected as Member of the Budget Committee since October 25, 2018.

<sup>11</sup> Elected as Member of the Corporate Governance Committee since June 28, 2018.

<sup>12</sup> Powers of Member of the Corporate Governance Committee, Strategy Committee terminated since June 28, 2018.

<sup>13</sup> Powers of Member of the Corporate Governance Committee terminated since June 28, 2018.

<sup>14</sup> Powers of the Member of the Audit Committee, Remuneration and Nomination Committee, Strategy Committee and Special Committee on the project of acquisition of MTS Bank terminated since June 28, 2018.



# Activities of Committees in the reporting year

## Budget Committee

The Budget Committee is an auxiliary body of the MTS PJSC Board of Directors for the preparation of recommendations to the Board of Directors upon review of matters involving preparation, approval, amendment and supervision over the execution of budgets, long-term business plans and investment plans of MTS PJSC.

The committee follows in its activities the recommendations and requirements of the effective legislation, the Charter and internal documents of the Company, Code of Ethics and Business Conduct, decisions of management bodies of the Company, and Regulation on the Committee.

### Objectives

Development and provision to the Board of Directors of recommendations on the following matters:

- approval and amendment of budgets, long-term business plans and investment plans;
- supervision over the progress of budget fulfilment;
- methods for determination of key indicators of budgets, long-term business plans and investment plans;
- budget fulfilment and necessity of its amendment.

### Number and identities of the members

The composition of the Committee changed during the reporting year.

The new composition of the Committee was approved at the meeting of the Board of Directors on June 28, 2018 and on October 25, 2018.

Committee Member	From June 29, 2017	From June 28, 2018	From October 25, 2018
Vsevolod Rozanov, Chairman, Non-Executive Director	■	■	■
Ron Sommer, Non-Executive Director <sup>1</sup>		■	■
Regina von Flemming, Independent Director	■	■	■
Thomas Holtrop, Independent Director	■		■
Andrey Kamensky, Member of the Management Board—Vice-President for Finance and Investment, Mergers and Acquisitions of MTS PJSC <sup>2</sup>		■	■
Artem Zasursky, Non-Executive Director <sup>3</sup>			■

<sup>1</sup> Elected as a committee member since June 28, 2018.

<sup>2</sup> Elected as a committee member since June 28, 2018.

<sup>3</sup> Elected as a committee member since October 25, 2018.

Vladimir Travkov, Vice President for Finance and Investments, Sistema PJSC<sup>1</sup> ■

Alexey Kornya, President, MTS PJSC Management Board Chairman<sup>2</sup> ■

Alexander Gorbunov, Non-Executive Director<sup>3</sup> ■

■ — person was/is a Committee member

<sup>1</sup> Elected as the Member of the Committee since October 25, 2018.

<sup>2</sup> Excluded from the composition of the Committee since June 28, 2018.

<sup>3</sup> Excluded from the composition of the Committee since June 28, 2018.

## Meetings

The reporting year saw five (5) meetings in praesentia of the Committee.

Participation of Committee members in the meetings.

Committee Member	February 28	April 9	June 27	October 24	December 12
Vsevolod Rozanov	■	■	■	■	■
Alexander Gorbunov	■	■	■		
Regina von Flemming	■	■	■	■	□
Thomas Holtrop	□	■	■	■	□
Alexey Kornya	-	■	-	-	-
Andrey Kamensky	□	□	■	■	■
Ron Sommer	-	-	-	■	□
Vladimir Travkov	-	-	-	-	■
Artem Zasursky	-	-	-	-	□

■ — Committee member participated in the meeting      □ — Committee member didn't participate in the meeting

- — person wasn't a Committee member at the moment of the meeting

## Issues reviewed

- CAPEX Budgetary Performance by MTS Group in 2017 and Forecast for 2018.
- Management of MTS Group accounts receivable Report for 2017 and Q1 2018.
- Results of MTS PJSC debt and liquidity management in 2017.
- Performance of CAPEX budget in 2018 and objectives for 2019.
- Approval of MTS Group budget for 2019.
- Others.

## The Committee has provided the following recommendations to the Board of Directors:

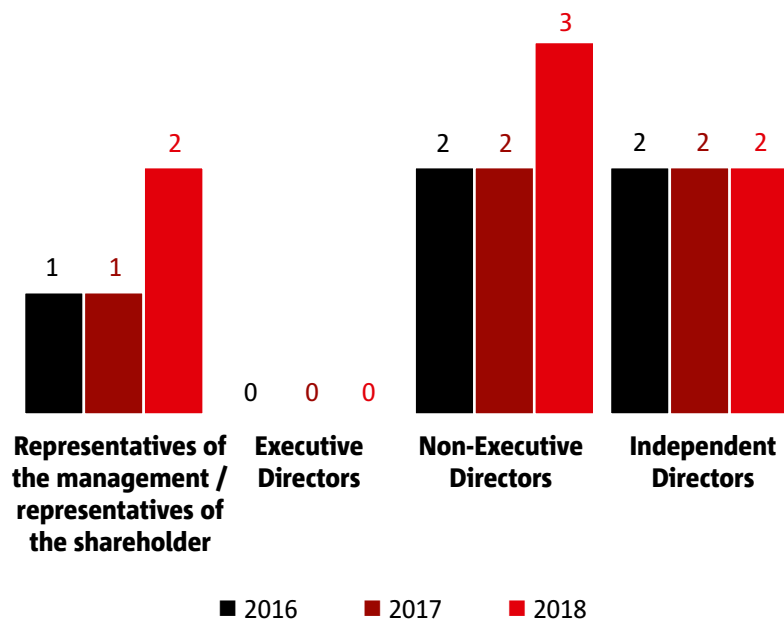
- take note of the preliminary MTS Group budget for 2019;
- submit draft budget 2019 for consideration of the Board of Directors of MTS PJSC.

## Work results in 2018

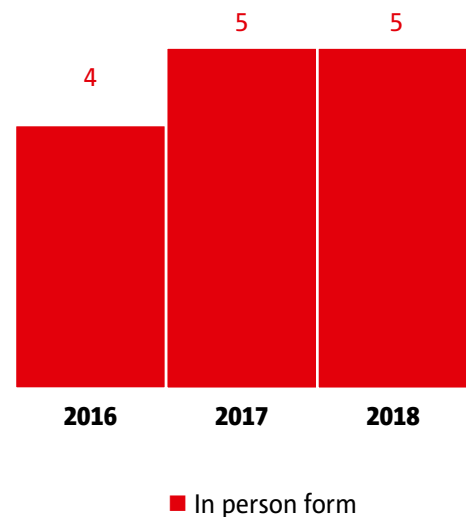
The Committee considered during the reporting year all required issues related to the approval and amendment of budgets, long-term business plans and investment plans.

Additionally, the Committee’s operational plan for the next year on the main functional areas was drafted and approved.

Composition of the Budget Committee 2016-2018



Meetings of the Budget Committee 2016–2018



# Audit Committee

The Audit Committee is a collective deliberative body under the Board of Directors. The committee was established for the purposes of assisting in efficient implementation of functions of the Board of Directors in terms of control over financial and economic activities of the Company.

The committee follows in its activities the recommendations and requirements of the effective legislation, the Charter and internal documents of the Company, Code of Ethics and Business Conduct, decisions of management bodies of the Company, and Regulation on the Audit Committee<sup>1</sup>.

## Objectives:

- control over completeness, accuracy and credibility of financial statements of MTS Group of Companies; analysis of annual financial statements, intermediate financial information and corresponding documents submitted to US Securities and Exchange Commission and other regulating bodies for the assessment of their completeness and information consistency, conducted jointly with the executives and external auditor;
- control over reliability and efficiency of the system for risk management, compliance and internal control, and corporate governance system; analysis and evaluation of completion of the procedures for risk management, compliance and internal control; control of procedures for compliance of the Group with legislation (anti-corruption, anti-monopoly, etc.) requirements, ethical standards, regulations and procedures of the Group, requirements of stock exchanges;
- assurance of independence and fairness of internal and external audit implementation; review of internal control and audit policies, plan, corresponding budget and results of Internal Control and Audit Unit activities, as well as assessment of efficiency of Internal Control and Audit Unit activities, including approval and evaluation of KPIs fulfilment; assessment of independence, fairness and lack of a conflict of interests of Group's external auditors, including evaluation of candidates for the Group's auditor position, drawing up proposals on appointment, reelection and dismissal of Group's external auditors, payment for their services and conditions of their involvement; supervision over the external audit and evaluation of quality of the audit inspection, and assessment of the auditor's report confirming the veracity of financial statements;
- control over efficiency of the system for notification on potential cases of unethical practices of

<sup>1</sup> <https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/dokumenty-pao-mts/polozhenie-o-komitete-po-auditu/>

**High rates of introduction of advanced technologies, development of the digital environment, and the structural transformation of the Company required increased attention from the Audit Committee in evaluating and controlling the implementation of risk management procedures, compliance and the internal control system for new digital business areas. The Committee continued its activities to oversee the financial reporting of the group, including controlling the disclosure of relevant information. The Audit Committee plays a key role in ensuring the effective functioning of the internal audit service and the external auditor, monitoring their independence and objectivity, and overseeing the quality of their activities.**

*Thomas Holtrop, Chairman of the Audit Committee*

the Group’s employees and third parties or other violations in the Group; review of reports on operation of the Single Hotline of MTS Group of Companies; control of ethical standards, analysis

and assessment of implementation of policies for the management of conflicts of interests;

- other objectives.

## Number and identities of the members

The composition of the Committee changed during the reporting year.

The new composition of the Committee was approved at the meeting of the Board of Directors on June 28, 2018.

Committee Member	From June 29, 2017	From June 28, 2018
Thomas Holtrop, Chairman, Independent Director	■	■
Michel Combes, Independent Director <sup>1</sup>	■	-
Stanley Miller, Independent Director	■	■
Wolfgang Schüssel, Independent Director <sup>2</sup>	-	■
Regina von Flemming, Independent Director <sup>3</sup>	-	■

■ — person was/is a Committee member

<sup>1</sup> Excluded from the composition of the Committee since June 28, 2018.

<sup>2</sup> Elected as the Member of the Committee since June 28, 2018.

<sup>3</sup> Elected as the Member of the Committee since June 28, 2018.

## Meetings

Committee activities were based on the approved action plan according to the main functions assigned to the Committee. The reporting year saw 14 meetings of the Committee: 11 in praesentia form, 3 in the form of absentee voting.

Besides these meetings, the Committee members held meetings with the Company’s financial executives and managers responsible for risk management and the internal-control system, as well as with the Company’s external advisors on a number of issues.

Com- mittee Member	January 25 (in absentia)	February 28	March 14	April 9	April 18	May 22	June 27	July 26 (in absen- tia)	August 20	Sep- tem- ber 19	October 5 (in absen- tia)	Octo- ber 24	Novem- ber 16	Decem- ber 19
Thomas Holtrop	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Michel Combes	■	■	■	□	□	□	□	-	-	-	-	-	-	-
Stanley Miller	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Regina von Flemming	-	-	-	-	-	-	-	■	□	■	■	■	■	■
Wolfgang Schüssel	-	-	-	-	-	-	-	■	■	■	■	■	■	■

■ — Committee member participated in the meeting

□ — Committee member didn’t participate in the meeting

- — person wasn’t a Committee member at the moment of the meeting

## Key areas of Audit Committee activities in 2018

### In the sphere of risk management and the internal-control system

During 2018, the Committee controlled the procedures providing for the Group's compliance with the requirements of the Sarbanes-Oxley Act. The plan for 2018 and operating results of the Department for Internal Control Systems for the first half and for 2018 in general were reviewed. The Committee reviewed and preliminarily approved the reports on risk management in MTS PJSC for the first half and 2018, work in the field of MTS Group risk MTS was positively estimated in 2018. The Annual Report of MTS PJSC in 20-F form for 2018 was discussed and approved.

The analysis of the Group's intermediate financial information was conducted jointly with the executives and external auditor for the first, second and third quarters of 2018; they also analyzed the Group's consolidated financial statements for the year, prepared in accordance with International Financial Reporting Standards (IFRS). The reports on the financial and operational performance of MTS Group for the first, second, third and fourth quarters and for 2018 were reviewed and approved.

During 2018, the Committee reviewed interested-party transactions whose cost exceeds the established materiality threshold, and with companies of Sistema PJSC Group; the results of analysis of economic feasibility and compliance with the requirements of regulatory documents in the closing of such transactions that was completed by the Internal Control and Audit Block were taken under advisement.

### In the field of compliance-system management

The Committee reviewed strategic areas of compliance activities for 2018 at the MTS Group of Companies and discussed reports on the status of compliance-system implementation at MTS PJSC and subsidiaries in the first half of 2018, and the results for the year. The Committee positively assessed the compliance function and considers it to be effective. The Committee reviewed and took under advisement the report on development of the unified compliance system of MTS PJSC for 2018. In February 2019, the Committee approved the functional strategy of MTS Group in the field of compliance for 2019. The Committee reviewed and recommended to the Board of Directors to approve the new revision of the Code of Business Conduct and Ethics of MTS PJSC.

### In the area of internal-control and audit management

During 2018, the Committee reviewed information about the current operation of the Internal Control and Audit Block. The Chairman of the Audit Committee held regular meetings with the Director for Internal Control and Audit.

The Audit Committee reviewed and took under advisement the results of external assessment of Internal Control and Audit Block performance quality, following which its performance was recognized as complying with the International Professional Standards of Internal Audit and Code of Ethics of the Internal Auditors' Institute.

The Committee approved the strategy of the Internal Control and Audit Block for 2019—2021. The Committee reviewed and approved the results of Internal Control and Audit Block performance for the first half of the year and in total for 2018, the compliance with 2018 KPIs was assessed. The Audit Committee positively evaluated the Internal Control and Audit Block performance, finds the function effective and performance of the Block tasks in full compliance with the expected results.

In December 2018, the Committee reviewed and approved the work plan and budget of the Internal Control and Audit Block for 2019, and also the new version of the "Internal Control and Audit of MTS PJSC" Policy, recommendations were given to the Board of Directors to approve the new revision of the Policy.

### In the area of external-audit management

The audit committee recommended Deloitte and Touche CIS JSC as the auditor of financial statements of MTS PJSC, which was confirmed by recommendation of the Board of Directors and by shareholders of the Company at the Annual General Shareholders' Meeting June 28, 2018.

Evaluation of the efficiency and quality of the external audit process shall be prepared by the Committee according to the results of analysis of the auditor's reports. The Audit Committee discussed and approved the results and conclusions of the external auditor based on the results of the review of quarterly overviews of financial information for the first, second and

third quarters of 2018 and the annual audit, including comments in the area of internal control. Based on 2018 results, the Committee gave a positive evaluation of the audit's quality and audit-procedure efficiency in general.

The Audit Committee gave a positive evaluation of the auditor's opinions based on the results of the audit of MTS PJSC financial statements for 2018, prepared in accordance with Russian accounting standards, and the consolidated financial statements of MTS PJSC and its subsidiaries for 2018, prepared in accordance with IFRS.

The Committee exercised supervision over the compliance of the auditors with independence principles. During 2018, the Committee considered information on permissible non-audit services, as provided by the external auditor, and discussed with the auditor

the possible impact of such services on the auditor's independence. Permissible non-audit services were preliminarily approved by the Committee in accordance with the procedure described in the Regulation on the Audit Committee.

### **In the area of combatting unethical practices on the part of MTS Group employees and third parties, compliance with ethical standards and conflict-of-interest management**

In 2018, the Committee reviewed performance of the Single Hotline of MTS Group of Companies for 2016, and on a monthly basis reviewed reports on operation of the Internal Control and Audit Block.

## **Issues and recommendations of the Audit Committee reviewed at the meetings in 2018:**

- approval of reports on the financial and operational results of MTS Group for 2017, and for the 1st, 2nd and 3rd quarters of 2018;
- review and approval of reports by Deloitte and Touche CIS JSC on the results of the annual audit for 2017, and quarterly reviews of financial information for the 1st, 2nd and 3rd quarters of 2018, the annual audit plan for 2018, preliminary approval of permissible non-audit services;
- evaluation of the auditor's opinions based on the results of the audit of MTS PJSC financial statements for 2017, prepared in accordance with Russian accounting standards, and the consolidated financial statements of MTS PJSC and its subsidiaries for 2017, prepared in accordance with IFRS;
- recommendation to the Board of Directors to approve Deloitte and Touche CIS JSC as the auditor of MTS PJSC financial statements in 2018;
- discussion and approval of the Annual Report of MTS PJSC in the form 20-F;
- review of the MTS PJSC Risk Management Report for the first half of 2018 and recommendation to the Board of Directors to approve the same;
- review of the results of external evaluation of MTS PJSC Internal Control and Audit Block operations quality completed by Deloitte and Touche CIS JSC;
- review and approval of the strategy of the Internal Control and Audit Block for 2019-2021;
- review and recommendation to the Board of Directors on approval of new revision of the Policy "Internal Control and Audit at MTS PJSC";
- review and approval of the performance of the Internal Control and Audit Block for 2017 and the first half of 2018;
- taking under advisement confirmation of the organizational independence of the Internal Control and Audit Block for 2018;
- review and approval of the work plan and budget of the Internal Control and Audit Block for 2019;
- review of the 2018 plan and operating results of the Department for Internal Control Systems for 2017 and the first half of 2018;
- review and recommendation to the Board of Directors to approve the new revision of the Code of Business Conduct and Ethics of MTS PJSC;
- review and approval of compliance functional strategy for 2018 in MTS Group of Companies;
- review and approval of the report on implementation of the MTS Group compliance strategy-2017 and report on the status of implementation of the

- compliance strategy at MTS PJSC and its subsidiaries in the first half of 2018;
- review of the report on development of the MTS PJSC Unified Compliance System for 2017;
- review of the work results of the Unified Hotline of the MTS Group of Companies for 2018;
- review of interested-party transactions whose cost exceeds the established materiality threshold, and with companies of Sistema PJSC Group, the results of analysis of the economic feasibility and compliance with the requirements of regulatory documents in the closing of such transactions;
- approval of the Committee work plan for 2019.

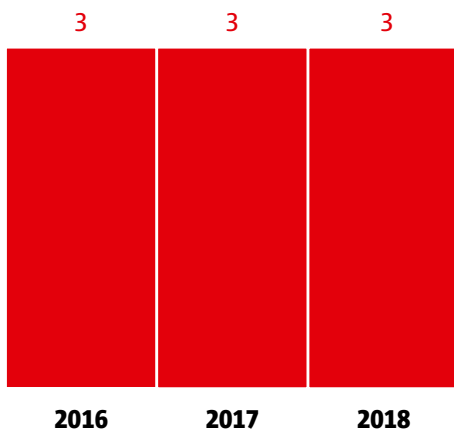
## Work results in 2018

In the reporting year, the Committee reviewed issues related to the assurance of control over the reliability and efficiency of the system for risk management and internal control, the compliance system, the veracity of the financial statements of the MTS Group of Companies, the independence and fairness of internal and external audit implementation, the efficiency of the

system for notification on potential cases of unethical practices on the part of the Group's employees and third parties or other violations in the Group.

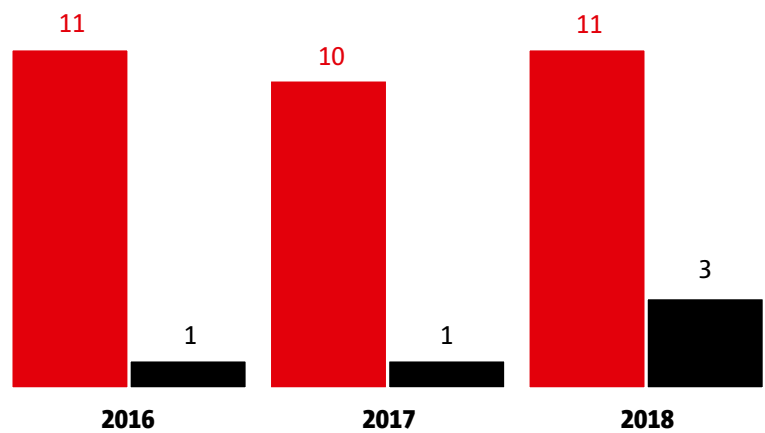
The Committee's operational plan for the next year on main functional areas was drafted and approved.

Composition of the Audit Committee 2016–2018



■ Independent Directors

Meetings of the Audit Committee 2016–2018



■ In person form ■ In absentia form



## **R**emuneration and Nomination Committee

The Remuneration and Nomination Committee is an auxiliary collective deliberative body under the Board of Directors. Main purposes of the Committee are: formulation of HR policy of the Company, determination of the system for remuneration of chief officers of the company, shaping the strategy for development of corporate culture in MTS Group.

Committee members follow leading international practices and trends in preparation of effective solutions within the terms of their reference.

The committee follows in its activities the recommendations and requirements of the effective legislation, the Charter and internal documents of the Company, Code of Ethics and Business Conduct, decisions of management bodies of the Company, and Regulation on the Committee<sup>1</sup>.

<sup>1</sup> <https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/dokumenty-pao-mts/polozhenie-o-komitete-po-voznagrazhdeniyam-i-naznacheniyam>.

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uring the reporting year, the Remuneration and Nomination Committee continued working over important aspects of personnel management for the company. Efficiently using its collective international experience in the field of corporate governance and best professional practices, the Committee consults the Board of Directors on these issues.

Our objective is to promote that the MTS policy in the field of personnel management in general and compensations and remunerations in particular is recognized as the best practice in its class in the labor market. The Committee works so that the Company retains and attracts top managers, and the cost of employees is estimated using clear and precise indicators specified by the management board of the Company. The Committee generalizes the results of achievement of the annual key performance indicators and provides recommendations to the Board of Directors on short-term and long-term stimuli based on analysis of local and international market conditions.

The Committee also watches fulfillment of initiatives related to Company's strategic development. An important goal, on the one hand, is to ensure fair remuneration for outstanding results, and on the other hand, not to ignore absence of efforts at the same time. Together with the Audit Committee, special attention is paid to compliance with the corporate governance rules, regulatory requirements and prevention of financial crimes.

The Committee is responsible for review of external and internal candidates for key management jobs of the Company, and for assessment of independent candidates for the Board of Directors. Recently the Committee summarized results of Company's President and top management operations in 2018. All members of the Committee are confident that by attracting best employees, investment into training, retaining and fair remunerating at the level of the market, establishment of opportunities for their development in competitive, but fair environment, the Company will further provide its success for many years.

*Regina von Flemming, Chairperson, Remuneration and Nomination Committee*

## Objectives:

- Development and update of MTS PJSC HR policy, preparation of a succession pool for the positions of chief officers;
- Drawing up proposals on candidates and on determination of significant conditions for remuneration of the chief executives, and proposals on an early termination of office;
- Evaluation of performance results of the Company's President and Management Board members, direct subordinates of the Company's President for the reporting period and preparation of proposals on their reappointment and appointment of Corporate Secretary;
- Development and submission for BoD review of internal documents related to implementation of the Options Plan of the Company;
- Control over meeting the requirements of the effective legislation, MTS PJSC Charter and internal regulatory acts of MTS PJSC as to compliance with HR policy of the Company, standards and procedures in the sphere of remuneration and appointments;
- Determining methods and evaluation of performance of the Board of Directors of the Company;
- The Committee preliminarily addresses the issues reviewed at meetings of the Company's Board of Directors in the sphere of appointment and remuneration of top managers of the Company.

## Number and identities of the members

The composition of the Committee changed during the reporting year.

The new composition of the Committee was approved at the meeting of the Board of Directors on June 28, 2018.

Committee Member	From June 29, 2017	From June 28, 2018
Regina von Flemming, Chairman, Independent Director	■	■
Stanley Miller, Independent Director	■	■
Michel Combes, Independent Director <sup>1</sup>	■	
Thomas Holtrop, Independent Director	■	■
Wolfgang Schüssel, Independent Director <sup>2</sup>		■

■ — person was/is a Committee member

<sup>1</sup> Excluded from the composition of the Committee since June 28, 2018

<sup>2</sup> Elected as a committee member since June 28, 2018

## Meetings

The reporting year saw 7 meetings of the Committee: 8 in praesentia form, 1 in the form of absentee voting.

Participation of Committee members in the meetings is reflected in the table.

Committee Member	February 28	March 1	April 9	May 24 (in absentia)	June 27	June 28	September 18	October 24	December 19
Regina von Flemming	■		■	■	■	■	■	■	■
Stanley Miller	■		■	■	■	■	■	■	■
Thomas Holtrop	■	■	■	■	■	■	■	■	■
Wolfgang Schüssel	-	-	-	-	-	■	■	□	■
Michel Combes	□	□	□	□	□	-	-	-	-

■ — Committee member participated in the meeting      □ — Committee member didn't participate in the meeting  
 - — person wasn't a Committee member at the moment of the meeting

## Main areas of activities of the Remuneration and Nomination Committee in 2018

### Matters of appointments and succession assurance

- Candidates, including external ones, for positions of immediate subordination to the Company's President were considered. Experience sufficiency was evaluated; the results achieved at the Company were analyzed for internal candidates. Candidates for key managerial positions in various functions of the Company were considered, their readiness for appointment as well as strengths and development possibilities were evaluated.
- Independence of the candidates for inclusion in the Audit Committee under the MTS PJSC Board of Directors was assessed.

- Procedures required for the support of long-term motivation program were implemented, including determination of the current-year program participants and program's KPI targets.
- Technical standards for top managers were updated according to the current needs.

### Matters related to the efficiency of development of the personnel management function at MTS

- HR strategy implementation results and objectives for future periods were reviewed. Recommendations on the main areas of activities were given to the Company's managers.

### Issues of the systems for remuneration of managers

- Key indicators of the performance of company's top managers were determined, the results of previous period activities were reviewed.

- Key transformations of the Company's organizational structure, their correspondence to the upper-level business objectives and the Company's strategy

## Issues reviewed

- Assessment of the results of activities performed by the Company's President and top managers in 2017.
- Setting goals for 2019, including the list, target values and influence (weight) of each of the parameters on the resulting remuneration award.

- Review of KPI results of the long-term awarding programs for 2017 and setting goals for 2018.
- Drawing up lists of participants of the long-term awarding programs according to the program’s regulations.
- Appointments and employment termination of the Management Board members and top managers; it was recommended to rotate Management Board of the Company.
- Changes in the Company’s organizational structure in general and with respect to direct subordinates of the President of the Company.
- Composition and readiness of successors to top managers of the Company.
- Evaluation of top managers’ remuneration level against the market level and their contribution to Company’s results.
- Standards of material and technical support of the Company’s top managers have been updated.
- Assessment of compliance of candidate members of MTS PJSC Board of Directors with the independence criteria.
- Development of the company’s organizational structure.

## The Committee has provided the following recommendations to the Board of Directors:

On all the issues discussed, the Committee provided recommendations for proper decisions in accordance

with the best world practices, the current business environment and the company’s development strategy.

## Work results in 2018

In the reporting year, the Committee reviewed all the necessary issues related to the competence of the Committee required to effectively support the Company’s activities and its development.

successors to leadership positions and the company’s digital transformation.

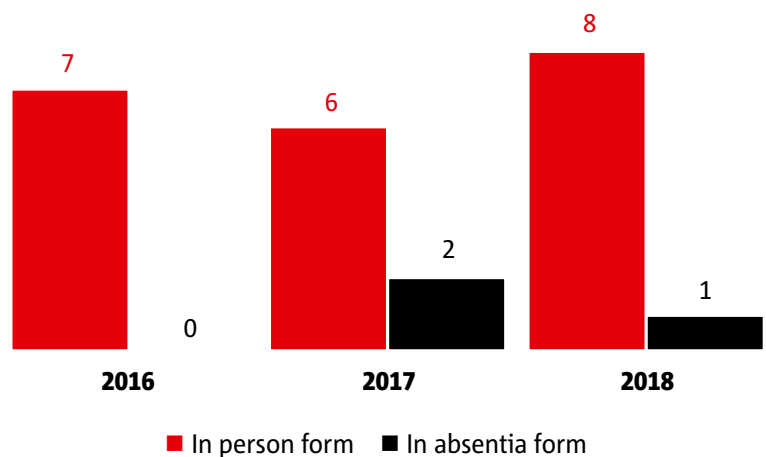
Particular attention was paid to formation of external and internal HR reserve and development of internal

Additionally, the Committee’s operational plan for the next year on the main functional areas was drafted and approved.

Composition of the Remuneration and Nomination Committee 2016–2018



Meetings Meetings of the Remuneration and Nomination Committee 2016–2018



## **C**orporate Governance Committee

The committee was created in order to develop and improve the system and practices of corporate governance in the Company. The Committee within the terms of its reference preliminarily reviews the most important issues and prepares recommendations for the Board of Directors to take relevant decisions

The committee follows in its activities the recommendations and requirements of the effective legislation, the Charter and internal documents of the Company, Code of Ethics and Business Conduct, decisions of management bodies of the Company, and Regulation on the Committee<sup>1</sup>.

### Objectives

The Committee faces the challenges on a development of priority areas of Company's activities as to implementation of the corporate governance standards and

control over practices in this sphere and settlement of corporate conflicts.

<sup>1</sup> <https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/dokumenti-pao-mts/polozhenie-o-komitete-po-korporativnomu-upravleniyu>.

**In the reporting year, we kept up the work on improving the company's corporate governance system and implemented a number of relevant initiatives.**

**In particular, we decided to create the Advisory Board, an advisory collective structural body under the company's President. This may be seen as a reply to the challenges the new age has for us. The key objective of its creation is to build an expert platform in IT and digital transformation. We plan to put on the Advisory Board experts in IT including financial technologies, digital transformation, robotization, artificial intellect and other areas of knowledge with a higher development pace. We see as its key task in the future to give the management and Board of Directors advice in the said matters.**

**Also, jointly with the Remuneration and Nomination Committee, we paid a lot of attention to developing a system of succession planning in the Board of Directors.**

**We analyzed the best practices and approaches to forming the Board of Directors and discussed the current joint examination efforts of the Board of Directors, needs of new examination in view of changes in the strategy and possible changes in the company's processes.**

**Planning of continuity in the Board of Directors now becomes vital to all public companies, as the applicable listing regulations require rotation of independent directors. Therefore, we will also pay very close attention to this matter in the future.**

*Vsevolod Rozanov, Chair, Corporate Governance Committee*

In connection with its assigned tasks, the Committee performs the following functions:

- control over the reliability and efficiency of the system and practices of corporate governance, and preparation of suggestions on their improvement, as well as a comparative analysis of corporate governance policies and programs at other companies;
- determination of policies in the area of voluntary disclosure of information by the Company and control over the compliance with information policies;
- assistance in the prevention and resolution of corporate conflicts among the shareholders and between the Company's shareholders and executive bodies, as well as the review of complaints and comments from shareholders;
- preliminary review of the Company's internal regulatory documents submitted for approval (preliminary review) of the Board of Directors, and of the Company's annual report.

## Number and identities of the members

The composition of the Committee changed during the reporting year.

The new composition of the Committee was approved at the meeting of the Board of Directors on June 28, 2018 and on October 25, 2018.

Committee Member	From June 29, 2017	From June 28, 2018	From October 25, 2018
Vsevolod Rozanov, Chairman, Non-Executive Director	■	■	■
Andrey Dubovskov, President, Management Board Chairman of Sistema PJSC <sup>1</sup>	■		
Alexey Kornya, President, Chairman of the MTS PJSC Management Board, Executive Director <sup>2</sup>		■	■
Ron Sommer, Non-Executive Director <sup>3</sup>		■	■
Ruslan Ibragimov, Management Board Member, MTS PJSC-Vice-President on Corporate and Legal Issues	■	■	■
Stanley Miller, Independent Director	■	■	■
Regina von Flemming, Independent Director	■		
Artem Zasursky, Non-Executive Director <sup>4</sup>		■	■
Andrey Shmakov, Managing Director, Corporate Relations, Sistema PJSC <sup>5</sup>		■	■
Sergey Shishkin, Managing Partner, Sistema PJSC <sup>6</sup>	■		

■ — person was/is a Committee member

<sup>1</sup> Excluded from the composition of the Committee since June 28, 2018.

<sup>2</sup> Elected as a committee member since June 28, 2018.

<sup>3</sup> Elected as the Member of the Committee since June 28, 2018.

<sup>4</sup> Elected as the Member of the Committee since June 28, 2018.

<sup>5</sup> Elected as the Member of the Committee since June 28, 2018.

<sup>6</sup> Excluded from the composition of the Committee since June 28, 2018.

## Meetings

The reporting year saw five meetings in praesentia of the Committee.

Participation of Committee members in the meetings is reflected in the table.

Committee Member	February 28	April 9	September 19	October 24	December 19
Vsevolod Rozanov	■	■	□	■	■
Andrey Dubovskov	□	□	-	-	-
Alexey Kornya	-	-	■	■	□
Ron Sommer	-	-	■	■	■
Ruslan Ibragimov	■		■	■	■
Stanley Miller	■		■	■	■
Regina von Flemming	■		■	■	■
Artem Zasursky	-	-	-	-	□
Andrey Shmakov	-	-	□	□	■
Sergey Shishkin	□		-	-	-

■ — Committee member participated in the meeting      □ — Committee member didn't participate in the meeting  
 - — person wasn't a Committee member at the moment of the meeting

## Issues reviewed in 2018

- Corporate Governance Code recommendations failed to be followed.
- Main trends in the sphere of corporate governance.
- Change of the directors' remuneration system.
- Making an Advisory Board under the MTS President.
- Self-assessment of the Board of Directors-2018.
- Extension of the D&O Insurance Agreement.
- Planning of Board of Directors succession.

## The Committee has provided the following recommendations:

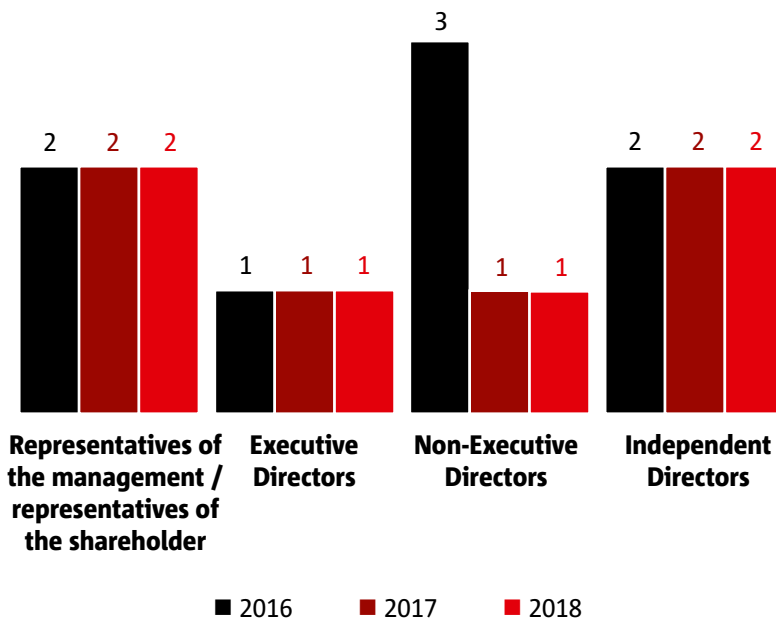
- To take actions aimed at compliance with the recommendations of the Corporate Governance Code.
- To approve the Committee's work plan for 2018.
- To take into account and recommend the Board of Directors to approve report on work of Corporate Governance Department.
- To instruct MTS PJSC Management to develop amendments to the in-house documents modifying the structure of directors' remuneration.
- To recommend the Board of Directors of MTS PJSC to make a decision to conduct self-assessment in 2018.
- To take under advisement the provided information on conclusion of the agreement with the insurer for settlement of the controversy that has arisen with respect to the amount of compensation.
- To take under advisement information on results of the National Corporate Governance Index.

## Work results in 2018

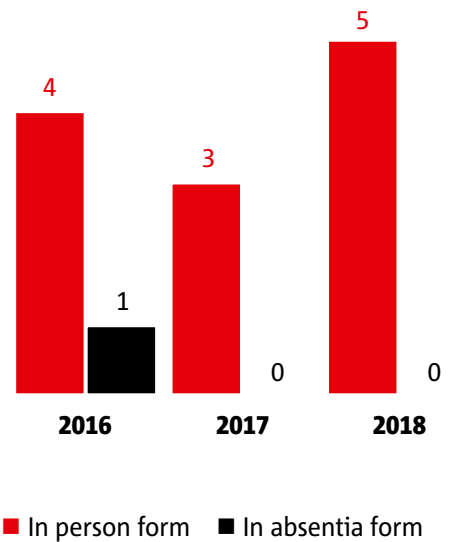
The Committee considered in 2015 all the matters related to the development of corporate governance at the Company; no issues on the settlement of corporate conflicts arose; no complaints or comments from shareholders on the competence of the Committee were received.

The main attention of the Committee was focused on change of the system for remuneration of the members of the Board of Directors and self-assessment of the Board of Directors of the company.

Composition of the Corporate Governance Committee 2016–2018



Meetings of the Corporate Governance Committee 2016–2018





# S

## trategy Committee

The Committee is an auxiliary body of MTS PJSC Board of Directors for preparation of recommendations to the Board of Directors upon review of a strategic development of key functions, projects and Company in general, and implementation of investment projects and long-term investment programs.

### Objectives:

- preliminary review and provision of recommendations to the Board of Directors on issues within the terms of reference of the Strategy Committee;
- discussion and drawing up of recommendations on strategic activity areas and projects of the Company.

### Number and identities of the members

The composition of the Committee changed during the reporting year.

The new composition of the Committee was approved at the meeting of the Board of Directors on June 28, 2018.

Committee Member	From June 29, 2017	From June 28, 2017
Ron Sommer, Chairman, Non-executive Director	■	■
Alexander Gorbunov, Non-executive Director	■	■
Andrey Dubovskov, President, Chairman of MTS PJSC Board Sistema PJSC <sup>1</sup>	■	-
Stanley Miller, Independent Director	■	■
Michel Combes, Independent Director <sup>2</sup>	■	-
Vsevolod Rozanov, Non-Executive Director	■	■
Artem Zasursky, Non-Executive Director	■	■
Alexey Katkov, Non-Executive Director <sup>3</sup>	-	■

<sup>1</sup> Excluded from the composition of the Committee since June 28, 2018.

<sup>2</sup> Excluded from the composition of the Committee since June 28, 2018.

<sup>3</sup> Elected as the Member of the Committee since June 28, 2018.



**At the meetings of the strategy committee under the Board of Directors of MTS in 2018 we considered general issues related to strategic planning in the company, and in more detail, functional strategies, as well as the report on operations of the Innovation Center. Special attention was paid to the promising Digital-areas, and the decision was made to further consider the corresponding issues in more detailed format, with the purpose to provide all the necessary support to such areas from the committee when key management decisions are made.**

*Ron Sommer, Chairman of the Strategy Committee*

Wolfgang Schüssel, Independent Director <sup>1</sup>	-	■
Vyacheslav Nikolaev, Member of the Management Board, Vice-President for Marketing, MTS PJSC	■	■

■ — person was/is a Committee member

<sup>1</sup> Elected as the Member of the Committee since June 28, 2018.

## Meetings

Reporting year saw 5 meetings in praesentia of the Committee.

Participation of Committee members in the meetings.

Committee Member	April 9	June 27	September 19	October 24	December 19
Ron Sommer	■	■	■	■	■
Vsevolod Rozanov	□	□	■	■	□
Artem Zasursky	■	■	■	■	■
Alexey Katkov	-	-	■	■	■
Stanley Miller	□	■	■	■	■
Wolfgang Schüssel	-	-	■	□	■
Alexander Gorbunov	■	■	■	■	■
Vyacheslav Nikolaev	■	□	■	■	□
Andrey Dubovskov	□	□	-	-	-
Michel Combes	□	□	-	-	-

■ — Committee member participated in the meeting      □ — Committee member didn't participate in the meeting  
 - — person wasn't a Committee member at the moment of the meeting

## Issues reviewed by the Committee in 2018

- Main strategic subjects/areas for the following cycle of strategic planning for 2019–2021 in MTS Group.
- IT policy and strategy (including in the cybersecurity field).
- MTS technology strategy.
- MTS Innovation Center: current status and plans.
- Report on Digital areas.
- IoT development in MTS: current status, nearest plans, pending issues.
- Satellite TV: current status and strategy.
- Status and strategy of ticketing services development.
- Digital services in MTS ecosystem and strategy to improve penetration of digital applications.
- Updated Regulations on the Strategy Committee of the Board of Directors of MTS PJSC.

## The Committee provided the following recommendations to the Company’s Board of Directors and Management of MTS Group

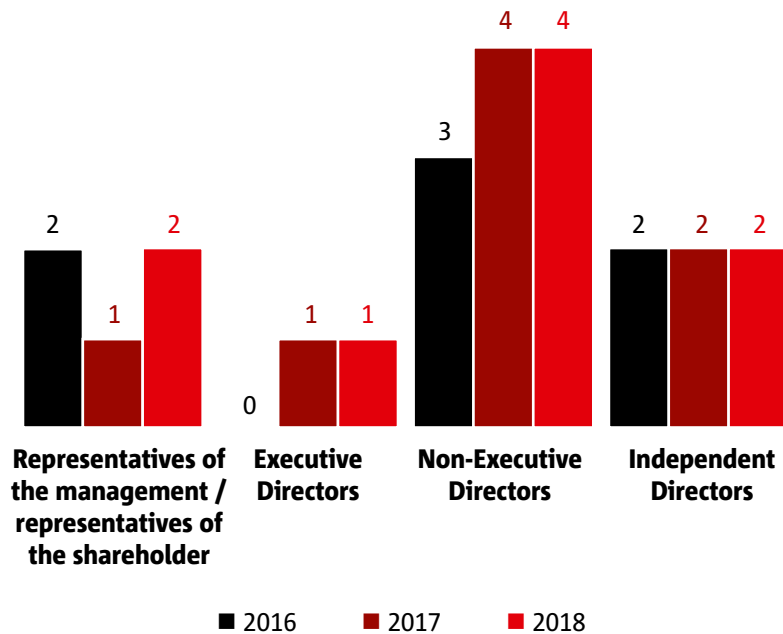
- In process of strategic planning for 2019-2021, to follow the format and procedure defined by the Strategy Committee under the Board of Directors.
- When developing/adjusting functional strategies, to follow recommendations defined by the Strategy Committee under the Board of Directors.
- To ensure detailed and in-depth review of Digital areas development results at the Board of Directors and the Strategy Committee under the Board of Directors. In process of analysis and planning of operations, to take into account metrics defined by the Committee for each specific area.
- To recommend to the Board of Directors of MTS PJSC to approve the updated Regulations on the Strategy Committee of the Board of Directors of MTS PJSC.

## Work results in 2018

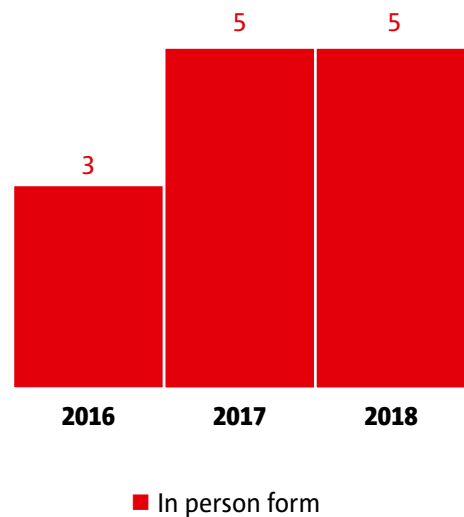
In the reporting year, the Committee considered the issues related to the process of strategic planning of the Company’s operations, strategies on the main functional areas and separately for all business areas in the digital category. Several recommendations were

provided to the company’s management following review of issues. Besides, the updated regulations on the Committee was adopted, and the Committee’s work plan was defined for the next year.

Composition of the Strategy Committee 2016–2018



Meetings of the Strategy Committee 2016–2018



# Special committee

The primary task of the Special Committee of Independent Directors is to analyze transaction execution terms and related risks, work out an opinion on expediency of entering into transactions, prepare recommendations to the Board of Directors concerning approval of transactions, interaction with consultants with respect to transactions and other issues.

## Objectives

Committee’s tasks are to monitor transactions for asset acquisition, including, to assure compliance of transaction terms with fair market conditions comparable

with other similar transactions, assure compliance of transaction terms with Company’s and all its shareholders’ interests.

## Number and identities of the members

Composition of the Committee was approved at the meeting of the Board of Directors dated March 1, 2018.

Committee Member	From March 1, 2018	From June 28, 2018
Thomas Holtrop, Chairman, Independent Director	■	■
Stanley Miller, Independent Director	■	■
Regina von Flemming, Independent Director	■	■

■ — person was/is a Committee member

## Meetings

The reporting year saw 5 meetings in praesentia of the Committee.

Participation of Committee members in the meetings.

Committee Member	March 1	April 10	June 1	September 18	December 20
Thomas Holtrop	■	■	■	■	■
Stanley Miller	■	■	■	■	■
Regina von Flemming	■	■	■	■	■

■ — Committee member participated in the meeting

□ — Committee member didn’t participate in the meeting

## **Issues reviewed**

- detailed reports and expert reports in respect of the Transaction for MTS Bank PJSC asset acquisition (hereinafter referred to as Transaction);
- draft memorandum of the Transaction's structure;
- draft sales-purchase contracts;
- other issues related to preparation for Transaction execution.

## **The Committee has provided the following recommendations to the Company's Board of Directors**

- Recommend the Board of Directors to approve the Transaction in essence, under terms set out in draft sales-purchase contracts.

## **Work results in 2018**

In the reporting year, the Committee reviewed issues related to preparation for Transaction's execution

# Information on remuneration of members of the Board of Directors

The procedure and terms of remuneration payment to members of the Board of Directors of MTS PJSC are defined in accordance with the Regulation on remunerations and compensations paid to members of the Board of Directors of MTS PJSC<sup>1</sup>.

MTS pays remuneration to independent directors, as well as directors, who are not employees or members of the management bodies of companies in MTS

Group. Overheads are compensated to all directors in accordance with actually made and documented target expenses.

## What is remuneration made of?

**Total amount: \$500,000 max**

**1**

Chairman/Director  
**\$400,000 / \$300,000**

+

**2**

Chairman/Director  
**\$50,000 / \$30,000**  
for sitting in a mandatory committee  
**\$30,000 / \$25,000**  
for sitting in another committee  
**\$50,000 / \$30,000**  
for sitting in a special committee

+

**3**

**\$100,000**

### Basic Remuneration

paid for fulfilment of Director's duties during the corporate year and does not depend on the quantity of attended meetings

### Remuneration for Sitting on Committees

paid for fulfilment of additional obligations related to work on Board of Directors Committees

### Granting of Shares

additional remuneration in the form of remuneration with shares is paid following work results for the corporate year. There are restrictions in respect to shares\*.

\* Director may dispose of shares from the fourth year after receiving the first stock of shares. Until resignation from the Board of Directors and during one year thereafter, Director shall keep a minimum share capital of \$300,000.

<sup>1</sup> <https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/dokumenty-pao-mts/polozhenie-ovo-zna-grazhdanii-chlenov-soveta-direktorov-paomts>

The remuneration system for members of the Board of Directors provides for the alignment of the financial interests of directors with the long-term financial interests of shareholders.

Detailed information is disclosed in clause 4.2.1. Report on fulfilment of the principles and recommendations of the Corporate Governance Code.

### Remuneration paid to members of the Board of Directors in 2018

Indicator	Total, RUB
Remuneration for participation in operations of the management body	99,691,199.67
Cost compensations	1,442,707
<b>TOTAL</b>	<b>101,133,907</b>

# Evaluation of the Board of Directors' performance

The effectiveness of the Board of Directors affects the quality of management, performance of the organization and, as a consequence, its market capitalization. In order to improve the practices of the Board of Directors, a systematic evaluation is necessary, after which the members of the Board of Directors will better understand their strengths and development zones and can identify opportunities for constructive and sustainable changes in the long term.

The evaluation of the Board of Directors performance acts as an efficient tool of corporate governance development and is aimed to raise the efficiency of Board of Directors performance.

After adoption of the Code and completion of the corporate governance audit of MTS in 2015 the Corporate Governance Committee under the Board of Directors made a decision on the need for drafting a new methodology. In 2016, with the joint participation of the Remuneration and Nomination Committee, Corporate Governance Committee and the Board of Directors, an independent consultant was selected to update the existing methodology for evaluation of the performance of the Board of Directors. The new methodology was approved by the decision of the Board of Directors.

The Methodology defines the approach to the evaluation, whose purpose is to improve the performance of the Board of Directors, its committees, Board of Directors members, and to improve the quality of corporate governance at MTS as a whole. The Methodology contains a description of the following:

- objects and subjects (participants) of evaluation;
- methods and tools of evaluation;
- principles, procedures and main areas of evaluation;
- evaluation procedure;
- approach to analysis and use of evaluation results;
- approach to risk management in process of evaluation.

Evaluation principles are the following:

- regular performance;
- relevance;
- practical focus;
- objectivity of results;
- comparability of results;
- confidentiality.

The objects of the Evaluation include:

- activities of the Board of Directors;
- activities of committees of the Board of Directors;
- individual performance of each member of the Board of Directors and committees, including their chairmen;
- activities of the Corporate Secretary.

The purpose of the Board of Directors performance evaluation is maximization of Board of Directors contribution to successful development and growth of company value through solving such tasks as:

- determination of balanced composition of the Board of Directors from the point of view of professional experience, knowledge, skills and personal qualities of its members;
- analysis of effective approaches and procedures used by the Board of Directors and Committees in their work;
- tracking presence and level of motivation of the Board of Directors members;
- confirmation of sufficient control from the side of the Board of Directors over operations of the organization and determination of quality of interrelations between the Board of Directors and management;



- determination of the Board of Directors contribution to development of the MTS corporate governance system and ensuring efficient cooperation of its subjects.

The main objective of Board of Directors performance evaluation is definition of their efficiency in preliminary elaboration of issues and assistance to the Board of Directors in process of decision making. Such objective may be achieved by solving such tasks as:

- confirmation of the role, function and objectives of the Committee;
- inspection of balanced composition of the Committee from the point of view of number of its members, their knowledge, professional experience and competences;
- analysis of quality and efficiency of Committee interaction with the Board of Directors and management.

Individual evaluation of members of the Board of Directors is aimed at maximization of their contribution to operations of the Board of Directors and Committees, and also detection of directors' need for upgrade or development of certain skills enabling more effective operation of the Board of Directors and Committees.

The evaluation is carried out on a regular (annual) basis and can be conducted both independently (by questionnaire) and with the involvement of an independent consultant.

In 2018, we evaluated the Board of Directors according to the new methodology for the third time: in the form of self-evaluation by survey method. For the evaluation, a 4-point scale was used. The following factors were taken into account in the reporting year to identify the form of Board of Directors evaluation: (1) evaluation of the Board of Directors in 2017 was held with participation of an external consultant, and its form almost complied with the external evaluation, (2) many actions scheduled following the results of evaluation of the Board of Directors in 2017, (3) short period of work in the Board of Directors for newly elected members insufficient for comprehensive feedback in process of external evaluation.

In process of evaluation, a long list of issues was analyzed: balance of power on the Board of Directors, role of the Board of Directors in the generation and implementation of Company strategy, analysis of the quantitative and staffing composition of the Board of Directors and its Committees, qualification and experience

of the members of the Board of Directors, the role of independent directors, the procedure of Board of Directors and committee meetings, evaluation of the efficiency of the Chairman's, Secretary's work and the work of each of the committees under the Board of Directors.

During self-evaluation, the Board of Directors considered issues aimed at the detection of faults in the area of the professional qualification, experience and business skills of the members of the Board of Directors, as well as the alignment of the quantitative composition of the Board of Directors with the Company's needs. The self-evaluation demonstrated that the composition of the Board of Directors was balanced, that the combination of the professional competencies, knowledge and experience of the members of the Board of Directors reflects the Company's needs and makes it possible to efficiently perform the tasks and functions of the Board of Directors. The results of Company's Board of Directors evaluation are at the stable high level.

Evaluation results were considered at the joint meeting of the Corporate Governance Committee and the Remuneration and Nomination Committee, and then at the meeting of the Board of Directors. The meetings were meetings in praesentia.

In the opinion of the assessment-process participants, the Board of Directors plays a crucial role in the MTS corporate-governance system, duly performing its functions and paying sufficient attention both to strategic issues and to those in the area of business-efficiency control. This is promoted by work of the Chairman of the Board of Directors and Corporate Secretary that they perform at high level.

Moreover, directors and other participants in the evaluation process expressed their proposals for further improvement of the work of the Board of Directors and the key issues on which the Board of Directors should focus.

Following the completed evaluation, recommendations were worked out to improve the work of the Board of Directors, and a plan of actions was developed for 2019. The key recommendations are related to issues of strategic activities, succession and operation of the committees.

We positively evaluate the results of last year's evaluation and acknowledge the high level of its participants' involvement; therefore, we plan to conduct it further, and will also consider the feasibility of engaging a separate consultant for the evaluation process (in accordance with the Code's recommendation).

## Informing newly elected members of the Board of Directors about Company's operation

In accordance with best corporate governance practices for newly elected members of the Board of Directors an orientation (information) course in the format of interactive presentation in Russian and English is held. This course enables to shortly familiarize new members of the Board of Directors with Company's development history, operation of the Board of Directors, main documents governing Company's operations, annual financial reporting, development strategy, Company's management structure etc.

The President, Company's management and secretary of the Board of Directors take part in the presentation. Individual meetings with the Company's senior functional management are also offered to members of the Board of Directors, at which members of the Board of Directors may obtain any information required for their work.

## Role of the Board of Directors in organization of the efficient risk management and internal control system<sup>1</sup>

The Board of Directors within its competence is liable for organization of the risk management and internal control system in the Company, including approved reports on efficiency of the risk management system, efficiency of the Company's internal control system, including compliance system.

The Board of Directors is liable for efficiency of the risk management process, for building and maintaining of the Company's risk management and internal control

system; twice a year reviews risk management report, annually reviews a report of the Audit Committee based on annual results with analysis of current control systems and discovered violations.

Today, an efficiently operating risk management and internal control system aimed at assuring reasonable confidence in achievement of objectives set in the Company exists in the Company.

<sup>1</sup> A more detailed information is presented in the section "Risk Management."

# Officials and MTS Group Companies Liability Insurance

Insurance amount (limit of liability) for five (5) last years remained unchanged and amounts to USD 250 mln (for each of annually executed insurance agreements).

## D&O policy

Enables to assure protection of members of the Board of Directors, Management Board and management of MTS PJSC (hereinafter, "Officials") and provide coverage for:

- indemnification of Officials, in connection with actions or claims submitted against them or their persecution by authorized state authorities for their actions/omissions while they exercise office duties in the office held, namely:

- compensation of expenses of Officials for lawyers and legal protection in connection with the above actions or claims;

- indemnification of damages caused to plaintiffs by actions/omission of Officials (in the event that the lawsuit is satisfied by the court);

- indemnification of damages of MTS PJSC and subsidiaries of MTS PJSC for claims related to securities (except for lawsuits related to IPO of American depositary receipts).

## President and Management board of MTS

A key role in implementation of the selected strategy, organization of efficient implementation of resolutions of the Board of Directors, management of current operations of the Company belongs to Executive Bodies of the Company—President (sole executive body) and Management Board (collegial executive body).

Executive bodies are accountable to the Board of Directors and General Shareholders Meeting.

The Company's executive bodies shall be established by the Board of Directors.

The President and Management Board act on the basis of the articles of association of MTS PJSC, Regulation on the President of MTS PJSC<sup>1</sup> and Regulation on the Management Board of MTS PJSC<sup>2</sup>.

Executive bodies:

- shall organize the Company's activities and be responsible for results of these activities, ensure the enforcement of decisions made by the General Meetings of Shareholders and by the Board of Directors;
- assure establishment and maintenance of operation of the efficient risk management and internal

control system in the Company, are responsible for implementation of resolutions of the Board of Directors in terms of organization of the risk management and internal control system;

- shall be responsible for effective economic, financial, scientific and technical and social policies of the Company.

The Board of Directors is entitled at any time to adopt a resolution on early termination of the President's powers, as well as on termination of the powers of an individual member of the Management Board or all members of the Management Board and on the establishment of new Executive Bodies.

During 2018 (since March 13, 2018) the functions of MTS PJSC President were performed by Alexey Kornya<sup>3</sup>.

<sup>1</sup> <https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/dokumenti-pao-mts/polozhenie-o-prezidente-pao-mts/>

<sup>2</sup> <https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/dokumenti-pao-mts/polozhenie-opravlenii-paomts/>

<sup>3</sup> From March 5, 2011, to March 12, 2018, the functions of MTS PJSC President were performed by Andrey Anatolyevich Dubovskov.

## Composition of the Management Board in 2018

Information about the President and members of the Management Board as of December 31, 2018

### Alexey Kornya

President, Management Board Chairman of MTS PJSC



Born in 1975 in Bryansk.

In 1998 he graduated from St. Petersburg State University of Economy and Finance.

#### Professional experience:

2000: PricewaterhouseCoopers Audit CJSC, consultant-auditor.

2000–2004: North-West Telecom OJSC, Chief Financial Consultant, Chief Specialist on Financial Consultation.

2004–2007: MTS PJSC, in July 2004, financial director of the branch of MTS PJSC of Urals macroregion; in October 2007, director of the Financial Planning and Analysis Department of the Financial Unit of MTS Group.

2007–2008: MTS PJSC, Controlling Director of the Finance and Investment Unit.

2008–2009: MTS PJSC, Deputy Vice President for Finance and Investments, Acting Vice President for Finance and Investments.

2010–2013: MTS PJSC, Vice President for Finance and Investments.

2013–2016: MTS PJSC, Member of the Management Board, Vice President, Finance and Investments.

2016–2018: Member of the Management Board, Vice President for Finance and Investment, Mergers and Acquisitions, MTS PJSC.

2018 till present: MTS PJSC, President, Management Board Chairman

Member of the Board of Directors of Mobile TeleSystems JLLC, MTS Bank PJSC, RTC JSC, Sistema Capital MC LLC, Member of the Supervisory Board of PrJSC MTS Ukraine, Member of Sistema Charity Fund, member of the Board of GSM Association (GSMA).

Citizenship: Russian Federation.

Member of the Management Board of MTS PJSC since 2008.

As of December 31, 2018, he owned ordinary registered shares of MTS PJSC in the amount of 148,624 shares.



## Alexander Gorbunov

Management Board Member

Vice President, Strategy and Development, MTS PJSC

Born in 1967 in Moscow.

In 1992 he graduated from Moscow Engineering Physics Institute with specialty in Experimental Nuclear Physics and Plasma Physics.

In 1999, earned an MBA from Harvard University.

**Professional experience:**

2002–2003: Deputy CEO of NTP Intellect Telecom OJSC.

2003–2005: Head of the Strategic Analysis Service, Chief Strategy Officer of the Strategic Analysis Department of MTS OJSC.

2005–2006: Head of the Corporate Development Department, acting First Vice President and the Director of Strategy and Development Complex of JSFC Sistema OJSC.

2006–2010: Vice President for Strategy and Development of Komstar-OTS OJSC.

2010–2012: Counselor of the President of Sitronics OJSC.

2010–2012: Executive Vice President for Telecommunication Assets Development of “Basic Assets” Business Unit of JSFC Sistema OJSC.

2012–2015: Executive Vice President (Investment Portfolio) of JSFC Sistema OJSC.

2015–2018: Vice President, manager of telecommunication assets at Sistema PJSC.

2018 to present: Member of the Management Board, Vice President, Strategy and Development, MTS PJSC.

Chairman of the Board of Directors at SISTEMA SHYAM TELESERVICES LIMITED, member of the Board of Directors of YOUDO WEB TECHNOLOGIES LIMITED.

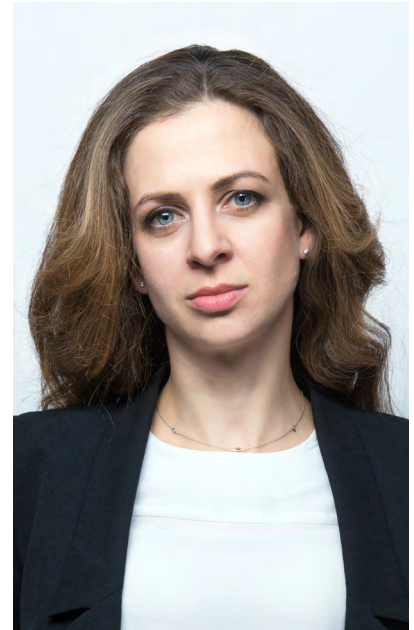
Member of the Management Board of MTS PJSC since 2018.

As of December 31, 2018, he didn't own shares of MTS PJSC (directly/indirectly).

## **Maria Golyandrina**

Member of the Management Board

Vice President, Human Resources, MTS PJSC



Born in 1986 in Moscow.

In 2008 she graduated from the State Management University.

In 2012 refresher course of the Institute of Experimental Economy and Finance of MSU, in 2017—the advanced training program of the Skolkovo Moscow Management School.

**Professional experience:**

2006–2014: HR Manager, MTS PJSC.

2014–2017: Director of the Department of Compensations, Benefits and HR Administration, MTS PJSC.

2017 to present: Member of the Management Board, Vice President, Human Resources, MTS PJSC.

Member of the MTS PJSC Board of Directors.

Member of the Management Board of MTS PJSC since 2018.

As of December 31, 2018, she didn't own shares of MTS PJSC (directly/indirectly).



## Kirill Dmitriev

Management Board Member

Vice President, Sales and Customer Service

Born in 1978 in Kingisepp.

In 2000, he graduated from St. Petersburg State University of Economy and Finance.

**Professional experience:**

2006–2009: Director of Key Retail Accounts at Baltic Beverages Holding (Ukraine)

2009–2011: PrJSC MTS Ukraine, Director of the Western Territorial Department

2011–2014: PJSC MTS, General Director of North-West macroregion

2014–2016: MTS PJSC, Member of the Management Board, Director of the Moscow Macro-Region

2016–2019: MTS PJSC, Member of the Management Board, Vice-President for Sales and Customer Service

2019 to present: Member of the Management Board, Vice President for Home Digital Solutions

Member of the Supervisory Board at VF Ukraine PrJSC, Member of the Board of Directors, Member of the Strategy Committee, Member of the Remuneration and Nomination Committee of MGTS PJSC, Member of the Board of Directors of RTK JSC, NVision Group JSC, MTS Armenia CJSC, IT-GRAD 1 CLOUD LLC, Member of the Supervisory Board of VF Retail LLC.

Member of the Management Board of MTS PJSC since 2014.

As of December 31, 2018, he owned ordinary registered shares of MTS PJSC in the amount of 58,449 shares.



## Igor Egorov

Member of the Management Board, Moscow Region Director



Born in 1968 in Irkutsk.

Graduated from St. Petersburg State Electrotechnical University with the degree “Automated Control-Systems Engineer.”

### Professional experience:

1993–1995: VEC ltd LLP, Manager

1995–2003: Jump LLC, Commercial Director

2003–2005: Primtelefon CJSC, Commercial Director

2005–2006: Primtelefon CJSC, Director of Marketing

2006–2007: MTS OJSC, Director of MTS OJSC Branch in Chita Region

2007–2008: MTS OJSC Branch, MR Far East, Director of Marketing

2008–2011: MTS OJSC Branch, MR Far East, Commercial Director for Retail Market

2011–2014: MTS OJSC Branch, MR Far East, Branch Director

2014–2016: MTS OJSC (since 2015 MTS PJSC), MR Center, Branch Director

2016 to present: MTS PJSC, Member of the Management Board. Director of Moscow Region

Member of the Board of Directors, Avantage LLC.

Member of the Management Board of MTS PJSC since 2016.

As of December 31, 2018, he owned ordinary registered shares of MTS PJSC in the amount of 29,035 shares.



## Ruslan Ibragimov

Member of the Management Board

Vice-President, Corporate and Legal Issues

He was born in 1963 in the Town of Taldykorgan.

In 1986 he graduated from the faculty of law of Lomonosov Moscow State University.

In 1992 he completed postgraduate studies of Peoples' Friendship University of Russia named after P. Lumumba. PhD in law.

### **Professional experience:**

1992–1996: worked at commercial banks, headed legal services

1996–2002: RSM Top Audit, took the office of the Director of Legal Service, Director-Partner, Deputy General Director, Head of the Department of Tax and Legal Advice, Director, Partner, Tax and Legal Consulting

2002–2004: he worked as a lawyer in various bar associations

2004–2006: Moscow bar association “Ibragimov, Kagan and Partners,” associate

2006–2007: MTS PJSC, Director of Legal Department, he was then transferred to the post of the Chief Legal Officer

2007–2008: MTS PJSC, Vice-President, Corporate and Legal Issues

2008 to present: MTS PJSC, member of the Management Board, Vice President, Corporate and Legal Issues,

Management Board Member, Vice President of the Non-Profit Partnership “Association of Corporate Lawyers,” member of the Non-Profit Partnership “Assistance for Competition Development in CIS Countries,” member of the All-Russian Public Organization “Association of Russian Lawyers,” Senior Director of the Association of Independent Directors, member of the Partnership of Antimonopoly Experts Association, Member of the Supervisory Board of the Autonomous Non-Profit Organization “Digital Economy,” Independent Director of “Publishing House OJSC “Higher School,” Member of the Board of Directors of Doctor Ryadom LLC and Publishing House “Education” JSC, Member of the Corporate Governance Committee at the Board of Directors of MTS PJSC.

Member of the Management Board of MTS PJSC since 2007.

As of December 31, 2018, he owned ordinary registered shares of MTS PJSC in the amount of 113,877 shares.

## Andrey Kamensky

Member of the Management Board

Vice-President for Finance and Investment, Mergers and Acquisitions



He was born in 1972, in Moscow.

In 1995 he graduated from the Moscow State University of Geodetics and Cartography, and in 1999 from the Financial Academy under the Government of the Russian Federation majoring in “Financial Credit.”

### Professional experience:

1997–2011: management positions in the field of finances in Trade House Perekrestok, SAN InBev, ING Bank (Eurasia)

2011–2018: Executive Vice President for Finance and Economics, Sistema PJSC

2018 till present: Member of the Management Board, Vice-President for Finance and Investment, Mergers and Acquisitions of MTS PJSC

Member of the Board of Directors of MTS Bank PJSC, MGTS PJSC, Sistema Capital MC LLC, Mobile TeleSystems JLLC, RTC JSC.

Member of the Management Board of MTS PJSC since 2018.

As of December 31, 2018, he didn't own shares of MTS PJSC (directly/indirectly).



## Vyacheslav Nikolaev

Member of the Management Board  
Vice President, Marketing

Born in 1970 in Moscow.

In 1992 he graduated from the faculty of mathematics of computation and cybernetics, Lomonosov Moscow State University.

In 1994, he completed management training at the Kriebel Institute, Washington, DC.

### **Professional experience:**

1994–1999: international consulting company European Public Policy Advisers, Senior Adviser

1999–2000: J'son and Partners (telecommunications consulting), Adviser

2000–2003: investment bank Renaissance Capital, Telecommunications Analyst

2003–2004: investment bank Trust, Vice President, Stock Market Research Department

2004–2006: MTS PJSC, Director, Scheduling and Analysis Department, Sales and Subscriber Service Block

2006–2008: MTS PJSC, Director, Regional Management Department

2008–2011: MTS PJSC, Deputy Director, Business Unit Russia for Regional Development and Operations Support

2011–2017: MTS PJSC, Director, Consumer Market Marketing

2017 to present: MTS PJSC, Member of the Management Board, Vice-President, Marketing

Member of the Board of Directors of MGTS PJSC, MTS Bank PJSC, RTC JSC, MTS Armenia CJSC and other companies.

Member of the Management Board of MTS PJSC since 2017.

As of December 31, 2018, he didn't own shares of MTS PJSC (directly/indirectly).

## Andrey Smelkov

Member of the Management Board

Vice President, Director, MTS Foreign Subsidiaries Business Unit  
(until April 30, 2019)



Born in 1976 in Veliky Novgorod.

In 1998 he graduated from the faculty of management and economics of Novgorod State University named after Ya. Mudry. In 2000 he received a degree in Telemark University (Norway) majoring in economics and business administration. In 2012, he completed a course at the Wharton Business School (USA) under the competence development program for heads of companies.

### Professional experience:

He has extensive professional experience in the telecommunication industry in CIS countries.

2001–2002: Arrive AS (Norway), Information Security Director

2002–2002: Novgorod Telecommunications CJSC, Marketing and Advertisement Manager

2002–2003: Novgorod Telecommunications CJSC, Marketing and Advertisement Director

2003–2004: Novgorod Telecommunications CJSC, Deputy General Director

2004–2006: VimpelCom PJSC, Head of the Branch in Nizhny Novgorod.

2006–2008: VimpelCom PJSC (subsidiary in Uzbekistan), Chief Manager for Regional Network Development, Deputy General Director for Business Development in Regions

2008–2010: SkyMobile company (Kyrgyzstan), General Director

2010–2013: Tele2 (Kazakhstan), Chief Executive Officer, Chairman of the Management Board

2013–2013: Tele2 AB (Sweden), Chief Adviser of the Vice President

2013–2019: MTS PJSC, Member of the Management Board, Vice President, MTS Foreign Companies Business Unit

Chairman of the Board of Directors of HC MTS-Turkmenistan and MTS Armenia CJSC, Member of the Board of Directors at Mobile TeleSystems JLLC, VF Ukraine PrJSC.

Member of the Management Board of MTS PJSC since 2013.

As of December 31, 2018, he owned ordinary registered shares of MTS PJSC in the amount of 34,487 shares.



## Andrey Ushatsky

Member of the Management Board  
Vice President, Engineering and IT

Born in 1974 in Moscow.

In 1997 he graduated from the Moscow Energy Institute.

In 2002–2004, studied under an MBA program for managers at the Academy of National Economy at the RF Government.

### **Professional experience:**

He has been working at MTS PJSC since 1996, starting from the post of radiorelay-line service specialist, then head of the network operation service, director of the network operation department and director of the MTS Russia business unit.

2009–2013: MTS PJSC Vice President for Engineering

2013 to present: MTS PJSC, Member of the Management Board, Vice-President, Engineering and IT

Chairman of the Board of Directors at Metro-Telecom JSC, Member of the Board of Directors at ES MTS-Turkmenistan, NVision Group JSC, Sitronics JSC, STS JSC, Member of the Board of Directors, Member of the Strategy Committee at MGTS PJSC and other companies.

Member of the Management Board of MTS PJSC since 2009.

As of December 31, 2018, he owned ordinary registered shares of MTS PJSC in the amount of 111,239 shares.

## Valery Shorzhin

Management Board Member

Vice President, Digital Business Solutions



Born in 1963 in Ulyanovsk.

In 1986 he graduated from MHTC named after N.A. Bauman.

### Professional experience

1993–1996: JSCB Tveruniversal bank, Department of bank technologies automation

1996–2000: STS Sovintel, Communication Engineer, Head of the Traffic Analysis and Control Group, Director of the Network Control and Development Department

2000–2006: STS Sovintel, IT Director

2006–2008: Farlep-Invest (Ukraine), IT Director and Chief Technical Officer

2008–2011: MTS PJSC, IT Director

2011–2014: MTS PJSC, Director of the Procurement Department

2014–2018: MTS PJSC, Management Board Member, Vice-President, Procurement and Administration

2018 till present: MTS PJSC, Management Board Member, Vice President, Digital Business Solutions

Member of the Board of Directors of MGTS PJSC, NVision Group JSC, NIS JSC, IT-GRAD 1 CLOUD LLC.

He was elected for the first time to the Management Board of MTS PJSC in 2009; he was reelected to the Management Board in 2011.

As of December 31, 2018, he owned ordinary registered shares of MTS PJSC in the amount of 89,776 shares.

## Events after the reporting date

### 1. Appointment of Inessa Galaktionova as the Member of the Management Board, Vice President for Sales and Customer Service<sup>1</sup>.

The Board of Directors of MTS PJSC on February 7, 2019 decided to elect Inessa Galaktionova as the member of

the Management Board of MTS PJSC since February 7, 2019.

### 2. Early termination of the labor agreement executed with the Member of the Management Board, Vice President, Director of Business Unit MTS Foreign Subsidiaries, Andrey Smelkov

The Board of Directors of MTS PJSC on April 10, 2019, made the following decisions:

- To terminate early the labor agreement executed with the Member of the Management Board, Vice President, Director of Business Unit MTS Foreign Subsidiaries, Andrey Smelkov
- To define the quantitative composition of MTS PJSC Management Board since May 1, 2019 as the following 11 members:

(1) Alexey Kornya—Chairman of the Management Board, MTS PJSC

(2) Inessa Galaktionova

(3) Maria Golyandrina

(4) Alexander Gorbunov

(5) Kirill Dmitriev

(6) Igor Egorov

(7) Ruslan Ibragimov

(8) Andrey Kamensky

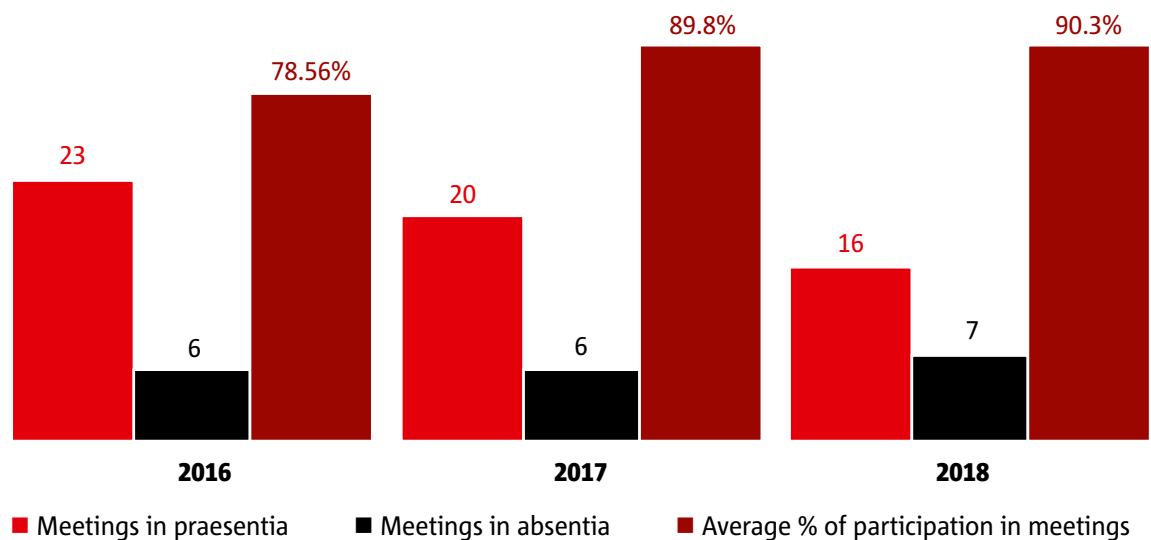
(9) Vyacheslav Nikolaev

(10) Andrey Ushatsky

(11) Valery Shorzhin

<sup>1</sup> Information about Inessa Galaktionova at [https://moskva.mts.ru/about/investoram-i-akcioneram/rukovodstvo/pravlenie/galaktionova\\_i](https://moskva.mts.ru/about/investoram-i-akcioneram/rukovodstvo/pravlenie/galaktionova_i)

### Statistics of the Management Board performance for 2016–2018





# Activities of Management Board

For the previous 2018, the Management Board held 23 meetings: 16 in praesentia form, 7 in the form of absentee voting.

## Participation of members of the Management Board in meetings of the Management Board in 2018

Member of the Management Board	Meetings in praesentia	Meetings in absentia
Andrey Dubovskov <sup>1</sup>	2	1
Maria Golyandrina	14	6
Alexander Gorbunov <sup>2</sup>	8	6
Kirill Dmitriev	12	7
Igor Egorov	16	7
Ruslan Ibragimov	12	7
Andrey Kamensky <sup>3</sup>	9	6
Alexey Kornya	16	7
Vyacheslav Nikolaev	13	7
Andrey Smelkov	14	7
Andrey Ushatsky	12	7
Valery Shorzhin	16	7

<sup>1</sup> Powers of the Member of the Management Board terminated from March 13, 2018

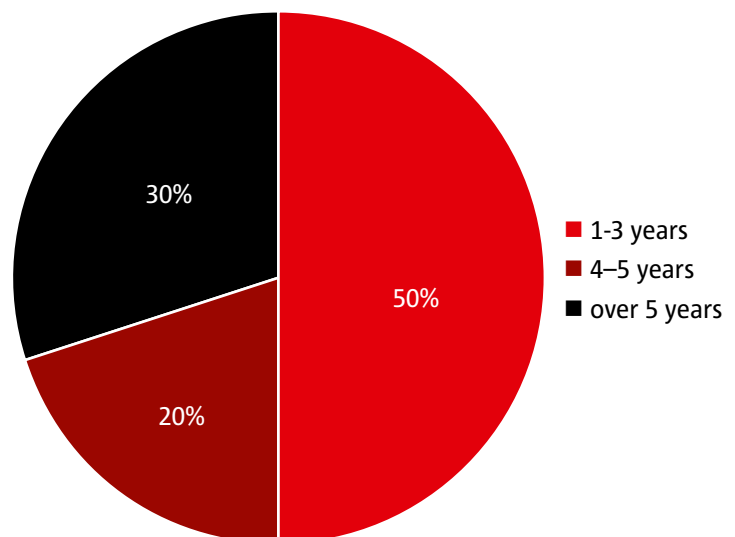
<sup>2</sup> Elected Member of the Management Board since April 16, 2018

<sup>3</sup> Elected Member of the Management Board since April 16, 2018

According to the information available in the Company, in 2018 the members of the Management Board announced four situations of the conflict of interest — two situations of actual COI and two situations of potential COI. At the moment, all the situations are mitigated in accordance with Conflict of interest policy accepted in Company.

The Company did not grant loans (credits) to the President and/or Management Board in 2018.

## Duration of work in the Management Board



## Significant issues considered at the meetings of the Management Board of MTS PJSC in 2018

1. Preliminary consideration of materials for the meeting of the Board of Directors of MTS PJSC.
2. Controlling reports on MTS Group for the fourth quarter of 2017 and 2017, Q1-3 of 2018.
3. Compliance with the procedure for submission of primary documents on fixed assets commissioning to accounting department units in 2017.
4. Review of reports on implementation of the functional strategies of MTS Group for 2017 in the fields of marketing, sales and customer service, equipment and IT, personnel management, procurement activities, corporate security and access control, public relations, compliance, corporate social responsibility.
5. Compliance with the decision of the Management Board of MTS PJSC dated April 1, 2016 to promote regulations in the constituent entities of the Russian Federation to simplify construction of the communications facilities.
6. Performance of MTS Group for 2017
7. Review of reports in the areas of MTS PJSC business, reports on operations of subsidiaries for 2017:
  - performance of STV LLC, NVision Group JSC,
  - performance in the field of fixed-line communication in the mass market;
  - MTS Money project results.
8. Results of the rating of MTS PJSC, subsidiaries and branches of MTS PJSC for 2017
9. Corporate MBA program for MTS Group managers in 2018.
10. Innovations in MTS PJSC.
11. Development of on-the-job training program in MTS PJSC.
12. Working with youth in B2C segment.
13. Procedure for review of wages of MTS PJSC employees in 2018.
14. New challenges and importance of tone from the top (compliance).
15. Approval of reorganization of MDTZK LLC in the form of acquisition of Your Ticket LLC and PROFITICKET SOUTH LLC.
16. Approval of revised Regulations on MTS PJSC branches in Krasnoyarsk Territory, Arkhangelsk region.
17. Termination of participation of MTS PJSC in the Association of IoT Market Participants.
18. Establishment of the corporate venture fund of MTS.
19. Review of the business plan of MTS Group for 2019-2021 and preliminary review of the business plans of Mobile TeleSystems JLLC, MTS Armenia CJSC for 2019-2021.
20. On approval of functional strategies for 2019 in the field of marketing, sales and customer service, personnel management, equipment and IT, public relations, corporate security and access control, compliance, procurement activities, corporate social responsibility, Internet of Things.

## Key competences of the Management Board Members

Member of the Management Board	Duration of work as Management Board Member	Key competences								
		Strategy	Finance and Audit	Industry Specialization (Telecom)	Marketing	Legal Matters and Corporate Governance	Personnel Management	Risk Management	M&A	GR/IR
Maria Golyandrina	1 year (since December 2017)						•			
Alexander Gorbunov <sup>1</sup>	1 year (from April 2018)	•		•		•			•	
Kirill Dmitriev	4 years (from February 2014)	•	•	•	•		•	•	•	•
Igor Egorov	2 years (from April 2016)	•	•	•	•		•	•	•	
Ruslan Ibragimov	11 years (from April 2007)	•		•		•	•	•	•	•
Andrey Kamensky <sup>2</sup>	1 year (from April 2018)	•	•	•			•	•	•	•
Alexey Kornya	10 years (from September 2008)	•	•	•	•	•	•	•	•	•
Vyacheslav Nikolaev	2 years (from July 2017)	•		•	•		•	•	•	•
Andrey Smelkov	5 years (from October 2013 to April 30, 2019)	•	•	•			•	•	•	•
Andrey Ushatsky	9 years (from April 2009)	•		•	•		•	•		
Valery Shorzhin	4 years (from March 2014)	•		•	•		•	•		

<sup>1</sup> Elected Member of the Management Board since April 16, 2018.

<sup>2</sup> Elected Member of the Management Board since April 16, 2018.

# Principles of remuneration of Management Board members and senior officials

A contract is entered into with every Management Board member, which defines labor terms, procedure for definition of the amount of remuneration, terms of compensation of expenses connected with execution of duties of the Management Board member and contract termination procedure. The contract shall be signed on behalf of the Company by the Chairperson of the Board of Directors of the Company or by a person authorized by the Board of Directors. The Board of Directors is entitled at any time to terminate the contract with a member of the Company's Management Board. Terms and conditions of the contract shall be approved by the Board of Directors of the Company.

## Information about principles and system of remuneration of senior officials

Remuneration of senior officials shall be fixed and calculated based on the Policy for labor payment of employees of MTS PJSC and meets the following principles:

- observation of fairness and competitiveness of remuneration;
- connection of remuneration with personal contribution and final work results in the Company in general;
- motivation for achievement of target business development parameters in accordance with strategic development installations approved by the Board of Directors.
- Short-term motivation system is an annual premium paid for fulfilment of key performance indicators ("KPI") fixed in general for the Company for a corresponding reporting period as well as for fulfilment of functional individual tasks defined by the Board of Directors.
- The long-term material incentive program is aimed at increasing the Company's shareholder value as well as preserving long-term labor and corporate relations between the Company and its management.
- Variable part of remuneration is determined by the results of the Company's business in the reporting period in accordance with the Company's internal regulations and approved by the Company's Board of Directors.

The system of remuneration to senior officials includes elements of base remuneration and variable premium part:

- Base remuneration—monthly official salary;

## MTS PJSC Business Key Performance Indicators System

- Corporate indicators, which are formed on the basis of the Company's business plan and include the main financial and economic and industrial indicators. They make it possible to track generalized results of the company's business and to adjust the strategy.
- Functional indicators, which are formed on the basis of business block performance strategies.
- Individual indicators of performance are formed on the basis of strategic objectives of a specific director of the Company.

The list of indicators and their target values for the Company's directors are approved by the Board of Directors of the Company with preliminary discussion at the specialized committees on an annual basis.

The list of corporate performance indicators of the MTS PJSC President includes such indicators as:

- OIBDA;
- income;
- integral evaluation of implementation of strategic projects and business development.

## Evaluation of performance of the President and members of the Management Board

One of the tasks of the Board of Directors is to ensure control over the work of the Company President and the members of its Board of Directors, as well as to evaluate their performance, which is undertaken based on materials approved by the Remuneration and Nomination Committee.

The evaluation of the President and Management Board members for 2018 was performed in accordance with the existing method based on fulfilment of the Company's key performance indicators in general, functional individual tasks and competence development level.

## Remuneration of members of the Management Board and senior officials based on 2018 results

### Remuneration paid to members of the Management Board in 2018

Indicator	Total, RUB
Remuneration for participation in operations of the management body	0
Salary	165,683,034.62
Bonuses	505,310,322.70
Cost compensations	118,746,510.74
Other remuneration types	1,552,836,47
<b>TOTAL</b>	<b>791,292,704.53</b>

### Remuneration paid to senior officials in 2018<sup>1</sup>

Indicator	Total, RUB
Salary	317,280,453
Bonuses	826,381,725
Cost compensations	168,460,940
Other remuneration types	2,601,062
<b>TOTAL</b>	<b>1,314,724,180</b>

<sup>1</sup> Includes information on remuneration of 25 top officials of the Company (including Members of the Management Board).

## Structure of the remuneration of top management in 2018

The income structure of the Company's chief executives varies depending on position level.

results as per KPIs and shareholder value according to the long-term bonus payment program.

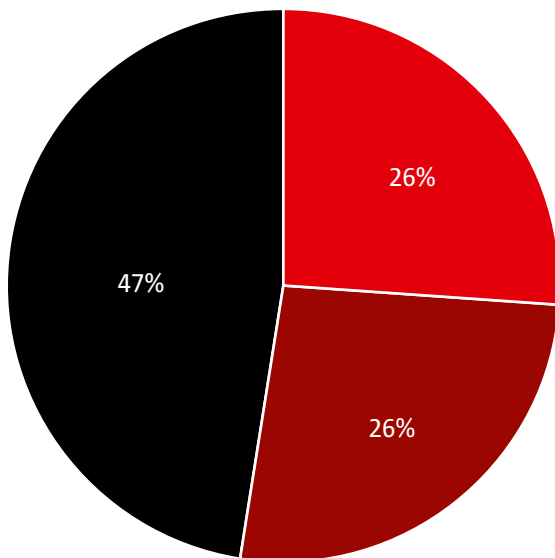
The higher is the post in the internal hierarchy of the Company, the larger share is the variable remuneration part.

Typical element ratio is presented in the following options.

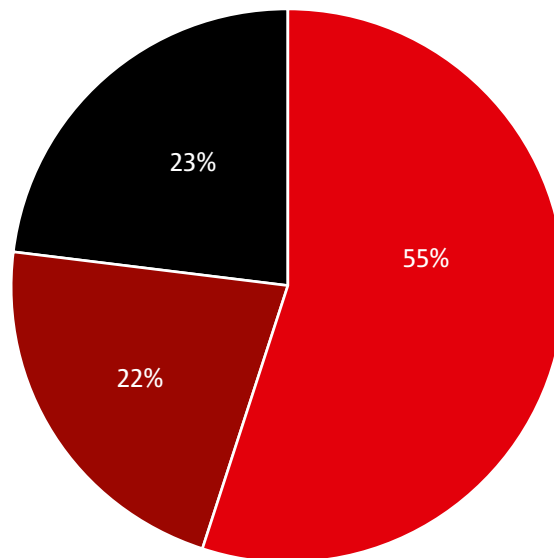
The actual element value individually varies depending on the work schedule in the reporting year, reached

### Typical remuneration structure ratio

Management Board members



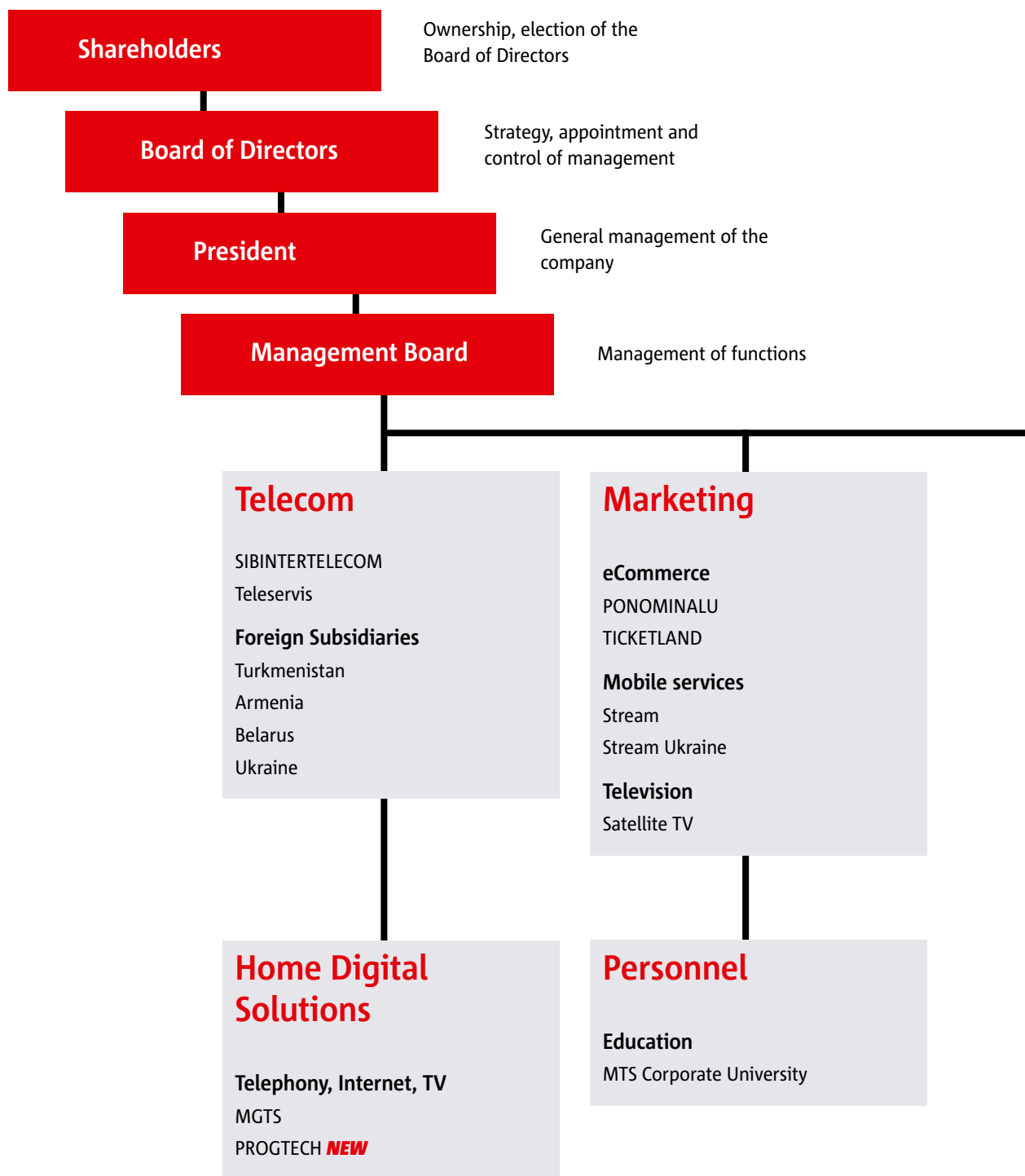
Department Directors



- Basic remuneration
- Short-term bonuses
- Long-term bonuses



# Management of MTS Group Subsidiaries



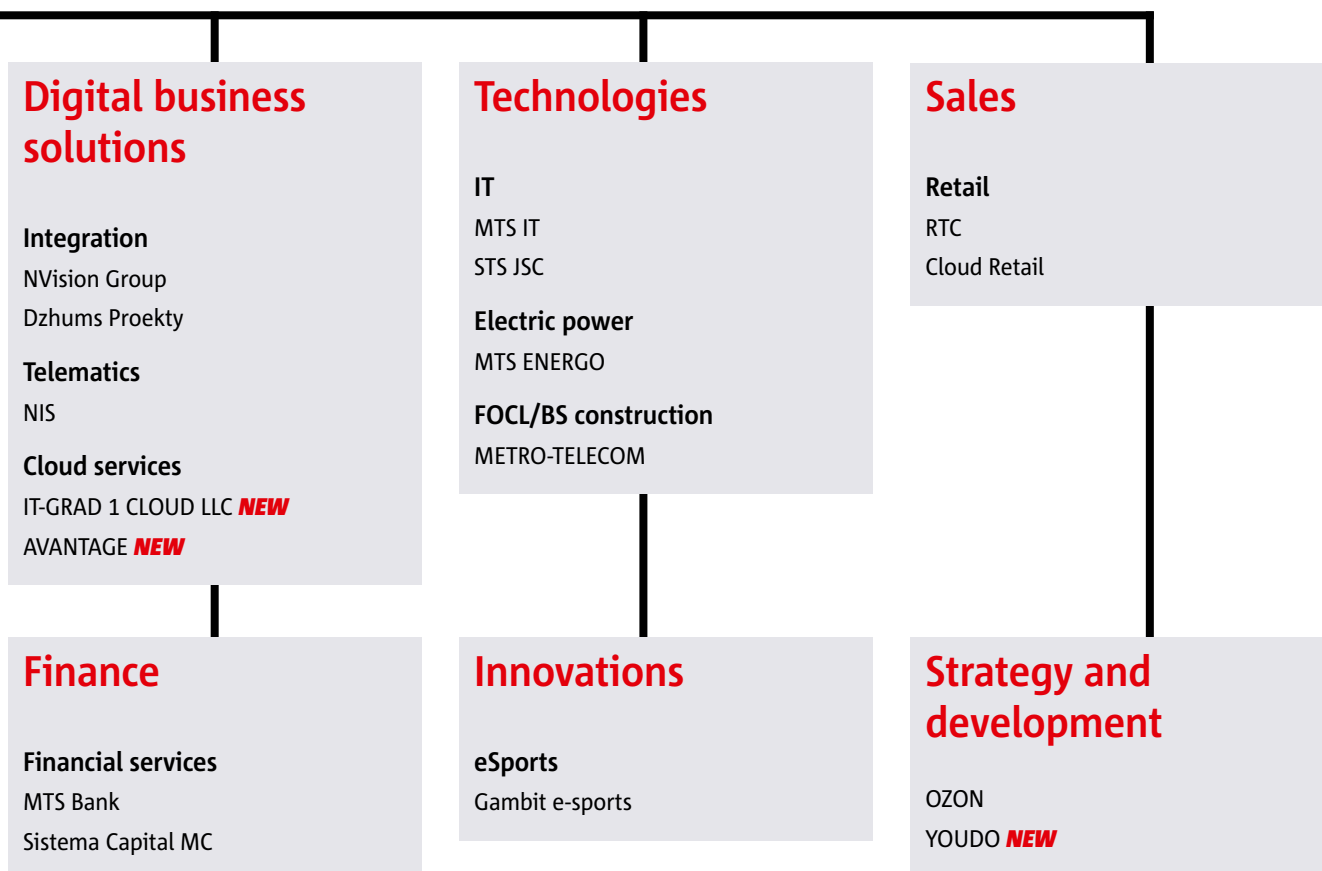


In 2018, new businesses were incorporated into MTS Group.

Currently, work on the implementation of MTS corporate governance standards is being carried out at the companies.

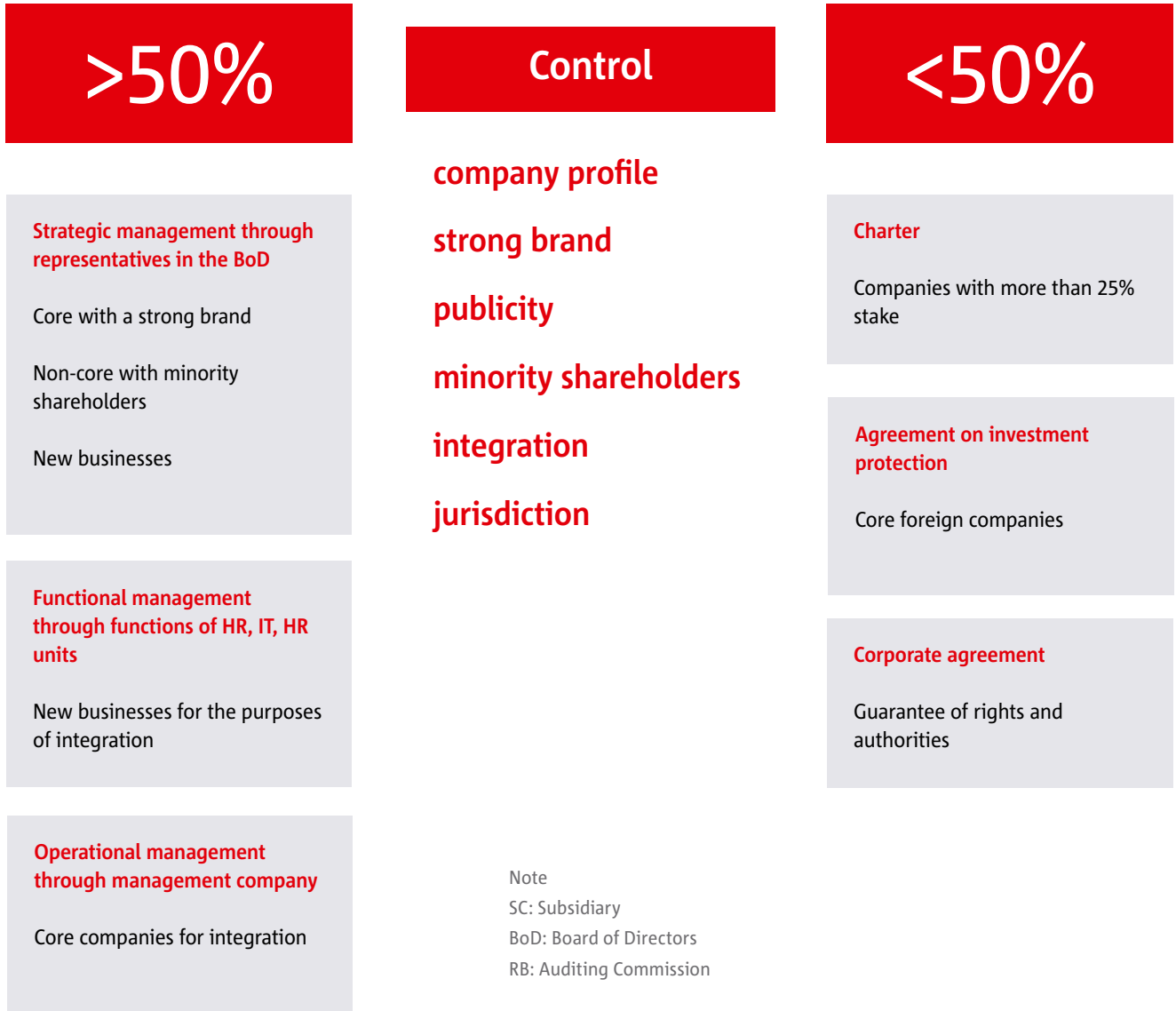
The Company has established a multi-level corporate management system, which provides for the consecutive interaction of all of the holding's management bodies starting from the General Meeting of Shareholders of MTS to the executive bodies of its subsidiaries.

Such a model enables the parent company to efficiently coordinate the operations of all subsidiaries while assuring the interests of all stakeholders.



Management style at subsidiaries

Factors affecting management style



Creating Board of Directors in subsidiaries

**1**  
President nominates business curators for subsidiaries

**Criteria for the formation of BoD**

- MTS and subsidiaries' management
- Company profile/relevance
- Consent of the candidate
- Presence in other BoD
- Conflicts of interest/stake

**2**  
Curators nominate candidates for subsidiaries' BoDs

**Influence of MTS on key business processes of subsidiaries through the BoD**

- Strategy and Investments
- Business Plan and Budget
- Functional strategies
- Remuneration system
- Management control, audit, compliance
- Asset control

**3**  
Curators nominate candidates for subsidiaries' BoDs:

- supervision over implementation of decisions
- voting recommendations
- information about subsidiaries

**End-to-end**

- Strategy and budget of the Group
- Nominations to BoD of foreign subsidiaries
- Results of financial and business operations
- M&A, reorganization

**>134** representatives to the Board of Directors are nominated by MTS annually

## Involvement of MTS representatives in Boards of Directors of subsidiaries

1

BoD plan.  
Matrix of coordinators from MTS.  
**Responsible officers at subsidiaries** coordinate materials for BoD with MTS units

2

**Corporate Secretary** coordinates materials for the BoD meeting with the Chairman of the Board of Directors of subsidiary / curator for the business area

3

**Corporate Secretary** notifies members of the BoD and sends the materials

4

**Business area curator** sends voting recommendations containing the opinions of MTS departments

5

**Members of the BoD** vote either according to the position defined by MTS BoD, or being guided by their own opinion, taking into account the recommendations

6

**Corporate Secretary** approves the minutes with BoD members

# Internal Control and Audit

## Internal Control System

The internal control system of MTS PJSC represents a combination of internal control processes implemented by ICS entities based on existing organizational structure, internal policies and regulations, internal control and risk management procedures and method applied in the Company at all management levels and as part of all functional areas.

Establishment and efficient operation of the internal control system are aimed at assuring reasonable confidence in achievement of objectives faced by the Company and enable to assure proper control over financial and economic activities of the Company as well as its efficiency.

The internal control system of MTS PJSC represents a combination of interrelated components, the structure of which meets the general accepted methodology COSO Internal Control—Integrated Framework 2013. In accordance with COSO model a control environment is established, the risk assessment system is applied, control procedures are implemented and their performance monitored, changes in organizational structure and business processes are monitored.

Under the internal control system a range of anti-corruption measures mitigating reputational risks and risks of application of sanctions for officials' bribery against MTS PJSC. For the purposes of counteraction to abuses, authorization of transactions and operations, distinction of powers and rotation of duties, control of actual availability and condition of facilities is implemented.

MTS PJSC approved the Policy for meeting anti-corruption legislation defining measures aimed at establishing elements of the corporate culture, organizational structure, rules and procedures assuring non-admission of corruption.

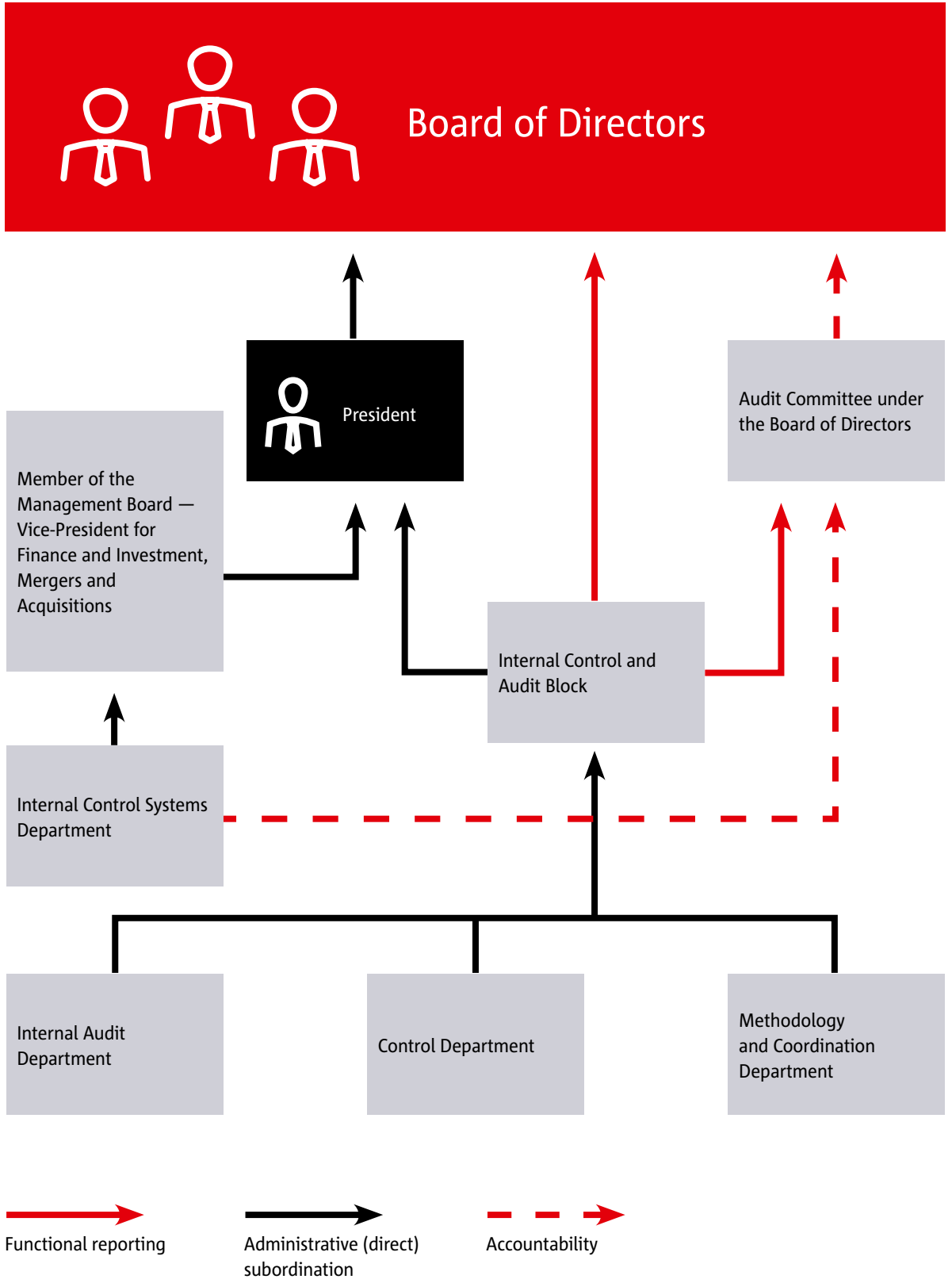
As part of the Single hot line of MTS Group of Companies the line of the internal control and audit unit was

organized as a safe, confidential and available method of the Audit Committee informing of the Board of Directors and Internal Control and Audit Unit about facts of breaches of legislation, internal procedures, Code of Business Conduct and Ethics of MTS PJSC by its any employees and (or) any members of the management body or body of control over financial and economic activities of MTS PJSC.

Proposals for improvement of anti-corruption procedures and other internal control procedures are received by the hot line addressed to the Audit Committee of the Board of Directors and the Internal Control and Audit Unit. A person who has submitted relevant information is protected from any forms of pressure (including from dismissal, persecution, any forms of discrimination).

For the systematic, independent evaluation of the reliability and efficiency of the risk-management and internal-control system, as well as the evaluation of corporate-governance practice performance at MTS PJSC, the Internal Control and Audit Block of MTS PJSC uses results of completed audits, generating a report on the level of maturity in the Company as a whole. The Internal Control and Audit Block is an individual structural division of MTS PJSC functionally subordinate to the Board of Directors and administratively—directly to the President of MTS PJSC.

The Internal Control and Audit Block of MTS successfully underwent an external independent evaluation—activities of the subdivision were recognized as compliant with the International



Professional Standards of Internal Audit and Code of Ethics, Institute of Internal Auditors, the reputable international professional association. For some areas, the Internal Control and Audit Block of MTS not only occupies the leading positions in Russia, but meets the strictest global standards of quality in terms of setting objectives and the performance of tasks, building communications, and also organization of the work and status of the Internal Audit Service.

The Audit Committee at the Board of Directors of MTS PJSC biannually reviews reports on the operation of the Internal Control and Audit Block, Internal Control-Systems Department, Compliance Department and Risk Management Unit and generates conclusions on the efficiency of the internal control and audit function, risk management, compliance and internal control of MTS PJSC.

The Audit Committee positively evaluates the work of the Internal Control and Audit Unit in terms of evaluation of internal control, risk management, compliance and corporate governance system efficiency, believes that the objectives of the Block were met in full compliance with the expected results and recognizes the function as efficient.

The Audit Committee positively evaluates the work of the Internal Control-Systems Department with regard to the creation, implementation and development of an effective system of internal control over the reliability of the preparation of financial statements for MTS Group, including in new businesses, for 2018.

The Audit Committee positively evaluates the operations of the risk management functions as effective and compliant with the objectives as of the moment, and positively evaluates the operations of the compliance function and finds it efficient.

The Audit Committee on a quarterly basis reviews the reports of external auditor Deloitte and Touche CIS JSC approving their performance.

The Board of Directors of MTS PJSC defines the policy in respect to internal control and twice per year considers the report of the Audit Committee following the results of performance of the internal control and audit, risk management, compliance and internal control functions of MTS PJSC with analysis of the existing control system and identified violations.

The Report of the Auditing Commission is annually attached to the materials of the annual General Shareholders' Meeting of MTS PJSC.

## **A**udit Committee at the Board of Directors

The Audit Committee is a collective deliberative body under the Board of Directors. The committee was established for the purposes of assisting in efficient implementation of functions of the Board of Directors in terms of control over financial and economic activities of the Company.

For detailed information about the Audit Committee's work results in the reporting year see the section "Committees of the Board of Directors."

Results of evaluation by the Committee of the external and internal audit process efficiency: please see the section "Audit Committee Performance Report".

# Auditing Commission

On June 28, 2018, the followings persons were elected as members of the Auditing Commission at the annual general shareholders' meeting of MTS PJSC:

- 1) **Irina Borisenkova**, born in 1963, takes the post of the Chief Accountant, managing director of the Finance and Investment Complex of Sistema PJSC;
- 2) **Maxim Mamonov**, born in 1978, takes the post of the internal control and audit director of MTS PJSC;
- 3) **Anatoly Panarin**, born in 1988, takes the post of the Planning Head of the Finance and Investment Complex of Sistema PJSC.

## Report on operation of the Auditing Commission

In April 2018, based on the results of the performed audit for 2017, the Auditing Commission did not record material facts of the violation of accounting- and financial-statement submission procedures while carrying out the Company's financial-and-economic activities.

The Auditing Commission confirmed that the Company's financial statements for 2017 and the Annual Report on the Company's activities for 2017, in terms of the Company's financial statements, are authentic.

In April 2019 the Auditing Commission inspected business operations of the Company for 2018. The report of the Auditing Commission will be provided for approval of the Annual General Meeting of MTS Shareholders in June 2019.

# Internal Control and Audit Block

The Internal Control and Audit Block is an independent structural subdivision and consists of the Internal Audit Department, Control Department, Methodology and Coordination Department. Head of the Block is the Director for Internal Control and Audit who is functionally subordinated to the Chairman of the Audit Committee under the Board of Directors of MTS PJSC, and administratively subordinated directly to the President of MTS PJSC.

The Internal Control and Audit Block performs the following functions:

- evaluation of the internal control system's efficiency based on the following areas: efficiency and effectiveness of business operations, authenticity of financial and management accounting, compliance with internal standards and external requirements;
- evaluation of the risk management system's efficiency in the company in general and development of recommendations for improvement of the risk management system;
- development of recommendations for improvement of internal control, risk management and corporate governance procedures, and assistance to management in development of corrective measures based on the results of performed audits/inspections of financial and economic activities;
- implementation of monitoring of execution of recommendations for rectification of violations and deficiencies discovered based on audit results;
- analysis of authenticity of performance indicators and achievement of planned results during audits/inspections of financial and economic activities;
- coordination, analysis and registration of messages received to the "Unified hot line";
- analysis of compliance of company's operations with requirements of legislation (including anti-corruption) during audits/inspections of financial and economic activities;
- consulting services.

The Internal Control and Audit Block submitted three reports at meetings of the Audit Committee. All reports were approved by the Audit Committee.



The Internal Control and Audit Block maintains the program to assure and improve quality of internal control and audit intended for evaluation of the Internal Control and Audit Block operations compliance with the International Professional Standards of Internal Audit and application of the Code of Ethics of the Internal Auditors' Institute (The IIA) by the employees of the Internal Control and Audit Block.

## **Report on operation of the Internal Control and Audit Block**

During 2018 the Internal Control and Audit Block operated in accordance with the set objectives, tasks and performed functions.

In September 2018 the Internal Control and Audit Block approved the strategy for ICAB development for 2019-2021.

In December 2018 the Board of Directors developed and approved a new revision of the Policy "Internal Control and Audit" supplemented with the provisions of the strategy, namely, the section was included that defined the nature of consulting services, and business areas were revised in connection with expansion of ICAB objectives profile.

Results of the Internal Control and Audit Block's operation for the first six months and in general for 2018 were inspected and approved by the Audit Committee. The Audit Committee positively evaluated operations of the Internal Control and Audit Block, and believes it is efficient.

In December 2018 the Audit Committee approved the KPIs, work plan and budget of the Internal Control and Audit Block for 2019.



**Following the results of external assessment, the Internal Control and Audit Block's performance was recognized as complying with the International Professional Standards of Internal Audit and Code of Ethics of the Internal Auditors' Institute. The Internal Control and Audit Block of MTS PJSC was rated high by stakeholders and recognized as one of leading functions of internal audit among Russian companies."**

**The Internal Control and Audit Block together with the Company works to ensure that MTS customers, partners and shareholders are always one step ahead so that they can take full advantage of the entire spectrum of opportunities offered by digital technologies**

**The key areas of the Internal Control and Audit Block Strategy for 2019-2021 are as follows:**

- shifting focus in areas of operations of the Internal Control and Audit Block; expansion of consulting services; using new audit methods**
- development of a long-term program for career development and training of employees with account of varying needs of the Company**
- introduction of the automated system for data analysis and improvement of technologies and methodology to perform the audit**

*Maxim Mamonov, Internal Control and Audit Director*

# D

## epartment of Internal Control Systems

The Internal Control-Systems Department is a business unit included in the Finance and Investment Block of CC and comprises the ICS Development and Methodology Department, Certification and SoD Analysis Department, ICS Development and Support in CD Department, Center of Training Competence of ICS, and also the distributed Internal Control-Systems Center in five regions of the Russian Federation. The Internal Control-Systems Department is headed by the Director of the Department, who is directly subordinate to the Management Board Member, Vice President for Finance, Investments, Mergers and Acquisitions of MTS PJSC and is accountable to the Audit Committee under the Board of Directors of MTS PJSC.

The Department of Internal-Control Systems performs the following main functions:

- building, implementation and development of the system for internal control over reliability of financial statements of MTS Group;
- perform testing, evaluation and certification of the system of internal control over generation of financial statement of MTS Group;
- manage the separation of authorities in SOX-essential information systems (SoD-analysis);
- completion of expert assessment of business processes with the purpose to identify potential risk areas and subsequent communication to owners of business processes.
- coordinate the interaction of external auditors and functional subdivisions of the company during audits of the efficiency of the internal control system at MTS Group

The Department of Internal-Control Systems is directly subordinate to the Vice President of MTS PJSC for Finance, Investments, Mergers and Acquisitions and is accountable to the Audit Committee at the Board of Directors of MTS PJSC.

### Report on operation of the Department of Internal-Control Systems

In 2018, within the framework of internal-control system development at the MTS Group of Companies, including the creation and implementation of internal control in new business types, as well as taking into account the results of management testing and external audit for 2016, changes in the organizational structure and business processes, works were performed to formalize control procedures aimed at the coverage of essential risks, and their efficiency was assessed, including controls of correct application of updated reporting standards IFRS 16, IFRS 15, IFRS 9, controls in centralization of the reporting function of the subsidiaries of MTS PJSC in SSC of MTS PJSC, controls in using RPA technologies in accounting processes.

In 2018 ICSD changed the strategy of ICS realization in new subsidiaries—management of ICS function in subsidiaries is carried out from CC level. This approach was implemented in 2018 in the following subsidiaries: RTC JSC, NVision Group JSC, Satellite TV LLC, Stream LLC, Cloud Retail LLC, NVision Czech Republic a.s. The strategy has proven to be effective in terms of efficient and flexible allocation of resources and optimizing the time to support the ICS in subsidiaries.

In connection with the acquisition of MTS Bank PJSC in 2018, preparatory works have been carried out for the implementation of the internal control system at MTS Bank PJSC.

The methodology for managing separation of powers in SOX-significant information systems was approved, and works were carried out to identify and reduce conflicts of roles and authorities (SoD) in a key ERP system—Oracle EBS. As a result, the number of SoD-risks in the OEBS system was reduced in 2018 by more than 3 times.

The MTS Group internal-control system is tested and certified in accordance with Article 404 of the Sarbanes and Oxley Act.

Based on the results of internal evaluation and external audit, the internal-control system of MTS Group as of December 31, 2018, was found efficient having no material or significant deficiencies.

# External Audit

## Auditor

On June 28, 2018 at the Annual General Meeting of shareholders of MTS PJSC, Joint-Stock Company Deloitte & Touche CIS (Location: 5 Lesnaya Str., Moscow, Russian Federation 125047), OGRN 1027700425444, certificate of membership in the Self-Regulating Organization of Auditors "Russian Union of Auditors" (Association) dated December 7, 2016 Principal Number of Registration Entry 11603080484 was approved as the auditor of the Company.

Deloitte and Touche CIS CJSC is one of the leading audit and consulting firms providing services in the field of audit, consulting, corporate finance, risk management and tax and legal advice. It is a member of the international association Deloitte Touche Tohmatsu Limited, one of the world's leading providers of professional services, with more than 264,000 employees in more than 150 countries.

In the reporting year, the Auditor performed:

- audit of the annual financial statements of MTS PJSC for 2018, prepared in accordance with Russian Accounting Standards as per International Audit Standards (IAS);

- audit of the consolidated financial statements of MTS PJSC and its subsidiaries, prepared in accordance with IFRS for 2018, as per International Audit Standards;
- integrated audit of the consolidated financial statements of MTS PJSC and its subsidiaries, prepared in accordance with IFRS for 2018 and efficiency of the internal-control system over its preparation as of December 31, 2018, conducted in accordance with the standards of the US Public Company Accounting Oversight Board.

In March 2019, the Audit Committee approved the results of the conducted audits.

Based on the results of the audits performed, the Auditor of MTS PJSC expressed its opinions on the authenticity of the financial statements of MTS PJSC prepared in accordance with Russian Accounting Standards and consolidated financial statements of MTS PJSC and its subsidiaries prepared in accordance with IFRS.

## Procedure for the selection of issuer's auditor

A tender for selection of the external auditor of MTS PJSC is conducted at least once in five years. To conduct the tender, MTS PJSC establishes a tender commission. Based on tender results the tender commission generates recommendations for selection of the external auditor which are submitted for approval to members of the Audit Committee at the Board of Directors of MTS PJSC.

In the event that the auditor's candidacy is approved by the Company's Audit Committee, Board of Directors and General Shareholders' Meeting, a contract for financial-statement audit services shall be signed with the respective audit company.

The auditor's remuneration for audit of the statements of MTS PJSC and its subsidiaries for 2018 is approved by the Board of Directors of MTS PJSC, and based on 2018 results it amounted to RUB 140,320 thousand, VAT excluded (including work to audit the efficiency of the internal-control system over the preparation of consolidated financial statements as of December 31, 2018, to ensure the issuer's compliance with the requirements of the Sarbanes-Oxley Act), including audit of MTS PJSC statements in the amount of RUB 11,000 thousand.

# Capital and securities

## Joint stock capital structure

Authorized capital of MTS PJSC as of December 31, 2018, amounted to RUB 199,838,157.50.

Placed and declared shares of MTS PJSC as of December 31, 2018

Shares' categories (types)	Quantity (pcs.)	Nominal value of one share (RUB)
<b>Placed shares</b>		
Ordinary shares	1,998 381,575	0.1
Voting shares	1,998 381,575	0.1
Preferred shares	0	0
<b>Declared shares</b>		
Ordinary shares	100,000,000	0.1
Preferred shares	0	0

## Joint-stock capital structure of MTS PJSC as of December 31, 2018<sup>1</sup>

Information about persons owning shares disposing of votes by shares being beneficiaries by shares of MTS PJSC

	Number of ordinary shares	Interest in authorized capital
JSFC Sistema PJSC <sup>2 3</sup>	915,468,219	45.81% <sup>4</sup>
MGTS PJSC <sup>5</sup>	7,569,230	0.38%
Stream Digital LLC <sup>6</sup>	104,165,997	5.21%
Bastion LLC <sup>7</sup>	55,886,008	2.80%
MTS PJSC	17,664	0.00%
Shares in free circulation <sup>8</sup>	915,274,457	45.80%
Total	1,998,381,575	100%

### Information on the number of shareholders

Total number of persons registered in the shareholder register of the issuer as of the end of Q4 2018: 888.

Total number of persons included in the list of persons compiled by the latter (as of 04.09.2018) having a right to exercise (implement) rights to shares of MTS PJSC and for compilation of which nominal issuer's shareholders presented data on persons, for the benefit of whom they owned (own) shares of MTS PJSC: 30,542

The management of MTS PJSC has no information<sup>9</sup> about existing share-ownership interests exceeding 5% of the authorized capital of MTS PJSC apart from the above-mentioned.

For updated information about joint-stock capital structure, visit the Company's website — <https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/struktura-akcionernogo-kapitala-pao-mts>.

<sup>1</sup> All ordinary registered voting shares at the disposal of MTS PJSC, in accordance with requirements of current legislation do not grant a voting right, are not counted during voting, dividends are not accrued for them.

<sup>2</sup> The ownership interest of JSFC Sistema PJSC includes ownership interests of its following subsidiaries: LLC Sistema Telecom Assets (11.03% of shares of MTS PJSC) and Sistema Finance S.A. (3.02% of shares of PJSC MTS).

<sup>3</sup> Vladimir Petrovich Evtushenkov is a controlling person of JSFC Sistema PJSC.

<sup>4</sup> The stake of Sistema PJSC, including indirect ownership through controlled entities (MTS PJSC, MGTS PJSC, Stream Digital LLC and Bastion LLC) is 54.2% of shares of MTS PJSC, while an effective interest is 50.005%.

<sup>5</sup> MGTS PJSC is a subsidiary of MTS PJSC.

<sup>6</sup> Stream Digital LLC is a subsidiary of MTS PJSC.

<sup>7</sup> Bastion LLC is a subsidiary of MTS PJSC.

<sup>8</sup> Includes 8.1% of shares of MTS PJSC and ADR for 37.7% of shares of MTS PJSC.

<sup>9</sup> Information is understood as documented data received by (handed over to) the management.

# Information about securities

## S shares

Shares of MTS PJSC are circulated on the leading Russian platform—Moscow stock exchange (MOEX) and are listed on the New-York stock exchange. From October 3, 2003 shares of MTS PJSC were included in the list of non-listed securities of the Moscow Interbank Currency Exchange. In December 2003 shares of MTS PJSC were included in “B” quotation list at MICEX. Since October 2010 shares have been traded in “A1” quotation list. Since June 2014 shares of MTS PJSC have been traded at the first level of MICEX securities list.

At the New-York stock exchange MTS shares are listed in the form of American Depositary Receipts—ADR (ratio: 1 ADR to 2 shares).

The ordinary shares of MTS PJSC gives for its owner (shareholder) a certain volume of property rights, including the right to participate in Company’s management, the right to obtain a portion of Company’s profits in the form of a dividend as well as the right to obtain a portion of property remained after Company’s liquidation.

The Company’s issued and placed shares are ordinary registered shares of the same par value.

### Information about circulation of shares of MTS PJSC at stock exchanges

Trading Platform Name	Issuer Code
NYSE, New York	MBT
MOEX, Moscow	MTSS

### Information about current lists and transaction prices:

<http://www.moex.com>;

<http://www.nyse.com>.



### Price and volume of shares of MTS PJSC (RUB), 2018

Minimum share price	224.00
Maximum share price	318.15
Average daily trade volume (pcs.)	2,005,183
Price as of December 31, 2018	238.00



### Price and volume of American depository receipts of MTS PJSC (USD), 2018

Minimum ADR price	6.65
Maximum ADR price	12.61
Average daily trade volume (pcs.)	2,907,760
Price as of December 31, 2017	7.0

# American Depositary Receipts

On June 30, 2000, MTS was successfully allowed to issue American Depositary Receipts (ADR) of the third level at the New-York stock exchange (<http://www.nyse.com/about/listed/mbt.html>). MTS PJSC became the second company in Russia to implement an ADR program at the highest level.

On April 20, 2010, MTS PJSC informed about a change in the ratio between ADRs and company's shares starting from May 3, 2010. As a result of such a change, the ratio of ADRs to ordinary shares was changed from 1:5 to 1:2. Thus, holders of MTS ADRs registered at the

end of the business day of April 28, 2010, received an additional 1.5 ADRs for every available ADR.

As of December 31, 2018, the total number of ADRs for ordinary registered shares amounted to 390,234,394 ADR, which makes up 780,468,788 ordinary registered shares or 39.05% of the Company's authorized capital.

The depositary under the ADR program and stockholder of MTS PJSC is JP Morgan Chase Bank, N.A., with which a depositary account of depositary programs was opened.

# Bonds

MTS PJSC is one of the largest issuers of corporate bonds in Russia. The Company uses funds from bonds' placement for debt-portfolio refinancing and implementation of the investment program

More detailed information at <https://moskva.mts.ru/about/investoram-i-akcioneram/rinok-obligacij/opisanie>.

2008	RUB 10 billion	First issue of ruble bonded loan of MTS PJSC
	RUB 20 billion	Additional issue of two bond offerings of MTS PJSC
2009	RUB 30 billion	Issue of two bond offerings of MTS PJSC
2010	RUB 25 billion	Two bond offerings. The funds obtained from the placement of bonds were used for corporate purposes to optimize the company's debt portfolio and implement the investment program.
2011	RUB 36 billion	Three issues of A, B, C series bonds by means of conversion of registered interest-bearing book-entry inconvertible bonds of COMSTAR – United TeleSystems OJSC into registered interest-bearing book-entry inconvertible bonds of MTS PJSC.
2012	USD 400 million	Repayment of Eurobonds of Mobile TeleSystems Finance SA
2013	RUB 10 billion	First issue of exchange-traded bonds in rubles of MTS PJSC with the circulation period of 10 years and offer within five years.
	USD 500 million	Placement of USD Eurobonds with a maturity period of 10 years
	RUB 10 billion	Full repayment of series 01 bonds
2014	RUB 15 billion	Full repayment of series 04 bonds
2015	RUB 10 billion	Full repayment of series 02 bonds
	RUB 0.1 billion	Repayment of series A bonds
2016	RUB 15 billion	Full repayment of series 04 bonds
	RUB 10 billion	Second issue of exchange-traded bonds in rubles of MTS PJSC with the circulation period of 15 years and the offer within two years.
	RUB 0.1 billion	Repayment of series B bonds

2017	RUB 10 billion	First issue of 001P-01 exchange-traded bonds with the circulation period of five years
	RUB 10 billion	Second issue of 001P-02 exchange-traded bonds with the circulation period of four years
	RUB 15 billion	Third issue of exchange-traded bonds 001P-03 with the circulation period of five years
	RUB 10 billion	Fourth issue of 001P-04 exchange-traded bonds with the circulation period of one year
	RUB 10 billion	Repayment of series 07 bonds
2018	RUB 10 billion	Fifth issue of 001P-05 exchange-traded bonds with the circulation period of 3.5 years
	RUB 10 billion	Sixth issue of 001P-06 exchange-traded bonds with the circulation period of 7 years
	RUB 0.75 billion	First issue of KO-П01 commercial bonds with the circulation period of 182 days using smart contracts on the National Settlement Depository's blockchain platform
	RUB 0.75 billion	Full repayment of KO-П01 commercial bonds
	RUB 10 billion	Full repayment of series 03 bonds
	RUB 10 billion	Full repayment of 001P-04 exchange-traded bonds

## Bond issues

Issuer	Mobile TeleSystems Public Joint Stock Company
Security type	Non-convertible interest-bearing certificated exchange-traded bonds in bearer form subject to mandatory deposit of 08 series
Coupon	1–10th coupons—8.15% per annum, 11–12th coupons—10.75% per annum, 13–14th coupons—9.25% per annum, 15–16th coupons—7.5% per annum
Placement price	100%
Issue currency	RUB
Issue amount	15,000,000,000
Placement date	November 16, 2010
Repayment date	November 3, 2020
ISIN Reg No	RU000A0JR4J2
Offer	November 6, 2018
Issuer	Mobile TeleSystems Public Joint Stock Company
Security type	Exchange-traded Non-convertible interest-bearing certificated exchange-traded bonds in bearer form subject to mandatory deposit of BO-01 series
Coupon	1–10 coupons—8.25% per annum, 11–20 coupons—8.25% per annum
Placement price	100%
Issue currency	RUB
Issue amount	10,000,000,000
Placement date	April 3, 2013
Repayment date	March 22, 2023
ISIN Reg No	RU000A0JTTA5
Offer	March 28, 2018



<b>Issuer</b>	<b>Mobile TeleSystems Public Joint Stock Company</b>
Security type	Exchange-traded Non-convertible interest-bearing certificated exchange-traded bonds in bearer form subject to mandatory deposit of BO-02 series
Coupon	1–4 coupons—9.40% per annum
Placement price	100%
Issue currency	RUB
Issue amount	10,000,000,000
Placement date	September 2, 2016
Repayment date	August 15, 2031
ISIN Reg No	RU000A0JWRV9
Offer	August 31, 2018
<b>Issuer</b>	<b>Mobile TeleSystems Public Joint Stock Company</b>
Security type	Registered interest-bearing book-entry non-convertible bonds of “C” series
Coupon	5% of the Bond’s par value for the entire circulation period
Placement price	100%
Issue currency	RUB
Issue amount	12,000,000
Placement date	April 1, 2011
Repayment date	June 28, 2022
State Reg. No.	4-11-04715-A
Offer	–
<b>Issuer</b>	<b>MTS International Funding Limited</b>
Security type	Eurobonds (144A/Reg S), guaranteed by the Company
Coupon	8.625% fixed, payment once in six months
Placement price	100%
Issue currency	USD
Issue amount	750,000,000
Repayment date	June 22, 2020
<b>Issuer</b>	<b>MTS International Funding Limited</b>
Security type	Notes (144A/Reg S), guaranteed by the Company
Coupon	5% fixed, payment once in six months
Placement price	100%
Issue currency	USD
Issue amount	500,000,000
Repayment date	May 30, 2023
<b>Issuer</b>	<b>Mobile TeleSystems Public Joint Stock Company</b>
Security type	Exchange-traded Non-convertible interest-bearing certificated exchange-traded bonds in bearer form subject to mandatory deposit of 001R-01 series
Coupon	1–10 coupons—9% per annum
Placement price	100%
Issue currency	RUB
Issue amount	10,000,000,000
Placement date	February 10, 2017
Repayment date	February 4, 2022
ISIN Reg No	RU000A0JXEVS
Offer	-

Issuer	Mobile TeleSystems Public Joint Stock Company
Security type	Exchange-traded Non-convertible interest-bearing certificated exchange-traded bonds in bearer form subject to mandatory deposit of 001R-02 series
Coupon	1–8th coupons—8.85% per annum
Placement price	100%
Issue currency	RUB
Issue amount	10,000,000,000
Placement date	March 30, 2017
Repayment date	March 25, 2021
ISIN Reg No	RU000A0JXMH7
Offer	-

Issuer	Mobile TeleSystems Public Joint Stock Company
Security type	Exchange-traded Non-convertible interest-bearing certificated exchange-traded bonds in bearer form subject to mandatory deposit of 001R-03 series
Coupon	1–10th coupons—7.7% per annum
Placement price	100%
Issue currency	RUB
Issue amount	15,000,000,000
Placement date	November 9, 2017
Repayment date	November 3, 2022
ISIN Reg No	RU000A0ZYFC6
Offer	-

Issuer	Mobile TeleSystems Public Joint Stock Company
Security type	Exchange-traded Non-convertible interest-bearing certificated exchange-traded bonds in bearer form subject to mandatory deposit of 001R-05 series
Coupon	1–7th coupons—7.1% per annum
Placement price	100%
Issue currency	RUB
Issue amount	10,000,000,000
Placement date	March 7, 2018
Repayment date	September 1, 2021
ISIN Reg No	RU000A0ZYWX7
Offer	-

Issuer	Mobile TeleSystems Public Joint Stock Company
Security type	Exchange-traded Non-convertible interest-bearing certificated exchange-traded bonds in bearer form subject to mandatory deposit of 001R-06 series
Coupon	1–14th coupons—7.25% per annum
Placement price	100%
Issue currency	RUB
Issue amount	10,000,000,000
Placement date	March 7, 2018
Repayment date	February 26, 2025
ISIN Reg No	RU000A0ZYWY5
Offer	-

# Corporate Governance Development

Key MTS corporate governance principles are:

- comprehensive protection of shareholder rights and interests;
- information openness and transparency;
- single corporate policy in respect of subsidiaries;
- independence of the Board of Directors in definition of the Company's strategy, approval of business plans, other important decisions;
- control over management activities;
- observance of business ethics when doing business;
- doing socially responsible business aimed at assuring sustainable development of the Company, its welfare growth.

Procedures of preparation and conduction of the General Shareholder Meeting enable MTS to assure equal attitude to all shareholders from the company when they exercise their rights to participation in company's management and profits' receipt.

The remuneration system applied in MTS is aimed at the growth of Company's shareholder value, and the level of remuneration paid is fair and sufficient for motivation of employees and members of management bodies.

The risk management and internal control system was developed taking into account generally accepted conceptual foundations COSO (The Committee of Sponsoring Organizations of the Treadway Commission), is effi-

cient and is aimed at assuring reasonable confidence in achievement of objectives faced by the company.

The Company has an efficient system of control over transactions executed amidst the conflict of interests.

The information disclosure system is built taking into account requirements of listing rules of the Moscow Exchange and NYSE, is efficient and assures compliance with the transparency principle.

The Company's systemic approach also covers areas where compliance with legislation is essential. Thus, systems of assurance of compliance with anticorruption, antitrust, insider legislation and intellectual property legislation were built at the Company based on best international compliance standards.

## **S**ettlement of possible conflicts of interest of management bodies at MTS PJSC

For the purposes of non-admission of conflicts of interests, the Company holds an annual knowledge testing and certification of compliance with norms of the Code of Business Conduct and Ethics for executives and top management, the result of which are reviewed at the Audit Committee at the Board of Directors of MTS PJSC.

Members of the Management Board and employees are not entitled to participate in approval, agreement, other decision-making in respect of transactions concluded by the Company if they are or may be under the influence of the conflict of interests.

In its conflict-of-interest management, the Company is guided by the principles of lawfulness, confidentiality, impartiality, objectiveness and reasonable sufficiency, obligatory immediate disclosure of information by the Company's employees about actual or potential conflicts of interest or the likelihood of such a conflict.

In 2018 the members of the Management Board announced four situations of the conflict of interest—two

situations of actual COI and two situations of potential COI. At the moment, all the situations are mitigated in accordance with Conflict of interest policy accepted in Company.

Procedures preventing a possible conflict of interest on the part of directors are also established at our Company. Members of the Board of Directors must refrain from actions which may result in appearance of a conflict of interests and, if such a situation exists or arises, disclose information about it to the Board of Directors and not participate in voting on conflict agenda items.

Members of the Board of Directors who have an interest in agenda items of the Board of Directors do not take part in discussion and voting on the specified agenda items.

During 2018, no conflicts of interest on the part of members of the Board of Directors of MTS PJSC were detected.

## **D**evelopment of the Corporate Governance System and Plans for 2019

In 2018 we continued the work on development of the company's corporate governance system. For the last years our attention was primarily focused on introduction of Corporate Governance Code provisions. The result of this was compliance with the most recommendations of the Code. In 2017, having achieved significant results in the field of compliance with the provisions of the national Corporate Governance Code, we decided to follow best foreign practices and trends in the sphere of corporate governance, and to continue

to annually revise the remaining recommendations of the Code that are not complied with.

Key attention in 2018 was paid to issues of succession of the Board of Directors (in particular, its composition was updated, and further changes were identified in this area), and the remuneration system of the Board of Directors, which was substantially reworked in accordance with the best practices and recommendations of regulators.

## C corporate governance index

There are not a lot of tools on the market that enable the issuer to objectively assess its position on the corporate-governance market. For many years, such a tool was the Evaluation of Russian Corporate Governance conducted in accordance with GAMMA methodology, but it is no longer available.

Between 2016 and 2017, two new studies in the field of corporate governance were provided to the market. The first of them (National Corporate Governance Index, assigned by the National Association of Corporate Directors jointly with Corporate Development Center TopCompetence with the technical support of the Mos-

cow Stock Exchange and Center of System Transformations at Lomonosov Moscow State University) evaluates the companies according to formal metrics, based mainly on the provisions of the Corporate Governance Code, while the second one (Corporate Governance Index) is assigned by the Association of Independent Directors jointly with the National Research University "Higher School of Economics."

Following the results of 2017, we entered TOP-10 companies in accordance with the National Corporate Governance Index, and in 2018 we remain among the first ten companies of this rating.

**SSU**

**STAIN**

**ABLE**

**DEVELOPMENT**

# Our Approach to Sustainable Development/Social Responsibility

In 2018, MTS continued to adhere to the approved Corporate Social Responsibility (CSR) Strategy<sup>1</sup>.

Cognizant of our responsibility to our stakeholders and taking into account social and environmental issues at a global scale, within the strategy implementation we take into account the following:

- Forecast of long-term social and economic development of the Russian Federation until 2030, developed by the Ministry of Economic Development of Russia,
- Strategy of development of IT industry in the Russian Federation for 2014–2020 and in the future until 2025,
- National Security Strategy of the Russian Federation,
- UN sustainable development objectives until 2030,
- strategic documents on issues of sustainable development of countries within our areas of presence

Company's CSR activity covers the social, economic and environmental spheres and involves work in nine main areas.

<sup>1</sup> <https://moskva.mts.ru/about/socialnaya-otvetstvennost/napravleniya-raboti/principi-i-strategiya>.

**The strategic goal of MTS in the field of social responsibility is to improve the quality of life of our employees, customers and society, mainly through development of innovations and expanding the range of digital services.**

**As a responsible employer, we take care of our employees—we improve working conditions, develop and improve educational programs and talent support programs, create platforms for the social realization of everyone.**

**MTS pays special attention to development of areas of company's presence and local communities, implementing projects to eliminate digital inequality, participating in the formation of an effective social entrepreneurship system, assisting in solving key problems in the field of ecology, children's creative development and education, preservation of historical heritage. It is especially valuable for us that great support in the implementation of these projects is provided by MTS volunteers.**

*Maria Golyandrina, Member of the Management Board, Vice President, Human Resources, MTS PJSC*



Social sphere	Economic sphere	Environmental sphere
<ul style="list-style-type: none"> <li>Improving the quality of life of subscribers</li> <li>Caring for employees and their development</li> <li>Corporate volunteering</li> <li>Charity</li> </ul>	<ul style="list-style-type: none"> <li>Development of regions, territories of presence and local communities</li> <li>Synergy between CSR practices and the creation of common values</li> <li>Responsible business conduct</li> </ul>	<ul style="list-style-type: none"> <li>Development of services that increase environmental sustainability</li> <li>Environmental protection measures</li> </ul>

We undertake to implement projects for support of 13 objectives of UN sustainable development until 2030, which comply with the company's business areas.

MTS evaluates environmental impact at all stages of its operations: from the construction of base stations to the production of packaging and SIM-cards. We aspire to have the entire MTS team and each employee involved as much as possible in the process of environmental-project implementation and objectively assess their responsibility to nature.

The main mission of MTS in the field of sustainability is to improve the quality of life and safety of people and society by developing innovations and providing a wide range of services to our clients.

The corporate social responsibility and sustainable development strategy (further, CSR) is a continuation of the company's business strategy ("3D: Data. Digital. Dividends").

We build our CSR system in accordance with the demands of the society, consumers, shareholders, employees, government, non-profit and public organizations, partners and suppliers, local communities.

The Company's operations in the field of CSR is based on the following principles recorded in the Policy "MTS Operations in the Field of Corporate Social Responsibility,"

the internal document governing CRS projects implementation:

- respect for the interests of stakeholders;
- rule of law;
- compliance with international standards of conduct;
- development and implementation of innovative technologies;
- ethical conduct;
- observance of human rights;
- transparency;
- improvement of corporate governance system;
- accountability;
- zero tolerance for corruption in all forms and manifestations.

The official website of the Company contains Reports in the field of sustainability, the main charitable projects of MTS Group, and also contact information for feedback. We maintain continuous dialogue with stakeholders and provide full information about our social activities.

## M Main Outcomes for 2018

- The self-assessment of the MTS activities for compliance with the recommendations of ISO 26000:2010 “Guidance on social responsibility” was completed successfully.
- Increased number of employees—participants of volunteering movement of MTS “Just Give Good”—7,000 people (in 2016—6,000 employees, in 2017—6,500 employees). Volunteers took part in social projects of MTS in the entire territory of presence, project coverage was more than 10 mln people.
- Telecom Idea competition—coverage of 350 universities, 550,000 students, 250 applications were received (25%—CSR topics) from 7 countries, 41 finalists, 5 winners.
- The Supervisory Audit of UCS compliance with the ISO standards in the field of compliance, including the program “Human Rights at the Workplace” and “Ecology,” was successfully completed.
- The Director of the Department for Corporate Social Responsibility was included into the rating of Top-50 CSR Managers.
- MTS received public recognition—the title “Volunteer of Russia 2018” in the nomination “Socially Responsible Business Partner in Volunteering Initiatives.”
- “Mobile Fairytale Puppet Theater” became the winner of the Eco Best Award 2018 in the nomination “The Best Educational Project in the Field of Ecology.”

MTS took the 1st place in the rating of social efficiency of the largest Russian companies. AK&M Rating Agency surveyed social efficiency of the Russian economy leaders. The purpose of the survey was to show the companies that bring maximum benefit to the society with minimum environmental impact and to find balance between the environmental load and positive return for the society.

## P Plans for 2019

- Transformation of the Telecom Idea project into a Social Idea with a focus on projects that solve socially significant problems of society using MTS technologies.
- Update of CSR Strategy in accordance with best practices.
- Use of GRI Standards to prepare non-financial reporting, which will make it possible to focus on the essential aspects of the sustainable development of MTS Group when compiling the Sustainability Report.
- Support and implementation of programs for working with the inclusive community: training workshops on adaptation and socialization when applying for a job.
- Development of the Ecotelecom area: popularization of environmentally responsible behavior among employees, partners and their families, support for federal and international environmental projects.
- Creating an educational resource “Social Development Platform” for employees with subsequent certification.
- Spread of MTS corporate volunteering practices “JUST Give Good” to the regions of the company’s business presence.
- Scaling up of federal volunteering actions to all regions of MTS presence, involving foreign subsidiaries, increasing the number of volunteers to 7,500 people.



## Self-assessment results according to ISO 26000

Dear colleagues,

Just recently, MTS has completed self-assessment of compliance with the international standard ISO 26000 “Guidance on social responsibility.” International experts assisted us in doing it. Any self-assessment is largely a formality, but it is always a chance to compare oneself to best practices. ISO 26000 standard establishes the norms of civilized relations between the organization and the community and governs various aspects, starting from respect for human rights and ending with environmental impact. This standard differs from other ISO by the fact that we are not obliged to comply therewith by any regulator or business community. Having initiatively confirmed compliance with this standard, we basically have not acquired any immediate business advantages. However, focusing on the best standards, we are confident that issues related to development of the community and our business are interrelated for us, and when developing business, we always take into account the community’s needs, including in those spheres that are not directly related to our current business objectives. Why are we doing that? Because we understand that any social problem will definitely impact each of us in the future if it becomes a disaster. That is why our attention is focused on development of services in the field of healthcare and education, solutions aimed at improvement of effective usage of natural resources and reduction of social inequality in the community, also at the expense of improving availability of socially significant services. Our services make the community more open and contemporary, and people—more informed, regardless of where they live and how much they earn. Our technologies help to create a comfortable environment for life and favorable conditions for self-development. We care about environment, implement critical educational and charity projects, help veterans, orphanages, hospitals, common people in need of care. We work for the wealth of the community! At the same time, we do have room for improvement. Our objectives for the nearest future include higher availability of services, improved communication with consumers and suppliers of services.

*Sincerely yours,  
Alexey Kornya, President, MTS Group*

- Implementation of projects within the “Social HR” area: expanding the opportunities for internships, practical training and employment of people with disabilities and older people, active participation and involvement of the Company’s employees in activities aimed at the socialization and support of vulnerable segments of the population.
- Work on results of self-assessment for compliance with the international standard ISO 26000:2010

“Social Responsibility Guidelines” with functional units of MTS.

Strategic priorities remain as follows: involvement of top management in CSR projects (tone from the top), development of corporate volunteering, cascading projects to regions and the implementation of cross-functional projects helping to strengthen CSR culture at the Company.

## Company's Environmental-Protection Activities

In its activities, MTS strives not only to have a minimal impact on the environment, but also to reduce this impact. The Company is guided by applicable environmental legislation, as well as by the principles of responsible business conduct, and strives to improve the environmental culture of its employees and partners and to implement services based on advanced technologies.

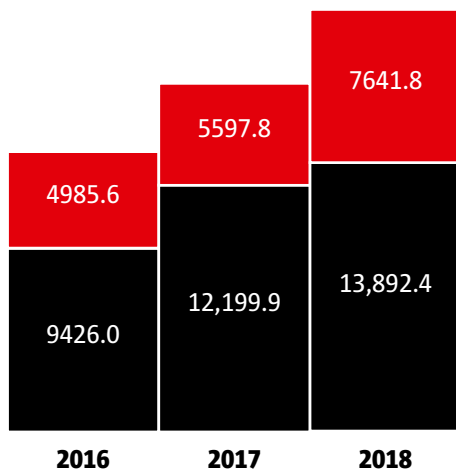
In accordance with the recommendations of the international standard ISO 26000, MTS implements a set of measures in the field of "Environment." Within

the scope of development of the "Ecology" compliance program, in 2018, the MTS Environmental Safety and Environmental-Protection Policy was enacted, which reflects the Company's position with respect to the environment at its administrative facilities.

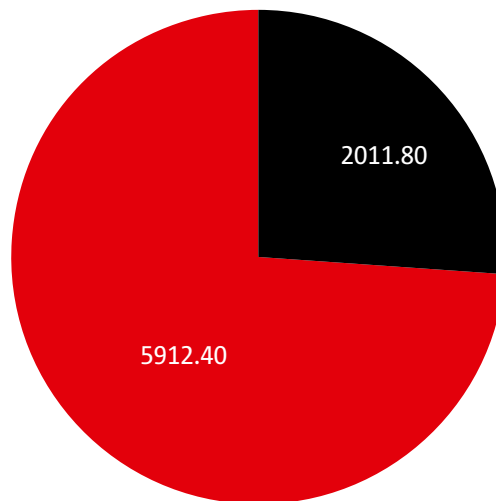
The fundamental principles of the MTS Policy for Environmental Safety and Protection:

- compliance with the requirements of the nature-conservation legislation of the Russian Federation;

MTS PJSC expenses for environmental protection, RUB thousand



Structure of MTS PJSC expenses to prevent environmental impact in 2018, RUB thousand



- Expenses to prevent environmental impact
- Expenses related to handling of wastes and emissions treatment, and also liquidation of environmental damage
- Payments for adverse environmental impact
- Preparation of environmental documents

Monetary value of essential penalties and total number of non-financial sanctions imposed upon MTS PJSC for failure to comply with environmental legislation and regulatory requirements

	2016	2017	2018
penalties, thousand RUB	20.00	100.00	0.00
non-financial sanctions, pcs.	0.00	0.00	0.00

- compliance with the requirements of national and international standards in the field of environmental protection;
- improved level of environmental awareness and education of all company employees;
- implementation of environmental socially significant projects;
- openness and availability of environmental information;
- continuous improvement of MRS environmental management system;
- reduced level of negative impact at environment and aspiration for sustainability.

A unified approach is generated in MTS branches due to the introduction of a unified environmental-management system, to ensure compliance and the performance of nature-conservation legislation norms and requirements.

For the reporting period, internal audit was performed in part of Company's compliance with the environmental laws, risks were assessed, and a risk map was made with actions for their mitigation.

External experts conducted mandatory periodical training for managers of branches and persons responsible for environmental safety with subsequent issue of certificates that confirmed knowledge gained.

Within communication on the environmental issues for all MTS employees, for the Day of Ethics and Compliance in 2018 a memo was developed and published at MTS portal about environmental friendliness.

As of the end of 2018:

- 18 branches developed the draft regulations of maximum permissible emission of hazardous substances into atmosphere and the permits for pollutant emission into atmosphere by stationary pollution sources were received;
- 29 branches developed design documentation—Draft waste generation norms and waste disposal limits; the Documents to approve the waste generation norms and waste disposal limits in accordance with the requirements of the legislation were received;

**Each supplier of the Company shall comply with the requirements of the MTS PJSC Supplier's Code of Business Conduct, providing that the supplier has an effective environmental protection policy, complies with the existing laws and norms in respect to environmental protection. Whenever possible, the suppliers shall apply preventive approach to environmental issues, implement initiatives that promote environmental responsibility, and help to spread technologies that support environmental protection and usage of rational methods for product life cycle realization. Participants of MTS procurement procedures shall confirm their consent to compliance with the Code to submit a commercial offer. The form of the MTS PJSC procurement procedures' participant since 2016 has included questions on health, safety and environmental protection.**

- environmental campaigns were launched: "Caps of Kindness," "Batteries, Surrender."

Total expenses of MTS PJSC for environmental protection in 2018 amounted to RUB 22.1 mln, where RUB 13.7 mln were expenses related to removal of solid domestic waste to a landfill.

Plans for 2019 include the following:

- to provide for adaptation of the Policy "Environmental Safety and Protection at Administrative Facilities" to new requirements in environmental laws;
- to provide for spread of the Policy coverage to technical block facilities that adversely impact the environment, to work on environmental safety issues at the technical block facilities;
- to introduce a new system for accumulation of paper waste in offices due to enactment of new waste handling requirements;
- to organize and do inventory of administrative facilities with the purpose to inspect availability of environmental documents at all facilities as specified in the existing legislation of the Russian Federation;
- to analyze all categories of products/works/services of the Company as specified in the "Procurement" Policy by experts in the field of environmental protection and safety to determine their impact at environmental protection and safety.

## **E** nvironmental impact

MTS as a telecom provider objectively understands that its operations have virtually no negative impact on the environment. Nevertheless, the Company considers environmental protection activities as an integral component of business and works in the area of environmental balance and stability maintenance. In its attempt to minimize its environmental impact, MTS skillfully manages those insignificant sources of adverse environmental impact that currently exist.

MTS PJSC facilities are mainly related to facilities that produce no adverse environmental impact, besides, there are several facilities of III and IV categories, which produce insignificant or minimal adverse environmen-

tal impact. Design of network facilities includes “List of Actions for Environmental Protection,” development of which is carried out in accordance with requirements of GOST R 21.1101-2013. The requirement to implement such actions is a block factor for contractors. At the stage of facility acceptance, completion of such environmental protection actions is inspected.

At the initial stage of radio access network facility design, a sanitary passport is developed, which is provided for expertise to the organization accredited by the Federal Service on Customers' Rights Protection and Human Well-Being Surveillance for compliance with the SanPiN (sanitary regulations and standards) norms. Afterwards, this passport is submitted to the Federal Service on Customers' Rights Protection and Human Well-Being Surveillance, which issues a report on design documentation compliance with SanPiN.

Upon completion of facility construction, the organization accredited by the Federal Service on Customers' Rights Protection and Human Well-Being Surveillance, performs measurements at the facility, issues a report and a protocol of measurements that are submitted to the Federal Service on Customers' Rights Protection and Human Well-Being Surveillance. As a result, the MTS receives a hygiene certificate on compliance of the functioning facility with SanPiN.

**Within the procedure for procurement of smartphones and accessories, MTS performs testing, as a result of which the products of questionable quality will not be admitted to the tender. In particular, examples may be given, when smartphone samples were excluded due to sharp chemical odor and brittleness of body materials.**

**All customized models of subscriber equipment (smartphones, USB modems, routers, set-top boxes) have the EAC certificate. Besides, the package and components are labeled with a sign “not to dispose with domestic waste.”**

## **E** nergy

Our business does not impact the environment directly, but all our communication facilities, office buildings, sales offices and call centers consume power. Most generating stations in Russia use gas and coal and emit carbon dioxide to atmosphere. We are aware of the fact that the more traffic grows and the faster the subscriber base expands, the more power we consume, which inevitably results in higher load to generating stations and therefore harms the environment.

Since 2010, Strategy of Energy Savings and Energy Efficiency has been operating in MTS, aimed at restriction

of growth and reduction of electric energy consumption. All MTS branches in regions implement their own energy savings and energy efficiency programs.

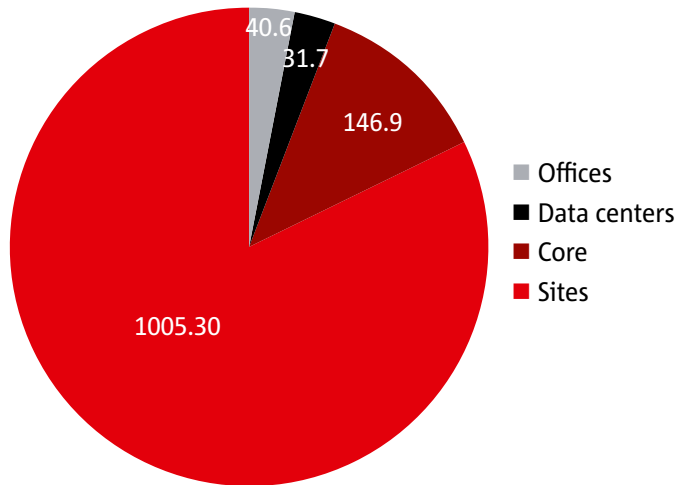
Growth of power consumption is related to network development (additional commissioning of both base stations and other infrastructure of the Company (DPCs, call centers, etc.), and with the growth of data traffic volumes. Traffic growth and installation of additional equipment result in increased consumption of power by base station sites. Growth of power tariffs is reflected in growth of consumed power in monetary terms.

The Company introduces new energy efficient equipment everywhere and implements energy efficiency programs. Without such actions, with account of network growth, power consumption would be much higher.

In order to reduce power consumption by base stations, MTS:

- changes to light diode lamps in mast lighting systems;
- uses conditioning systems with a free cooling function;
- replaces equipment for more energy efficient;
- uses equipment of at least C class;
- installs equipment in compact telecom cabinets instead of equipment shelters;
- uses software logics to disconnect transceivers of base stations in the period of low load;
- introduces an automated system for commercial electric-power metering;
- uses base stations with passive cooling of transceivers, when feederless external radio modules are used (active equipment is located directly on a pillar or tower), which does not require power consumption for cooling.

Power consumption in MTS PJSC in 2018, mln kW/h



When we purchase reserve sources of power supply to feed the base stations, we follow the energy efficiency criteria. The Company uses diesel generators of leading European manufacturers (Wilson, SDMO, Geko, Inmesol) with extremely strict requirements to fuel consumption efficiency and CO<sub>2</sub> emissions for redundancy of its main facilities.

The following works were performed in branches of the Company for energy savings in 2018:

- installation of motion detectors for lighting in passages and corridors of offices;

**Volume of energy resources used by MTS PJSC in 2018**

Resource	In kind		In monetary terms, rub, ex-VAT
	quantity	measurement unit	
Heat power	52,673.57	Gcal	84,668,452.86
Water supply	220,551.91	cubic m	10,604,375.98
Gas supply	1,164,281.55	cubic m	7,540,115.68
Petrol	4,708,900.63	l	155,285,211.78
Diesel fuel	3,231,360.67	l	108,796,359.80

To save energy, VF Ukraine PJSC base stations introduced the “Power Saving” functionality that disconnects transceivers of base stations in hours of minimum load. Energy savings with account of functionality activation in the entire network reaches 2–5%, which amounts to around 4 million kWh per year.

- monitoring regular operation of ventilation and conditioning systems, with account of the possibility of their disconnection outside working time (apart from technological ones);
- upgrade of lighting systems using light diode lamps.

## Water consumption

MTS PJSC business has no substantial impact at water intake; however, we strive to cut water consumption. In 2017 the water usage volume reduced by 1.1%.

The main source of water intake is a water services company. The largest part of used water is transferred for treatment to other organizations.

### Use of water by MTS PJSC, K m<sup>3</sup>

	2016	2017	2018
Total:	272.707	223.09	220.55
Including:			
from natural sources	3.982	1.162	0.802
from water services company	268.725	222.929	220.552
reused water	0.00	0.00	0.00

### Discharge of used water of MTS PJSC, K m<sup>3</sup>

	2016	2017	2018
Total:	267.88	223.09	220.55
Including:			
purified water	0.063	0.00	0.00
sent for treatment to other enterprises (sewage)	267.817	223.09	220.55



# Emissions

No substantial emissions of greenhouse gases are caused as a result of MTS PJSC business. Since MTS PJSC has no production of its own, there is no need to implement the Program for cutting emissions. However, for each unit of MTS PJSC with stationary sources of pollutant emissions (diesel generator plants, boiler houses, etc.), a Project is developed for maximum permissible emissions of pollutant to environment. Based on the Project, the economic entity receives a Permit for emission of pollutants into atmospheric air.

## Direct emissions of greenhouse gases of MTS PJSC, tons

	2017	2018
Gas supply	1519.4	2136.3
Petrol	11,811.4	14,243.0
Diesel fuel	10,034.7	10,167.5
Total	23,365.5	26,546.8

Calculation of greenhouse gas emissions was made in accordance with the Order of the Ministry of Natural Resources of Russia of 30.06.2015 No. 300 "On approval of guidelines and guidelines for the quantitative determination of greenhouse gas emissions by organizations engaged in economic and other activities in the Russian Federation."

# T

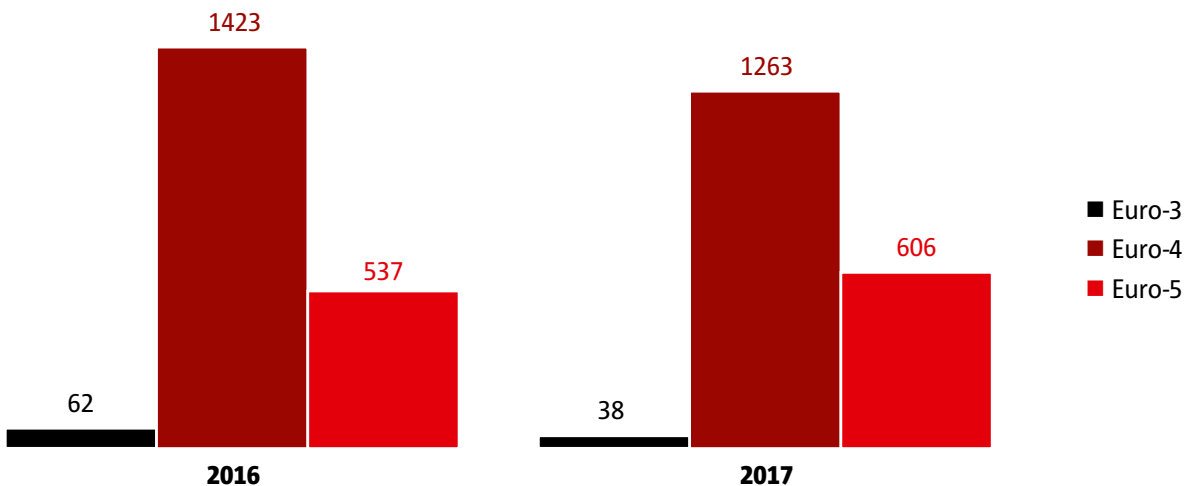
## ransport

In virtue of Company's business features, our direct impact at environment is reduced to generation of emissions by car fleet vehicles. In total in 2018 MTS PJSC used 1,802 vehicles (5.5% less than a year before). When procuring motor transport, we take into account environmental standards of hazardous emissions (Euro-3, 4, 5). The share of vehicles complying with Euro-3 standard is reduced in connection with car replacement with the ones complying with Euro-4, 5 standard. In 2018 costs to purchase corporate transport

with high environmental class (Euro-5 min) amounted to RUB 100.7 million. Total 78 vehicles were purchased, 166 vehicles were written off.

CO2 emissions from consumption of petrol and diesel fuel in 2018 amounted to 10,479.8 tons and 7,516.5 tons respectively with the total mileage of 34 thousand km.

## Environmental class of MTS PJSC vehicles as of the end of the year, pcs



# Wastes

We treat the issue of waste disposal responsibly, and therefore, one of main requirements to cooperation with domestic waste disposal companies is performance of full cycle of waste handling when removed from our offices: sorting and secondary raw materials production, provision of reporting and supporting documents, ability to check progress and quality of works provided for waste handling.

In 2017 the total quantity of wastes produced in process of MTS PJSC business amounted to 6,041.3 t, 98.0% of which are non-hazardous wastes of IV and V classes. They were transferred to other organizations for further use and recycling, a small portion of wastes was reused.

# Disposal of telecommunication equipment

When disposing of telecommunication equipment, we usually sell spent devices back to the manufacturer, on a competitive basis sell it to other companies or make agreements with specialized recycling companies. Then we transfer spent equipment to the site of the specialized company, where it is disassembled, sorted, and the resulting metal scrap is weighed. Further inspection

and confirmation is carried out that metal scrap was prepared according to GOST, surveyed by a pyrotechnician, neutralized, recognized as explosion-proof and may be admitted for recycling and remelting. The final metal scrap is sold by a recycling company, which will be in charge of its further recycling.

Our main contractor—Ekoutilizatsiya LLC—has the relevant license for the collection and recycling of wastes of I–IV hazard class and performs works in accordance with the legislation of the Russian Federation, complying all environmental standards.

## Recycling of MTS PJSC equipment in 2018, kg

Ferrous metal scrap	Non-ferrous metal scrap
188,442.24	156,214.39

**MGTS PJSC collects from the public the telecom equipment (modems) with lost consumer properties.**

**Equipment is accumulated in the collection points to create a batch for removal, and then transferred to neutralization under agreements to specialized organizations with a license for this type of activity.**

# Environmental initiatives

Within the scope of its environmental initiatives, MTS evaluates environmental impact at all stages of its operations: from the construction of base stations to the production and packaging of SIM-cards. The entire MTS team and each employee, in particular, are involved as much as possible in the process of environmental-project implementation and objectively assess their responsibility to nature.

## Eco-packaging

Since 2016, all MTS SIM-cards are sold only in environmental packaging. Packaging is made from high-performance double-layer natural cardboard without synthetic additives and easily degrades in the nature. MTS packaging safety is approved with the Environmental Certificate of Conformity.

## Eco-Telecom

Eco-Telecom area is focused on shaping environmental culture in MTS employees and is aimed to increase personal responsibility for rational use of resources, collection and correct recycling of waste, environmental protection.

Since 2013, Eco-Telecom area is approved by the Board of Directors of MTS PJSC as one of the priority areas in the field of corporate social responsibility. Implementation and support of environmental projects with engagement of the Company's employees is approved in the strategy of the MTS HR Block.

The company strives to both attract employees' attention to the need for the responsible treatment of nature and give the opportunity to help with real deeds.

There are environmental posters in MTS offices, bright design and headings of which attract attention of employees and make it possible for them to study in more detail the information on what they can do to protect environment.

## Clean-ups

MTS holds environmental clean-ups for several years in a row already. They are carried out at various city sites: parks, museums, socially significant facilities in regions of Company's presence.

Most employees really enjoy community work, and the Company's management sees corporate clean-ups as one of the key components of environmental team building.

## Say to the batteries: "Surrender!"

An accumulator battery is one of the most dangerous types of wastes, as it contains a lot (80% of the weight) heavy metals: cadmium, zinc, nickel, mercury and lead. At a landfill, the battery's body loses its integrity, and its poisonous filling leaks into soil, underground water, atmosphere, harming the environment and human health, penetrating into human body with water and food. The time for degradation of a single battery is more than 100 years, and the area of contamination is around 20 m<sup>2</sup> of land.

The campaign for battery collection was resumed in administrative offices of MTS in 2018. Batteries are collected in more than 50 cities of Russia. For this purpose

## MTS—the winner of ECO BEST AWARD 2018

MTS won in two nominations at once: "Ecopackaging of the Year" for "Ecopackaging" project and "Best Educational Project in the Field of Environment" for the volunteer puppet theater "MTS Mobile Fairytale Puppet Theater."

ECO BEST AWARD 2018—an independent public award given for best products and practices in the field of environment, energy and resource savings.

## MGTS saves forests

MGTS PJSC jointly with the World Wildlife Fund (WWF) implements a program to save forest resources of Russia. For paper bills of MGTS, 288 tons of paper are required annually. Therefore, since 2015 MGTS challenges Muscovites to reduce the amount of used paper by changing to electronic bills for communication services. By the end of 2018, more than 600 thousand subscribers of MGTS joined the program.

**1 kg of batteries =  
20 pencils from extracted graphite**

**Recycling of 1 battery  
saves 1 ton of water**

boxes with themed stickers are installed in offices. As a result, in 2018 1,518 kg of batteries were assembled and sent for recycling.

To make this campaign possible, our colleagues did a lot of work, the result of which was execution of the agreement with the only company for recycling of batteries in Russia—Megapolisresurs.



## New technologies to protect forests against fires

Within the governmental program of Moscow Region “Ecology and Environment of Moscow Region” for 2017–2026, MTS provides sites for installation of video cameras on cellular towers and provides for data transmission from video cameras by secured dedicated channels at speed of up to 4 Mbit/s. Due to high quality video, the regional dispatcher’s service may look out for fire online, analyze data and, if required, engage the necessary forces and equipment to extinguish fires. This solution makes it possible to optimize costs for ground and air patrol of the area.

115 MTS base stations are engaged in the project. The same video cameras are installed in Nizhny Novgorod, Belgorod, Bryansk and Pskov.

Not only employees, but Moscow residents may deliver batteries in MGTS service offices.

### “Paper Boom”

Waste paper collection has become a good tradition in MTS. In 2018, MTS PJSC employees collected over 24 tons of paper waste.

In 2019, the Company is planning to organize an ongoing collection of waste paper in its offices.

### Electronic signature for employees

To save trees, you may not only collect waste paper, but also use less paper. To reduce the volume of paperwork, cut costs and make a positive contribution to environmental protection, MTS launched a project of transforming documents to “digital.” The substance of the project is to sign internal documents of the Company not on paper, but using an electronic digital signature.

We decided to start its introduction with two mass processes—signing vacation orders and sheets of regulations review. Benefits are evident: less time and paper

is spent, the process becomes simpler, more convenient and transparent. Everything is done in the personal account of the employee.

Within the project, an electronic digital signature will be provided to each employee of the Company. Currently the pilot program has been launched to implement the project.

### Mobile Technologies for Environment

Since 2014, MTS has been successfully implementing the Mobile Technologies for Ecology program, which includes environmental lessons in schools throughout Russia. Over the years of its existence, more than 14.5 thousand teachers from more than 80 regions of Russia participated in the project, who conducted environmental lessons in their schools, covering about 380 thousand schoolchildren. Pupils learned how state-of-the-art mobile technologies help to save nature, save lives, eliminate forest fires, care for birds and animals. The schoolchildren were introduced to Econeshka, the heroine of MTS and the girlfriend of the hero Interneshka, who is responsible for the environment and helps nature.

In 2018, MTS, with the support of the Autonomous Non-Commercial Organization EcoCenter “Zapovedniki,” began to develop a new lesson which will tell the children how to observe nature and how state-of-the-art mobile technologies can make the journey even more interesting and informative. Interactive tasks will move participants along with Econeshka to nature and

**60 kg of waste paper  
save 1 tree**

will show them how many interesting things one can learn walking in the forest.

Thanks to the MTS volunteers, in 2019, the first students of the eco-lessons will be pupils of sponsored children's social institutions and pupils of the junior and middle classes in educational institutions of 20 regions of Russia.

**14.5**

thousand  
teachers

**380**

thousand  
schoolchildren

**80**

regions

# **E**nvironmental initiatives in Armenia

VivaCell-MTS (Armenia) since 2006 cooperates with the Foundation for the Preservation of Wildlife and Cultural Assets (FPWC, <http://www.fpwc.org/>). The Foundation operates at the junction of wildlife protection, environmental education and sustainable development.

One of the joint projects of the Foundation and VivaCell-MTS is the project "Alternative Energy" aimed at protection of the environment. The project is implemented in remote villages of Armenia and provides for installation of solar heating, water heating and light diode street lighting systems. Apart from the positive environmental effect, the project helps to reduce financial expenses of local communities: solar heat and water heaters reduce costs by 50–60%, and energy efficient lighting—by 80%.

In 2018 solar stations were created to charge electronic bicycles at the second forest station of the Caucasus Wildlife Refuge (CWR) and in Urtsadzor Village of Araratsky Marz (province). Besides, the solar water heating system was launched at the Olani food processing plant in Shagap Village of Araratsky Marz (province). In the kindergarten No. 2 "Ekiyat" in town of Noemberyan of Tavushsky Marz and in the music school in Berdavan Village of Tavushsky Marz, solar water heaters are installed, which will make it possible to provide for proper attendance of 100 children regardless of weather conditions and to cut costs for heating by 40%.

Within the joint program "Community Development," the internal irrigation network will be built in Gnishik Village of Vayotsdzor Region. This project will help to solve the issue of irrigation in two communities—Gnishik and Mozrov. The drip irrigation system will make it possible to treat fruit trees and develop grape vines.

# O ur Employees

MTS pays priority attention to building and developing an effective and successful team of professionals.

The Company has a competitive remuneration system.

All company's employees participate annually in the performance evaluation procedure which includes both an evaluation of fulfilment of key performance indicators and the competence development level. Managers during the evaluation process provide an extended feedback based on annual work results, besides, following the evaluation results a plan of developing measures is generated for employees.

Thanks to a qualitatively-built personnel-development system, four out of five manager vacancies at the Company are filled by means of in-house candidates.

The use of new advanced remote-training platforms in 2018 will enable us in the future to provide opportunities for employee's development with high quality and availability in 2018.

MTS provides to their employees a wide package of compensations and benefits.

Employees are also allowed to take part in the cafeteria benefit program where based on the employee's individual decision, their set of benefits may be changed. Such an approach enables to qualitatively satisfy varying employees' needs with high cost effectiveness.



**>65** thousand people

— headcount of MTS Group personnel as of the end of the year.

## Wages

### Fixed part (basic salary)

Defined taking into account the salary ranges established for each position category (grade) on the basis of labor-market analysis in the region of operations and the Company's Positioning Policy in respect of the labor-payment market

### Variable component

Represented by the incentive system which provides for clear and transparent principles of establishment target bonus sizes and calculation of its actual values on the basis of key performance indicators and individual tasks fixed in evaluation forms of each employee

There is a bonus system for employees engaged in sales and subscriber services, the basic principle of which is motivation to reach the final result (with higher variable part and another frequency of payments).

For Company employees responsible for direct sales, a commission bonus arrangement (direct sales percentages) is in place.

## Package of compensations and benefits,

provided to Company employees meets current labor-market practices.

Primary attention is paid to the social protection of employees.

### Corporate benefits

- cars and compensation of expenses for their use;
- mobile communications with a wide limit

### Social benefits

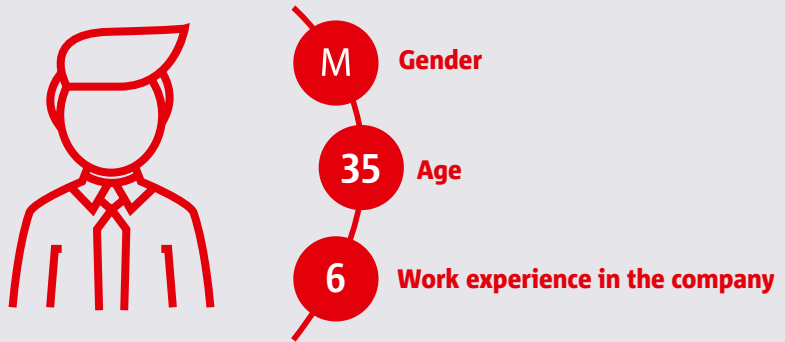
- life insurance;
- additional payment under a sick leave certificate;
- financial assistance

### Entertainment benefits

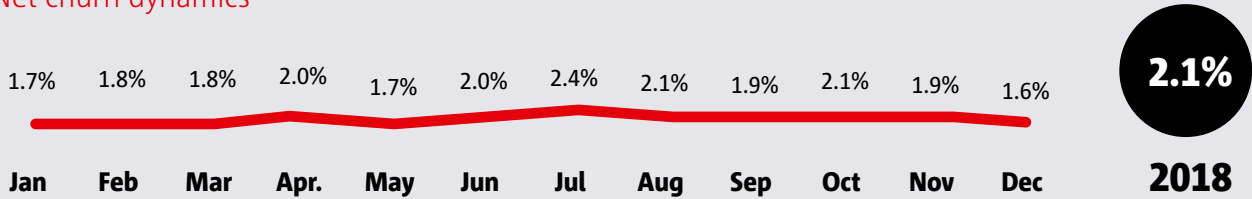
### Additional benefits

- compensation of fitness and swimming pools;
- a wide list of services within optional medical insurance;
- a package of benefits when relocating in the perimeter of the Company

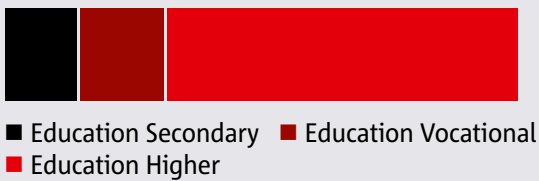
Portrait of an average company employee



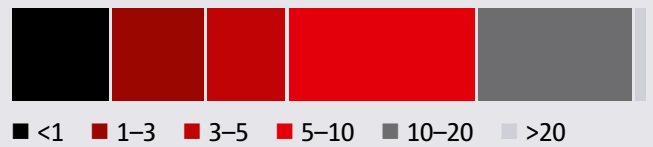
Net churn dynamics



Personnel structure by education



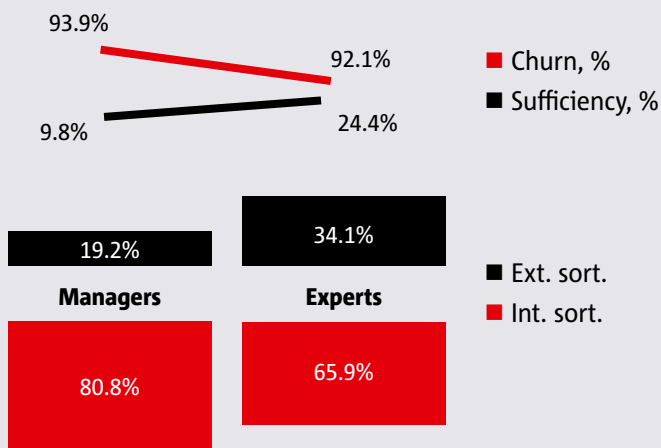
Personnel structure by experience



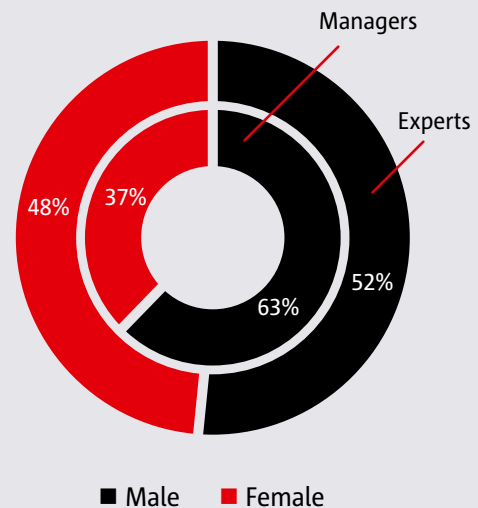
Personnel structure by age



Closing of vacancies



Gender composition





# Personnel Advanced Training

MTS PJSC applies a systematic training model based on the Company's strategic objectives and human-resources management goals. The training system is also based on the corporate values of MTS Group and requirements for employees' professional knowledge and skills.

The Company operates a Corporate University setting training standards and coordinating personnel training and development processes. Tasks of the Corporate University also include building training systems for various functional divisions of the Company. The mission of the Corporate University is to create development opportunities expanding individual and business horizons, for MTS' confident future.

Main objectives of the function "Personnel Training and Development":

- assure systematic, efficient development of employees based on corporate values and Company's key competences;
- generate knowledge, skills and attitudes required for employees and managers for raising efficiency at the existing position;
- create a tool for development of Candidates Pool and Successors to key positions;
- assure succession of expert/unique knowledge and experience;
- create a self-training environment in the Company where every manager and every employee is interested in development and involved in processes of creation, maintenance and multiplication of knowledge and skills in the Company.

Personnel training and advanced training is performed by means of the following forms and methods.

**Integration training.** The Company holds uniform centralized induction courses for all new employees, the aim of which is to understand Company's business and culture, its structure as well as to study internal processes and organizational procedures by new employees. Additional programs for induction in the internal structure, business-processes of the Company and adopted interaction procedures are conducted for new managers. Team-building measures for raising a corporate spirit and strengthening a corporate

structure are held for operating employees. Managers of Company's functional divisions conduct training of operating employees in accordance with rules drafted in internal regulatory documents. For newly implemented processes functional seminars, master-classes and webinars are held.

**Professional training.** Systematic professional training aimed at assuring continuous development of professional personnel knowledge and skills is implemented in the Company. Rates and contents of training programs as well as rates for employees' participation in professional conferences are set in accordance with requirements of positions as well as in accordance with requirements for employees' professional knowledge. Professional training planning is carried out based on business need of a particular division. Professional training of employees directly working with customers is carried out mainly by internal resources based on uniform standards (taking into account territorial peculiarities).

### Development of manager's managerial competences.

The managerial competence development system is based on the concept of fulfilment of an individual training plan as well as target and modular training for managers. Target and modular programs are recommended for dedicated categories of managers, individual training plans are formed based on the results of the annual evaluation of managers' competences. A focus is made on training of managers in personnel management methods (selection, evaluation, grading, developing feedback, creation of individual development plans, mentorship, coaching, motivation of employees etc.) and interaction with subordinates based on uniform corporate standards. An important objective of managerial training, apart from generation of an uniform approach among managers is to motivate and retain Company's managers. The direction and contents of managers' training programs are defined by the Company's development strategy, business tasks of divisions and managers' competence development level based on evaluation results.

**Training of candidates pool and successors to managerial positions.** The HR reserve training system is based on modular development programs, and also performance of the individual development plans. Development programs are formed on the basis of requests and needs of business units in the HR reserve for key positions.

**Self-education.** Conditions for employees' self-education are created at the Company. There is an internal library established with recommended literature on competencies, as well as the Virtual Academy with the e-courses necessary for the employees.

**Trainings in praesentia, seminars.** When conducting such type of training and seminars, an internal resource is actively used, author's internal trainings adapted to Company's business specifics are developed. A significant share of internal programs is held in a comfortable online format which enables any employee to take use of training opportunities in the Company. The Academy of trainer's mastership for preparation of in-house trainers was implemented, a remote program for trainer from remote RF regions was launched.

**Post-training support.** Based on training results employees receive a list of recommended literature and additional materials for studying, for the part of programs fulfilment of home task and its discussion with a training for better skill mastering are stipulated. Follow up seminars, workshops, workshops on the topics of past training with a view to master employees' knowledge and skills and to discuss issues of obtained knowledge application in practice may be conducted.

· Remote training. Remote training forms are actively used by the Company for all training types. Theoretical courses are conducted mainly in a remote format. Remote methods are also actively used for evaluating training efficiency: knowledge testing based on training results, evaluations of satisfaction with training programs, practical applicability of training programs.

**On-the-job training** is regarded as a priority and the most efficient method. One of the main tasks of a manager of any level is professional growth of his subordinates. The Company operates a mentorship system for all employees: from trainees to experts.

**Master-classes from Company's top managers.** Company's top manager take active part in training and development of Company's employees. Master-classes of Company's key managers are held in the Company on a regular basis, the task of which is to bring main Company's objectives, Company's strategy to personnel as well as to discuss key projects. When holding master-classes, the top managers can get feedback from the employees and discuss prospective changes in their processes.

## **V**irtual Academy

In 2016, a new system of employee-training management appeared at MTS PJSC—the Virtual Academy based on LMS Success Factors (SAP). It created opportunities for the establishment of a self-trained organization, a single training environment, a common point of entry for all processes related to training: from the scheduling of conferences to watching a new video course.

Employees can find more than 2000 online subjects in the system with various topics—from negotiations to working in Excel.

- 78%—remote training coverage in 2018.
- 36%—share of involved users who completed > 3 courses.
- 87%—users surveyed would recommend training in the Academy.
- 25 thousand subjects—completed in the Virtual Academy in 2018.

**MTS Virtual Academy  
three years**

## O nline programs

In 2018, the Company started the active training of employees on the most popular digital professions. Such training helped to implement the new strategy of MTS.

### Managing a digital product!

The Product Valley program focuses on the basics of managing digital products: user research, MVP, product metrics, flexible management techniques, and interface design. A separate module on Interface Design was conducted in conjunction with the Design Laboratory just created at MTS. Also in May, Product Fest was held—a marathon of webinars about the company's products with the participation of internal Product owners.

### Big Data and data analysis

The program “Fundamentals of Machine Learning” is carried out by specialists from the Big Data division. For analysts, a unique, unparalleled program “Data driven: how to make decisions based on data” was prepared, where more than 600 employees took part. The purpose of the programs is to explain to everyone, which data is available in the company, where to find it and how to use it. Decisions based on data are more accurate and profitable for the company than intuitive ones.

### Summer School of Marketing

In the summer, employees studied the trends of digital marketing: they listened to webinars with marketing gurus from various companies and solved real case tests in an online format.

## M TS Corporate University

As a result of accumulation of huge amount of expertise in the field of training and HR potential development, the decision was made to release MTS training program of in praesentia and online format to the external market.

In November 2017 MTS registered MTS Corporate University LLC, in May 2018 the license for educational activities was obtained. The first online courses “From in praesentia trainings to online” and “Infographics,” trainings for large companies were launched. Customers include: MiG, Gazpromneft, BESK, Gazprombank, SIBUR, Nissan, Credit Europe Bank JSC, NSPK JSC, Bashkir Distribution Power Grids LLC, Cloud Retail Plus LLC etc.

In order to develop the brand of MTS University and to attract new customers, free meetings in praesentia “HR Dating” are held for HR managers and HRD, as well as open webinars. There are 1807 contacts in the mailing base as of the end of 2018.

**4.17** mln RUB

— income of MTS Corporate University for 2018

### The Corporate University —

winner of the All-Russian Competition of SDO and E-Courses among professionals on remote training BEST E-LEARNING RUSSIA 2018

A chat-bot of events was created, the online cash register was connected to accept payments, the organizational structure was formed, and the product team was assembled.

Since November 2017 the employees of MTS gained access to the resources of periodicals Public.ru, where the best business periodicals are available: Forbes, Kommersant, RBC, Profil, Expert, Psychologies, Geo, Zakon, Computerworld Russia etc.

### Electronic Library

For more than 6 years the MTS Corporate University makes it possible for the company employees to use the electronic library.

- >4000 subscribers,
- > 350,000 articles—downloaded in 2018.

A new resource—Alpina Digital library—was presented to the employees in 2018. It includes the following:

- 900 thousand books were downloaded,
- >15 thousand people—number of active users.
- 1800+ business books, more than 180 audio versions.

**29,246**

employees were trained in 2018

Per one employee:  
9.6 hours of training /  
1 working day

**14,732**

employees — in praesentia

**26,107**

employees — remotely

**1266**

people completed the external training courses

**17,006**

people external training courses

**28,430**

thousand subjects were completed in the Virtual Academy in 2018

**78%**

employees were involved into remote training

**270**

employees studied English within English online project

**66**

IT Block employees participated in the largest professional conference for developers of highly loaded systems HighLoad++ Moscow 2018

**123**

trainers upgraded their qualification in the Academy of Trainers' Skills of MTS

- Special mobile app—it has become even more convenient to read books.
- 400+ summary (brief books—for those who is saving their time).
- 200+ business books in English.
- Specialized literature for IT-experts (more than 300 books from the publishing house DMK-Press).
- 80+ hybrid books (audio + text).
- Collections of articles from the publishing house Harvard Business Review.

### **Joint project with Skolkovo Business School**

In May of 2018, the MTS Corporate University, jointly with the Moscow Management School of Skolkovo, launched the second flow of the corporate training program for top managers of MTS Group of Companies. Its 61 participants include directors of key departments, regions and subsidiaries focused on the achievement of significant business results and professional and personal growth inside the company.

The training program was aimed at the training of a new type leaders ready to develop corporate culture, business processes and strategic planning on the basis of a digital approach under conditions of high economic turbulence and uncertainty, make the necessary changes at the company.

The training program comprised five modules that included academic and project work. Attendees studied strategies of company management under digital conditions, design thinking, effective communications, leadership psychology, and also nuances of innova-

tion-project and corporate start-up management with account of financial risks. Invited experts, opinion leaders and leading professors of the Skolkovo Business School spoke to program participants. The result of training was defense of projects developed in process of training, which were evaluated by the jury headed by the President of MTS PJSC. The winner was the team that developed the SmartPet platform, which makes it possible to make life of pet owners easier and enable them to take quality care of their animal companions.

### **Training events to support the Company's strategy**

Target programs “Agile. Fundamentals,” “Emotional Intelligence,” “From Strategy to Action” were conducted to support the Company's strategy.

In line with the Company's HR strategy, the work of functional academies continued:

- Customer Service Academy
- Trainers' Skills Academy
- Academy of Leadership
- HR Academy
- Third wave of iMBA for employees in remote regions

The criteria for sending employees for vocational training are the approved vocational training plans, formed by functional managers based on the annual appraisal results.

Induction training has to be completed by all new employees, and if a new regulation/process is introduced—by all existing employees of the Company.

# Occupational Health and Labor Safety

Personnel safety is the main component of corporate social responsibility of the Company. MTS is guided in the field of occupational health and safety by the laws of the Russian Federation, as well as international law and local regulations on labor protection.

The Company operates a two-tier system of H&S management, focused on creating a safe working environment, the prevention of occupational injuries and personnel training on safe work rules.

Labor protection activities carried out by MTS PJSC are aimed at:

- ensuring the priority of preserving life and health in the workplace;
- improving of the OSH management system;
- Timely training of managers and specialists on labor protection;
- Organization of preventive and periodic medical examinations of employees;
- Timely provision of employees with special clothing, footwear and other personal protective equipment;
- Organization of the production control and evaluation of special conditions of employment;
- evaluation and management of occupational risks;
- Ensuring the safety of production equipment and processes;
- Accounting and analysis of occupational injuries, organization of investigation of accidents and activities to prevent occupational injuries and diseases;
- Providing units with normative documents, communicating the laws and regulations on labor protection to the employees;
- Promotion of occupational safety and health issues.

Health and safety training was completed by the following: managers, experts, members of commissions on health and safety and other categories of employees.

Various training systems are used for internal training on health and safety, including a remote health-and-safety training system of the Virtual Academy of the MTS Corporate University.

The Company provides training on first aid to persons injured at the production facility. The main objective of training is the practice of independent actions and behavior on the part of employees aimed at preserving the life of every injured person before the arrival of rescue services.

One of the major trends in the prevention of occupational injuries and diseases is a special assessment of working conditions. Detailed information on assessment results is available at <https://moskva.mts.ru/about/mts-dlya-obshhestva/novosti-i-otcheti/ocenka-usloviy-truda>.

Personal protective equipment (PPE) plays an important role in the prevention of employees' direct exposure to harmful and (or) hazardous production factors. MTS PJSC developed and approved norms of free issue

## The H&S management system at MTS

has been recognized at the regional and district levels. In 2018, some MTS branches became prize winners of various H&S review competitions

# 22,554

persons underwent external and internal health and safety training in 2018

of special clothing, footwear and other personal protective equipment to workers who are engaged in work with harmful and (or) dangerous working conditions. Timely procurement of certified PPE is provided, deadlines of wearing and testing of personal protective equipment are met. Properly organized safekeeping of PPE is ensured.

MTS employees engaged in work with harmful and (or) dangerous working conditions undergo preventive (at employment) and periodic (during work) medical examinations.

In 2018:

- 3308 employees—completed preliminary medical examinations
- 10,367 employees—completed periodical medical examinations:
- 40 people—required transfer to another job (changes were made to their functionality)
- 59 people—were granted opportunity of health resort treatment at the expense of the Company

Particular attention is paid to the organization of MTS activities to prevent occupational injuries and diseases, to carry out preventative measures to manage occupational risks. For this purpose, various organizational and technical measures have been implemented for accidents prevention.

There are no official joint committees on health and safety in MTS PJSC. Directors of units and representatives of employees participate in monitoring and in the development of annual H&S Safety Plans at branches for the next year (10%) and in development of the List of Actions to improve conditions and the H&S of employees at whose workplaces a special labor-condition evaluation has been conducted.

MTS PJSC joined compliance with the Moscow three-party agreement for 2016–2018 between the Government of Moscow, Moscow associations of trade unions and Moscow associations of employers.

Annually, MTS PJSC cooperates with the Social Insurance Fund of the Russian Federation (SIF RF) for the financial support of preventive measures to reduce the accident injury rate and occupational diseases of employees and the health-resort treatment of employees working with hazardous and (or) dangerous production factors, as well as to obtain discounts on insurance rates for compulsory social insurance against industrial accidents and occupational diseases. In 2018, the total amount received

from this work amounted to RUB 6.8 mln (in 2017—RUB 2.61 mln, in 2016—RUB 9.1 mln).

Utilizing funds from the Social Insurance Fund of the Russian Federation:

- medical examinations were conducted;
- uniforms, safety shoes and other PPE were purchased;
- special evaluation of labor conditions was performed.

A lot of attention is paid to the promotion of labor protection issues, various forms of operation are used. Every year in April, in anticipation of Global Labor Protection Day, various actions are taken to improve the labor conditions and protection of the Company's employees, to prevent accident frequency rates and occupational diseases.

One of the tools to reduce industrial injuries is to improve work safety culture of our employees and managers.

Since 2018, the Company has been working in this area: the remote training video course “Safety Culture” was developed and is ready for placement in the Virtual Academy.

Safety culture improvement is the informed change of employees' and managers' attitude to responsibility for establishment of safe working conditions in the Company.

## Assessment of workplaces in the Corporate Center of MTS Group and MTS branches:

**23,926** workplaces (94%)—in 2018

**24,456** workplaces (92%)—in 2017

**23,576** workplaces (94%)—in 2016

In 2019 work on assessment of workplaces will continue.

In the reporting year, representatives of MTS and subsidiaries participated in the work of the fourth All-Russian Labor-Protection Week in Sochi. The busy schedule of the All-Russian Labor-Protection Week made it possible to participate in professional discussions, to study the best practices and experience of colleagues, to learn about the main thrusts of improvements to labor-protection law, to get recommendations and answers to practical questions.

Every year, the Company assesses the effectiveness of its OSH management system based on quantitative indicators that objectively assess the degree of implementation of its labor policy. Assessment is carried out for each region. As a result of evaluating the OSH

management system's effectiveness, an analysis is performed and concrete measures on the improvement of labor protection are planned.

In 2018 the Company held the review contest for the best conditions and health and safety status among all branches. Following its results, the winners were:

- 1st place—MTS PJSC Branch in Kaluga;
- 2nd place—Branch of MTS PJSC in Novosibirsk Region;
- 3rd place—MTS PJSC branch in Tyumen Region.

### Indicators of injuries at MTS PJSC, 2016-2018

	2016 r.	2017 r.	2018 r.
Lost time Accident Frequency Rate (LTAFR) <sup>1</sup>	0.16	0.22	0.27
Accident and Lost-Workday Rate (ALWDR)	0.02	0.03	0.03
Lost Work Day Rate (LWDR)	1.46	0.48	2.18
Absentee Rate (AR)	4.19	4.27	4.36

<sup>1</sup> Lost time Accident Frequency Rate (LTAFR) defines the number of accidents for the reporting period per 1,000 workers.



# Social Investments

## Social Projects and Charity

### Generation M

MTS traditionally implements the pilot social project of the company—charitable platform for development of children’s talents “Generation M.” The objective of the project is to give equal opportunities to Russian children for creative development and personal growth, regardless of their place of residence and family prosperity with the help of state-of-the-art digital technologies. At virtual creative platforms of the project—website pokolenie.mts.ru, in VKontakte group and in Instagram—children from across the country may show their talents, participating in competitions, online workshops and interactive exercises from Russian starts in different areas.

The creative group of Generation M includes more than 150 recognized masters: teachers of the State Tretyakov Gallery, Producer Center Ecole, Boris Grachevsky and Eralash cine magazine, Neposedy Studio, singer Polina Gagarina, designers Vyacheslav Zaitsev, Igor Gulyaev, etc.

Winners of Generation M competitions get wide opportunities: from internships at Russia’s largest animation and film studios to entering the big stage together with the stars and exhibition of own works in the main museum of the national art of the country. For four years the winners and prize takers of Generation M were 350 children from 67 regions of the country, for each of which the project became a creative launch pad.

Within the scope of the project, MTS uses innovative philanthropy mechanisms, developing a mass movement of young philanthropists in Russia. All activities in groups and on the website of Generation M are

converted into “live money,” which MTS transfers for the treatment of seriously-ill children. With the help of the unique charity mechanics, more than RUB 17 mln were generated and spent to help 49 children.

### Awards and achievements in 2018:

Grand Prix of the largest award of the Eastern Europe in the field of communications Eventiada IPRA Golden World Awards 2018

Award “Corporate Charity Leaders 2018” — winner in the nomination “The Best Program Contributing to the Implementation of the UN Sustainable Development Goals”

Award “Media Manager of Russia 2018” — a winner in the nomination “Social Responsibility of Media Business”

The Generation M project represented Russia in the global Case for Change program of the international association of mobile operators GSMA. The program selects and promotes the best projects around the world that use technology to solve global problems of society.

## **E**ducational project “MTS/Media”

MTS implements the educational project “MTS/Media.” This is a unique media platform that contains explanatory and helpful content at [media.mts.ru](http://media.mts.ru), [mts.ru](http://mts.ru), and in Yandex.Zen blog. MTS/Media publications written in simple and understandable language are embedded in direct communications with the customer and aimed at explaining difficult topics on technologies, promoting services and products under the MTS brand, supporting the image of MTS as a progressive company accelerating the digital transformation of Russian business and society.

In 2018, MTS/Media cooperation with MTS Group subsidiaries and asset companies of Sistema JSFC significantly expanded. More than 700 campaigns in social networks relied on MTS/Media to promote and research the perception of new digital and partner MTS products by audiences (SmartMed, Ponominalu, MTS Kassa, MTS Marketer, SmartUniversity, #CloudMTS, MTS Investments, etc.). Coverage of such communications amounted to more than 10 million people. More than 1,000 campaigns were dedicated to CSR content, security, economy, improved quality of life and digital literacy. The coverage of such communications—more than 30 million people.

In 2018, MTS/Media materials were studied by 4 million visitors (+ 40% by 2017). The number of users who came to the site from SMS campaigns increased by 80%. The number of users who came to MTS/Media through search queries related to tariffs and services doubled. This is the impact of SEO optimization of articles on MTS products and services. Due to the emphasis on targeted communications, the involvement of the

audience increased: the average reading time increased by 1.5 times, to 3.5 minutes.

During the year, using several MTS/Media tools, a few integrated communication campaigns were implemented, created in conjunction with the Marketing Block, Sales and Customer Service Block. All new customers of mobile communications and individual convergent MTS tariffs receive links to explanatory materials about the features of tariffs and additional features in the MTS network.

During the World Cup 2018, 11 guides were created, links to which were received in the form of SMS by everyone coming to the regions of the matches, the guides were also promoted in the application “My MTS.” On the basis of MTS/Media, guest services for the 2018 World Cup in foreign languages were built. Brochures with QR codes—links to the description of tariffs and services in foreign languages (English, German, Spanish, Portuguese) were distributed in retail MTS. The call center recorded a greeting and realized the possibility of ordering an SMS with explanatory content.

In 2019, the main factor influencing the development of MTS/Media will be the growing need for creating explanatory communications when launching new products and changing existing ones, especially in new businesses and areas for MTS. An increase in the volume of communications is expected due to the development of IT platforms that allow for personalized campaigns.

## Direct communication with regional communities

Since the end of 2016, MTS has been implementing a new type of social activity—direct work with regional communities. Here, we interact with independent public associations of people who, not being charitable foundations or public organizations, attempt to independently solve social objectives that are important to their local community, forming groups according to their particular interests. A specific feature of such local groups is the social significance and unselfishness of their activities, which are not related to any political, religious or commercial activities.

For 2018, MTS implemented 380 projects for assistance to local communities throughout the entire country: we purchased food and stationery for large and needy families, helped to arrange sports grounds, to build bicycle tracks, to recover local parks, provided search parties with the equipment required for their work, helped young athletes with equipment and travelling to competitions. So, in Orenburg we installed stations for free repair of bicycles, in Odintsovo we organized free skiing exercises for children from large families, and in Rostov-on-Don we helped to improve the zoo.

A considerable part of our events targeting work with communities is performed with the involvement of

MTS volunteers—our employees participate in Saturday cleanup days, plant trees, restore old buildings, collect clothing and essentials for the homeless. Such social projects go beyond internal ones and become an important part of the company’s dialog with the local community. In 2018, such volunteer undertakings were attended by more than 4700 employees of MTS.

We take as an important social mission within the scope of our work with local communities the transfer of experience and professional expertise, implementing projects of mentorship and training for school, student and other youth associations. In 2018, 44 cases of assistance to youth communities were implemented: career guidance lectures and training workshops from MTS experts, tours to company facilities, equipment for sports activities and creative projects were presented to students.

The plans for 2019 are to increase the number of projects implemented to 475, to strengthen the volunteer area by strategic partnership with volunteer associations and city activists, to expand the geography of the project.

## Cultural Code

In 2018, MTS launched a new social project—“Cultural Code.” This is a volunteer campaign of the company’s employees, whose goal is to preserve and support cultural values and initiatives that are unique to the territories: developing creative technologies, preserving cultural monuments, supporting craft schools and unique craftsmen, supporting initiative local communities and movements, as well as unique original regional events and exhibitions, art objects.

In 2018, the project was held in 18 regions of the country: in Astrakhan, Kursk, Kaliningrad, Lipetsk, Penza, Nizhny Novgorod, Kemerovo, Volgograd, Ulyanovsk, Murmansk regions, in the republics of Tuva, Ingushetia, Kabardino-Balkaria, Chuvashia, Chechnya, Karachay-Cherkessia, Mordovia and in the Yamalo-Nenets Autonomous District.

As part of the project, MTS acted as a partner of the oldest Kaliningrad zoo in Russia and the festival of throat singing in Tuva, installed a free city bicycle repair station in Cheboksary, organized a croquet court in Lipetsk, and completed the architectural lighting of the watchtower in Chechnya.

In 2019, it is planned to expand the geography of the project to 40 regions where MTS is present.

According to the results of work in 2018, the “Cultural Code” was recognized as the best socially-oriented project in the “Big Heart” nomination for the HR-brand award.

# Poplar of Victory

The Great Patriotic War is still alive in memory of millions of Russians. However, less and less physical evidence of it is left with each passing year. That is why everything that reminds of the heroic deeds of our soldiers is very important to preserve the memory of those terrible and heroic days. One of these symbols was the Volgograd poplar, the only tree that survived the terrible Battle of Stalingrad, during which the city was almost completely destroyed. The tree not only survived after the enemy bombardments, but also, covered with scars and abrasions from bullets and fragments, bloomed again in the spring of 1943 after the liberation of the city.

This tree has always been known in Volgograd, but for the general public the history of the poplar remained unknown.

In 2017, MTS initiated a project that would talk about the country's military-historical heritage and offer new opportunities for improving the territories. Thus, the

“Poplar of Victory” campaign appeared. In 2017, MTS held volunteering campaigns to preserve the poplar genotype in 17 regions of the Russian Federation.

In 2018, the campaign, which had already become traditional, gained momentum—15 new regions joined the project: Samara, Orenburg, Saratov, Belgorod, Orel, Voronezh, Lipetsk, Tambov, Kursk, Kaluga, Ufa, Yaroslavl, Tula, Kaliningrad, Rostov-on Don. An additional motive of the campaign also appeared—the year of 2018 was declared the year of a volunteer. That is why this year a large-scale volunteer campaign was organized to plant sprouts of the legendary poplar with the participation of company employees, students, war veterans, and corporate customers of MTS.

The campaign was recognized in the company as the best social project of MTS in 2018. In total, over 2,000 people took part in the campaign, it was covered in more than 400 publications in the media and social networks.





## E CO-projects

Since 2014, MTS has been successfully implementing the Mobile Technologies for Ecology program, which includes environmental lessons in schools throughout Russia. Over the years of its existence, more than 14.5 thousand teachers from more than 80 regions of Russia participated in the project, who conducted environmental lessons in their schools, covering about 380 thousand schoolchildren. Pupils learned how state-of-the-art mobile technologies help to save nature, save lives, eliminate forest fires, care for birds and animals. The schoolchildren were introduced to Econeshka, the heroine of MTS and the girlfriend of the hero Intereshka, who is responsible for the environment and helps nature.

In 2018, MTS, with the support of the Autonomous Non-Commercial Organization EcoCenter "Zapovedniki," began to develop a new lesson, which will tell the children how to observe nature and how state-of-the-art mobile technologies can make the journey even

more interesting and informative. Interactive tasks will move participants along with Econeshka to nature and will show them how many interesting things one can learn walking in the forest.

Thanks to the MTS volunteers, in 2019, the first students of the eco-lessons will be pupils of sponsored children's social institutions and pupils of the junior and middle classes in educational institutions of the Strong cluster.

In 2018, the Good Caps project was launched together with a charitable foundation "Volunteers to Help Orphans" in the offices of MTS (Moscow). More than 100 kg of plastic caps were collected.

The implementation of an educational project on separate garbage collection at the offices of MTS continued: "Batteries Surrender!," "Paper Boom," Eco-Clean-Up.

## Projects Aimed at Educational Support

Within this area, MTS in 2018 supported the organization of the training process at Innopolis University in Kazan, and also implements its own educational programs for younger schoolchildren and elderly people teaching state-of-the-art technologies.

### **P**roject “MTS—a company for all ages”

Global digitization of the contemporary world affects many spheres of human life today, therefore, population of all ages. Everyone should have an opportunity to achieve a career and to develop. That is why MTS launched the project “Company for all ages” to demonstrate opportunity for candidates of different ages to become effective employees of an advanced developing company.

40+ employees are getting on better with older customers, who require more attentive communication from the company and want to get new digital knowledge in clear form.

Long-term career planning is not popular among young employees, whereas every second employee of 40+

plans to continue working in the company at least until he or she turns 60. For comparison, 30-year old in average work for 5.8 years at a new job.

A unique regional advertising campaign “Searching for a job? And we are searching for you!” was launched in 2018, where the models were the 40+ employees of the retail chain and Call Centers.

To support the project, training videos were created on the subject of recruitment, adaptation and retention of 40+ category in the company, recruitment programs were organized in 29 employment centers in the regions of MTS presence.

**Ищешь работу?  
А мы ищем тебя!**

- стабильная работа
- полный соц/пакет

<b>Официальная зарплата</b>	<b>ДМС</b>	<b>Моб. связь от МТС</b>	<b>Обучение и развитие</b>
<b>Карьерный рост</b>	<b>Спорт от МТС</b>	<b>Корпоративная культура</b>	<b>Компенсация проезда</b>

Запишись на собеседование:  
[anketa@mts.ru](mailto:anketa@mts.ru)

**8 800 250 60 50**

На фото: **Васюрин Юрий**  
41 год, работает в офисе продаж МТС

**Шпагонова Софья**  
45 лет, работает в офисе продаж МТС



## “Children on the Internet”

To protect young users, MTS together with the Internet Development Fund and the Department of Psychology at Lomonosov Moscow State University in 2011 developed a lesson on the “Useful and Secure Internet,” which became the basis of MTS’s national educational project “Children on the Internet.” The methodology of the lesson was issued by the Federal Education Development Institute.

In 2017, the lesson program was upgraded in accordance with the relevant trends in the sphere of education and in the world of digital technologies. The lesson is designed to give a better impression to schoolchildren of both the positive and negative sides of Internet use. Seven safety rules are shown via seven stories. Each story discloses one of the hazards in the Internet environment and teaches the child to leave the crisis situation. After attending the lesson, the children solidify their newfound-knowledge in play form—going through an entertaining quest.

In total over seven years, more than 400 thousand students in more than 40 regions of the Russian Federation have completed training in this program, and during this time the program has established itself as a reliable and effective means of increasing the digital competence of primary school students.

In 2018, interactive exhibitions “Children on the Internet” and lessons were held in the Far East regions: Khabarovsk, Komsomolsk-on-Amur, Yuzhno-Sakhalinsk, Petropavlovsk-Kamchatsky, Magadan and Primorye Territory. In total, more than 12,000 children, parents and teachers took part in offline events. As a result of the events, more than 80 publications and posts in the media and social networks were published. Active support for the “Children on the Internet” project in 2018 was provided by regional ministries of education, ministries of culture, public organizations.

## “**M**obile Academy”

In 2016, MTS developed the special educational course “Mobile Academy,” designed for people over 50. The purpose of the Mobile Academy project is to make the capabilities of mobile devices really clear and available for the elderly, to raise their self-esteem and to integrate them into the modern pace of life.

As part of the educational social project MTS “Mobile Academy for the older generation” in the 2017-2018 school year, more than 2,000 people from 20 regions were trained. The new academic year started in the fall of 2018 in 20 regions of the country with a new partner—the “Honor” Foundation (Russian Railways JSC). In 2018, following the results of regional events, more than 100 publications and posts in the media and social networks were published.

MTS trains the audience of the Academy on confident work with Internet services: in any place at any time with the help of a smartphone and tablet to do shopping, to make an appointment with a doctor, to communicate with relatives and friends. Pensioners would find out in practice how to pay remotely for communication services and utilities, how to obtain state services. All of it makes their life more convenient and full.

In 2018, a new online learning platform was launched—digital literacy portal [gramota.mts.ru](http://gramota.mts.ru), adapted for various devices, which will allow in the future to reach even more senior citizens of the Russian Federation and train them in capabilities of contemporary Internet technologies. The portal is scheduled to launch in Q2 2019.







## “Telecom Idea”

The federal competition Telecom Idea is aimed at finding and supporting promising ideas and talented young people in the field of information and communication technologies and services. From February to June 2018, regional stages were held with the support of the IT Start program of the Agency for Innovative Development and Changellenge at sites in St. Petersburg, Yekaterinburg, Novosibirsk, Kazan, Moscow, Krasnodar, Ulyanovsk, Yaroslavl, Tyumen, Kaluga, Blagoveshchensk. More than 5,000 Russian students, young scientists, research teams took part in them, who submitted about 250 applications from 7 countries and 70 cities of the Russian Federation to the competition.

Teams of 41 projects, which passed to the second stage of the competition, were supported by mentors at the Higher School of Economics for 10 days. In June, at the Krasny Oktyabr site, the expert council selected 5 finalist projects, the authors of which presented their developments at the final pitch session.

This year, more than 100 employees of the Corporate Center and regions of MTS, subsidiaries of Sistema JSFC, key partners of the competition, leading experts in the field of telecommunications, innovations and the venture capital market took part in organizing the competition, evaluating projects and awarding winners.

The award for the competition winners was an educational tour to Ireland, where they met successful entrepreneurs, presented their projects and got acquainted with successful projects of the Guinness Enterprise Center (GEC), the center of innovative start-ups, received recommendations at the meeting with Tony Ryan, the founder of DCU Ryan Academy. The highlight was the trip to Google's office and review of the history and corporate culture of the company, the leaders of CSR and Big Data areas.

## Mts Corporate Volunteer Movement “Just Give Good”

The corporate volunteering movement of MTS “JUST Give Good!” has been helping employees self-realization for more than eight years. The variety of social projects implemented by the company provides ample opportunities for every caring employee to find their place and become useful to society.

Company volunteers actively participate in MTS campaigns timed to coincide with celebration of the Great Victory, Children’s Day and Knowledge Day, New Year, and also events of the Sistema and Children’s Cinema May Charity Foundations. Company’s social projects are aimed at support for the foster children of child-welfare institutions suffering hardships, and also veterans of the Great Patriotic War and communications industry. The largest federal volunteering campaigns, where all regions of the MTS business presence participate, are “Tango of Victory,” “Green Express MTS” and “Christmas Trees for Children!.”

Festive events dedicated to the celebration of Victory Day are annually held throughout Russia as part of

the federal volunteering campaign “Victory of Tango.” Clean-up days in city parks and planting lilac avenues, cleaning the memorials and territories of military glory museums, concerts for veterans in cultural centers, targeted assistance—and this is not the exhaustive list of what the company’s volunteers organize in memory of the Great Victory.

In a series of events dedicated to the Victory Day, in 2018, the federal project “Fellow Soldiers” was implemented, where 19 teams from 18 regions of the “Effective” cluster participated. They gathered in Nizhny Novgorod for a historical educational quiz “War. What do we know about it?.” With the help of the teleconference, the teams fought online for the title of the



most erudite. The unconditional winner was Kemerovo branch of MTS PJSC.

Every year in September, the Green Express volunteering campaign aimed at targeted support of children's social institutions starts in Russia. Participants of the project are not only MTS employees, but also their family members and partners of the company such as volunteers from RTC, Stream, Detsky Mir Charity Foundation and MGTs. Our volunteers go to orphanages, give career guidance classes and workshops, give stationery and books, organize the cultural event program, sports competitions and communicate with children. The purpose of the campaign is to bring joy and warmth to the life of underprivileged children, and also to attract the public's attention to issues of childhood protection and the social development of the regions. In 2018 more than 40 regions of MTS business presence participated in the campaign.

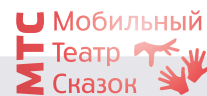
The year ended with the most expected event for foster children in social institutions—the project “Christmas

Trees for Children!” Every year our volunteers visit the foster children of sponsored child-welfare institutions and throw a festival for those who are unable to celebrate it with their family. Performances of actors of the volunteering Mobile Fairytale Puppet Theater of MTS, all sorts of workshops on how to make Christmas souvenirs and toys, outdoor sports, quests, contests, dressing up as Santa Clauses and Snow Maidens, gifts and a flood of vivid impressions help to make the holiday unforgettable, and children will not feel deprived.

In total, in 2018 more than 700 volunteering events were held throughout the country: “Christmas Trees for Children!”—in 40 regions, “Green Express MTS”—in 35 regions, “Tango of Victory!”—in 37 regions.

The annual award ceremony for MTS volunteers, which is traditionally held on December 5, in 2018 gathered more than 160 of the most active volunteers on its site. Winning projects and their participants were awarded in 15 nominations.

## **M**obile Fairytale Puppet Theater<sup>1</sup>



Charity performances are a great way not only to engage employees in corporate life, but also to do a good deed. In the Mobile Fairytale Puppet Theater, which has existed in MTS since 2012, today there are more than 80 people who hold 80 events a year in sponsored orphanages, social centers, and hospitals. The repertoire of the theater includes 15 performances; in 2018, 4 performances were created, including the kind tale of love and loyalty “The Elephant Horton Waits for the Chick.”

Now the troupes of the Mobile Fairytale Puppet Theater works in Moscow, Krasnodar, St. Petersburg and Ulyanovsk. At the same time, the plans of the theater for 2019 include not only expanding the geography of its presence, but also creating a new training performance, including mastering the territory of opera space.

The key events in 2018 were the festival of volunteer puppet theaters “Doll Fest,” which brought together more than 600 foster children from children's social institutions in Moscow, the Moscow Region and the regions, and cinema festivals in Smolensk and Nizhny Novgorod, organized by the Children's Cinema May

Charity Foundation with the support of MTS Group. The “Cultural Holiday” in the Altai Republic will remain a bright memory of volunteers. A charity event that covered the most remote areas of the Republic, such as Shyrgayta, Yabogan, Chendek, Multa and Ust-Koksa. The campaign was organized by the Sistema Charitable Foundation with the support of MTS Group, Detsky Mir, the Government of the Republic.

A new experience in 2018 was the opportunity to show performances for children with hearing and vision disabilities with the assistance of a sign language interpreter.

On the International Deaf Day, which is annually celebrated on the last Sunday of September, in the memorial estate of G.R. Derzhavin, a theatrical festival—“Silent Fairytale” was held for disabled children (hearing-, vision-impaired and with disabilities) and children without disabilities. The project was recognized as the best social project of MTS in 2018.

The continuation will be the large-scale project “Theater beyond the Silence” in 20 regions of the “Effective” cluster.

<sup>1</sup> puppet-mts.ru.

# Charity

Charity of MTS is implemented in accordance with the strategy accepted in the company and is defined by the existing charity policy. One of the main principles of charity for MTS is transparency of payments.

Priority areas of MTS business in the field of charity:

- free help to seriously ill children;
- support of education and healthcare development;
- assistance for the promotion of physical culture and sports;
- support for art, creative initiatives;
- preservation of social infrastructure objects.

**“Give goodness!”** is a charity program of MTS aimed at emergency assistance to seriously ill children. Within the program funds that were previously used for purchasing promotional products are devoted to charity through federal charity partner funds with impeccable reputation that provide strict financial statements. Within this program, MTS cooperates with Foundation “Centre for Humanitarian Programs,” charity fund “AIF. Dobroye serdtse,” SUNFLOWER Charity Foundation, charity fund “Sozidanie.” The total budget of the MTS charity program “Give goodness!” aimed at emergency treatment of critically ill children, in 2018 amounted to RUB 10 million, program funds were funneled into treatment of 68 children from Russian regions.



# Information Protection and Security

## Information security

### Global trends of threats in the sphere of information security

MTS PJSC information security units in 2018 implemented a complex of organizational and technical measures, which made it possible to ensure compliance of information security management and provision systems with the legislative requirements of the Russian Federation, the contemporary level of cyber threats and to prevent financial, reputational and other damage to MTS Group.

When planning development of IS function for 2019-21, the following factors were taken into account:

- Improvement of methods and forms of targeted attacks (Advanced Persistent Threat or APT) based on artificial intelligence and big data technologies.
- Social engineering and fishing attacks at companies personnel.
- Attacks at the corporate segment using terminal user equipment joined into bot networks.
- Weak protection and vulnerability of cloud services and solutions for implementation of the Internet of Things (IoT).
- Availability of errors in software code of commercial and own IT-solutions (SITR).

The most tempting targets for intruders will be information assets (arrays) involving the personal data and telemetry of millions of users, know how in the field of big data processing methods and artificial intelligence, restricted information. The vector of attacks will remain

and will be directed towards corporate IT systems of information control, processing and storage.

The trend will remain for distribution of the mandatory actions for information protection to non-governmental information resources (personal data, professional, trade secrets and other law-protected data).

The following actions are carried out to comply with the legislation of the Russian Federation (Federal Law No.187-FZ “On Security of Critical Information Infrastructure of the Russian Federation” dated July 26, 2017):

- development of a complex of actions for implementation of its requirements for the MTS structure;
- definition and approval of the list of critical information infrastructure (CII) facilities;
- compliance with requirements for the development of CII-facility safety systems and ensuring their safety;
- organization of the protection of data classified as a state secret;
- taking actions to ensure the safety of CII facilities against computer attacks.

## Information Security Risks

Main risks of information security shall be recognized as follows:

- **Risk of information-security breach.** Violation of the confidentiality, integrity or accessibility of information due to the inconsistency of the information-protection system with current information-security threats, failure by administrators and users of information systems or partners to fulfill the company's information security policy. As a consequence, damage due to leakage of trade secrets, claims of individuals or partners due to breach of the personal data security, communication secrets, commercial secrets of partners or other limited access information.
- **Information-security regulatory risks.** Sanctions of controlling bodies or auditors (the General Prosecutor's Office, the Ministry of Communications, Roskomnadzor, FSTEC and FSB of Russia, controlling bodies of the countries where we operate, SOX, PCI DSS auditors, etc.) due to the failure to comply with the requirements of Russian, international or national legislation on information security protected by laws in the countries where we operate. Moreover, the laws establish different IS requirements for one-and-the-same object of regulation, which may differ. And the priority ranking of the laws has not been established.
- **Information-security contract risks.** Refusal to conclude state or other contracts due to failure to comply with competitive conditions for information security (no FSTEC and FSB licenses, Russian or international certificates for IS processes and systems, IS infrastructure required for providing services, etc.).

## Information-Security System at MTS

MTS' information-protection system is a unified complex of interrelated organizational and technical actions, with centralized infrastructure and information-security management and support processes unified at the MTS Group of Companies. Built with account of best global practices on the basis of international standards of the ISO 27000 and 15408 series.

The personal data protection system provides for the third level of PD protection in accordance with the legislation of the Russian Federation.

Protection of communication secret in communication networks with information-protection mechanisms built into communication facilities meets the international communication standards and requirements of the industry regulator.

MTS PJSC is a licensee of FSTEC and FSS of Russia for operations of technical and cryptographic protection of confidential information and monitoring of IS events, and may provide the corresponding services.

## Results and achievements in 2018

Security subdivisions in 2018 prevented damage to the business (financial, reputational or other).

Continuity of all business and technological processes is provided in accordance with the requirements of regulators, shareholders and management of MTS PJSC.

A commercial service is organized for monitoring and response to IS incidents.

In order to comply with the Federal Law No. 187 "On Security of Critical Information Infrastructure of the Russian Federation," together with telecom operators, a Methodology has been developed for categorizing and protecting critical information infrastructure objects (CII) of telecom operators, a person responsible for ensuring the security of CII facilities in MTS PJSC has been appointed, a commission was formed for categorizing CII facilities, a project was initiated to create a security system for MTS PJSC CII facilities.

In order to ensure the failure-proof operation of special complexes installed on the MTS PJSC network, actions are organized and held on a permanent basis to prevent and support the equipment and software.

In compliance with the objectives for implementation of the requirements of Federal Law No. 374-FZ on the MTS PJSC network, state authorities and FSS of Russia approved the concept for the Law's implementation and started its practical implementation.

Special complexes are installed in new generation communication networks enabling new services: NB IoT, MTS Connect, Wi-Fi Calling, VoLTE, "Wi-Fi for Business."

Work on upgrade of technical facilities supporting authorized state bodies in charge of law enforcement intelligence operations was carried out on a scheduled basis, in accordance with the approved investment program, in strict compliance with the requirements of the regulations. Scheduled events were performed in full.

In order to ensure the Company's information security, the Department has set the following priorities:

- development and implementation of new measures and means of information protection synchronously with the process of introducing new information technologies;
- monitoring compliance with the requirements for certification of equipment and software of information protection under the standards of FSTEC and organization of certification in accordance with the requirements of FSTEC and FSS of Russia for the latest information security tools while ensuring the protection of personal data;
- implementation of protection measures established by regulatory acts of the Ministry of Communications, FSTEC and FSS of Russia, which provide the minimum sufficient level;

- participation in working groups to determine provisions of the legislation on information security;
- implementation of compliance with the Federal Law No. 187 "On Security of Critical Information Infrastructure of the Russian Federation," taking into account problems and current inconsistencies of the law with existing standards and architecture of public communication networks.

An important element in maintaining the high professional level of the Department's employees is the staff training in special educational institutions, improvement of their business skills and expansion of their knowledge, which is achieved through continuous professional development, participation in themed competitions, including international ones, and training during specialized courses.

## Economic security

The Department for Economic Security and Anti-Corruption of MTS PJSC (hereinafter—the Department) is in charge of activities for protection of the Company's vital interests from internal and external economic threats.

The Department continuously performs strategic forecasting and planning of current activities, which makes it possible to early identify and confine potential economic threats to the MTS Group of Companies.

The operations of the Department in 2018 increased the efficiency of work to protect the economic interests of the Company, which, in turn, positively impacted performance of other business units.

Support was provided on a continuous basis for the processes of procurement and contract activities, implementation of investment projects. Security employees participates as experts at all stages of procurement procedures. Active participation of security personnel made it possible to obtain a significant economic effect.

Information was collected about legal entities participating in the process of procurement procedures for purchasing products, works and services. At the same time, financial and economic activities of potential contractors were analyzed, and a conclusion was drawn about their reliability. Upon receipt of information about problems with contractors (decision on liquida-

tion, bankruptcy claim, lawsuits, etc.), information was transferred to the Procurement Management Block. Problem contractors were entered into the "List of Problem Suppliers," which blocked the possibility of concluding new contracts with them.

Department personnel participated in coordination of investment projects submitted for discussion at the Investment Competition Committee of the MTS Group Corporate Center.

Ensuring the economic security of the Company is directly related to the daily work of studying job candidates, rejecting those who do not meet the requirements, and those included in the List of Organizations and Individuals, for which there is information about their involvement in extremist activities or terrorism.

Together with the structural divisions of the Revenue Management Department, the Department employees participated in recovery of overdue receivables. Delays in performance of contractual obligations were monitored and analyzed on an ongoing basis. The location of the problem counterparties, and, if necessary, their liquid assets, was established.

Primary claims activities were carried out at the stage of the pre-trial negotiation process to recover problem receivables.

Taking into account the successful experience of engaging security units to recovery of the Company's funds, in 2018 a new business area began to develop—claiming VAT with the participation of Department personnel.

In 2018, the Department carried out substantial work to counter fraud using illegal recovery of SIM-cards to gain access to remote banking services.

The built-in control system made it possible to promptly detect economic crimes with signs of corruption. For these purposes, monitoring of investment, procurement and contractual activities was carried out on a

regular basis, actions were held to evaluate reliability of contractors, to prevent, identify and reduce corruption risks in process of procurement procedures.

The main objectives of security units in the field of anti-corruption were prevention of corruption, detection and suppression of corruption offenses related to causing both material and image damage to the Company.

Work of the anti-corruption security units was carried out in close cooperation with the Internal Control and Audit Block (ICAB). In the framework of the "Unified Hotline" of the MTS Group, which is supervised by ICAB, since August 2018, the "Unified Hotline" of the

### **In order to ensure the Company's economic security, the Department has set the following priorities:**

- functionality in the field of internal security;
- organization and implementation of measures to prevent manifestations of corruption;
- analysis and control of investment-project preparation;
- checking counterparties before entering into contracts and agreements;
- checking candidates before employment;
- taking part in activities to collect, minimize and prevent overdue accounts receivable;
- verification of the execution of contracts concluded as a result of procurement procedures;

### **In 2018, emphasis was placed on implementation of the following areas of Department operations' development:**

- assistance to increasing the efficiency of business processes and procedures, taking into account the management system transformation that has continued in 2018, for growth of business profitability using minimally necessary barriers for guaranteed prevention of losses and damages;
- improvement of contractors' verification mechanisms;
- development of a sustainable system for ensuring HR security of the Company;
- increasing the return on the formed system of measures to minimize and recover overdue receivables;
- studying and applying the experience of the economic security departments of other key telecom operators for the Company's economic security.



Corporate Security and Access Control Block (CSACB) began to function. In this regard, notification of the Company's employees about the existing opportunity to report facts of corruption offenses was organized.

A special place was held by the events of the Department of Economic Security and Anti-Corruption, together with other functional divisions of the Company, related to the prevention of financial and reputational risks for the MTS Group.

To ensure maximum security against these threats, a harmonious and effective protection system has been created.

The tasks solved by the Department in this area are as follows:

- forecasting of possible threats in the field of economy;
- organization of measures to prevent possible threats;
- identification, analysis and evaluation of the real emerged threats to economic security;
- decision-making and organization of measures to respond to emerging threats;
- continuous improvement of the Company's economic security system.

Within the scope of development of the Unified Complex Security Center at the Company, the security system was developed, and improvements were made to the following business processes:

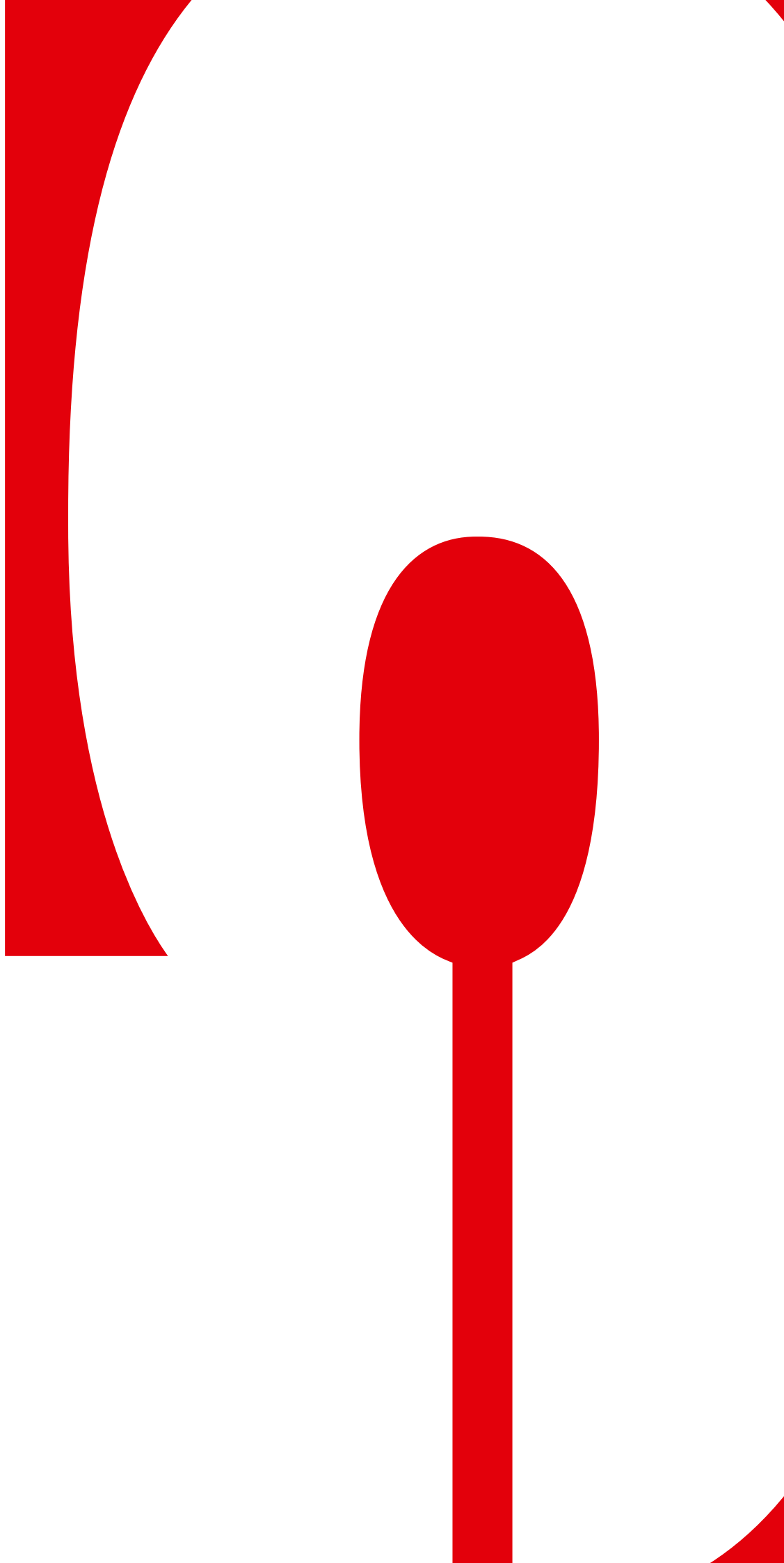
- selection and recruitment of personnel—study of candidates before recruitment for the entire territory of the Russian Federation, up to the department director level, apart from Moscow and Moscow Region;
- the process of checking candidates and current employees in the List terrorists/extremists has been automated;
- changes were made to the Code of Business Conduct and Ethics;
- interaction with state authorities, the project of an automated system for the execution of law enforcement agencies and court requests is being implemented;
- subscriber service—support for subscriber-service process safety, communications confidentiality;
- a database for storing and exchanging information between security units of the MTS Group was created on the basis of the Integrated Security Center;
- a project is being implemented to automate the system for studying and monitoring contractors in conjunction with the Big Data unit using state-of-the-art approaches and methods, including agile.

An important element in maintaining the high professional level of the Department's employees is the improvement of their business skills and expansion of their knowledge, which is achieved through continuous professional development and training during specialized courses.

**ADDITIONAL**

**INFORMATION**

**FORMATION**



# History of the Company

**1993**

MTS company was founded by the landline communication operator MGTS, Deutsche Telekom and Siemens companies and other investors.

**1994**

Launch of services in the Moscow licensed territory.

**1997**

Start of the regional expansion in Russia.

**2000**

IPO at NYSE exceeded USD 350 mln for funding the expansion in Russia

**2001**

In August the Company's subscriber base exceeded 2 million users

**2002**

Expansion in CIS and launch of operation in Belarus

**2003**

Acquisition of UMS, leading Ukrainian mobile operator.

**2004**

Purchase of Uzdunrobota company, mobile operator No. 1 in Uzbekistan.

**2005**

Acquisition of VSP, mobile operator No. 1 in Turkmenistan.

**2006**

Deep Company re-branding.

**2007**

Acquisition of VivaCell, the leading Armenian mobile operator

**2008**

Conclusion of a strategic partnership with Vodafone. Obtaining license for construction of UMTS network in Russia.

**2009**

Start of development of MTS mono-brand retail chain (RTC CJSC).

**2010**

Purchase of a number of regional BBA and CTV operators, start of consolidation of MTS fixed assets. Suspension of operation in Turkmenistan. Launch of the first in CIS PT network in Uzbekistan.

**2011**

Signing of a memorandum with Skartel. Participation in the Union of LTE Telecom Operators  
Completion of merger of Comstar-UTS OJSC with MTS

**2012**

Obtaining frequencies and the federal license for provision of communication services of LTE standard in Russia, launch of home network in Moscow.

Acquisition of Tascom CJSC. Resumption of activities in Turkmenistan, connecting approximately 1 million subscribers by the end of the year.

Signing of indicative offer with MTS Bank and JSFC Sistema on acquisition of 25.095% of the authorized capital in MTS-Bank OJSC.

Suspension of operations in Uzbekistan.

**2013**

Conclusion of an agreement between Altimeo, MTS, Nomihold Security Inc. and other related parties on settlement of disputes as to investments in Bitel LLC, former largest mobile communication operator in Kyrgyzstan.

Approval of new revision of MTS dividend policy.

**2014**

Presentation of new 3D strategy with the main focuses on Data, Differentiation and Dividends.

**2015**

Strategic partnership with Vodafone in Ukraine, MTS Ukraine re-branding

**2016**

MTS entered tower infrastructure rental market and created a new business for management of the existing infrastructure and further monetization of assets

**2017**

Entrance to promising markets: market of cloud services for large business, services for cloud processing of large data arrays, launch of own IoT-platform for deployment of Internet of Things at enterprises, etc.

**2018**

Development of the digital ecosystem for customers within implementation of MTS digital-strategy

# R

# eport on fulfilment of the principles and recommendations of the Corporate Governance Code

The Board of Directors of MTS PJSC hereby represents that the principles of corporate governance recorded by the Corporate Governance Code (hereinafter referred to as the “Code”) are complied with by the Company, excluding certain principles and recommendations of the Code specified in the Annex to this Application.

This report on compliance with the principles and recommendations of the Corporate Governance Code at MTS PJSC was considered by the Board of Directors of MTS PJSC at the meeting on May 28, 2019, meeting minutes No. 283.

The Board of Directors confirms that the data given in this report contain full and valid information on the Company’s compliance with the principles and recommendations of the Corporate Governance Code for 2018, as well as for the period after the reporting date before the approval of the Annual Report of MTS PJSC by the Board of Directors of MTS PJSC<sup>1</sup>.

#### **Brief description of most substantial aspects of the model and practice of corporate governance in the Company**

The system (model) of corporate governance of MTS PJSC was built on the basis of the norms of the existing legislation of the Russian Federation, provisions of the Charter of the Company and principles recommended for use by the Corporate Governance Code, with account of the listing requirements of the Moscow Exchange and NYSE, and also takes into account the G20 corporate governance principles adopted by the

Organization for Economic Cooperation and Development. Description of most substantial aspects of the corporate governance model and practice is provided in the section “Corporate Governance” of the Annual Report of MTS PJSC.

#### **Description of the methodology, which the joint stock company used to assess compliance with principles of corporate governance recorded by the Corporate Governance Code**

Assessment of compliance with corporate governance principles recorded in the Code is implemented by the method of analysis and comparison of internal standards and procedures with recommendations of the Code.

#### **Planned (suggested) actions and measures of the joint stock company to improve and model and practice of corporate governance**

In 2015, the President developed and approved the Roadmap for the implementation of Corporate Governance Code recommendations at MTS PJSC (hereinafter referred to as the “Roadmap”). Roadmap actions were carried out in 2015–2018, which increased the number of performed recommendations of the Corporate Governance Code. In particular, following the results of 2018 the company implemented some actions, having achieved compliance with the recommendations of the Code, related to remuneration of directors, access to information before the general meeting of shareholders.

<sup>1</sup> The reporting year is indicated, and if the report on compliance with the principles and recommendations of the Corporate Governance Code contains data for the period from the end of the reporting year to the date of this report, the date of this report is indicated.

ers, and recording of rules and procedures related to fulfillment of corporate actions.

In 2019 MTS will concentrate on tracking and analysis of new international practices and trends in the field of corporate governance, as well as introduction of practices that will help to increase the level of corporate governance in the company.

Detailed data on compliance with the principles of the Code as of the date of approval of the Annual Report of MTS PJSC by the Board of Directors of MTS PJSC, as well as on actions for further implementation of the Code's recommendations, is provided below in the Annex to this Application.

## **Annex to the Application of the Board of Directors of MTS PJSC on compliance with the principles and recommendations of the Corporate Governance Code**

No.	Corporate governance principles	Criteria of assessment of compliance with the corporate governance principle	Status <sup>1</sup> of compliance with the corporate governance principle	Explanations <sup>2</sup> of the deviation from criteria of assessment of compliance with the corporate governance principle
1.1	The company shall provide for equal and fair attitude towards all shareholders that exercise their right for participation in governance of the Company			
1.1.1	The company creates the maximum favorable conditions for the shareholders to participate in the general meeting, conditions to generate a justified position on the general meeting agenda items, to coordinate their actions, as well as the opportunity to speak their opinion on the considered issues.	<p>complied with</p> <p>1. The internal document of the Company approved by the general meeting of shareholders that regulates the procedures of holding a general meeting is openly available.</p> <p>2. The Company provides the accessible method of communication with the Company, such as a "hot line," e-mail or forum in the Internet, making it possible for the shareholders to speak their opinion and send the questions in respect to the agenda in process of preparation for the general meeting. The specified actions were undertaken by the Company before every general meeting held during the reporting period.</p>	<p><input checked="" type="checkbox"/> complied with</p> <p><input type="checkbox"/> partially complied with</p> <p><input type="checkbox"/> not complied with</p>	

<sup>1</sup> Status "complied with" is only specified, if the company meets all criteria of assessment of compliance with the corporate governance principle. Otherwise, the status "partially complied with" or "not complied with" is indicated.

<sup>2</sup> Provided on each criterion of assessment of compliance with the principle of corporate governance, if the company complies only with some criteria or does not comply with any criterion of assessment of compliance with the principle. If the company specified the status "complied with," no explanations are required.

<p>1.1.2 The procedure for communicating the holding of a general meeting and providing materials for the general meeting enables the shareholders to properly prepare for their participation in it.</p>	<p>complied with</p> <hr/> <p>1. The message on holding a general meeting of shareholders is placed (published) on the website in the Internet at least 30 days before the date of the general meeting. <input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with</p> <hr/> <p>2. The message on holding a general meeting specifies the venue of the meeting and documents required to be admitted into the venue. <input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with</p> <hr/> <p>3. Shareholders were provided access to information on those who proposed agenda items and candidates for the Board of Directors and Auditing Commission of the Company. <input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with</p>
<p>1.1.3 In the process of preparation and holding of a general meeting the shareholders could freely and promptly receive information on the meeting and materials to it, pose questions to the executive authorities and members of the Board of Directors of the company, communicate with each other.</p>	<p>complied with</p> <hr/> <p>1. In the reporting period, the shareholders were given a chance to ask questions to the members of the executive authorities and members of the Board of Directors of the Company before and during the annual general meeting. <input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with</p> <hr/> <p>2. The position of the Board of Directors (including special opinions included into the minutes), on each issue of the agenda of the general meetings held in the reporting period was included into the materials for the general meeting of shareholders. <input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with</p> <hr/> <p>3. The Company provided access to entitled shareholders to the list of persons authorized to participate in the general meeting, starting from the date of its receipt by the company, in all cases of holding general meetings in the reporting period. <input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with</p>



<p>1.1.4 Implementation of the shareholder's right to request calling of a general meeting, to propose candidates for the management bodies and to make proposals for inclusion into the agenda of the general meeting was not accompanied with unwarranted difficulties.</p>	<p>complied with</p>	<p>1. In the reporting period, the shareholders were able within at least 60 days upon completion of the appropriate calendar year to make proposals for inclusion into the agenda of the annual general meeting.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
		<p>2. In the reporting period, the Company did not reject inclusion of proposals for the agenda or candidates to the company bodies due to misprints and other minor defects in the shareholder's proposal.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>1.1.5 Each shareholder was able to freely implement their voting right by most simple and convenient for them ways.</p>	<p>complied with</p>	<p>1. The internal document (internal policy) of the Company contains provisions, in accordance with which each participant of the general meeting may before the end of the appropriate meeting request the copy of the filled bulletin certified by the counting board.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>1.1.6 The procedure of holding a general meeting established by the Company provides equal opportunity to all persons present at the meeting to speak their opinion and ask their questions of interest.</p>	<p>complied with</p>	<p>1. During general meetings of shareholders in the reporting period in the form of a meeting (joint presence of shareholders), sufficient time was provided for reports on agenda items, as well as time for discussion of these questions.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
		<p>2. Candidates to the Company management and control bodies were available to answer questions of shareholders at the meeting, where their candidates were put to vote.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
		<p>3. The Board of Directors, when making decisions related to preparation and holding of general meetings of shareholders, considered the question of using telecommunications facilities for provision of remote access to shareholders for participation in the general meetings in the reporting period.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>

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1.2 Shareholders were provided equal and fair opportunity to participate in the profit of the Company by receiving dividends

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1.2.1	The company developed and introduced a transparent and clear mechanism for determination of the dividend amount and their payment.	complied with		
		1. The dividend policy in the Company was developed, approved by the Board of Directors and disclosed.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with	
		2. If the dividend policy of the Company uses the Company reporting indicators for determination of the dividend amount, then the appropriate provisions of the dividend policy shall take into account the consolidated indicators of the financial statements.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with	
<hr/>				
1.2.2	The Company does not make a decision on payment of dividends, if such decision, formally not breaking the limitations established by the law, is economically unjustified and may result in formation of false representations about the Company's business.	partially complied with	<input type="checkbox"/> complied with <input checked="" type="checkbox"/> partially complied with <input type="checkbox"/> not complied with	<p>1. The Company's dividend policy<sup>1</sup> does not contain clear indications of financial / economic circumstances under which the Company should not pay dividends, but includes a provision stating that the Company has no right to declare or pay declared dividends in cases stipulated by the legislation of the Russian Federation. The Company has been consistently paying dividends for the entire duration of its public history (MTC had IPO in the New York Stock Exchange in 2000), providing for dividend income to shareholders at the level of global and regional telecom operators. Stable dividends are an important element of company's investment appeal. In 2014, the MTS "3D" strategy was introduced, according to which the payment of dividends is one of its key elements. We do not rule out paying dividends out of retained profit of previous years, and therefore do not consider it possible to set, for example, a ban on the decision to pay dividends in the event that the net profit for the reporting year is below the amount recommended for payment of dividends for the fiscal year. In accordance with the Dividend Policy, the Board of Directors of the Company takes into account the financial results of the Company's operations when determining the recommended amount of dividends. When determining the amount of dividends, the Board of Directors takes into account a number of additional factors, including prospects for revenue growth, capital expenditure requirements, funds received from general business, potential acquisition opportunities, and the state of the Company's debt obligations. The Company does not make a decision on payment of dividends, if such decision is economically unjustified and may result in formation of false representations about the Company's business. The existing practices for dividend payment and the considerable attention paid to this issue by the Board of Directors provide a balanced approach and mitigate risks associated with not fully implementing the recommendation. At the meeting of the Corporate Governance Committee under the Board of Directors (held on February 18, 2018), the item of partial compliance with this Code recommendation was considered. It was noted that MTS PJSC does not comply with the recommendations for formal grounds only. Moreover, in our opinion, the Company complies with the Code's basic principle.</p>

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<sup>1</sup> [http://static.mts.ru/uploadmsk/contents/1656/Statute\\_on\\_MTS\\_Dividends\\_Policy\\_2016\\_rus.pdf](http://static.mts.ru/uploadmsk/contents/1656/Statute_on_MTS_Dividends_Policy_2016_rus.pdf)

## Report on fulfilment of the principles and recommendations of the Corporate Governance Code

1.2.3	The Company does not allow for deterioration of the dividend rights of the existing shareholders.	<p>complied with</p> <p>1. In the reporting period the Company did not commit actions resulting in deterioration of dividend rights of existing shareholders.</p>	<p><input checked="" type="checkbox"/> complied with</p> <p><input type="checkbox"/> partially complied with</p> <p><input type="checkbox"/> not complied with</p>
1.2.4	The Company strives to exclude usage of other methods of gaining profit (income) by the shareholders at the expense of the Company, apart from dividends and liquidation value.	<p>complied with</p> <p>1. In order to exclude other methods of gaining profit (income) by the shareholders at the expense of the Company, apart from dividends and liquidation value, the internal documents of the Company establish controls, which provide for the timely detection and procedure of approval of transactions with persons affiliated (related) with major shareholders (persons entitled to dispose of voting rights of voting shares) in those cases where the law does not formally recognize such transactions as interest-party transactions.</p>	<p><input checked="" type="checkbox"/> complied with</p> <p><input type="checkbox"/> partially complied with</p> <p><input type="checkbox"/> not complied with</p>
1.3	The system and practice of corporate governance provide for equal conditions for all shareholders—owners of shares of one category (type), including minority (small) shareholders and foreign shareholders, and equal attitude to them from the Company		
1.3.1	The Company created conditions for fair attitude to each shareholder from the management bodies and controlling persons of the Company, including conditions preventing abuse of major shareholders in respect to minority shareholders.	<p>complied with</p> <p>1. Within the reporting period, the procedures of management of potential conflicts of interest in major shareholders are effective, and the Board of Directors paid proper attention to conflicts between shareholders, if such occurred.</p>	<p><input checked="" type="checkbox"/> complied with</p> <p><input type="checkbox"/> partially complied with</p> <p><input type="checkbox"/> not complied with</p>
1.3.2	The Company does not undertake actions that result or may result in artificial redistribution of corporate control.	<p>complied with</p> <p>1. Quasi-treasury shares are absent or did not participate in voting during the reporting period.</p>	<p><input checked="" type="checkbox"/> complied with</p> <p><input type="checkbox"/> partially complied with</p> <p><input type="checkbox"/> not complied with</p>

1.4	Shareholders are provided with reliable and effective methods to register rights for shares, as well as the opportunity of free and unhindered alienation of shares they own	complied with	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
1.4	Shareholders are provided with reliable and effective methods to register rights for shares, as well as the opportunity of free and unhindered alienation of shares they own	complied with  1. Quality and reliability of activities executed by the Company registrar to keep the register of securities' owners compliant with the needs of the Company and its shareholders.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
2.1	The Board of Directors executes strategic management of the Company, determines the main principles and approaches to organization of the risk management system and internal control in the company, monitors activity of the executive bodies of the Company and implements other key functions.	complied with	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
2.1.1	The Board of Directors is responsible for making decisions related to appointment and dismissal in the executive bodies, also due to improper performance of one's job duties. The Board of Directors also monitors that the executive bodies of the Company act in accordance with the approved strategy of development and main directions of the Company's business.	complied with  1. The Board of Directors has powers registered in the charter for appointment, dismissal and determination of the agreement terms in respect to the members of the executive bodies.  2. The Board of Directors considered the report (reports) of the sole executive body and members of the collective executive body on achievement of the Company strategy.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
2.1.2	The Board of Directors establishes the main reference points for the Company's business in the long term, assesses and approves the key indicators of business and main business objectives of the Company, assesses and approves the strategy and business plans on the main types of the Company's business.	complied with	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with

## Report on fulfilment of the principles and recommendations of the Corporate Governance Code

2.1.3	The Board of Directors defines principles and approaches to organization of the risk management and internal control system in the Company.	<p>complied with</p> <hr/> <p>1. The Board of Directors defined principles and approaches to organization of the risk-management and internal-control system at the Company.</p> <p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p> <hr/> <p>2. The Board of Directors assessed the risk-management and internal-control system at the Company during the reporting period.</p> <p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
2.1.4	The Board of Directors defines the Company policy on remuneration and (or) recovery of costs (compensations) to the member of the Board of Directors, executive bodies and other key management employees of the Company.	<p>complied with</p> <hr/> <p>1. The Company developed and introduced the policy (policies) approved by the Board of Directors for remuneration and recovery of costs (compensations) of the members of the Board of Directors, executive bodies of the company and other key management employees of the Company.</p> <p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p> <hr/> <p>2. During the reporting period, at the meetings of the Board of Directors, issues related to the specified policy (policies) were considered.</p> <p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
2.1.5	The Board of Directors plays a key role in prevention, detection and settlement of internal conflicts between the Company authorities, shareholders of the Company and employees of the company.	<p>complied with</p> <hr/> <p>1. The Board of Directors plays a key role in the prevention, detection and settlement of internal conflicts.</p> <p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p> <hr/> <p>2. The Company created a system of identification of transactions related to a conflict of interest, and a system of actions aimed at the resolution of such conflicts.</p> <p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
2.1.6	The Board of Directors plays a key role in ensuring transparency of the Company, timeliness and completeness of information disclosure by the company, unhindered access of shareholders to the Company documents.	<p>complied with</p> <hr/> <p>1. The Board of Directors approved the Regulation on Information Policy.</p> <p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p> <hr/> <p>2. There are persons defined in the Company as responsible for implementation of the information policy.</p> <p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>

<p>2.1.7 The Board of Directors monitors practice of corporate governance in the Company and plays a key role in the substantial corporate events of the Company.</p>	<p>complied with</p>	<p>1. During the reporting period, the Board of Directors considered the issue on the practice of corporate governance in the Company.</p> <p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>2.2. The Board of Directors reports to all shareholders of the Company.</p>		
<p>2.2.1 Information on operation of the Board of Directors is disclosed and provided to shareholders.</p>	<p>complied with</p>	<p>1. The annual report of the Company for the reporting period includes information of attendance of the meetings of the Board of Directors and committees by certain directors.</p> <p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
	<p>2. The annual report contains information on the main results of assessment of the activities of the Board of Directors held in the reporting period.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>2.2.2 The chairman of the Board of Directors is available for communication with the Company shareholders.</p>	<p>complied with</p>	<p>1. There is a transparent procedure in the Company, which provided for the shareholders an opportunity to send questions and their position on them to the chairman of the Board of Directors.</p> <p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>2.3. The Board of Directors is an effective and professional management body of the Company, capable of producing objective independent opinions and making decisions meeting the interests of the company and its shareholders.</p>		
<p>2.3.1 Only persons with perfect business and personal reputation and having knowledge, skills and experience required for making decisions related to the competence of the Board of Directors, and required for effective realization of its functions, are elected by the members of the Board of Directors.</p>	<p>complied with</p>	<p>1. The procedure accepted in the Company for assessment of the efficiency of operation of the Board of Directors also includes assessment of the professional qualification of the members of the Board of Directors.</p> <p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
	<p>2. In the reporting period, the Board of Directors (or its nomination committee) performed assessment of the candidates for the Board of Directors from the point of view of availability of the necessary experience, knowledge, business reputation, absence of conflict of interest, etc.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>

<p>2.3.2 The members of the Board of Directors of the company are elected by means of a transparent procedure, making it possible for the shareholders to receive information about candidates, sufficient for generation of representation on their personal and professional qualities.</p>	<p>complied with</p> <p>1. In all cases of holding a general meeting of shareholders in the reporting period, the agenda of which included issues on election of the board of directors, the company provided to the shareholders the biographic data of all candidates to the members of the Board of Directors, results of assessment of such candidates performed by the Board of Directors (or its nomination committee), and also information on compliance of the candidate with the independence criteria, in accordance with the recommendations 102-107 of the Code and written consent of candidates for election into the Board of Directors.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>2.3.3 The composition of the Board of Directors is balanced, also by qualification of its members, their experience, knowledge and business qualities, and enjoys confidence of shareholders.</p>	<p>complied with</p> <p>1. Within the procedure for assessment of the work of the Board of Directors performed in the reporting period, the Board of Directors analyzed its needs in the field of professional qualification, experience and business skills.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>2.3.4 The quantitative composition of the Board of Directors of the company makes it possible to organize activities of the Board of Directors in the most efficient manner, including the possibility to form the committees of the Board of Directors, and also provides for the substantial minority shareholders of the company the possibility of election of the candidate they vote for into the Board of Directors.</p>	<p>complied with</p> <p>1. Within the procedure of assessment of the Board of Directors performed in the reporting period, the Board of Directors considered the issue of compliance of the quantitative composition of the Board of Directors with the needs of the company and interests of shareholders.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>

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2.4 The Board of Directors includes sufficient number of independent directors.

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2.4.1 An independent director is a person with sufficient professionalism, experience and independence for formation of their own position, capable of producing objective and fair opinions independent on the influence of the executive bodies of the Company, separate groups of shareholders or other interested parties. At the same time it should be taken into account that under regular conditions a candidate (elected member of the Board of Director) may not be recognized as independent, if he or she is related to the Company, its major shareholder, major contractor or competitor of the Company or is related to the state.

complied with

1. Within the reporting period all independent members of the Board of Directors met all the criteria of independence specified in the recommendations 102–107 of the Code, or were recognized independent by the decision of the Board of Directors.

complied with  
 partially complied with  
 not complied with

2.4.2 Assessment of compliance of the candidates to the members of the Board of Directors with the independence criteria is performed, and regular analysis is carried out for compliance of independent members of the Board of Directors with the independence criteria. During performance of such assessment the content shall prevail over the form.

complied with

1. In the reporting period, the Board of Directors (or the nomination committee of the Board of Directors) produced an opinion on the independence of each candidate to the Board of Directors and provided the appropriate report to the shareholders.

complied with  
 partially complied with  
 not complied with

2. During the reporting period, the Board of Directors (or the nomination committee of the Board of Directors) at least once considered the independence of the existing members of the Board of Directors, which are specified by the Company in the annual report as the independent directors.

complied with  
 partially complied with  
 not complied with

3. The Company developed procedures that determine the necessary actions of the member of the Board of Directors, if he or she stops being independent, including obligations on timely notification of the Board of Directors, accordingly.

complied with  
 partially complied with  
 not complied with

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## Report on fulfilment of the principles and recommendations of the Corporate Governance Code

2.4.3	Independent directors make at least one third of the elected composition of the Board of Directors.	complied with	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
2.4.4	Independent directors play a key role in prevention of internal conflicts in the Company and making substantial corporate actions by the Company.	complied with	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
2.5	The chairman of the Board of Directors supports most efficient realization of functions laid upon the Board of Directors		
2.5.1	The chairman of the Board of Directors is an independent director, or a senior independent director is determined from the elected independent director, which coordinates work of independent directors and cooperates with the chairman of the Board of Directors.	partially complied with	<input type="checkbox"/> complied with <input checked="" type="checkbox"/> partially complied with <input type="checkbox"/> complied with

1. The Chairman of the Board of Directors is not an independent director, or a senior independent director is not defined.

1.1. The chairman of the Board of Directors of MTS PJSC since 2009 is a non-executive director—Mr. Ron Sommer. Large experience of Ron Sommer in management bodies of Russian and largest foreign companies, also in the telecommunications industry, in combination with high qualification, make a substantial contribution into the effective organization of the work of the Board of Directors of MTS PJSC. Work of Ron Sommer is highly appreciated by independent experts<sup>2</sup>.

Under the chairmanship of Ron Sommer, during the last years, the Company considers the issues of corporate governance system improvement and implements the plan of actions for development of MTS corporate governance within the meetings of the Board of Directors' committees.

In particular, for the third year in a row, the Company annually evaluates the Board of Directors. In 2017, during self-assessment an additional tool was used—"interview" with attraction of an independent consultant as a process moderator. It was done to prepare for further external evaluation of the Board of Directors. In 2018, changes were introduced by the Board of Directors following the management's suggestion to the remuneration system of the Board of Directors members with the purpose to bring it in compliance with the best Russian and foreign practices. Changes in the remuneration rules were approved by the general meeting of shareholders.

Within the Board of Directors there is a strong independent block of directors, 4 places of 9 for the last 3 years are occupied by independent directors. The Board of Directors is balanced both from the point of view of quantitative composition and from the point of view of experience and qualification of its members. Independent directors actively participate in operation of the Board of Directors and directly cooperate with the Chairman of the Board of Directors. During the meetings, Mr. Ron Sommer supports the open discussion for all agenda items, the discussion is of insightful nature, management initiatives for introduction of new practices of corporate governance are supported by the Chairman and further implemented by the company in practice. In 2018, the independent block in the Board of Directors was upgraded, in connection with election of a new independent member to the Board of Directors.

<sup>1</sup> Specify which of two alternative approaches permitted by the principle is introduced in the company, and explain the reasons for the chosen approach.

<sup>2</sup> In 2018 Ron Sommer won the Director of the Year Award in the nomination Board Chair: Contribution to Corporate Governance Development.

Since 2017, Ron Sommer has been a member of the Board of Directors of our controlling shareholder. Besides, Ron Sommer is not an employee or a member of executive bodies of the controlling shareholder, he permanently resides outside the Russian Federation. Taking into account the specified factors, where we first of all consider the vast experience of Sommer as a director and a chairman of the Board of Directors, and also the independence of his judgments and contribution to the development of the MTS corporate governance system, we find it unreasonable to select and appoint another chairman in the current composition of the MTS Board of Directors, even though he or she formally meets all independence criteria.

1.2. Availability of a strong professional Chairman of the Board of Directors, which is confirmed by results of annual evaluation of the Board of Directors, and effective organization of the MTS Board of Directors' work, makes it formal for MTS to follow the recommendation of the Code on appointment of a senior independent director. Implementing recommendations of the Code, we follow the position that each recommendation of the Code must be evaluated for its usefulness and applicability to the system of corporate governance of a specific company. In 2018 we thoroughly studied the available foreign experience of senior independent directors in boards of foreign companies, discussed it within the Corporate Governance Committee and came to the conclusion that there was no benefit in compliance with this recommendation for MTS (with account of the current composition of the Board of Directors of the company and available work practices).

In particular, 4 of 9 company directors are independent. There are good communications in the company, including between independent directors (in virtue of long-term period of entrance to the MTS Board of Directors), and besides, there is a democratic and open culture of interaction, including with the company management and key shareholders. I.e. in MTS there is no objective need to additionally coordinate independent directors by the Senior Independent Director.

Therefore, today we do not see real scope of functions of the Senior Independent Director, however, we do not rule out the fact that in the future in case of any changes to the Board of Directors (quantity, composition), its appointment may be necessary.

With account of the above, absence of the independent director status with the Chairman of the Board of Directors, and also of the appointed Senior Independent Director does not entail additional risks for the Company and its stakeholders. Besides, the Company does not restrict the right of Independent Directors to initiate introduction of the Senior Independent Director institute or the right of members of the Board of Directors to elect as the Chairman the independent director, if it is required<sup>1</sup>.

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2. The role, rights and obligations of the chairman of the Board of Directors (and, if applicable, the senior independent director) are properly defined in the internal documents of the Company.

complied with  
 partially complied with  
 not complied with

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<sup>1</sup> The Company shall not be entitled to bind the members of the Board of Directors to appoint the Senior Independent Director, in connection with this fact the Company is unable to report the specific date, when the Company plans to achieve full compliance with the Code. Besides, the Company will continue performing monitoring of compliance with such recommendation of the Code by the Russian issuers and evaluate the opportunity of its introduction in MTS PKSC depending in changes happening in the field of the Russian corporate governance.

<p>2.5.2 The chairman of the Board of Directors provides for constructive atmosphere of holding meetings, free discussion of issues included into the meeting agenda, monitoring over performance of decisions made by the Board of Directors.</p>	<p>complied with</p>	<p>1. Efficiency of work of the chairman of the Board of Directors is assessed within the procedure of assessment of Board of Directors efficiency in the reporting period.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>2.5.3 The chairman of the Board of Directors takes the necessary actions for timely provision of information necessary to make decisions on the issues of the agenda to the members of the Board of Directors.</p>	<p>complied with</p>	<p>1. The obligation of the chairman of the Board of Directors to take actions to provide for the timely provision of materials to the members of the Board of Directors on the agenda issues of the meeting of the Board of Directors is recorded in the internal documents of the Company.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>2.6 Members of the Board of Directors act fairly and reasonably for the interests of the Company and its shareholders on the basis of sufficient awareness, with sufficient degree of care and diligence</p>			
<p>2.6.1 Members of the Board of Directors make decisions with account of all available information, in absence of conflict of interests, with account of equal attitude to shareholders of the Company, within regular entrepreneur risk.</p>	<p>complied with</p>	<p>1. Internal documents of the Company establish that the member of the Board of Directors must notify the Board of Directors, if he or she has a conflict of interest in respect to any issue of the agenda of the meeting of the Board of Directors or the committee of the Board of Directors, before discussion of the appropriate item of the agenda.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
		<p>2. Internal documents of the Company provide that the member of the Board of Directors shall abstain from voting on any issue, where he or she has a conflict of interest.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
		<p>3. In the Company there is a procedure, which makes it possible for the Board of Directors to receive professional consultations on issues related to its competence, at the expense of the Company.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>

<p>2.6.2 Rights and obligations of the members of the Board of Directors are clearly formulated and recorded in the internal documents of the Company.</p>	<p>complied with</p> <p>1. In the Company there is an internal document accepted and published, which defines the rights and obligations of the members of the Board of Directors.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>2.6.3 Members of the Board of Directors have sufficient time to perform their obligations.</p>	<p>complied with</p> <p>1. Individual attendance of the meetings of the Board and the committees, as well as the time allocated for preparation to participate in the meetings, was taken into account within the procedure to assess the Board of Directors, in the reporting period.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
	<p>2. In accordance with the internal documents of the Company, the members of the Board of Directors must notify the Board of Directors about their intent to enter the management bodies of other organizations (apart from subsidiaries and affiliates of the Company), as well as on the fact of such appointment.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>2.6.4 All members of the Board of Directors to the same extent are able to access documents and information of the Company. Newly elected members of the Board of Directors within the shortest time possible are provided with sufficient information about the Company and work of the Board of Directors.</p>	<p>complied with</p> <p>1. In accordance with the internal documents of the Company, the members of the Board of Directors are entitled to access the documents and make queries related to the Company and its subsidiaries, and executive bodies of the Company shall provide the appropriate information and documents.</p> <p>2. In the Company there is a formalized program of introductory events for newly elected members of the Board of Directors.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p> <p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>2.7 Meetings of the Board of Directors, preparation for them and participation of the members of the Board of Directors in them provide for effective operation of the Board of Directors</p>		
<p>2.7.1 Meetings of the Board of Directors are held when required, with account of the scale of activities and objectives of the Company at a certain period of time.</p>	<p>complied with</p> <p>1. The Board of Directors held at least six meetings for the reporting period.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>

<p>2.7.2 The internal documents of the Company record the procedure of preparation and holding of the meetings of the Board of Directors, providing the opportunity for the members of the Board of Directors to properly prepare for its holding.</p>	<p>complied with</p>	<p>1. In the Company there is an internal document, which defines the procedure of preparation and holding of the meetings of the Board of Directors, where it is also established that a notice on holding a meeting shall be made as a rule at least 5 days before the date of its holding.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>2.7.3 The form of holding a meeting of the Board of Directors is determined with account of importance of the agenda items. Most important issues are resolved at the meetings held with physical presence.</p>	<p>complied with</p>	<p>1. The Charter or the internal document of the Company provides that the most important issues (according to the list provided in the recommendation 168 of the Code) shall be considered at the meetings in praesentia of the Board.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>2.7.4 Decisions on the most important issues of the Company's business shall be made at the meeting of the Board of Directors by the qualified majority or majority of votes of all elected members of the Board of Directors.</p>	<p>partially complied with</p>	<p>1. The charter of the Company provides that the decisions on the most important issues specified in the recommendations 170 of the Code shall be made at the meeting of the Board of Directors by qualified majority, with at least three fourths of votes, or by the majority of votes of all elected members of the Board of Directors.</p>	<p><input type="checkbox"/> complied with  <input checked="" type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>1. The charter of the Company does not provide that the decisions on the issues specified in the recommendation 170 of the Code shall be made at the meeting of the Board of Directors by qualified majority, with at least three fourths of votes, or by the majority of votes of all elected members of the Board of Directors.</p> <p>In accordance with the Charter, decisions on most issues related to competence of the Board of Directors, are taken by simple majority (more than a half) of votes of the members of the Board of Directors attending the meeting). A small number of issues requires a unanimous decision by all members of the Board of Directors, except for retired members of the Board of Director.</p> <p>In practice the specified recommendation of the Code is complied with: for the last years more than 90% of the Board of Directors' meetings take place with 100% participation of the members of the Board of Directors. Therefore, in most cases the simple majority of votes of the Board of Directors members attending the meeting is comparable to majority of votes of all elected members of the Board of Directors.</p> <p>After approval of the Code the issue on implementation of the recommendation was considered by the members of the Corporate Governance Committee at the Board of Directors with involvement of other members of the Board of Directors and the management. The Committee came to the conclusion on unreasonableness of introducing stricter procedures for decision making by the Board of Directors, including in connection with the fact that their implementation may negatively impact urgency of decision making.</p> <p>Risks related to incomplete compliance with the recommendation are levelled out by traditionally high attendance of the Board of Directors' meetings by its members, and also decision making procedures adopted in the Company: decisions made by the Board of Directors are built on the consensus of all members of the Board of Directors, and key decisions are first elaborated by independent members of the Board of Directors within the framework of committees' work.</p> <p>In connection with the above, the Company does not plan to achieve full compliance with this recommendation of the Code in this part.</p> <p>Besides, the Company will continue performing monitoring of compliance with such recommendation of the Code by the Russian issuers and evaluate the opportunity of its introduction in MTS PKSC (depending in changes happening in the field of the Russian corporate governance).</p>			

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2.8 The Board of Directors establishes the committees for preliminary consideration of the most important issues of the Company's business.

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<p>2.8.1 For preliminary consideration of the issues related to control of the financial and economic activities of the Company, the Audit Committee is established, comprising independent directors.</p>	<p>complied with</p>	<p>1. The Board of Directors established the Audit Committee made exclusively of independent directors. <input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with</p> <hr/> <p>2. The internal documents of the company define the objectives of the Audit Committee, including objectives contained in the recommendation 172 of the Code. <input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with</p> <hr/> <p>3. At least one member of the Audit Committee being an independent director has experience and knowledge in the field of preparation, analysis, assessment and audit of the accounting (financial) statements. <input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with</p> <hr/> <p>4. Meetings of the Audit Committee were held at least once per quarter during the reporting period. <input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with</p>
<p>2.8.2 For preliminary consideration of the issues related to formation of efficient and transparent remuneration practice, the Remuneration Committee is established, comprising independent directors and headed by the independent director, not being the chairman of the Board of Directors.</p>	<p>complied with</p>	<p>1. The Board of Directors established the Remuneration Committee, which comprises only independent directors. <input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with</p> <hr/> <p>2. The chairman of the Remuneration Committee is an independent director, who is not the chairman of the Board of Directors. <input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with</p> <hr/> <p>3. The internal documents of the company define the objectives of the Remuneration Committee, including objectives contained in the recommendation 180 of the Code. <input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with</p>
<p>2.8.3 For preliminary consideration of the issues related to HR planning (succession planning), professional composition and efficiency of work of the Board of Directors, the Nomination Committee (for appointments, HR) is established, majority of the members of which are independent directors.</p>	<p>partially complied with</p>	<p>1. The Board of Directors established the Nomination Committee (or its objectives specified in the recommendation 186 of the Code, are implemented within a different committee<sup>1</sup>), the majority of the members of which are independent directors. <input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with</p> <p>1. Tasks specified in the recommendation 186 of the Code are imposed upon the Remuneration and Nomination Committee.</p>

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<sup>1</sup> If objectives of the Nomination Committee are implemented within a different committee, specify its name.

2. Internal documents of the Company define the objectives of the Nomination Committee (or the appropriate committee with the combined functionality), including the objectives contained in the recommendation 186 of the Code.

- complied with
- partially complied with
- not complied with

2. Activities of the Remuneration and Nomination Committee are performed on the basis of the Committee Regulations. In accordance with the Regulations, the committee functions include, inter alia, all objectives listed in the recommendation 186 of the Code, excluding sub-clause 8.

The objective to describe individual duties of directors and Chairman of the Board of Directors was not included into the list of functions of the Remuneration and Nomination Committee for two main reasons:

- main duties of the members of the Board of Directors (including the Chairman of the Board of Directors) are clearly defined in the Regulations on the Board of Directors;
- the composition of the Board of Directors is stable enough. Therefore, the scope of individual duties of each director has already been formed, and the Company believes that additional description of duties of the directors by the Remuneration and Nomination Committee will be of exclusively formal nature and would not be a catalyst for increased efficiency of the Board of Directors' work. Risks related to partial compliance with such recommendation, are levelled out by introduction of an Induction in the Company for newly elected members of the Board of Directors, which also contain description of duties of directors and Chairman of the Board of Directors.

In connection with the above, the Corporate Governance Committee made a decision on unreasonableness of including the objective specified in sub-clause 8 of the recommendation 186 of the Code into the functions of the Remuneration and Nomination Committee. The Company does not plan to include this objective to functions of the Remuneration and Nomination Committee.

In connection with the above, the Company does not plan to achieve full compliance with this recommendation of the Code in this part.

2.8.4 With account of the scale of activity and level of risk, the Board of Directors of the Company verified that the composition of its committees fully complies with the objectives of the Company's business. Additional committees were either formed or were not recognized necessary (Strategy Committee, Corporate Governance Committee, Ethics Committee, Risk Management Committee, Budget Committee, Health, Safety and Environment Committee etc.).

complied with

1. In the reporting period the Board of Directors of the company considered the issue of compliance of the composition of its committees with the objectives of the Board of Directors and objectives of the Company's business. Additional committees were either formed or were not recognized as necessary.

- complied with
- partially complied with
- not complied with

<sup>1</sup> 1. As of January 1, 2018, the following committees were formed under the Board of Directors:

- Audit Committee;
- Remuneration and Nomination Committee;
- Strategy Committee;
- Budget Committee;
- Corporate Governance Committee.

At the meeting of June 28, 2018, the Board of Directors considered the issue of compliance of the composition of its committees with the objectives of the Board of Directors and objectives of the Company's business. Established committees continued their operations. The need to establish additional committees was not identified.

<sup>1</sup> Specify the list of the established additional committees.

<p>2.8.5 The composition of the committees was determined so that it made it possible to perform comprehensive discussion of previously considered issues with account of different opinions.</p>	<p>complied with</p>	
	<p>1. Committees of the Board of Directors are headed by independent directors.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
	<p>2. Internal documents (policies) of the company provide for the provisions, in accordance with which the persons not included into the composition of the Audit Committee, Nomination Committee and Remuneration Committee may visit the meetings of the committees only with the invitation of the chairman of the appropriate committee.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>2.8.6 Chairmen of the committees regularly inform the Board of Directors and its chairman on the work of its committees.</p>	<p>complied with</p>	
	<p>1. During the reporting period, the chairmen of the committees regularly report to the Board of Directors about the work of the committees.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>2.9 The Board of Directors provides for performance of assessment of the quality of Board of Directors' work, its committees and members of the Board of Directors.</p>		
<p>2.9.1 Performance of assessment of quality of Board of Directors' work is aimed at definition of degree of efficiency of Board of Directors, committees' and members of the Board of Directors work, compliance of their work with the needs of the company development, activation of work of the Board of Directors and detection of areas, where their activity may be improved.</p>	<p>complied with</p>	
	<p>1. Self-assessment or external assessment of work of the Board of Directors performed in the reporting period included assessment of the work of committees, separate members of the Board of Directors and the Board of Directors in general.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
	<p>2. Results of self-assessment or external assessment of the Board of Directors performed during the reporting period were considered at the meeting in praesentia of the Board of Directors.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>



<p>2.9.2 Assessment of work of the Board of Directors, Committees and members of the Board of Directors is realized on a regular basis at least once per year. For independent assessment of quality of work of the Board of Directors, at least once in three years an external organization (consultant) is employed.</p>	<p>partially complied with</p>	<p>1. To perform independent assessment of quality of work of the Board of Directors within the last three reporting periods, at least once the Company employed an external organization (consultant).</p>	<p><input type="checkbox"/> complied with  <input checked="" type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>	<p>Within three last reporting periods, the external consultant to independently assess the quality of the Board of Directors' work was not employed. However, in 2017, with the methodological support of the external consultant, the Company performed self-assessment of the Board of Directors' work quality. Within self-assessment, individual external assessment tools were used. In particular, all members of the Board of Directors and some management willingly took part in individual interviews held by the independent consultant on the basis of survey results. Besides, the independent consultant analyzed the internal documents of the Company. Therefore, the self-assessment procedure was brought as close as possible to the format of external assessment of the Board of Directors. Following the results of the assessment procedure, the Company obtained an independent opinion with recommendations that were included into the Board of Directors work plan for 2018–2019. In 2018–2019 following the results of compliance with the approved plan as per the assessment completed in 2017, the company decided to finalize measures under the 2-year plan and reconsider external assessment in 2019. In 2018, the company self-assessed the Board of Directors.</p>
<p>3.1 The corporate secretary of the Company performs effective current interaction with the shareholders, coordinates actions of the Company for protection of rights and interests of shareholders, supports effective work of the Board of Directors</p>				
<p>3.1.1 The corporate secretary has knowledge, experience and qualification, sufficient for performance of its obligations, stellar reputation and enjoys confidence of shareholders</p>	<p>complied with</p>	<p>1. The corporate secretary has knowledge, experience and qualifications, sufficient for the performance of its obligations, an impeccable reputation and enjoys the confidence of shareholders.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>	
		<p>2. On the website of the Company in the Internet and in the annual report, there is biographical information available on the corporate secretary, with the same level of detail as for the members of the Board of Directors and executive management of the company.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>	
<p>3.1.2 The corporate secretary has sufficient independence of the executive bodies of the Company and has the necessary powers and resources to perform its objectives.</p>	<p>complied with</p>	<p>1. The Board of Directors approves appointment, dismissal and additional remuneration of the corporate secretary.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>	
<p>4.1 The level of remuneration paid by the Company is sufficient to engage, motivate and retain people that have the necessary competence and qualification for the Company. Payment of remuneration to the members of the Board of Directors, executive bodies and other key management employees of the company shall be carried out in accordance with the remuneration policy accepted in the Company.</p>				

<p>4.1.1 The level of remuneration provided by the Company to the members of the Board of Directors, executive bodies and other key management employees creates sufficient motivation for their efficient work, making it possible for the Company to employ and retain competent and qualified experts. At the same time, the Company avoids higher remuneration than necessary, as well as unjustified high gap between levels of remuneration of the specified persons and employees of the Company.</p>	<p>complied with</p> <p>1. There is an internal document (documents) accepted in the Company—a policy (policies) on remuneration of the members of the Board of Directors, executive bodies and other key management employees, which clearly defines the approaches to the remuneration of the specified persons.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>4.1.2 The Company remuneration policy is developed by the Remuneration Committee and approved by the Board of Directors of the Company. The Board of Directors, with the support of the Remuneration Committee provides for monitoring of implementation and execution of the remuneration policy in the Company, and if necessary—revises and corrects it.</p>	<p>complied with</p> <p>1. During the reporting period, the Remuneration Committee considered the remuneration policy (policies) and practice of its (their) introduction, and if required, the necessary recommendations to the Board of Directors.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>4.1.3 The remuneration policy of the Company comprises transparent mechanisms for determination of the remuneration amount of the members of the Board of Directors, executive bodies and other key management employees of the Company, and also regulates all types of payments, benefits and privileges provided to the specified persons.</p>	<p>complied with</p> <p>1. The remuneration policy (policies) of the Company comprises (comprise) transparent mechanisms for determination of the remuneration amount of the members of the Board of Directors, executive bodies and other key management employees of the Company, and also regulates (regulate) all types of payments, benefits and privileges provided to the specified persons.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>

<p>4.1.4 The Company determines the policy for recovery of expenses (compensations) that details the list of expenses subject to recovery, and the level of service that the members of the Board of Directors, executive bodies and other key management employees of the Company may claim for. Such policy may be a component of the Company remuneration policy.</p>	<p>complied with</p>	<p>1. The remuneration policy (policies) or other internal documents of the Company establish the rules for recovery of the expenses of the members of the Board of Directors, executive bodies and other key management employees of the Company.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>4.2 The remuneration system of the members of the Board of Directors provides for approach of financial interests of directors with long-term financial interests of shareholders</p>			
<p>4.2.1 The Company pays fixed annual remuneration to the members of the Board of Directors. The Company does not pay remuneration for participation in individual meetings of the Board or committees of the Board of Directors. The Company does not use the forms of short-term motivation and additional material stimulation in respect to the members of the Board of Directors.</p>	<p>complied with</p>	<p>1. Fixed annual remuneration was the only monetary form of remuneration of the members of the Board of Directors for work in the Board of Directors during the reporting period.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p> <p>In April 2018 at the joint meeting of the Corporate Governance Committee and Remuneration and Nomination Committee, it was decided to modify the directors' remuneration system to achieve compliance with the requirements of the Corporate Governance Code. In June 2018, the decision of the General Meeting of Shareholders made corresponding changes to the Regulations on Remunerations and Compensations, paid to the members of the Board of Directors, which excluded the bonus for the work per year, depending on current parameters of company operations, and provide a payment of shares instead aimed at long-term stimulation of directors.</p>
<p>4.2.2 Long-term ownership of the Company shares to the largest extent promotes approach of financial interests of the members of the Board of Directors and long-term interests of the shareholders. At the same time, the Company does not provide for the rights to sell the shares by achievement of certain indicators of activities, and the members of the Board of Directors do not participate in option programs.</p>	<p>Complied with</p>	<p>1. If the internal document (documents)—remuneration policy (policies) of the Company—provides for provision of the Company shares to the members of the Board of Directors, clear rules of shares ownership by the members of the Board of Directors aimed at stimulation of long-term ownership of such shares must be provided for and disclosed.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>

<p>4.2.3 The Company does not provide for any additional payments or compensations in case of early termination of powers of the members of the Board of Directors in connection with transfer of control over the Company or other circumstances.</p>	<p>complied with</p> <p>1. The Company does not provide for any additional payments or compensations in case of early termination of powers of the members of the Board of Directors in connection with transfer of control over the Company or other circumstances.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>4.3 The system of remuneration of the members of executive bodies and other key management employees of the Company provides for dependence of remuneration on the result of operation of the Company and their personal contribution to achievement of this result</p>		
<p>4.3.1 Remuneration of the members of the executive bodies and other key management employees of the company is determined so that reasonable and justified ratio is provided between the fixed part of remuneration and the variable part of remuneration depending on the results of Company operation and personal (individual) contribution of the employee to the final result.</p>	<p>complied with</p> <p>1. During the reporting period, the annual performance indicators approved by the Board of Directors were used to determine the amount of variable remuneration of the members of the executive bodies and other key management employees of the Company.</p> <p>2. During the last completed assessment of the remuneration system of the executive bodies and other key management employees of the Company, the Board of Directors (Remuneration Committee) verified that the Company uses an effective ratio of the fixed part of remuneration and variable part of remuneration.</p> <p>3. The company provides for the procedure providing for return of bonus payments to the Company, which were illegally received by the members of executive bodies and other key management employees of the Company.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p> <p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p> <p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>

<p>4.3.2 The Company introduced a program of long-term motivation of the members of the executive bodies and other key management employees of the company using shares of the Company (options or other derivative financial instruments, the basic asset for which is the shares of the Company).</p>	<p>complied with</p>	<p>1. The Company introduced a program of long-term motivation of the members of the executive bodies and other key management employees of the Company using shares of the Company (financial instruments based on the Company shares).</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
		<p>2. The program of long-term motivation of the members of executive bodies and other key management employees of the Company provides for the fact that the right to sell shares and other financial instruments used in this program arises not earlier than in three years from the moment of their provision. At the same time the right for their sale is provided by achievement of certain indicators of the Company activities.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>4.3.3 The amount of compensation (golden handshake) paid by the Company in case of early termination of powers to the members of the executive bodies or key management employees at the initiative of the Company and with absence of unfair actions from their side, does not exceed double size of the fixed part of the annual remuneration.</p>	<p>complied with</p>	<p>1. The amount of compensation (golden handshake) paid by the Company in case of early termination of powers to the members of the executive bodies or key management employees at the initiative of the Company and with absence of unfair actions from their side in the reporting period did not exceed double size of the fixed part of the annual remuneration.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>5.1</p>	<p>In the Company an efficiently operating risk management and internal control system aimed at assuring reasonable confidence in achievement of objectives set in the Company was established.</p>		
<p>5.1.1 The Board of Directors of the Company defined principles and approaches to organization of the risk management and internal control system in the Company.</p>	<p>complied with</p>	<p>1. Functions of various management bodies and subdivisions of the Company in the risk-management and internal-control system are clearly defined in the internal documents/appropriate policy of the Company approved by the Board of Directors.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>

<p>5.1.2 Executive bodies of the Company provide for development and maintenance of functioning of the efficient risk management and internal control system in the Company.</p>	<p>complied with</p> <p>1. Executive bodies of the Company provided for distribution of functions and powers in respect to risk management and internal control between their subordinate managers of subdivisions and departments.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>5.1.3 The risk management and internal control system in the Company provides for objective, fair and clear presentation of the current status and prospects of the Company, integrity and transparency of the Company reporting, reasonableness and acceptability of the risks undertaken by the Company.</p>	<p>complied with</p> <p>1. In the Company, there is an approved anti-corruption policy.</p> <p>2. In the Company, there is an available method for informing the Board of Directors or the Audit Committee of the Board of Directors about the facts of breaching of the law, internal procedures, Company code of ethics.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p> <p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>5.1.4 The Board of Directors of the Company undertakes the necessary actions in order to verify that the existing Company risk management and internal control system complies with the principles and approaches to its organization determined by the Board of Directors and functions effectively.</p>	<p>complied with</p> <p>1. During the reporting period, the Board of Directors or the Audit Committee of the Board of Directors assessed efficiency of the risk management and internal control system in the Company. Data on the main results of such assessment is included into the composition of the annual report of the Company.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>5.2 For systematic independent evaluation of reliability and efficiency of the risk management and internal control system and corporate management practice, performance of the internal audit is organized by the Company.</p>		
<p>5.2.1 For internal audit, there is a separate structural subdivision in the Company, or an independent external organization is employed. Functional and administrative accountabilities of the internal audit subdivision are separated. The functional subdivision of internal audit reports to the Board of Directors.</p>	<p>complied with</p> <p>1. For internal audit, in the Company there is a separate structural subdivision of internal audit, which functionally reports to the Board of Directors or the Audit Committee, or an independent external organization is employed with the same principle of accountability.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>

<p>5.2.2 The internal audit subdivision performs assessment of efficiency of the internal control system, assessment of efficiency of the risk management system, and also the corporate governance system. The Company applies the generally accepted standards of activities in the field of internal audit.</p>	<p>complied with</p>	<p>1. During the reporting period within performance of the internal audit, the efficiency of the internal control and risk management system is assessed.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
		<p>2. The Company applies generally accepted approaches to internal control and risk management.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>6.1 The Company and its activities are transparent for shareholders, investors and other stakeholders</p>			
<p>6.1.1 In the Company there is an information policy developed and introduced, which provides for effective information interaction of the Company, shareholders, investors and other stakeholders.</p>	<p>complied with</p>	<p>1. The Board of Directors of the Company approved the information policy of the Company developed with account of the Code recommendations.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
		<p>2. The Board of Directors (or one of its committees) considered the issues related to Company compliance with its information policy at least once in the reporting period.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>6.1.2 The Company discloses information on the system and practice of corporate governance, including detailed information on compliance with the principles and recommendations of the Code.</p>	<p>partially complied with</p>	<p>1. The Company discloses information about the corporate governance system in the company and general principles of corporate governance, used in the Company, including those on the website of the Company in the Internet.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
		<p>2. The Company discloses information on the composition of executive bodies and the Board of Directors, independent members of the Board and their membership in the committees of the Board of Directors (in accordance with the definition of the Code).</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
		<p>3. If there is a person that controls the Company, the Company publishes a memorandum of the controlling entity in respect to the plans of such entity in respect to the corporate governance in the Company.</p>	<p><input type="checkbox"/> complied with  <input checked="" type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
			<p>The Company did not publish the memorandum of the controlling entity in respect to its plans as regards the Company in connection with the fact that such memorandum was not adopted by the controlling entity.  The controlling shareholder of the Company (Sistema PJSFC, hereinafter also referred to as "Corporation), timely provides public access to information about all of its plans in respect to the Company with the help of various information disclosure channels (annual report, notices of substantial facts, press releases, etc.), following the principles of protection of the confidential information and rights of shareholders of the Company.  Besides, at the website of Sistema PJSFC there is the Corporate Governance Code published<sup>1</sup>.</p>

<sup>1</sup> [http://www.sistema.ru/fileadmin/user\\_upload/corporate\\_documents/kodeks\\_korporativnogo\\_upravljenija.pdf](http://www.sistema.ru/fileadmin/user_upload/corporate_documents/kodeks_korporativnogo_upravljenija.pdf)

The Corporate Governance Code of Sistema PJSC declares the aspiration of the Corporation to ensure compliance with regulations and requirements of the existing legislation, and also best standards of corporate governance in practice of its subsidiaries and affiliates. Besides, the Code contains information on principles of building relations in Sistema PJSC Group of Companies. In accordance with the Code, the main objective of the Corporation in respect to subsidiaries and affiliates (portfolio companies), shall be proclaimed assistance to their comprehensive development for the purposes of their cost increase.

Besides, when making management decisions, the Corporation takes into account interests of all shareholders, investors, main consumers of subsidiaries' products, and also other stakeholders, including state authorities and employees of portfolio companies. In connection with the above, use of an additional tool of information disclosure (controlling entity's memorandum) for disclosure of the public information is unreasonable. Risks of failure to comply with the recommendation are levelled out by timely and high quality disclosure of all material information of the Corporation.

MTS has no data on plans of Sistema PJSC on acceptance of the specified memorandum. If the controlling entity accepts the memorandum recommended by the Code, it will be published by the Company<sup>1</sup>.

6.2 The Company timely discloses full, relevant and valid information about the Company to ensure the possibility to make justified decisions by the Company shareholders and investors

6.2.1 The Company discloses information in compliance with the principles of regularity, consistence and efficiency, as well as availability, validity, completeness and comparability of disclosed data.

complied with

1. The information policy of the Company determines approaches and criteria for definition of information capable of significantly influencing the assessment of the Company and cost of its securities and procedures providing for timely disclosure of such information.

complied with  
 partially complied with  
 not complied with

2. If securities of the Company circulate in the foreign organized markets, disclosure of substantial information in the Russian Federation and in such markets is done synchronously and equivalently during the reporting period.

complied with  
 partially complied with  
 not complied with

3. If foreign shareholders own a substantial quantity of Company shares, then during the reporting year disclosure of information was done not only in Russian, but also in one of the most popular foreign languages

complied with  
 partially complied with  
 not complied with

<sup>1</sup> In connection with the fact that formal compliance with the recommendation of the Code depends on the controlling entity, and not on MTS PJSC, the company has no information on whether failure to comply with the Code provision is temporary, and where the controlling shareholder intends to comply with the Code in the future. Besides, the Company will continue to perform monitoring of compliance with this recommendation of the Code by Russian issuers and initiate the consideration of the issue at the Corporate Governance Committee if the practices change.



6.2.2 The Company avoids formal approach in disclosure of information and discloses substantial information about its activities, even if disclosure of such information is not provided for by the law.	complied with	1. During the reporting period, the Company disclosed annual and semi-annual financial reporting prepared in accordance with the IFRS standards. The annual report of the Company for the reporting period includes annual financial reporting made according to the IFRS standards jointly with the auditor's report.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with	
		2. The Company discloses full information on the structure of the company capital in accordance with the Recommendation 290 of the Code in the annual report and on the website of the Company in the Internet.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with	
6.2.3 The annual report of the Company, being one of the most important tools for information exchange with shareholders and other stakeholders; it contains information for evaluating the results of the Company activities over the year.	complied with	1. The annual report of the Company contains information on key aspects of operating activities of the Company and its financial results.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with	
		2. The annual report of the Company contains information on environmental and social aspects of the company's business.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with	
6.3 The company provides information and documents for requests of shareholders in accordance with the principles of fairness and no hardship	complied with			
6.3.1 The Company provides information and documents for requests of shareholders in accordance with the principles of fairness and no hardship.	partially complied with	1. The information policy of the Company determines the unhindered procedure of provision of access to information to shareholders, including information on controlled legal entities of the Company, at the request of shareholders.	<input type="checkbox"/> complied with <input checked="" type="checkbox"/> partially complied with <input type="checkbox"/> not complied with	<p>In 2018, the information policy of the Company did not include the shareholders' right for access to information on controlled legal entities of the Company. Besides, the shareholders received sufficient information to exercise their rights.</p> <p>The Company and its business are fully transparent for shareholders, investors and other stakeholders. All information to be disclosed shall be regularly published at the Company's website. Additionally MTS provides public access to separate types of information recommended for disclosure by the Code.</p> <p>Besides, the information policy provides for various methods and forms of information provision (including Internet conferences, meetings, telephone negotiations and other contacts with professional participants of the market and shareholders, it is possible to visit Company offices). Therefore, the Company provides considerable volume of information about itself and its business in accordance with principles of equal and unhindered access.</p> <p>In connection with this, shareholders exercising rights to access documents and information of the Company in practice is not associated with needless complexity.</p> <p>In 2018, we disclosed on our website the procedure for the provision of access to shareholders to information on the Company's controlled legal entities at the request of shareholders.</p>

<p>6.3.2 If the Company provides information to shareholders, a reasonable balance is provided between interests of specific shareholders and interests of the Company itself, which is interested in preservation of confidentiality of important commercial information, which may substantially influence its competitiveness.</p>	<p>complied with</p> <p>1. During the reporting period, the Company did not reject requests of shareholders for provision of information, or such rejections were justified.</p> <p>2. In cases defined by the information policy of the Company, the shareholders are warned about the confidential nature of information and undertake to maintain its confidentiality.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p> <p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>7.1 Actions that considerably influence or may influence the structure of the joint stock capital and financial condition of the Company, and therefore the position of shareholders (substantial corporate actions), are carried out under fair conditions, providing for compliance with the rights and interests of shareholders, as well as other stakeholders</p>		
<p>7.1.1 Substantial corporate actions include reorganization of the company, acquisition of 30 and over percent of the voting shares of the company (acquisition), closing of major transactions by the Company, increase or decrease of the charter capital of the Company, listing and delisting of the Company shares, as well as other actions, which may result in substantial change in the rights of shareholders or violation of their interests. The charter of the Company defines a list (criteria) of transactions or other actions, being substantial corporate actions, and such actions are related to the competence of the Board of Directors of the company.</p>	<p>complied with</p> <p>1. The charter of the Company defines a list of transactions or other actions, being substantial corporate actions, and criteria for their definition. Decision making in respect to substantial corporate actions is referred to the competence of the Board of Directors. In cases when realization of these corporate actions is directly related by the law to the competence of the general meeting of shareholders, the Board of Directors provides the appropriate recommendations to the shareholders.</p> <p>2. The charter of the Company includes at least the following actions as the substantial corporate actions: reorganization of the company, acquisition of 30 and more percent of the voting shares of the Company (acquisition), closing of major transactions by the Company, increase or decrease of the charter capital of the Company, listing and delisting of the Company shares.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p> <p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>

<p>7.1.2 The Board of Directors plays a key role in making decisions or generation of recommendations in respect to substantial corporate actions, the Board of Directors relies on the position of the independent directors of the Company.</p>	<p>complied with</p> <p>1. In the Company there is a procedure, in accordance with which the independent directors state their position on the substantial corporate actions before their approval.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>7.1.3 When making substantial corporate actions, which affect the rights and legal interests of the shareholders, equal conditions are provided for all shareholders of the Company, and if the mechanisms specified by the law and aimed at protection of the shareholders' rights are insufficient, additional measures are taken to protect rights and legal interest of the Company shareholders. At the same time, the Company not only complies with the formal requirements of the law, but also the principles of corporate governance specified in the Code.</p>	<p>complied with</p> <p>1. The Charter of the Company with account of the features of its activities establishes lower minimum criteria to refer the Company transactions to the substantial corporate actions compared to the law.</p> <p>2. During the reporting period, all substantial corporate actions were approved before their realization.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p> <p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>
<p>7.2 The company provides for such procedure of making substantial corporate actions, which makes it possible for the shareholders to timely obtain full information on such actions, makes it possible for them to influence making such actions and guarantees compliance and adequate level of protection of their rights during commitment of such actions</p>		
<p>7.2.1 Information on making substantial corporate actions is disclosed with explanation of reasons, conditions and effects of making such actions.</p>	<p>complied with</p> <p>1. During the reporting period, the Company promptly and in detail disclosed information on substantial corporate actions of the Company, including the grounds and timing for making such actions.</p>	<p><input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input type="checkbox"/> not complied with</p>

7.2.2 Rules and procedures complied with

related to realization of substantial corporate actions by the company are recorded in the internal documents of the Company.

1. Internal documents of the Company provide for the procedure of employment of an independent appraiser to define the cost of property divested or purchased within a major transaction or interest-party transaction.

- complied with
- partially complied with
- not complied with

In 2018 changes were made to the Regulations on the Board of Directors of MTS PJSC aimed at formalization of the procedure to employ an appraiser in some cases when making substantial transactions.

2. Internal documents of the Company provide for the procedure of employing an independent appraiser to assess the cost of purchase and redemption of the Company shares.

- complied with
- partially complied with
- not complied with

3. Internal documents of the Company provide for the extended list of grounds, under which the members of the Board of Directors of the Company and other persons specified by law are recognized as interested in the Company transactions.

- complied with
- partially complied with
- not complied with

## List of major transactions and related party transactions closed by MTS PJSC in 2018

In 2018 MTS PJSC did not approve (close) transactions, which are recognised in accordance with the Federal Law “Concerning Joint-Stock Companies” as major transactions, and also other transactions, closing of which is covered by the procedure of major transactions approval according to the Charter of the Company

The list of transactions closed by MTS PJSC in 2018 and recognised in accordance with the Federal Law “Concerning Joint-Stock Companies” as related party

transactions, the need to approve which by the authorised management body of the joint stock company is specified by the chapter XI of the Federal Law “Concerning Joint-Stock Companies”

Information is available at the corporate website of MTS PJSC at: <http://ir.mts.ru/investors/financial-center/annual-reports-and-form-20-f/default.aspx?LanguageId=1>

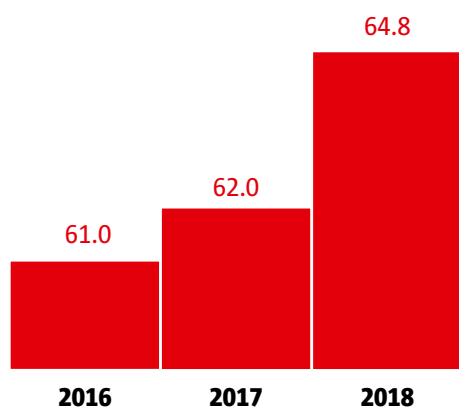
## Annual consolidated financial reporting of MTS PJSC and subsidiaries for 2018

Information is available at the corporate website of MTS PJSC at: <http://ir.mts.ru/investors/financial-center/financial-results/default.aspx>



# Main Specifications of Personnel and Personnel Management System Indicators

Total expenses for personnel of MTS Group, RUB bln

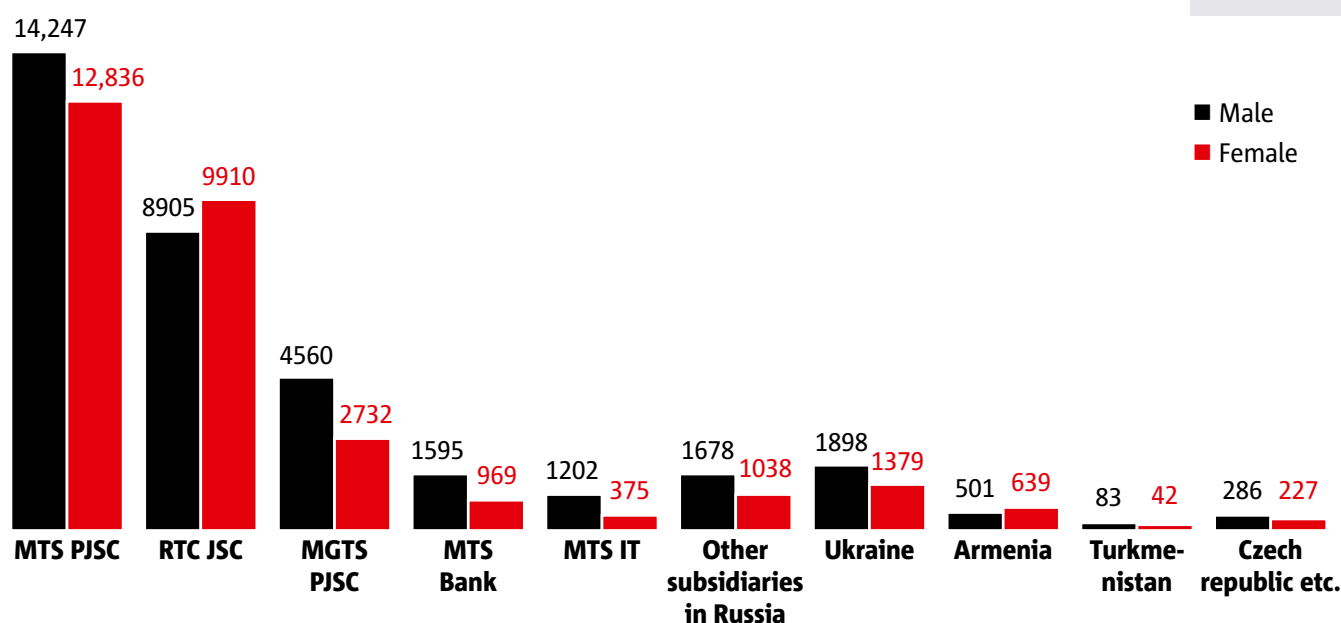


Total headcount, persons<sup>1</sup>

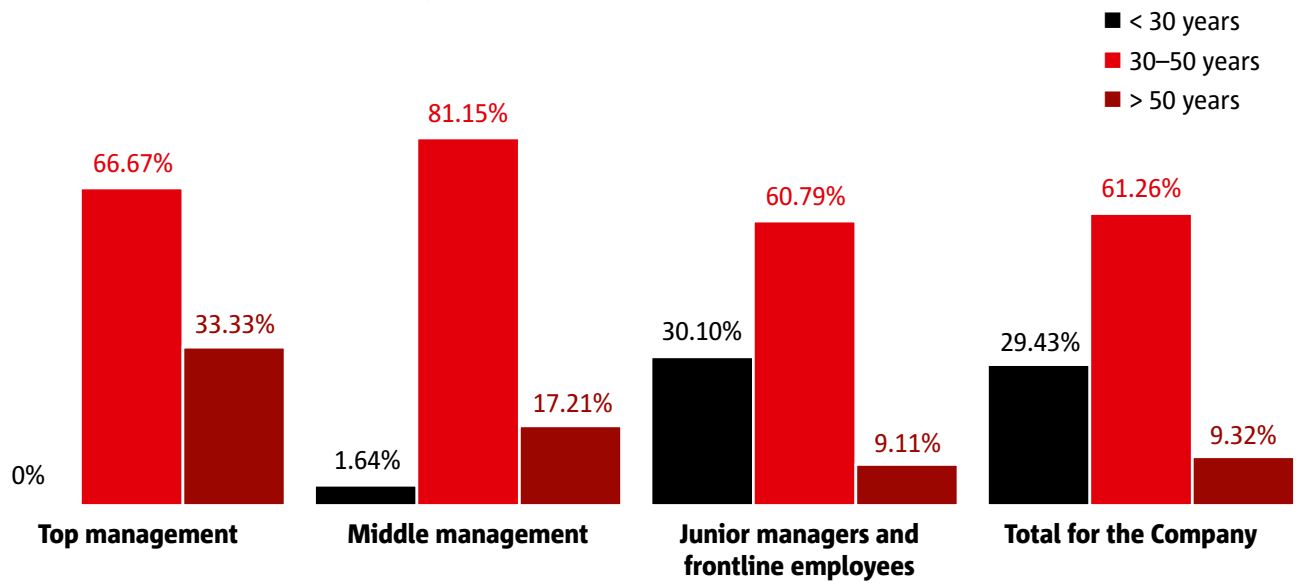
	2016	2017	2018
MTS Group	69,322	65,003	65,102
including MTS PJSC	28,910	27,886	27,083

<sup>1</sup> Hereinafter, unless specified otherwise, the headcount is given without employees working under civil law agreements and outsourcing.

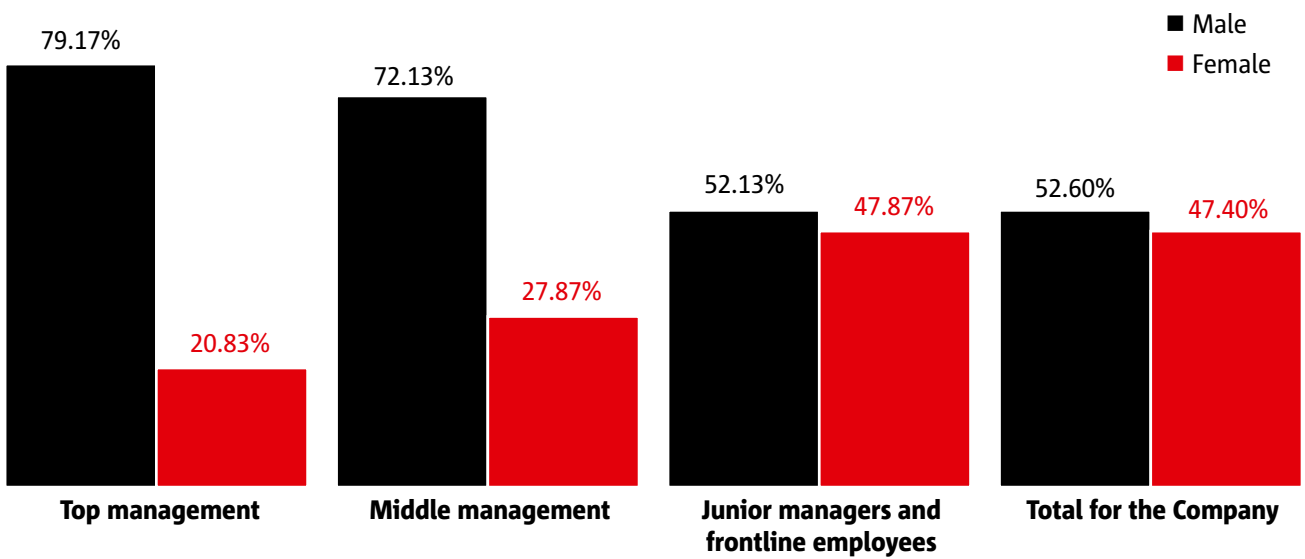
Number of MTS Group employees in 2018, pers.



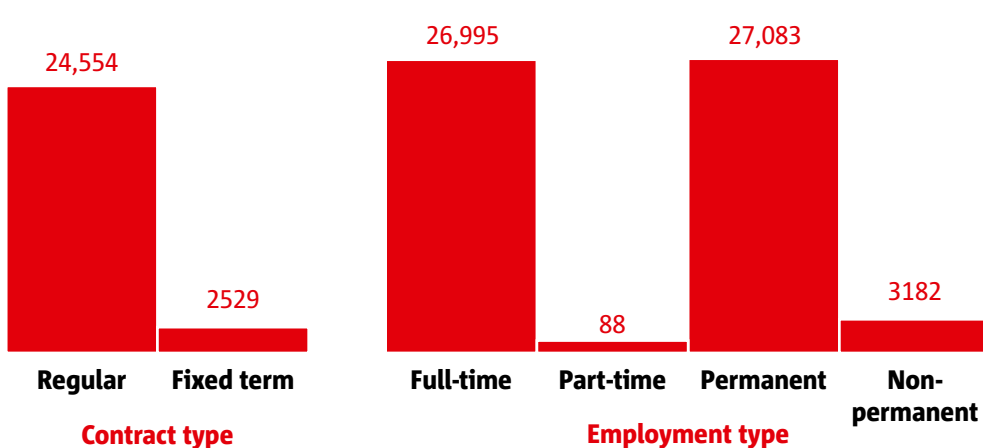
MTS PJSC personnel structure by age in 2018, %



MTS PJSC personnel structure by gender in 2018, %

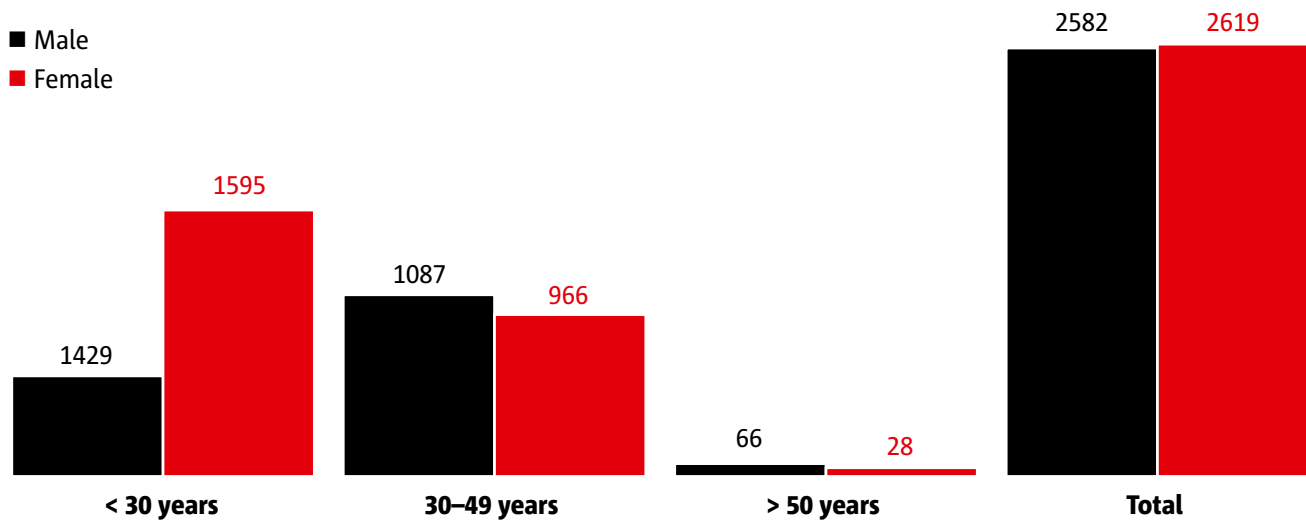


MTS PJSC personnel structure broken down by types of employment in 2018, pers.

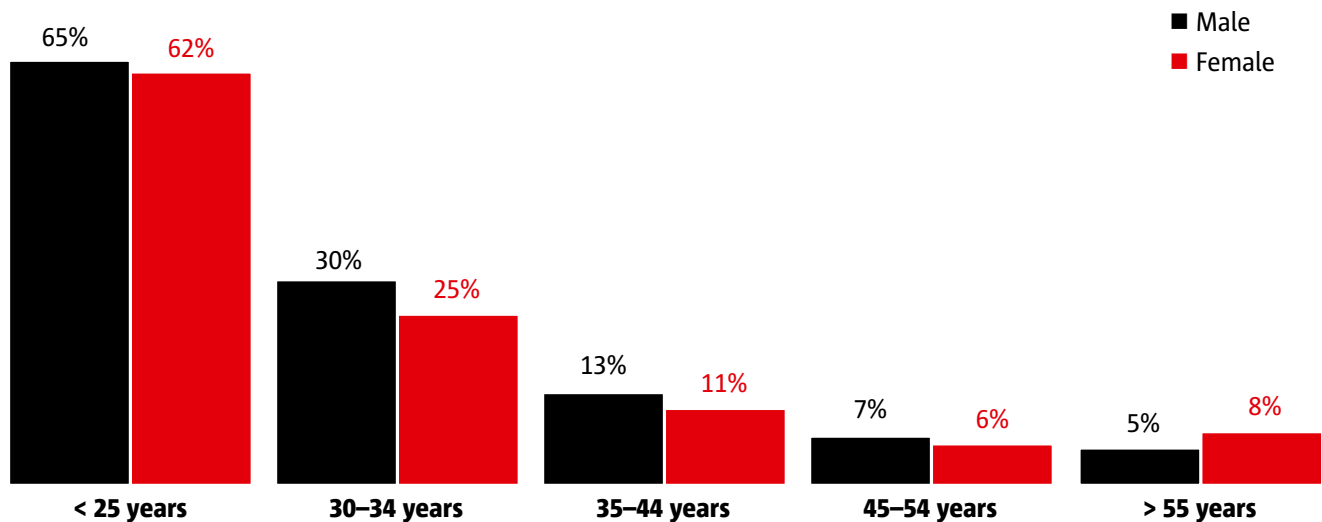


## Main Specifications of Personnel and Personnel Management System Indicators

Number of recruited employees at MTS PJSC in 2018, pers.

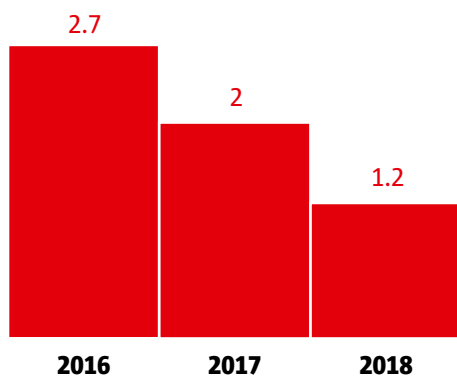


Personnel turnover (churn rates) in MTS PJSC in 2018, %

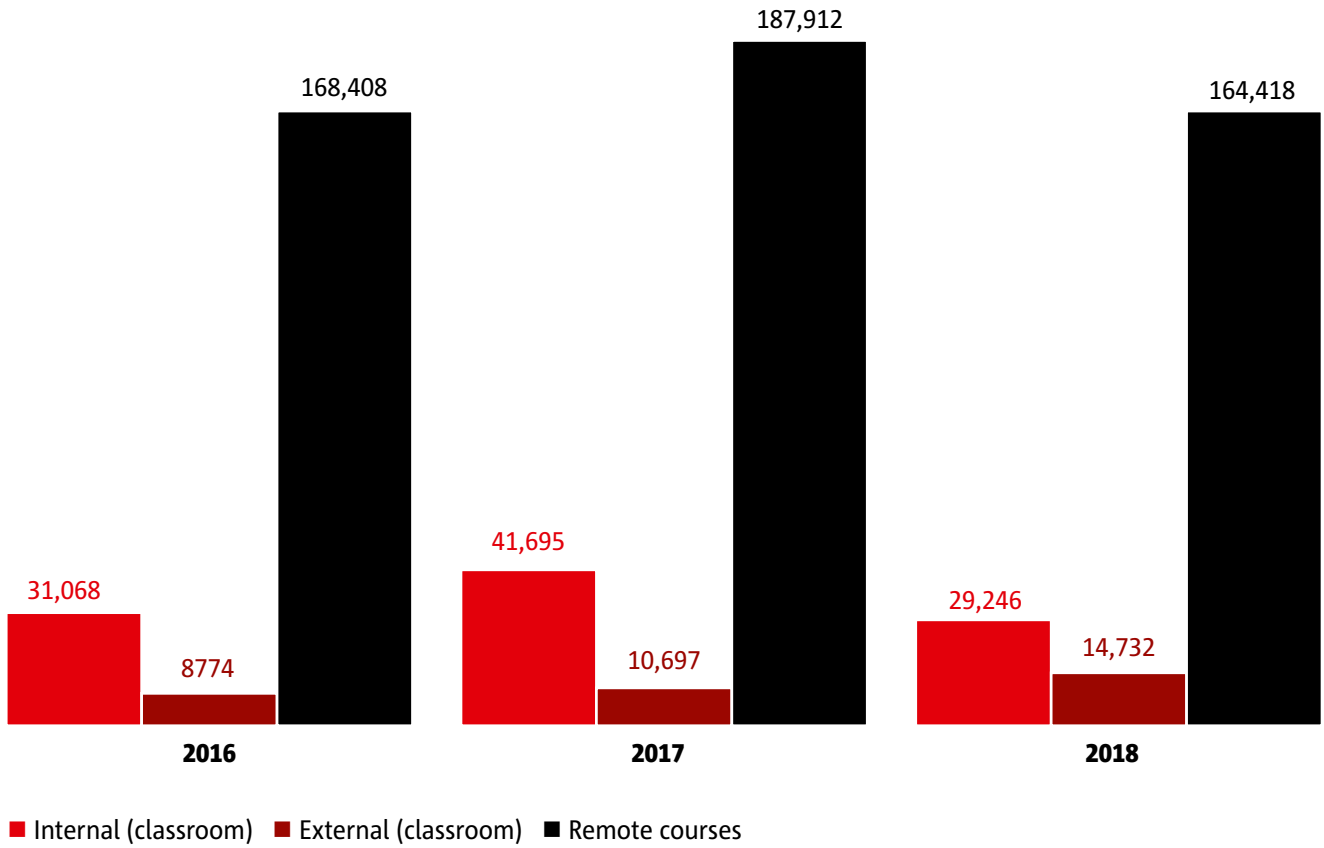


The churn rates in the category “under 25 years of age” are due to the overall high turnover rate for the market of young employees starting to work in starting positions.

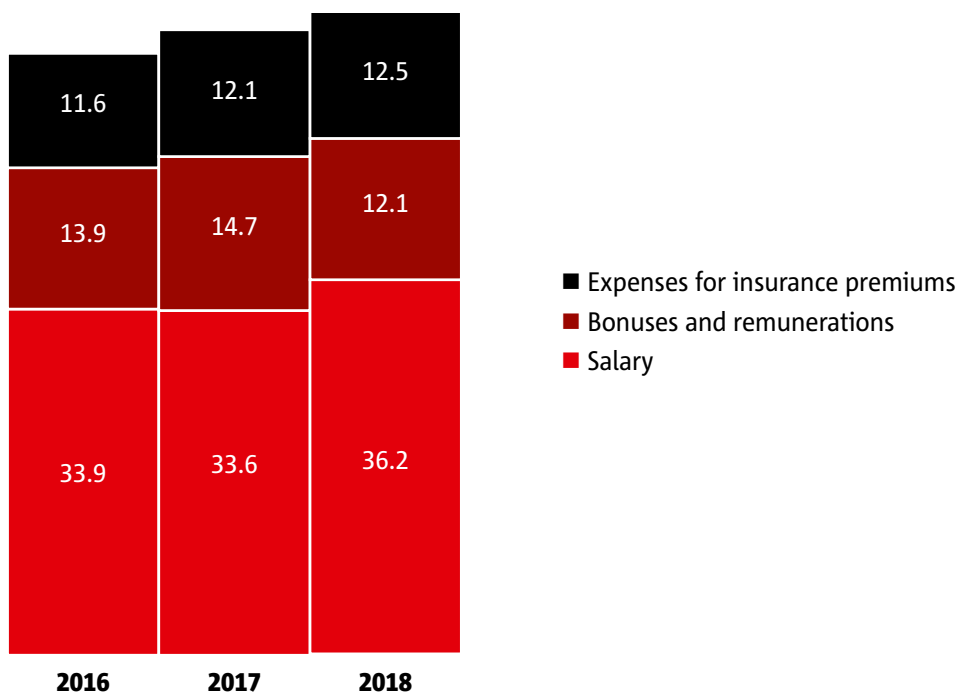
Number of training days per one employee



Number of trained employees of MTS PJSC, pers/course



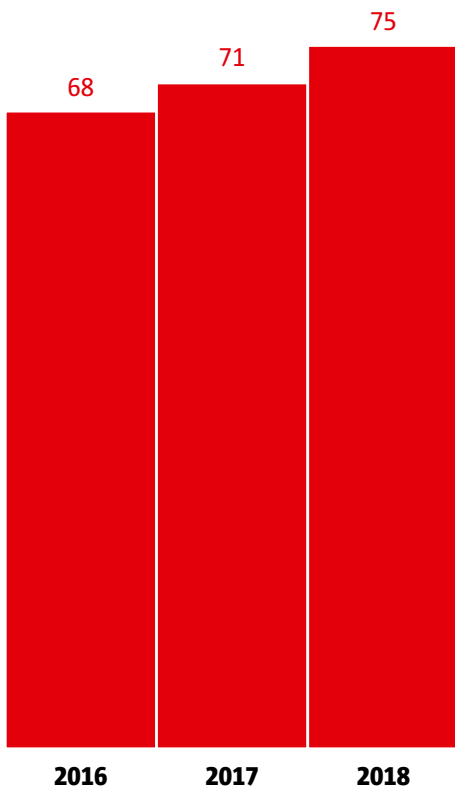
Structure of labor expenses in MTS Group, RUB bln



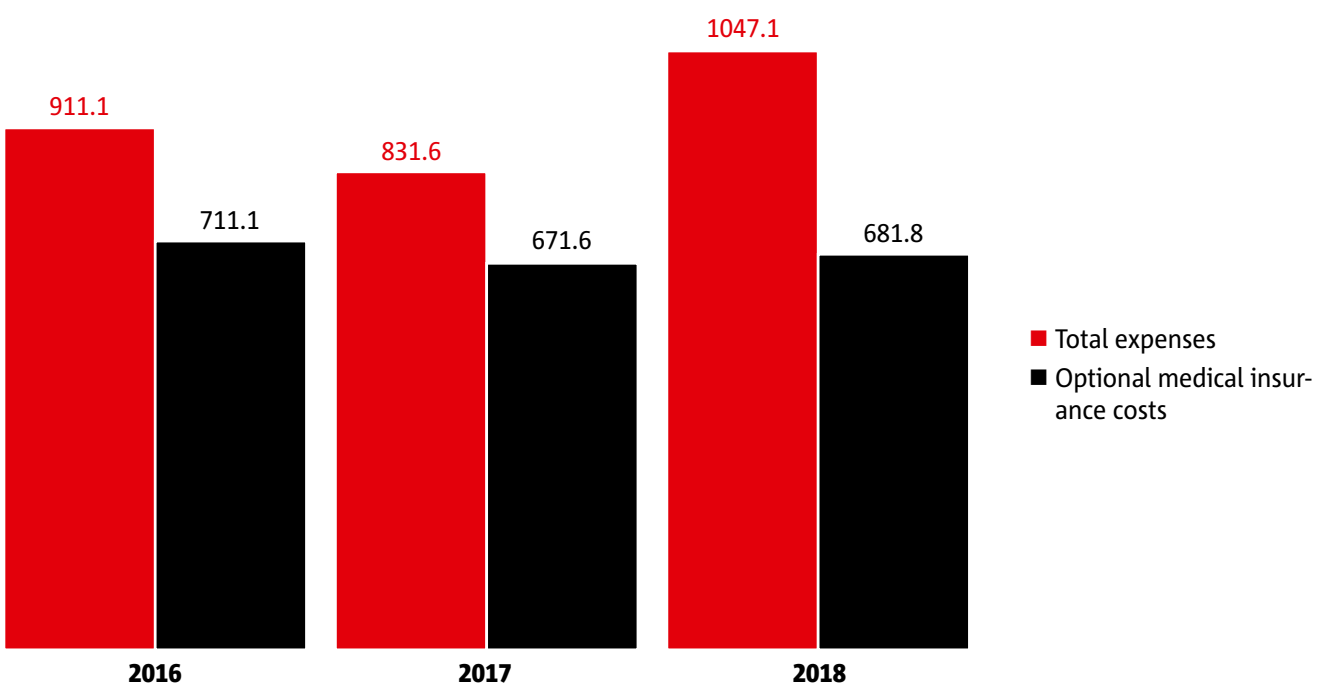


## Main Specifications of Personnel and Personnel Management System Indicators

Average salary, RUB thousand



Expenses to provide social guarantees to personnel in MTS Group, RUB mln



# Glossary

**MOU** — Minutes of Usage

**ARPU** — Average Revenue Per User

**GPON** — Gigabit Passive Optical Network

**3G** — 3rd Generation

**4G** — 4th Generation

**LTE** — Long-Term Evolution

**TDD** — Time Division Duplex

**FDD** — Frequency Division Duplex

**M2M** — Machine-To-Machine

**SaaS** — Software as a Service

**HSPA+** — High Speed Packet Access Plus

**MVNO** — Mobile Virtual Network Operator

**CDMA** — Code Division Multiple Access

**GSM** — Global System for Mobile Communications

**Wi-Fi** — Wireless Fidelity

**UMTS** — Universal Mobile Telecommunications System

**VAS** — Value Added Services

**IOT network (Internet of Things Networks)** — a number of autonomous physical devices connected to a single network via digital communication channels

**NB-IoT (NarrowBand Internet of Things)** — one of the IoT standards developed by 3GPP consortium

**LTE-M (Long Term Evaluation for Machines, literally** — long-term development for machines) — one of the IoT standards developed by 3GPP consortium

**3GPP (3rd Generation Partnership Project)** — an international consortium developing mobile telephony specifications

**e-Health (Electronic Health, eHealth)** — implementation of public health functions using information and telecommunication technologies

**m-Health (Mobile Health, mHealth)** — performing health functions using mobile devices (smartphones, tablets, etc.)

**VR (Virtual Reality, Virtual Reality)** — a realistic simulation of the environment created using information technologies and imitating the immersion of the user into it

**AR (Augmented Reality, Changed Reality, Augmented Reality)** — human-perceived combination of the real world and virtual elements created by computer tools

**SDN (Software-Defined Network)** — data network where network management functions are implemented at the software level and are independent of the hardware solution

**NFV (Network Function Virtualization):** network architecture concept that involves the use of virtual machines without reference to specialized equipment

**BBA** — Broadband Access

**FOCL** — Fibre Optic Communication Line

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**OIBDA** — Operating Income Before Depreciation And Amortization

**CAPEX** — CAPital EXPenditure

**Moscow Stock Exchange** — the largest stock exchange holding in Russia and Eastern Europe

**NYSE** — New York Stock Exchange, USA

**Bank of Russia** — Central Bank of the Russian Federation

**SEC** — The United States Securities and Exchange Commission, USA

**ADR** — American Depositary Receipts

**IFRS** — international financial reporting standards

**RAS** — Russian Accounting Standards

**CSR** — Corporate Social Responsibility

# Contacts and Additional Information about the Company

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## Information about the Company

### Full trade name of the Company:

- in Russian: Публичное акционерное общество «Мобильные ТелеСистемы»
- in English: Mobile TeleSystems Public Joint Stock Company

### Short trade name of the Company:

- in Russian: ПАО «МТС»
- in English: MTS PJSC

**Location of MTS PJSC:** The Russian Federation 109147, Moscow, ul. Marksistskaya, 4

Tel.: +7 (495) 911 6555

Fax: +7 (495) 911 6569

**Correspondence address of MTS PJSC:** 5 Vorontsovskaya Str., Bld. 2, 109147, Moscow, Russian Federation

E-mail: [info@mts.ru](mailto:info@mts.ru)

Internet: <http://ir.mts.ru>

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## Information on subdivision of shareholders and investors relations

**Location of subdivision of shareholders and investors relations:** 5 Vorontsovskaya Str., Bld. 2, 109147, Moscow, Russian Federation

Shareholder relations department

Corporate Governance Development of MTS PJSC:

Maxim Kalinin (Corporate Governance Director)

Phone: +7 (495) 911 6555

Fax: +7 (495) 911 6569

E-mail: [shareholder@mts.ru](mailto:shareholder@mts.ru)

Investors service subdivision

Investor Relations Department, MTS PJSC:

Polina Ugrumova (Director of the Department)

Tel.: +7 (495) 223 2025.

E-mail: [ir@mts.ru](mailto:ir@mts.ru)

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## Auditor

**Closed Joint Stock Company Deloitte and Touche CIS**

Address: 5 Lesnaya ulitsa, Moscow, 125047, Russian Federation

Phone: +7 (495) 787 0600

Fax: +7 (495) 787 0601

Internet: <http://www.deloitte.com>

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## Registrar

**Joint Stock-Company Independent Registrar Company R.O.S.T**

Address: 18 Stromynka Str., Bldg 13, Moscow 107996

Phone: +7 (495) 989 76 50, +7 (495) 780-73-63

E-mail: [clients\\_rm@rost.ru](mailto:clients_rm@rost.ru)

Internet: [www.rost.ru](http://www.rost.ru)

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## Depository

**Non-Bank Credit Organisation Closed Joint Stock Company National Settlement Depository**

Address: 105066, Moscow, ulitsa Spartakovskaya, 12

Multi-channel number: + 7 (495) 234 4827

E-mail: [info@nsd.ru](mailto:info@nsd.ru)

Internet: <http://www.nsd.ru>

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## Dear readers,

We have offered the Annual Report of MTS PJSC for 2018.

It is crucial for us to maintain as transparent and honest dialog with all stakeholders as possible.

Your feedback and proposals will help us to improve quality of future reports, their informative value and relevance.

Please send the filled form to: 5 Vorontsovskaya Str., Bldg 2, 109147, Moscow, MTS PJSC;

or by e-mail: [shareholder@mts.ru](mailto:shareholder@mts.ru)

### Which group of stakeholders do you represent?

- Shareholder/investor
- Employee of the Concern
- Representative of governmental structures / public organizations
- Representative of mass media
- Representative of the expert community
- Other (please specify) \_\_\_\_\_

### Does this report contain answers to your questions?

- Yes, to all
- Yes, to some
- No

### Which additional information would you like to see in the following Annual Report of MTS PJSC?

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### Please rate this report according to the following criteria:

Criterion	Excellent	Good	Satisfactory	Bad
Relevance and significance of disclosed issues				
Information reliability				
Structure and convenience of information search				
Design				

**Thank you for your participation!**

President of MTS PJSC

Alexey Kornya

Chief Accountant of MTS PJSC

Alexey Dvoretiskih

