



# Annual Report 2017

Pre-approved by the resolution  
of MTS PJSC Board of Directors  
May 28, 2018, Minutes No. \_\_\_\_\_

Approved  
by Annual General Meeting of Shareholders of MTS PJSC  
June 28, 2018, Minutes No. \_\_\_\_\_

Today we live in the world where products and services that were above and beyond only yesterday are now reality. It is a world of augmented and refined reality where there is no borderline between the ordinary and the virtual and deprived of physical realization. This is the dimension in which MTS is a link between needs and innovative solutions.

## MTS. Improved reality

# Welcome to 2017 MTS PJSC Annual Report

This is 2017 MTS PJSC Annual Report, which we have been preparing for you since 2001.

## Purpose of the 2017 Annual Report

To represent MTS as an innovative company being in a constant development and offering its customers the most advanced solutions and services that make everyday life more convenient, eventful and brighter.

## 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:

- About the Company;
- Management Report;
- Corporate Governance;
- Sustainable Development.

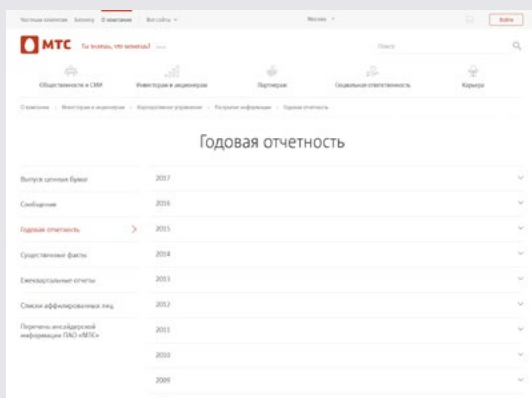
## Strategically oriented report

- The report is focused at strategic vision of the Company management, comparison of results and key aspects of MTS business during the year to the strategy;
- The report has increased volume and quality of forecast/expert information on macroeconomics, regional markets of telecommunications providers.

## Where to Find More Info

### 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>



The Annual Report is also published as PDF and printed in Russian and English.

# About MTS

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, as we know, understand and appreciate you striving to anticipate your expectations!

Yours faithfully,  
Alexey Kornya,  
MTS President

<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, 2017, unless other periods or dates are expressly indicated.

# Mission

We believe that life is a space of opportunity for all. Since birth, every person has the potential to take advantage of this opportunity for his or her own good and that of the whole world. We believe that every human being is a potential hero who can accept any challenge and follow his or her dreams.

The world is changeable and every day springs new surprises, thus, following these circumstances, MTS gives every person assurance helping to fulfil their potential and move towards new prospects. MTS is a source of opportunities.

## You know you can!

# Contents

## About the Company

MTS Group Today	8
Digital business areas	10
Main Outcomes for 2017	12
2017 Highlights	14
Message of the Board of Directors Chairman	16

## Management Report

Message of the President	20
MTS Business Model: the Source of Your Dividends	22
Our Markets	24
Looking into the Future	28
MTS Innovation Center	36
Our Strategy	38
Business Overview	47
Financial Overview	58
Risk Management	74
Compliance and Culture of Good Faith Behavior	80

## Corporate Governance

Report of the Board of Directors	92
Interaction with Shareholders and Investors	96
Our achievements	102
MTS Group Governance System	104
Management of subsidiaries of MTS Group:	182
Capital and securities	194
Corporate Governance Development	200

## Sustainable development

Our Approach to Sustainable Development/ Social Responsibility	206
Our Employees	210
Social investments	222
Information Protection and Security	232

## Additional Information

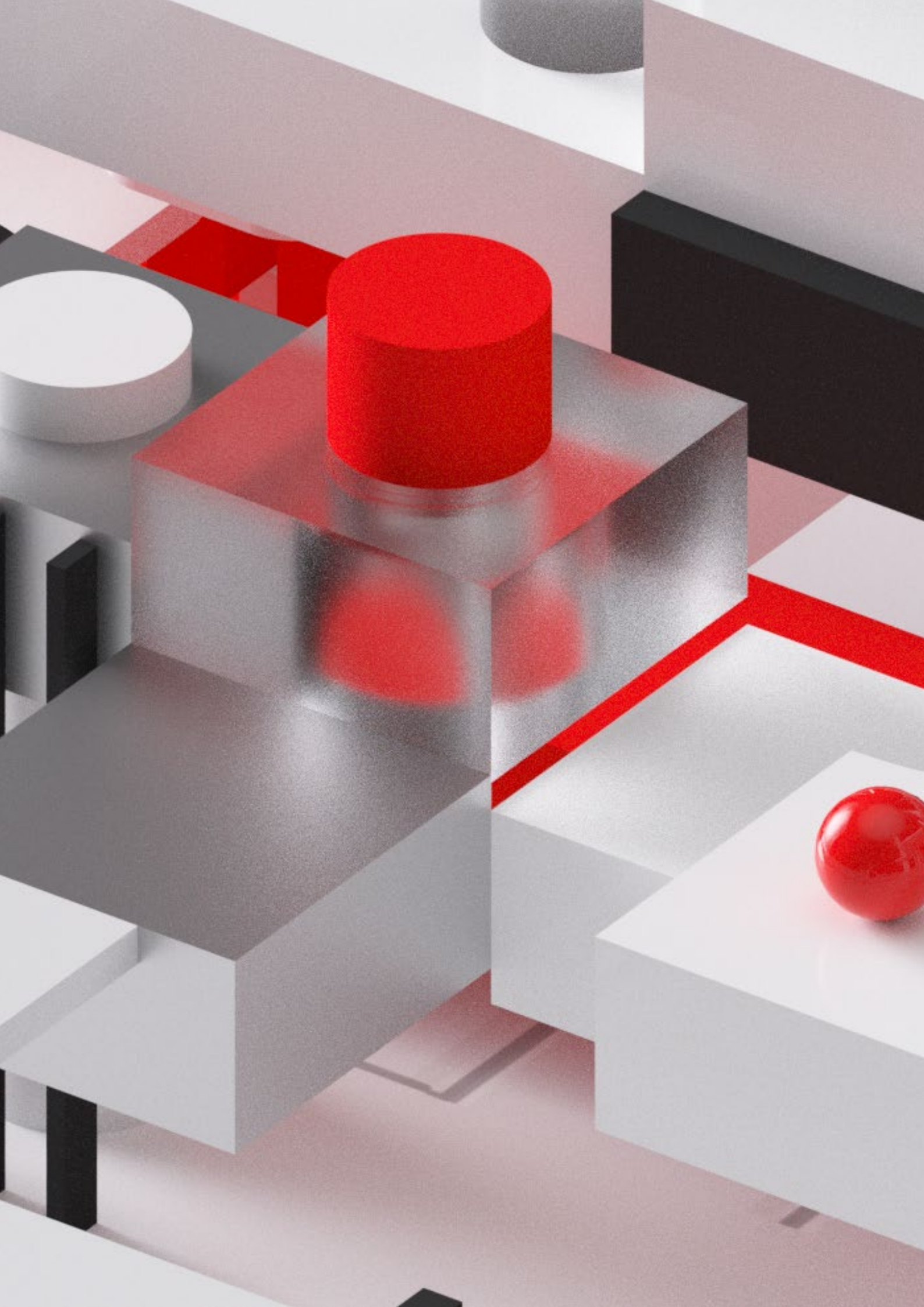
History of the Company	238
Report on fulfilment of the principles and recommendations of the Corporate Governance Code	240
Company's position in respect to environmental protection	266
Key features of staff and indicators of human resources system	271
Glossary	274
Contacts and Additional Information about the Company	276



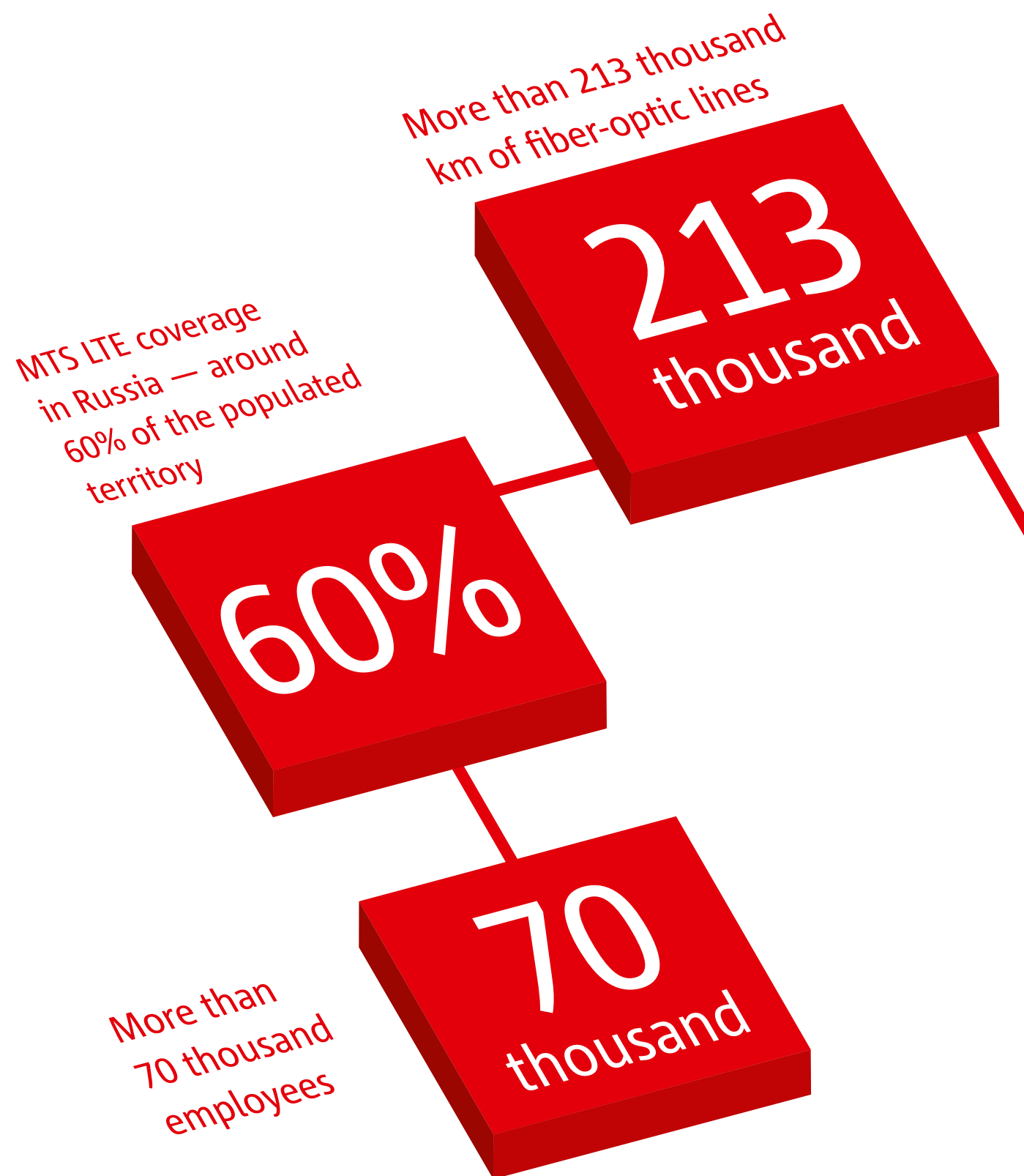
An abstract, isometric composition of 3D geometric shapes. The scene is dominated by red, white, and black cubes and rectangular blocks of various sizes, arranged in a complex, layered fashion. The perspective is from a high angle, looking down into the arrangement. The lighting creates soft shadows, emphasizing the three-dimensional nature of the objects. The overall aesthetic is clean, modern, and architectural.

# About the Company





# MTS Group Today



36%  
38%

MTS share in the mass market  
of broadband access to Internet  
and paid TV — 36% and 38%  
accordingly

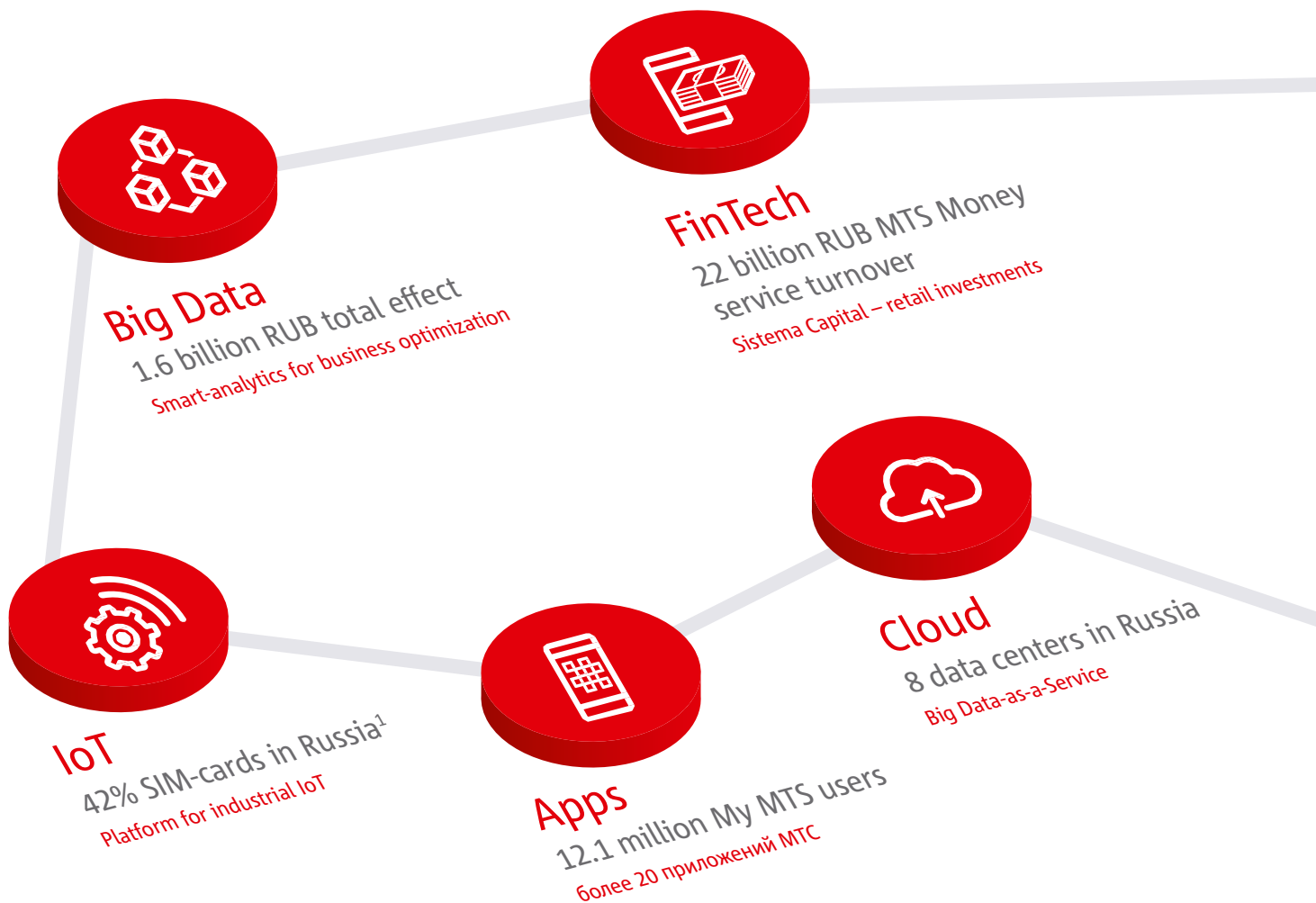
9  
million

New WEB-platform for MTS  
online shop, more than 9 million  
on-line orders per year

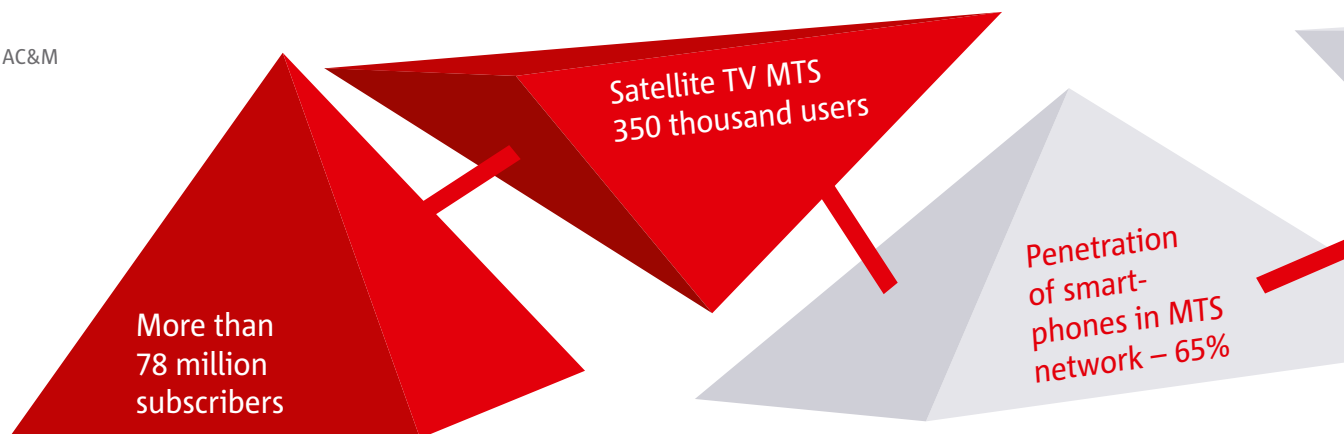
5.6  
thousand

More than 5.6 thousand  
MTS outlets and around  
100 offices of MTS Bank

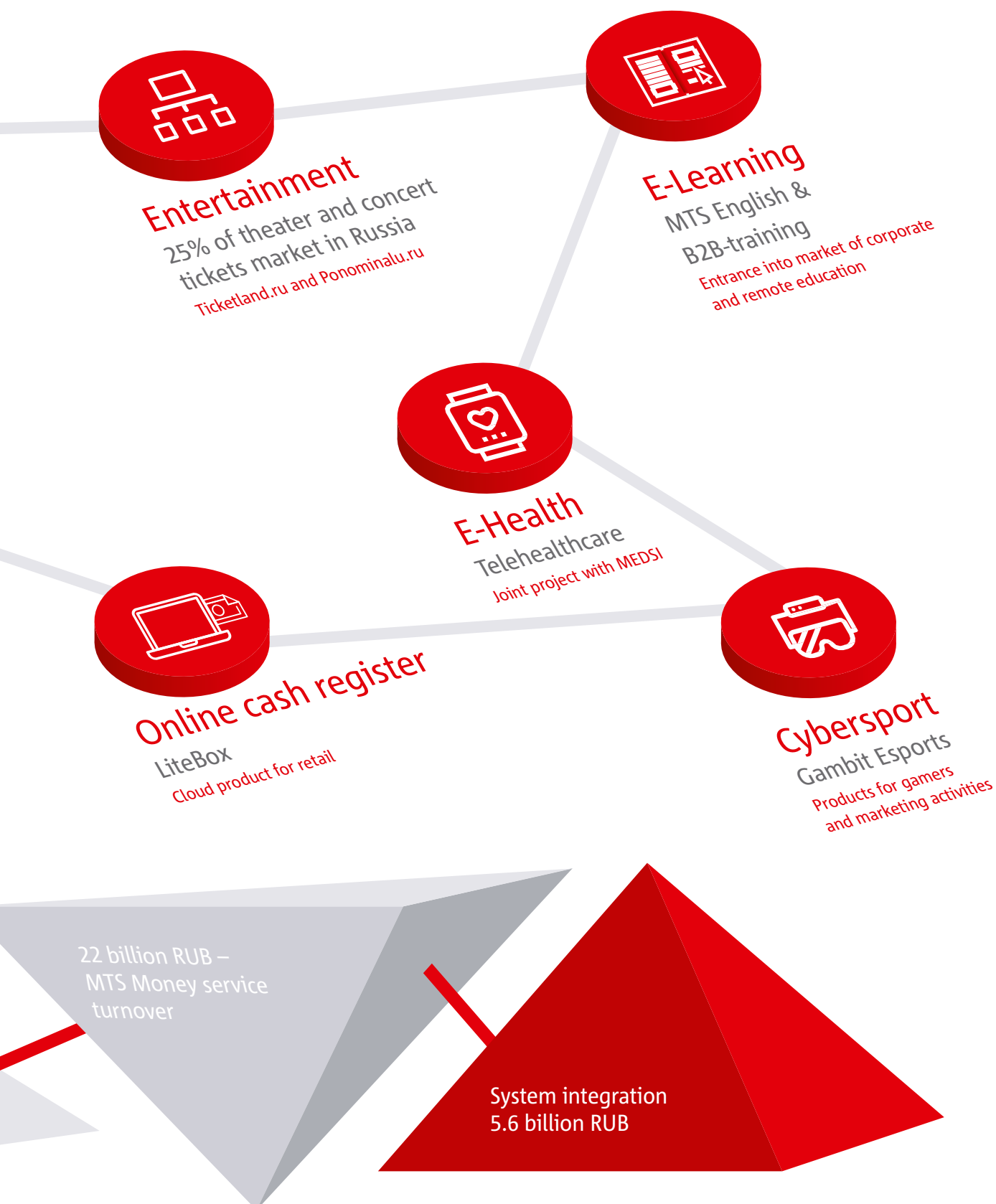
# Digital business areas



<sup>1</sup> Source: AC&M



Strengthening of leadership through acquisitions, partnerships and development of own innovative products



# Main Outcomes for 2017

- MTS completed 2017 with strong financial results and has secured a footing in the new markets. 2017 has become the year of transformation for MTS. The Company has been working successfully on digitization strategy implementation and expanded business in the new areas.
- In July, MTS purchased 100% shares of the regional communications provider Cellular Communication of Bashkortostan OJSC (CCB). Purchase of the asset made it possible for the company to expand its presence in the Republic of Bashkortostan and to obtain an additional frequency resource, including bandwidths with frequency of 15 MHz in the range of 2100 MHz and 4.4 MHz in the range of 450 MHz.
- In September, MTS entered the market of investment services, having taken part in the capital of Sistema Capital MC LLC, one of the largest management companies in Russia by volume of collective investments. Under the signed agreements, MTS purchased 30% of the authorized capital of Sistema Capital MC.
- In October, the company acquired 50.82% in the authorized capital of Cloud Retail LLC (LiteBox trademark), the Russian developer of software for retail. The transaction takes MTS to the market of cloud cash registers as a supplier of ready solutions for cash services to business customers.
- In December, MTS entered the market of cybersport based on one of leading cybersport clubs in the world — Gambit Esports. The teams within Gambit Esports have many times been champions of the world and Europe, and also silver and bronze prize winners of the largest international competitions. MTS strategy in the cybersport market will both combine marketing activities and development of products for gamers.



## Financial Indicators

Consolidated income

**442.9** billion RUB

OIBDA

**179.8** billion RUB

OIBDA profitability

**40.6%**

Total net profit

**56.0** billion RUB

Net income margin

**12.7%**

## Operational indicators

MTS online sales increased by 19.4% for the year and reached

**5.2** billion RUB

MTS platform was launched for industrial IoT: MTS share in the market of SIM-cards for IoT in Russia amounted to

**42%**

Cumulative effect from the use of Big data

**1.6** billion RUB

Revenue from system integration

**5.6** billion RUB

Dividend payments in 2017 in the amount of 26.0 rubles per share + yield of 10.9 rubles per share as a part of redemption program

# 2017 Highlights

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February 13, 2017

MTS launched a new service MTS Money Wallet, which makes it possible to get quick and convenient access per single click to financial services of MTS. MTS Money Wallet combines all payment tools — MTS e-wallet account, subscriber's personal account, bank cards — in a single place for access to wide spectrum of MTS financial services.

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March 2, 2017

MTS was included into TOP-5 of Russia's Best Employers according to HeadHunter. The company strengthened its positions in the rating, having climbed up one line compared to the previous year and was awarded the fourth place. Besides, MTS has become the leader of the rating among telecoms.

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March 30, 2017

MTS enters the market of cloud services for large business in all regions of presence in Russia. The corresponding cloud platform, and also presence of own DPCs in combination with the branched network of trunk and city communication channels will make it possible for MTS to propose comprehensive and fully disaster-proof solutions for cloud calculations and data storage.

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April 7, 2017

The MTS Corporate University was awarded with an international award GlobalCCU Awards Silver in the nomination "Best Innovative Corporate University". The award ceremony took place in Paris during the GlobalCCU Forum.

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April 20, 2017

MTS and Ericsson tested fifth generation mobile communication technologies (5G), during which for the first time in Russia the record speed of data transmission up to 25 Gbit/s was achieved on the moving smartphone prototype. Previously all tests of data transmission in this technology were conducted only between stationary devices.

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April 27, 2017

MTS won four nominations of Effie Awards Russia 2017 — one of the most prestigious awards in the world in the sphere of marketing and communications.

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May 24, 2017

MTS won the international award Global Telecom Business Innovation Award, which identifies most successful telecommunications projects all over the world, in the nomination Innovation Awards 2017 for Virtual PBX service.

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June 29, 2017

Vyacheslav Nikolayev was appointed as the Vice President of the MTS Group on marketing. Previously he had been the Director of Mass Market Department in MTS for six years. The candidate was approved by the Board of Directors of MTS PJSC.

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July 27, 2017

MTS purchased 100% shares of the regional communications provider Cellular Communication of Bashkortostan OJSC (CCB) for 300 million RUB, including net debt. Purchase of the asset made it possible for MTS to expand its presence in the Republic of Bashkortostan and to obtain an additional frequency resource, including bandwidths with frequency of 15 MHz in the range of 2100 MHz and 4.4 MHz in the range of 450 MHz.

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August 11, 2017	The company started to use Vera robot in recruitment, which is a robot-recruiter that operates on the basis of artificial intelligence technology.
September 6, 2017	MTS Board of Directors approved the program of its own common stock and ADA redemption by the plan of shares purchase for the total amount not exceeding 20 billion RUB, which includes funds spent to purchase shares of the company from Sistema Finance, until April 2019.
September 19, 2017	MTS started to provide services for cloud processing of large data arrays on the basis of its own DPCs. Use of Big-Data-as-a-Service (BDaaS) infrastructure makes it possible for MTS customers to quickly, flexibly and efficiently organize processing of big data without development of own computing capabilities.
September 29, 2017	MTS had to suspend communication services provision in Turkmenistan in connection with actions of the state communication system Turkmentelecom for disconnection of services of international and long-distance zonal communication and services of access to Internet.
September 29, 2017	The company entered the market of investment services, having taken part in the capital of Sistema Capital MC LLC, one of the largest management companies in Russia by volume of collective investments.
October 3, 2017	MTS purchased the share in the authorized capital of Cloud Retail LLC (LiteBox trademark), the Russian developer of software for retail. The transaction takes MTS to the market of cloud cash registers as a supplier of ready solutions for cash services to business customers.
October 23, 2017	MTS and Ericsson signed an agreement to upgrade and prepare MTS network for 5G standard and Internet of Things technologies (IoT), under the framework of which in 2017–2020 Ericsson will supply to MTS the state of the art equipment and software for the backbone network and radio access network in some regions of Russia for the total amount exceeding 400 million EUR.
December 7, 2017	MTS launched IoT platform for deployment of solutions based on Internet of Things in business of Russia. The platform for industrial Internet of Things makes it possible to manage any facilities, where it is necessary to track parameters of equipment operation.
December 18, 2017	Maria Golyandrina was appointed as the Vice-President, Human Resources, Member of the MTS Group Management Board, who had been the Director of MTS Remunerations, Benefits and HR Administration Department for three years. The candidate was approved by the Board of Directors of MTS PJSC.

# Message of the Board of Directors Chairman



Dear shareholders,

While deliberating on the words I may address you with on the pages of this report, I thought that I would inevitably have to speak about things that had become habitual, ordinary, and even trite to some extent. And at the same time I am pleased with the fact that such commonness in our case is of purely positive, joyful nature. Another year has elapsed, when I was fortunate enough to hold in the role of the Chairman of MTS Board of Directors. And again, as a year before and for a few preceding years I may share another good news with you. First of all, I am glad to report that our company has achieved target levels of all main operational indicators. Second, let me note that our leadership in the telecommunications market of Russia remains totally unshakeable, and regarding capitalization, our domination is absolute. Third, in 2017 we made dividend payments in the total amount of 52 billion RUB, which complies with our target benchmarks that we also confirm the current year of 2018. Therefore, the results of our business in 2017 may be called predictably good, and I am not even afraid to be overconfident here.

Having completed this format part, I would like to say a few words on that result of the previous year that in my strong opinion has the same significance as numerical levels of key business indicators. 2017 has become the first full year, when we implemented our new digital 3D strategy: Data. Digital. Dividends, the central element of which is undoubtedly the Digital concept. It is not a secret for anyone that the sphere of telecommunications does not enthuse greatly the investors, and there are objective reasons for it, which we will not discuss in details now. Besides, it is also well-known that the concept of digitalization has recently become a certain pattern, a spell used everywhere, and probably it is losing its initial strength. I may assure you that all our statements related to going beyond telecommunications business through development of Digital areas and digital transformation of the company, have quite a specific embodiment in the form of new products, services, modified business processes, which you will learn about in sections below.

I would like to note that we follow the principles of openness and transparency and speak about all our actions and achievements on a regular basis during the year within quarterly reports, which we summarize here, in the annual report. I am happy to acknowledge that the investment community sees and supports our efforts, which is reflected in the positive dynamics of the company value.

I would like to end my message with acknowledgements for the management of the company, my colleagues in the Board of Directors for work well done and for our dear shareholders, whose continuous support we feel. Now I would like to pass the floor to the management, who will speak in detail on MTS 2017 business results.

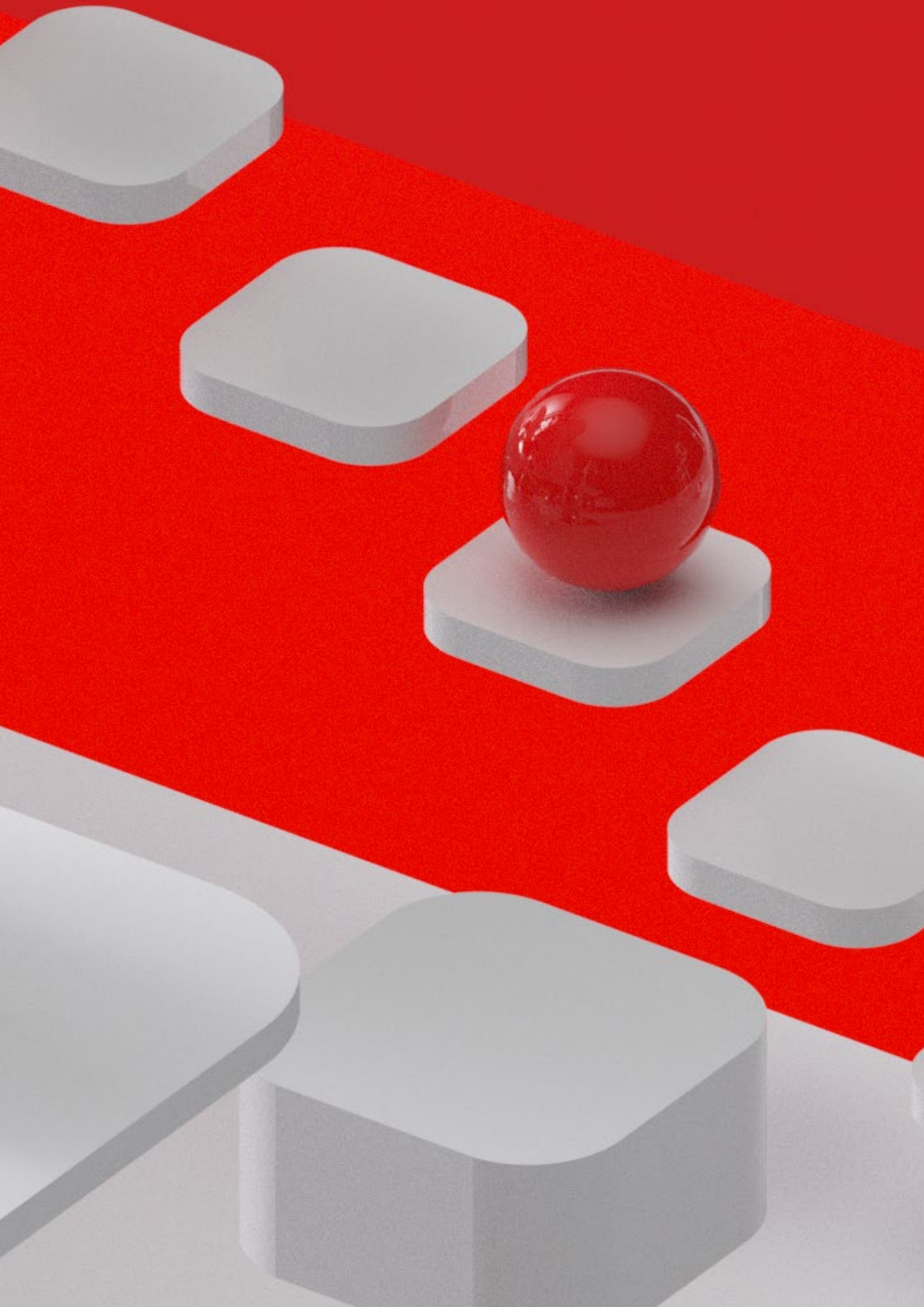
Ron Sommer,  
Chairman of MTS Board of Directors



The background is an abstract architectural composition. It features a large, curved white structure at the top, a central vertical grey pillar, and a bright red wall on the right. A white geometric frame is visible in the lower right corner. The overall aesthetic is modern and minimalist.

# Management Report





# Message of the President



## Dear friends and colleagues!

MTS has completed the year of 2017 with record-setting financial results.

We won both through common price environment and stable growth of Internet consumption in all markets of Group presence. Those efforts taken by the MTS team in the new markets for the company had great impact at overall outcome. We relied in our work on classic telecom services and development of services in the rapidly expanding digital world. And we won to a large extent because of our confident forward movement.

In the markets that are traditional for operators, last year we substantially improved efficiency of retail and launched unique segment offers for the youth. For the second year in a row, largely in virtue of our initiatives, the general boom of sales in the market was dropping — this resulted in improved loyalty and lower churn of clients. We did a lot in the area of controlling the services of our partners, and first of all, in the content, having increased transparency of settlements. We were actively developing our own operator app, which is now used by more than 11 million people. The app functionality will further grow, and it will turn into something like a convenient one stop shop for all our subscribers that opens simple access to all MTS services. The quality of customer service remains under our special attention, because we should always remain an operator with the best customer experience.

Thinking about the future, we must think about development of new digital products and entering new markets. The last year has become the year of digital transformation for MTS. In this journey, we reasonably combine organic development with acquisition of leading players, related to promising technologies and areas. Inside the company, we focused at cloud technologies, Internet of Things, big data analytics, system integration, financial technologies, which are the key area of company development. We are actively developing MTS Money services, including MTS Wallet app. We invested into Sistema Capital company, in order to enter the market of retail investments, and also acquired control in LiteBox company — developer of cloud cash registers for corporate customers. MTS Bank demonstrated record-setting annual profit of 2 billion RUB — largely in virtue of promotion through MTS retail chain. The sphere of our interests today includes electronic tickets, cybersport, telemedicine, our own start-up accelerator, online education — we will continue our expansion in this year as well, having strengthened our positions.

We have strong skills of choosing correct directions for development. But it is not the only key to our success. Success depends on quality of products developed by our team and speed of launching these products in the market. On the one hand, we were able to do more as we have started changing internal procedures — to

improve efficiency of customer solutions development, we are implementing the strategy for building product verticals, which are aimed at vesting the teams with authorities, accelerating making decisions, increasing transparency and responsibility of the team for the final result. On the other hand, we established several sites to search for and to develop breakthrough digital solutions: Innovation Center, IoT-Laboratory, R&D Center in Innopolis. Such steps rarely give instantaneous profit — this is our contribution to the company's future.

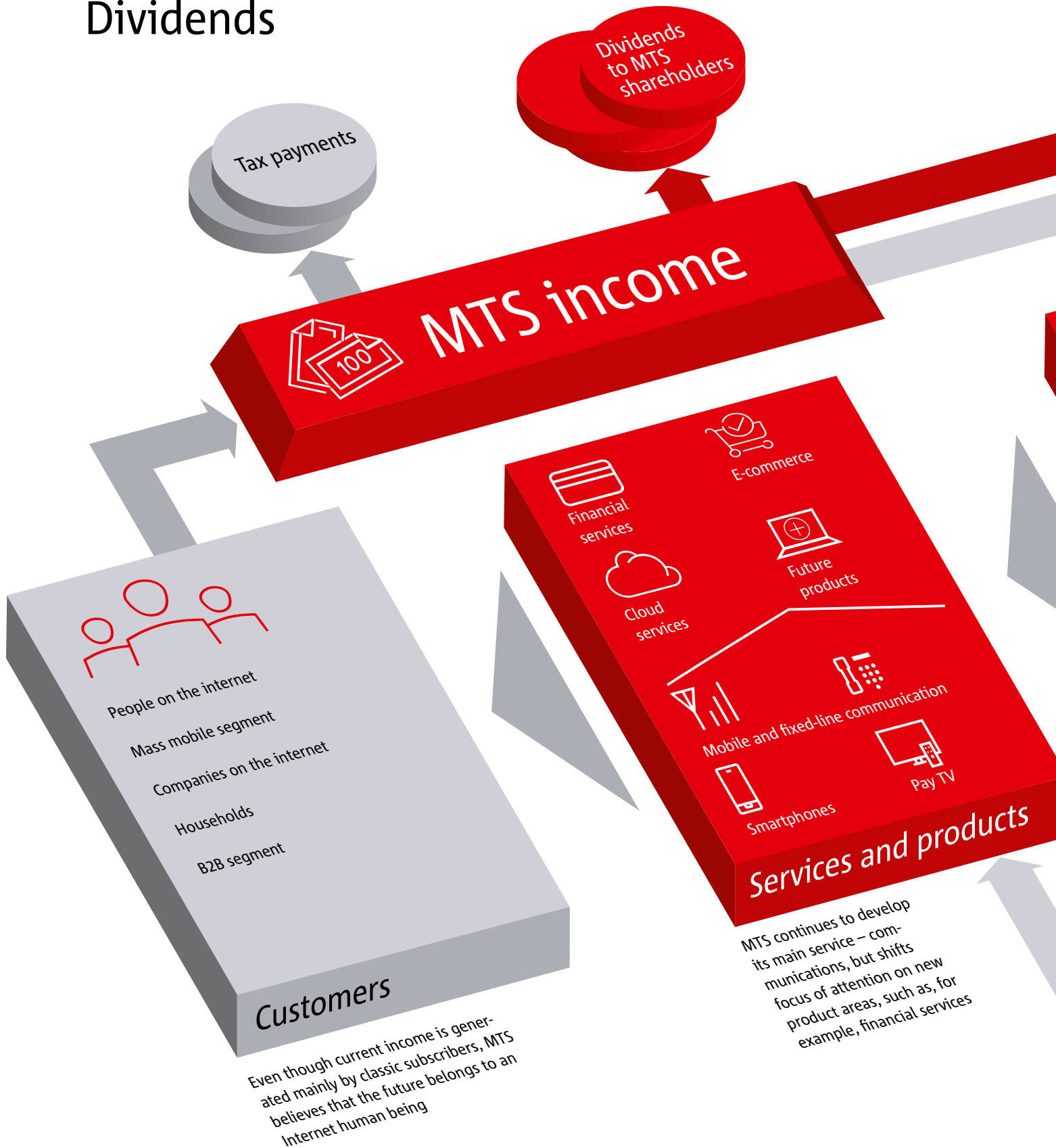
MTS is ready for new challenges and meets them being rejuvenated. Changes happen both in business and in the management of MTS itself. This also confirms our dynamic development. It is an exclusive honor for me to lead MTS. I perceive this appointment as the sign of shareholders' trust. A unique opportunity appeared for me and my team to establish a new company, which will overgrow its operator's past and present, and will become a successful player of the multi-faceted IT market.

This is how we see our future. In the long term of several years, MTS should become a bright innovation business, one of the main suppliers of digital products and services of new economy in the Group markets. We work to make MTS customers, partners and shareholders always one step ahead — so that they could fully use the entire spectrum of opportunities provided by digital technologies.

Yours faithfully,  
Alexey Kornya,  
MTS President



# MTS Business Model: the Source of Your Dividends



Continuous circulation of cash flow received from our customers against payment for our services and forwarded for development of MTS products and assets, and also at payments to shareholders



# Our Markets



## Mobile communications

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



## Mobile Internet

Best online store among Russian operators



## Telephones and smartphones

The largest retailer of non-food products





### Pay TV

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



### Financial services

The largest provider of financial services among Russian operators



### Fixed-line communication

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

## Overview of the economic situation and market development

MTS PJSC is licensed to operate in the entire territory of the Russian Federation. In the reporting year, subsidiaries of MTS PJSC continued to carry out their activity in the territory of Ukraine (VF Ukraine PJSC), the Republic of Armenia (K-Telecom CJSC), as well as the Republic of Belarus (Mobile TeleSystems JLLC). The total population of the licensed area covered by MTS PJSC exceeds 200 million people.

### Russia

The history of cellular communications market development in Russia spans more than 25 years. There were rises and crises, substantial changes in the communication laws and economic situation. As a result of blasting demand for mobile communication services, the quantity of subscribers registered in the networks exceeded the population of the country in 2006 already. At year-end 2017, the level of mobile penetration in Russia exceeds 170% securing the position of the country among the most advanced telecommunication markets in the world.

In Russia mobile communication services are rendered by four federal operators: MTS PJSC, MegaFon PJSC, VimpelCom PJSC (VEON Ltd) and RT-Mobile CJSC (T2RTK Holding, a joint venture of Rostelecom PJSC and Tele2), as well as regional telecommunication companies operating in different standards for cellular communication.

The largest markets for mobile communication services throughout the territory of the Russian Federation (by

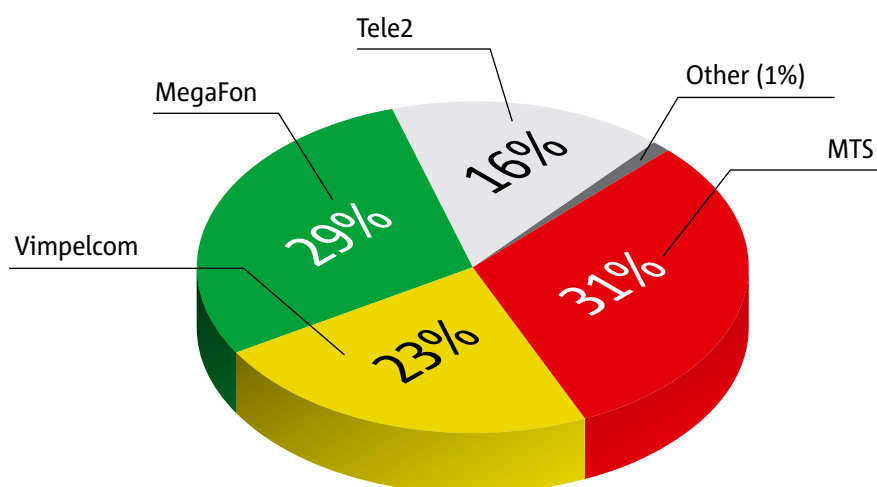
the number of subscribers) are Moscow and the Moscow region, as well as St. Petersburg and the Leningrad region. According to our estimates, 25% of SIM-cards operate exactly in these regions.

With such level of market saturation and base distribution, the marketing policy of the Company shifts efforts shift from attracting new subscribers towards ensuring loyalty and improving profitability of the existing customers, as well as attracting subscribers of competitors to its network.

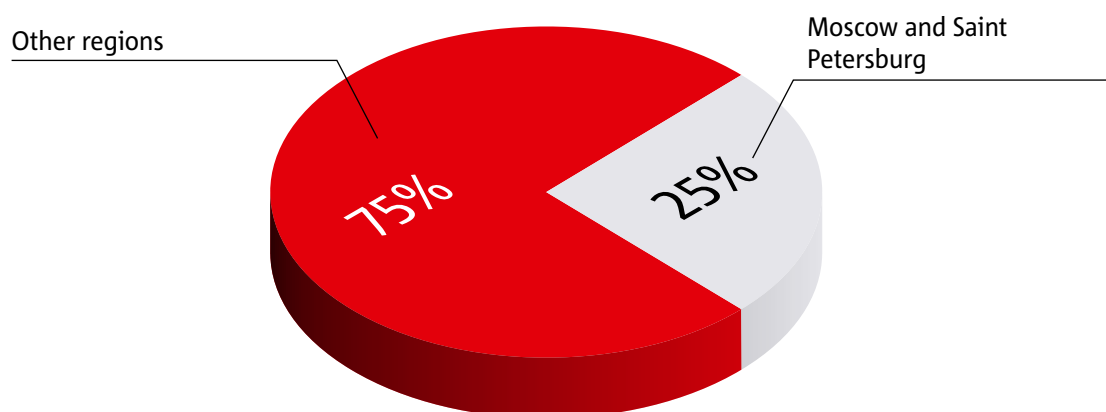
The Company development strategy suggests dynamic development in associate areas of the market, apart from use of existing resources of telecom industry, in order to turn into a multi-service IT company.

In the Company's traditional mobile telephony segment, the most important growth factors are the increase in the overall level of using communication services and more active consumption of extra services by the subscribers when increasing their loyalty. Tariff proposals of MTS fully meet the

### Russia Subscribers (2017)



Source: AC&M-Consulting estimates



requirements of the market, the federal proposals are developed and launched into the market with account of regional specifics. Fair prices, expansion of channels of cooperation with subscribers, their regular and timely notification about any changes in terms of connection and data plans, improvement of communications quality are the principles of MTS operation.

Data transfer and mobile Internet are no longer to be the services for the small segment of subscribers. The number of regular data users at the end of the year amounted to more 53% of the subscriber base, while the consumption of data traffic grew by 86% compared to 2016. LTE penetration among mobile Internet users increased 1.6 times in comparison with 2016.

## Ukraine

At year-end 2017, the number of subscribers in Ukraine (VF Ukraine PrJSC) amounted to 20.8 million (including CDMA) or more 37% of the market. Penetration of mobile services exceeds 130%, according to our estimates. The main competitors include Kyivstar, a subsidiary of Veon Ltd and Lifecell, a subsidiary of Turkcell.

Deployment of 3G network, improvement of coverage and quality of services, continued cooperation with Vodafone made it possible for the Company to maintain subscriber base and to improve financial indicators in 2017. Licenses obtained for frequencies of fourth generation of mobile radio communications will provide new opportunities for successful business development.

## Other Markets

At year-end 2017, the number of subscribers of MTS subsidiaries and affiliates in the CIS countries amounted to: the Republic of Armenia (K-Telecom CJSC) — 2.1 million, the Republic of Belarus (MTS JLLC, not consolidated in the MTS Group financial statements) — 5.2 million subscribers.

The main competitors in Armenia are VEON Armenia CJSC (Beeline trademark) and Ucom company, in Belarus — Velcom company and BeST CJSC (life:) brand).

Cellular communication market in these countries is characterized by high penetration of over 120%.

# Looking into the Future

## Global trends in the telecommunications sector

Today continuous development of network technologies and low prices for communication services for most people are already given, and the telecom industry (as a combination of communication operators and suppliers of equipment for them) is no longer a member of the “leading team”. Discussion of rosy prospects from introduction of 5G networks and IoT technologies changed into routine of planning time for frequency auctions, standards strengthening and allocation of budgets for construction. Searching for products and services that will arise in 5G and IoT networks is still of certain interest. However, here the industry reached a certain creative dead end: the most needed objective of 5G network construction is growing speed and capacity to meet rising demand for services of mobile broadband Internet access. Nevertheless, telecom industry, being in its maturity stage, keeps developing with irreducible speed. *An interesting trend is that such development for the wide public is already a normal state of things and makes no fuss as before: the future has already come.*

Another trend is a total *smartphonization* of the humankind. This process is happening in the public view, but in-depth changes in the socio-economic pattern caused by this phenomenon, are not restricted to reports on growth of data traffic and corresponding incomes of mobile operators and reach far beyond the borders of telecom and adjacent markets. Soon such phrases as human life is built around a smartphone will no longer look like an imaginative exaggeration, but will be a simple statement of fact. It has already happened in certain countries and in certain demographic strata.

*It's exactly the growth of smartphone penetration and their improvement that made complete reformatting of taxi services possible (thanks to such companies as Uber, GetTaxi and Yandex-Taxi), as*

*well as change of human habits in respect to transportation.* Demand for new opportunities that have become possible because of smartphones, creates additional demand for high quality telecom services (first of all, mobile ones). Operators, who are not initiators of such fundamental changes, provide for operation of a critically important infrastructure of new services, getting in exchange its own share in a new “pie”.

Will new success histories be born inside telecom in the forefront of changes caused by improved coverage with high-speed mobile networks and growth of penetration of perfect Internet access devices, i.e. changes developed organically by the industry itself? Apart from individual countries and operators, the industry as a whole may not boast about such focus on innovation, nevertheless it still attempts to “lead the process” in certain segments, and each operator tries to find its own way. *On the other hand, whoever proposes any new products and service in the future, they will definitely rely on the telecom industry infrastructure.* In any case, the telecom industry is not only developing networks, introducing new standards and providing affordable prices for its “basic” services, but also continues experimenting with new areas in adjacent and even (seemingly) non-adjacent fields.

Finally, another two trends influencing the telecommunications industry shall be identified — these are *growing efforts of states aimed at comprehensive “digitization” of their countries, and also the phenomenon of blockchain technologies.*

Digitization at the highest level was put in the spotlight of development in Russia and other CIS countries. Therefore, in accordance with the regulation of the Government of Russia, a state program of economy development “Digital Economy of the Russian Federation” was started, where data in digital form is viewed

as a key factor of production. Despite the fact that total “digitization” of the society is much wider than interests of the telecom sector, the communications industry is objectively the infrastructural core of this process.

Blockchain in the last year appeared on the “radar” of all large companies, including communications providers. Some of them have already clearly demonstrated their interest in it by their actions, others continue research. One of vivid examples is the Japanese operator SoftBank, which jointly with its subsidiary Sprint promotes the blockchain technology for interoperator settlements, and also Swisscom, which established the subsidiary Swisscom Blockchain, whose objectives include provision of consulting services in the blockchain field (including ICO), and also establishment of the blockchain infrastructure. As a whole, such new technology poses no threat to conventional business of operators (despite the fact that there are also start-ups in the field of decentralization and “uberization” of telecom services provision). However, it may result in appearance of new opportunities, which will be implemented by the telecom sector. Such blockchain projects will not necessarily be oriented outwards, towards the customer, but quite probably may be aimed at increasing efficiency of internal operations, which will not produce a strong public effect, but will bring specific material benefit to the companies in the field.

The telecommunications sector participates in a certain way in all aspects of digitization — from improvement of quality of daily human routines to increase of operation efficiency for entire industries and states. And this fact will definitely find its positive reflection in economic results of operation of communications industry companies.

- Development is considered to be a normal state of things and makes no fuss as before: the future has already come.
- Total smartphonization of humankind
- Growth of smartphone penetration and their improvement that made complete reformatting of taxi services possible, as well as change of human habits in respect to transportation
- Growing efforts of states aimed at comprehensive “digitization” of their countries and also phenomenon of blockchain technologies
- New products and services in the future will rely on telecom industry infrastructure

## Big Data

Big Data development is one of key areas of MTS company digital strategy. Products implemented on Big Data technologies are widely used both inside the Company and for external monetization.

In 2017 the products were launched to manage schedules of employees in the MTS retail chain, to manage infrastructure development, as well as an advisory service for MTS online shop, certain products to optimize marketing campaigns, and also products aimed at external monetization (digital advertising, geoanalytics, etc.). Following the results of 2017, the total effect from Big Data products amounted to 1.6 billion RUB, which demonstrated triple growth compared to 2016.

During 2017 the considerable development was gained by Big Data infrastructure, which made it possible to increase the volume of accumulated data and spheres of their application, and to provide high quality capacity for further implementation of development potential of products based on Big Data technologies.

## Financial Results

Effect from Big Data in 2017 = 1.6 billion RUB.

### WFM Project – Big Data and retail chain efficiency

In April 2017, Big Data team launched the system of working hours management for employees of MTS retail chain — Workforce Management.

The system makes it possible to establish the required workforce and to automatically generate a work schedule for each employee in accordance with customer flow in the sales office, which results in optimized payroll and growth of sales in monetary terms. For this purpose some mathematical and optimization models were implemented, which take into account the following:

- Labor Code of the Russian Federation;
- role model of employees;

- distribution of transactions and service operations in time for the last two years;
- dispersion of customer traffic in the sales office;
- profitability of each sales office;
- administrative work of each employee;
- more than 30 business rules.

To ensure interaction of users and computing models, a two-side integration was implemented with external sources of data and apps (such as OeBS, Mobile Reports, DWH etc.); a full-scale web-interface was developed with tools that make it possible for RTC management to monitor extent of employees interaction with WFM system and flexibly tune parameters of each model in accordance with the chosen strategy of company development.

Currently around 1150 sales offices operate under the WFM system. In the first half of 2018, it is planned to cascade the system to all outlets in the Russian Federation.

#### **Project “Elimination of Problem Zones in the Network — Big Data for Communications Quality Improvement”**

In August 2017, MTS launched the internal project of Big Data aimed at analysis of customer feedback related to mobile communications quality. Based on its results, already in 2017, around 10 new base stations were built, and around 100 are planned for 2018.

The purpose of the project is to detect locations, which show problems with communications quality that cover a significant number of customers.

The system designed for this purpose aggregates all available depersonalized information on locations, where customers could experience problems. The sources include both internal databases (applications to the call center, outlets, through website) and external crowdsource-sources (for example, measurements of mobile Internet speed via popular apps).

Using methods of mathematical modelling and geo-analytic tools, data is processed being linked to the area. Based on intensity of negative events in a certain location compared to its statistically expected level, the model identifies the “problem” area, and information about it shall be transferred for handling to technical experts.

Received zones are prioritized by impact at customer experience for focusing on most “tender” points.

Introduction of this approach made it possible to concentrate investments on improvement of communications quality in areas that are most in demand by the customers and therefore, to improve their perception of MTS communications quality. Besides, focused elimination of problems with quality also results in increased consumption in each specific location, which makes it possible to gain additional revenue from communications services and to increase network efficiency.



# Russia and Ukraine markets development forecast for 2018 and medium-term prospect

## Russia

Certain positive dynamics has come up in the Russia's economy in 2017 — which is the main market of MTS presence. Small growth of such key indicators as GDP, industrial production index, retail turnover and nominal wages at moderate annual inflation was observed. Besides, the level of real disposable income is still descending, showing the drop of 1.7%. In respect to the overall status of the Russian economy in the long term of the next 3 years, we adhere to moderately optimistic views and expect certain exhilaration related to gradual adaptation of the public and business to available circumstances.

We do not expect considerable dynamics of the total income level from the Russian telecommunications market characterized by high extent of saturation, therefore we continue to follow the previously chosen vector to retain the revenue from traditional telecommunications services, to reduce costs and to increase business efficiency. The key role in this movement is played by the digitization process implemented in the company, which provides for, in particular, more active use of automated methods in all fields, including sales and customer service.

Stagnation of income from peculiarly the communication services (voice + data) both in mobile and fixed segment does not mean absence of growth in physical volume of their consumption. However, the trend towards traffic increase will remain in the future, and from our side we intend to provide the technical base for such growth, while continuing gradual development of our communications networks and observing reasonable balance of the necessary and the sufficient when making investments.

Deeper and deeper integration of information environment into daily life of people makes the refusal from consumption of basic telecommunications services inconceivable, and they will always be in demand in the future. Being the leader of the market and having many times demonstrated the ability to adequately and effectively respond to competitive environment challenges in order to protect our position, we treat telecom as a certain business basis that is our basis, but not a restriction.

Having accepted Digital as the central element of our strategy (it will be further elaborated in the section “Our Strategy”), we reformatted the vision of our natural business environment, having expanded it to the limits of anything related to digital technologies. From the diversity that opened to us, we chose several areas that we find most interesting and that we focus our efforts on.

### Key areas for MTS in Digital sphere

- Financial services
- Internet of Things/IoT
- Big Data
- E-commerce
- Cloud
- Mobile apps (OTT, Over the Top)

### Financial services

The market of financial services in the entire world is experiencing transformation related not just to appearance of new technologies, but rather to practical implementation of the existing technological potential, embodied in alternative payment and investment solutions for individuals and businesses, which differ by simplicity, flexibility and convenience. Besides, the traditional players — banks and international payment systems — are experiencing growing pressure from the side of new payment platforms, whose popularity is continuously rising. Smartphone apps replace cash and plastic cards, and in some regions of the world are already the dominant means of payment.

The Russian market of such services is under development. Apart from companies that have a history of many years and hold a significant position, the market welcomes new bright players with original solutions that offer even higher quality of customer experience

compared to that of veterans. Banks also take maximum efforts aimed at maintaining their position and strive to improve their digital products following best international practices.

In our opinion, the area of financial services has the potential of multiple growth in the nearest future, and such growth will be related not only to physical increase of payment turnover, but rather to evolution of data processing systems built on Big Data principles and making it possible for FinTech-apps to earn by offering products to business users, which significantly increase awareness of potential customers on their goods and services, and are capable of significant increase of sales volume.

Key areas for MTS in the sphere of financial services

- Expanded functionality of MTS Money mobile wallet
- Increase in the penetration of financial services into the subscriber base
- Integration of payment, banking and investment products in a single user interface

## Internet of Things/IoT

The IoT market is one of the most complicated Digital areas for the following reasons:

1. Implementation of solutions in it requires in-depth industrial, highly specialized expertise.
2. High quantity and diversity of device types, specific requirements to them (low power consumption, high stability of operation), and wide nomenclature of performed tasks present higher requirements to engineering solutions that refer to devices themselves, data transmission environment and server part, which results in higher costs for system development and manufacturing (need for considerable investments).
3. A user expects maximum quality of the final solution, which should operate impeccably in the system and contain no weak spots.

Simultaneous fulfilment of conditions of compliance with such three basic requirements is not a trivial task, therefore, achievement of success in this market is a serious challenge that together with tender age of the area itself explains absence of major players for now.

Besides, this is exactly the sphere that is a natural continuation of the business of telecommunications companies, where they harmonically fit in to provide connectivity, i.e. as the data transmission environment. We believe that MTS will be able to act more actively here and play a more significant role. We aim at development of vertical solutions that fully cover the customer need in a certain area. To ensure industrial expertise, we are ready to actively cooperate with partners, providing our technological environment and helping to raise investments. Besides, we express interest in participation in implementation of large projects under state and industrial programs.

Key areas of specific projects implementation in the field of Internet of Things for MTS are the following: motor transport, utilities, industrial solutions, safety sphere. We see our customers as both individuals (for example, in the sphere of safety — services to monitor location of family members), and businesses (in particular, in part of solutions for motor transport monitoring)

## Big Data

Legislative limitations currently do not make it possible to speak about existence of a full-scale market space in the field of Big Data in Russia. All companies with access to large volumes of initial data and mechanisms of their processing are developing this area, first of all, in order to obtain internal effects, which, nevertheless, may be quite significant. A product for external customers is depersonalized data on consumers and their behavior.

In the short and mid run, the efforts of companies, will most probably be aimed at development of corresponding technological platforms, logics of data processing and methods of its usage, and also at actual accumulation of initial information arrays.

MTS priorities include areas of specific applied significance for our core business: geanalytics, network planning and management, income guarantee

## E-commerce

The e-commerce market demonstrates sustainable growth on a global scale. According to the research “Runet Economics — 2017”, the size of the Russian e-commerce market in 2017 was estimated as 1.73 trillion RUB at average growth of 26%. In our opinion, the real volume may even be higher due to unaccounted sale of products and services by individuals, but

this factor does not shift significantly the provided assessment of dynamics. It is necessary to take into account the strengthened positions of international sellers (mainly from China), which has come up and will further be only strengthened.

In general we expect further growth of this area, which will be related to more active customer spending, probably, less conservative approach of the public to consumer credit programs and the total trend of shifting purchases from offline to online channel. In particular, the market of mobile devices online sales, in our opinion, may in the nearest future demonstrate average growth rates in monetary terms within the limits of 15-20%.

Our main priority in this area remains development of the online shop — as an electronic sales channel for entire spectrum of MTS products. Besides, we do not exclude expansion of our participation in this market through weighted M&A policy in respect to promising businesses that confidently demonstrate good operational results.

## Cloud

The decision to develop the area of cloud IT-services as a commercial product of MTS depended on availability of the necessary prerequisites. Closing our needs for collection, storage and processing of data, we arranged our own system of data processing centers, which includes process sites, communications channels, the best platform, equipment from global leaders and relevant IT competences. Therefore, launch of such services in the commercial market would be a logical next step that we did make in 2017.

We see high potential of this market growth, related to natural increase of demand from the side of companies on any scale operating in different business areas, in implementation of projects and functions for data processing. In the nearest three years, our benchmark is Russian market growth with average rate of 20% minimum in monetary terms, while the global market growth speed will even be higher.

In the Russian Cloud market, there are currently a few strong players, but we believe that the dedicated Cloud team, MTS financial stability and high rates of infrastructure development, together with high dynamics of the market itself, will make it possible for us to occupy a decent high competitive position. A considerable part of our efforts will also be aimed at implementation of partner programs with large international companies, where we will serve as a local partner, providing for the possibility to localize functions of storage and process-

ing in the territory of Russia, which may be important for the customers, especially in light of certain known regulatory initiatives.

One of the important advantages of MTS is the fact that we look at the services not only as a provider, but as a user as well, therefore, we can understand the customer needs as nobody else.

## Mobile apps (OTT, Over the Top)

The format of the annual report does not make it possible to review such diverse and saturated market as the area of OTT services. Nevertheless, it is necessary to note considerable rise in popularity of smartphones as the main device of access to consumption of the entire spectrum of OTT services, including games, music, HD video viewing (movies, streaming platform broadcasting). Availability of the full-scale mobile version is the necessary condition for successful existence of any OTT project, which positively influences the volume of consumption of the mobile data traffic.

The trend of voice traffic and SMS replacement with communicative functions of messengers and social media is a natural and unavoidable process, but our integrated (V&D) tariff proposals make it possible to level corresponding income losses to a large extent.

As for areas of development of our OTT-services, we find entertainment services (music, video, games, communications) and a set of services that may be defined with an umbrella term Smart life with “home”, “car”, “transport”, “safety” elements as the most relevant to our own business positioning.

It is important to understand that we do not set the objective to compete head-to-head with companies, for which the OTT business is core, and whose business models are better adapted for such environment, therefore, we pay a lot of attention to partner programs. We see the mutually beneficial cooperation with large players as the tool of more dynamic exit and provision of large-scale presence in most mass segments.

The key objective for the future for us is increased penetration of services and coverage of more and more users, first of all, for communication of MTS brand, getting closer with the customer and better understanding of their needs, and accumulation of primary data array. Already now, there are products (MTS Money, MTS Music, etc.) that bring real income to us, but we expect to discover greatest opportunities for monetization in the mid-run.

## Conclusion

The areas where MTS operates are divided into two unequal segments. The first one is traditional telecom with high, but stagnating income, where we are the leader in Russia and undoubtedly intend to remain such, accepting as the main vector the reasonable cost

optimization. The second one is promising areas of Digital, which are at different stages of their establishment, with overall size much smaller than that of telecommunications, but which demonstrate high dynamics or explicit growth potential. Here we are in the position of new players, therefore we should (and are ready to) show higher activity, growing competences both organically and through effective acquisitions.

## Ukraine

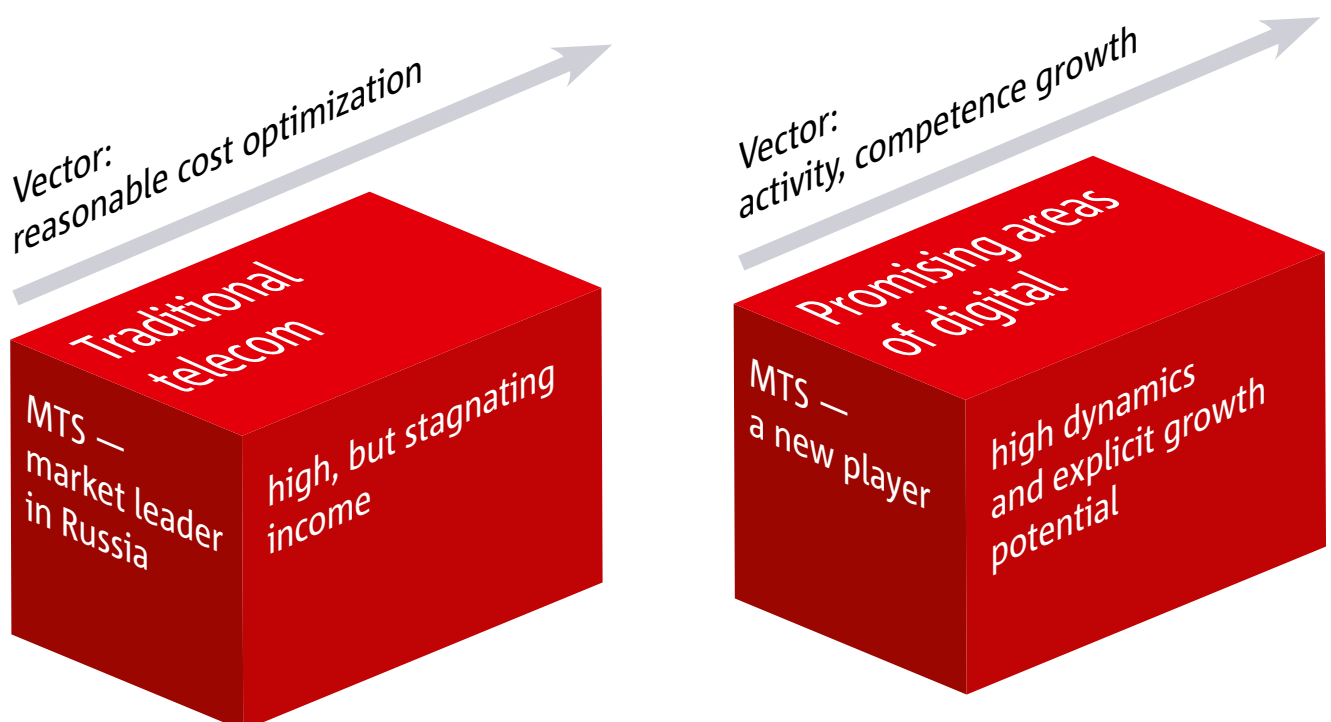
After a long recession, the Ukrainian economy in 2017 entered the growth stage, which positively impacted purchasing power in the mass and corporate markets. Concerted work and huge efforts to expand 3G network have led to a logical result, a significant increase in revenue from data services. In combination with certain growth in voice segment, this enabled us to demonstrate a cumulative increase in revenue in 2017 at above 7%.

Our expectations regarding the dynamics of the main macroeconomic indicators in Ukraine can be characterized as moderately optimistic. In the medium term,

we hope for gradual GDP growth at the level of 3%, decline in inflation rate down to 7% and insignificant depreciation of the national currency.

Among the sectorial factors that will have subsequent positive impact on the operators' income, the most important one is the further development of 3G networks, 4G launch, continued growth in penetration of smartphones and other data-generating devices and increased data services consumption. In our opinion, over the next two-three years the growth of the Ukrainian mobile communication market may exceed 7% in local

## Key areas of MTS business



currency, and we intend to actively participate in the development of this potential.

In February 2018, our company obtained the first 4G licenses in the range of 2600 MHz, and in March 2018 — in the range of 1800 MHz as well. We also closely monitoring the situation related to prospects of adopting the principle of technological neutrality for LTE networks, while there is still no certainty in this respect. LTE networks will be launched in the nearest future after all necessary permits have been obtained, and from its side MTS does everything required in this area. Looking at the experience of the Russian market, we do not expect a significant negative effect from the regulator's decision to introduce MNP principle, launch of which may take place in the end of 2018.

The positive impact from the decision to use Vodafone brand in the Ukrainian market should be noted, both on perception of the company by subscribers, and on promotion of data services within V&D tariff line of Vodafone.

In the near future, our key priorities in the Ukrainian market will be:

- further development of 3G network, increase of coverage area, increase of reliability and data speed;
- 4G network construction and development;
- stimulation of data services consumption, active promotion of V&D tariffs, data generating devices, including branded product line, and implementation of digital projects;
- improving the company's image among the subscribers, including measures to improve the perceived network quality and marketing efforts;
- active use of digital tools in our own operations and the development of digital experience on the part of users;
- launch of new services on the basis of 4G technology.

During 2017, we have been able to strengthen our market position in Ukraine, demonstrated positive revenue dynamics, expanded 3G network in all regions, formed a competitive line of V&D tariffs and launched a number of promising digital projects. All this work is aimed at achieving our long-term goal: the leadership in mobile Internet segment and data services in general.

# MTS Innovation Center

## 2017 results

6 new areas were created — #CloudMTS, e-Health, Smart education, Esports, AI, Accelerator.

### #CloudMTC

Basic Cloud-products were developed, and mass sales were launched in the territory of Russia<sup>1</sup>

On April 13, 2018, MTS announced launch of a cloud service, which will help the business to provide for protection of personal data of customers and employees in accordance with the recent requirements of the Russian laws. MTS will both provide for data storage in the cloud and help the customers to issue documents for certification and inspections.

The service is based on the dedicated protected segment of the cloud #CloudMTS. This is a failure-proof infrastructure based on VMware virtual platform. The service makes it possible to place information systems in the cloud, which participate in the process of personal data collection and processing — HR management systems, corporate content, interaction with customers, and others. The solution is relevant for the companies,

which in process of work interact with personal data: banks, insurance companies, medical organizations, logistic companies, retailers with loyalty programs, and many more — from small to large business.

### SmartMed

On April 19, 2018 MTS and Medsi Group announced launch of SmartMed, a telemedicine platform to be used for development of a complex of digital medical products and services<sup>2</sup>

The first joint product of companies is the app of the same name SmartMed for remote consultations with doctors and storage of electronic medical records in the protected segment of the cloud “CloudMTS with instantaneous smartphone access. The app allows 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 to 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

<sup>1</sup> <https://moskva.mts.ru/about/obshhestvennosti-i-smi/soobshheniya-kompanii/press-relizi/2018-04-13/mts-zapuskayet-servis-dlya-hraneniya-i-obrabotki-personalnih-dannih-v-oblake>

<sup>2</sup> <https://moskva.mts.ru/about/obshhestvennosti-i-smi/soobshheniya-kompanii/press-relizi/2018-04-19/mts-i-medsi-zapuskayut-platformu-dlya-razvitiya-uslug-cifrovoj-mediciny>



“Requirements of Russian business towards information security are growing, this defines demand for services with high level of protection. Uberization and digitization change the traditional solutions in this sphere. MTS as one of leading suppliers of innovative digital solutions enters this market with a solution that reliably protects against threats and releases the customers from costs for their own IT equipment. Opportunities of MTS cloud services are growing, we will continue improving them further, following the recent developments — this is one of priority areas of our work”.

Vladimir Khrenkov, MTS Innovation Development Director





“Today, we launched a telemedicine platform that will serve as a base for the development of additional services in the digital medicine space, a strategically important business area for MTS. Our goal is to develop preventative medicine, and to shape an educated patient. We are currently exploring the possibilities of introducing solutions in the fields of early diagnosis and online health monitoring, development of the automatic data analysis and personal patient recommendations system”.

Alexey Kornya, MTS President

registration in SmartMed), and all the documents that have been saved by the patient or sent by the doctor, including prescriptions and test results.

## Smart education

Core functionality of the online training platform was developed. In 2017 we developed a training platform and educational content, on the basis of which English lessons will be provided. In autumn 2018 we plan the official commercial launch in the territory of Russia.

## Esports

The market entry strategy was launched. Start of streaming platform development<sup>1</sup>.

MTS announces entry into the market of cybersport based on one of leading cybersport clubs in the world — Gambit Esports.

MTS 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. The teams within Gambit Esports have many times been champions of the world and Europe, and also silver and bronze prize winners of the largest international competitions. In particular, Gambit are reigning World Champions in CS:GO discipline according to the version of Major Championship, and this is the first and only team from CIS, which became the holder of the most prestigious title in the world for the entire history of Counter-Strike Global Offensive existence.

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

# Our Strategy

In 2016 the Board of Directors of MTS PJSC approved the updated strategy of the company, which was generally named **“3D: Data. Digital. Dividends”**. In 2017 this concept, having fully preserved its meaning, was somewhat modified.

We identified the category named “Digital Transformation” from the Digital area, and its substance consists in diversity of internal changes happening in the company and providing for introduction of digital technologies into daily operations, evolution of management methods, development of flexible, innovation-stimulating corporate culture. Now Digital includes areas related exclusively to customer experience generation, while the digital transformation flow penetrates all 3D components, providing influence at processes in all spheres of company’s business.

The first results of operation of the Innovation Center — a separate subdivision responsible for selection of new ideas in the Digital area, their elaboration and shaping them as work projects that have both feet on the floor and are ready for integration into the core business of the company — did not just comply with our expectations, but exceeded them, therefore, we decided to fix its high status at the strategy level, having

directly specified as one of components of the Digital area in our strategy<sup>1</sup>.

One may also note that the area of classic system integration, being a stable business with a certain history, market, understanding of the product and result, in our opinion, more harmonically fits into the Data area. It must be emphasized that such shift is not perceived by us as a conceptual one, leading to a certain change of our approach to this area.

So currently our strategic formula and strategic priorities are as follows.

**Data** area is the center of products and services that are traditional for our business and relate to the basic telecommunications market. This is the environment that we are used to, where we know our way around and where we achieved absolute success. From the point of view of operating results, this is the main gen-

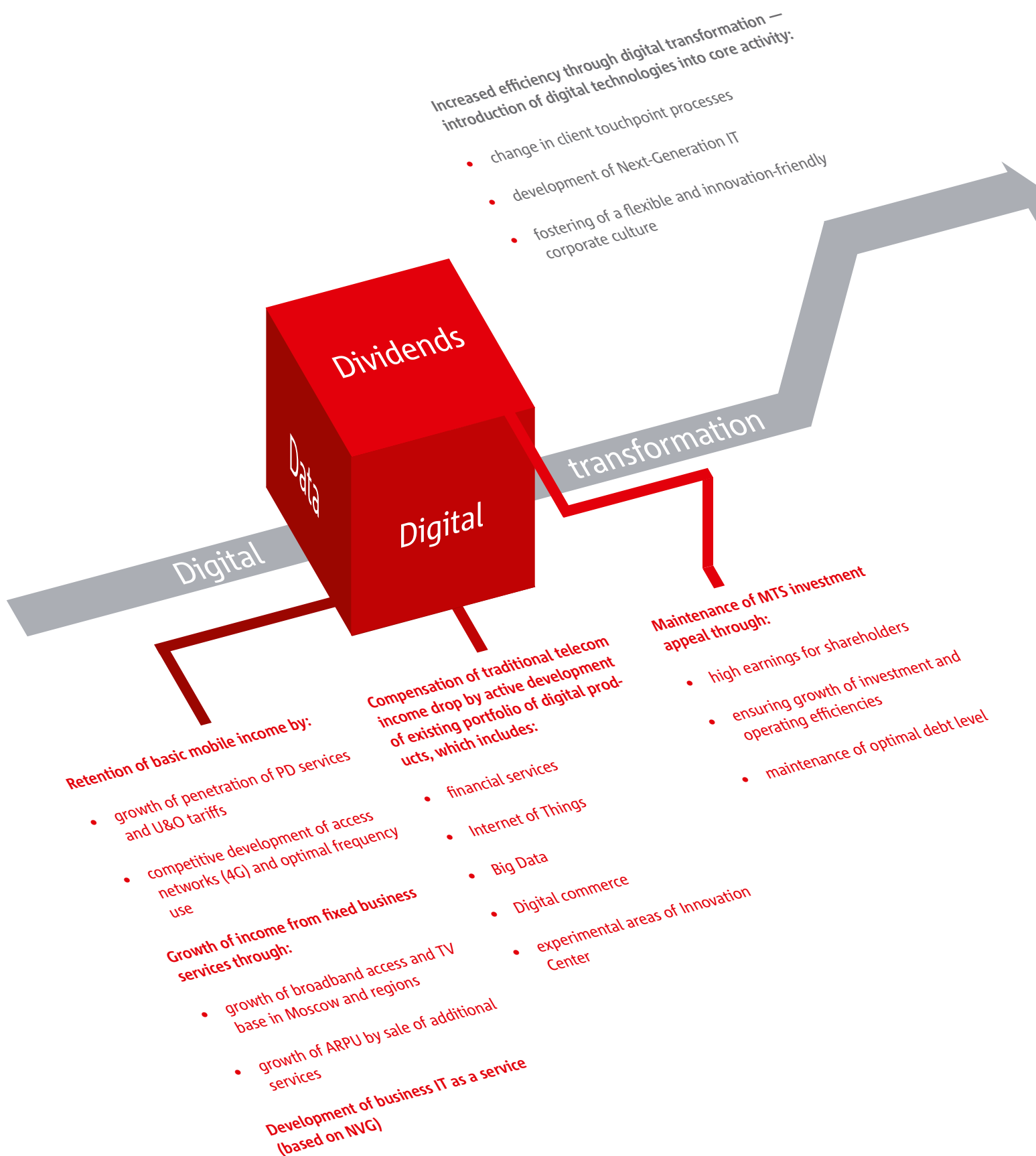
<sup>1</sup> Detailed information on operation of the Innovation Center is provided in the section “MTS Innovation Center”, page 36.



2017 has become the year of transformation for MTS. We have been working successfully on digitization strategy implementation and expanded business in the new areas. Apart from fintech, which will further remain our key area in digitization, we are actively searching for new growth areas for business in the Internet environment. Recently we have entered the promising cybersport market and purchased two leading Russian ticket operators in the market of entertainment. We continue to hold our leadership in business digitization through acquisitions, partnerships and development of own innovative products.

Alexey Kornya, MTS President

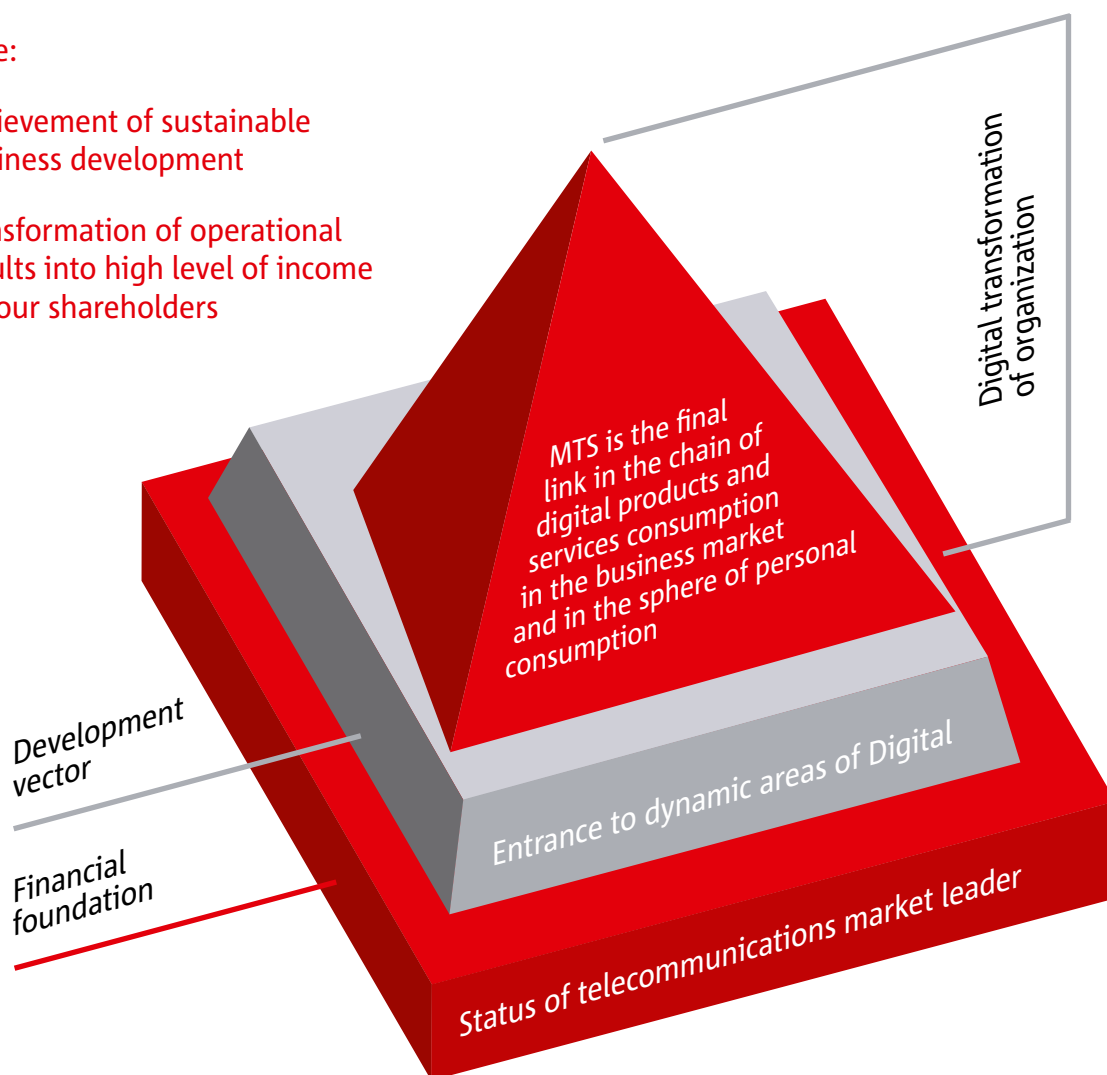
## MTS strategic formula and strategic priorities



## MTS strategic positioning

### Purpose:

- achievement of sustainable business development
- transformation of operational results into high level of income for our shareholders



erator of revenue, the stable foundation, on the basis of which we are able to implement new projects with growth potential. From the point of view of consumers, this is the bottom layer of customer experience, providing for freedom of communications and universal access to global information space, entertainment, hobbies, remote working opportunities.

The key priority here for us is retention of revenue from basic services, ensuring maximum possible growth in the fixed segment and all actions that support it: provision of communications with highest level of its quality indicators, gradual and permanent increase of network capacity and data transfer speed, optimal usage of frequencies, reasonable approach to capital investments.

**Digital**, area that occupies the central position in our strategic formula is perceived by us as the field to search for business areas related to digital reality, where we see growth opportunities. It reflects our aspiration to stay as close to the customer as possible, to be not only and not so much as the mechanism of information exchange, but to propose end products and services that shape comfortable and saturated living space of people, to promote their fuller self-fulfilment via digital environment elements, which have become an integral part of our life. To ensure incremental progress in this area, we follow the pragmatic approach, combining building of relevant competences internally and proactive, but weighted M&A policy, making pinpoint investments into promising projects with reasonable market-based valuation.

Currently we have identified some areas, whose development is of topmost priority for us:

- Financial services (Fintech);
- Internet of Things;
- Big Data;
- Digital Commerce;
- Cloud IT-platforms;
- Mobile apps (OTT, Over the Top).

We are already seeing considerable progress in all of these spheres from our side, which is gradually taking shape in the form of rising income volume. Naturally,

we do not restrict ourselves by the areas listed above, and are continuously searching for new points to exert efforts, we are not afraid to experiment, to try, to consider alternatives, to reject those that we do not find promising for various reasons and to dig into those, where we see potential.

Our priorities in the Dividends area considerably differ from such for the Digital area, because the main characteristics here are not dynamics and speed, but stability and invariable confidence, which we strive to provide to our shareholders in respect to the dividend policy and establishment of the shareholder value. In this part of our strategy we are oriented at maximum predictability, consistency, transparency, clarity of communications. We still see the main objectives here as maintenance and improvement of business efficiency, ensuring optimal level and structure of debt, as well as its cost.

The process of **Digital Transotmation** deeply penetrates all components of our strategy and the structure of our business itself. Some projects, like using chat bots in customer service processes, provide explicit financial effect, in this case, in the form of call center cost reduction. However, in some cases it is difficult to translate its result into indicators of revenue and profitability, or to provide generalized numerical characteristics for them.

One of key objectives that we set for ourselves while changing the organizational environment, consists in stimulation of creativity, responsiveness, agility, supplying active energy — all those properties that make it possible to achieve success in the sphere of new digital products and services. Often large companies operating in areas that are traditional for them, have too bulky bureaucratic apparatus, rigid system of internal regulations and corporate procedures, which create serious obstacles in implementation of innovation projects, and therefore, lose in this field to young start-ups that have incomparably smaller volume of resources. To level such barriers, a special subdivision was established in MTS — Innovation Center, the structure, internal regulations, procedures and common spirit of which comply best with the objective of growing new dynamic digital areas. Best practices of the Center in their turn are introduced in linear subdivisions, as a result of which the innovation spirit spreads throughout the company.<sup>1</sup>

<sup>1</sup> Detailed information on operation of the Innovation Center is provided in the section “MTS Innovation Center”, page 36.

## Implementation of the strategy in 2017

2017 has fully lived up to our expectations in respect to levels of key company performance indicators.

### Key performance indicators<sup>1</sup>

Indicator (MTS Group)	Target	Actual
Revenue change, %	0 / +2%	+ 1.7%
OIBDA change, %	+ 5%	+ 6.2%
CAPEX, billion RUB	~ 75	76.4

Detailed analysis of operating indicator values will be provided in the following sections, here we will focus on results of more general nature, specifically on how we put our strategy into practice in this year. Let us remind you that our current strategic concept “3D: Data. Digital. Dividends” was adopted by us as the main strategic statement in the middle of 2016. Therefore, 2017 has become for us the first full year of functioning in the new Digital reality, so that now we may finalize certain preliminary findings and discuss specific results that we achieved in this year for each of its components.

### Data

The Data area is first of all a basic set of traditional telecommunications services in mobile and fixed segments. The main objective here is to retain and possibly increase the revenue in order to generate stable financial flow, to maintain high values of communications quality indicators, to continuously increase data transfer speeds and correct pricing.

The main tariff tools of this area for us are still Voice&Data tariffs, the share of users of which was rising for the entire year and amounted to around 45% of the total subscriber headcount at its end. Another important marketing initiative aimed at levelling negative dynamics of roaming income, was the launch of the data plan and option “Zabugorische”, which made it possible to increase income in this area only in Q2 and Q3 2017 in total by 1.6 billion RUB compared to the same periods in 2016. Under the program of data traffic consumption stimulation, in summer 2017 we presented the tariff option “VSeti”, which included unlimited social media, messengers, online streaming and user video traffic in 13 most popular network resources, which made a considerable contribution to growth of mobile data traffic.

Systematically expanding LTE network, we are getting ready to adaptation of promising technologies of the future generation. In particular, in October 2017 MTS and Ericsson made an agreement, under which Ericsson for 2017-2020 will supply equipment and software for our network in some regions of Russia for the total amount of 400 million EUR. The purpose of these investments is to grow speed of data transfer and capacity, reduced delay time, which is critical for machine-to-machine interaction mechanisms, and preparation for introduction of 5G standard and ensuring best compliance with requirements of IoT technologies. As we have announced before, MTS is successfully implementing the program of high speed trunks development, completion of which is planned for the end of 2018.

### Digital

Areas that we include into the Digital area are our points of highest concentration of energy, creativity, aspiration to accept the challenge and desire to achieve success. In 2017 we finally developed a set of areas, where we intend to focus our efforts in the short and mid run. Most of them rely on a certain base that was founded in process of implementation of the earlier strategic initiative “Differentiation”, therefore now one may discuss specific, significant and in some cases outperforming results, which is illustrated by examples below

**Financial services**, in our opinion, are one of the key and promising areas in the Digital sphere. Here we see ourselves as supplier of comprehensive solutions and one of leading players in B2B and B2C segments in the Russian market, and in the longer term — in the international market. By comprehensiveness we mean maximum satisfaction of customer needs for financial products of all types, and for this purpose we step by step assemble mosaics of various competences, which we intend to turn into an effective business system in the end. In particular, together with MTS Bank we develop solutions for corporate customers, including cash management and payment services, acquiring, wages program and credit products.

During 2017 we made certain acquisitions aimed at expansion of participation in the sphere of financial services.

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



In October 2017 MTS closed the transaction for acquisition of 50.82% in the authorized capital of Cloud Retail LLC (LiteBox trademark), Russian developer of software for retail enterprises, having thus entered the market of cloud cash registers as a supplier of the ready-made solution for cash service.

Under the program of financial services spectrum expansion towards investment activities in the stock and bond markets with attraction of assets of wide customer circle, in September 2017 MTS purchased 30% share in Sistema Capital MC — one of the largest Russian management companies by volume of collective investments.

As of 2017, the total volume of income from financial services of MTS company exceeded 6 billion RUB, which we qualify as the best result that considerably contributed to the total savings box of our company's financial result.

Competences in the area of Internet of Things/IoT are developed by MTS through several subsidiaries: NVision Group, NIS, MTS IT, Stream. According to available estimates, we control more than 40% of the Russian market by quantity of telematic SIM-cards and are the undoubted leader by this parameter. Besides, we will not settle for the role of data transfer environment (i.e. ensuring connectivity), our approach is more systemic. We already now propose end products for corporate customers ("Mobile Employees") and individuals ("My Car") and strive for their continuous improvement. The important milestone in this area was launch of a new technological platform IoT with open API and opening of a permanent IoT lab "IoT Explorium" in December 2017, where representatives of customers, partners and suppliers of services jointly with our employees are able to study, test and jointly finalize best solutions and products.

We believe that IoT market that is currently at the forming stage, has huge potential, besides, the users — corporate and private customers, and state authorities — will demand solutions that are polar by their scale: from simplest water meters to smart city projects.

The Big Data area continues to produce internal effects to a large extent, which is considerably related to existing legislative limitations. Here, compared to 2016, we record triple growth of financial result to the level of 1.6 billion RUB. By expansion of the tools and infrastructure of Big Data, we gradually develop competences, required for launching commercial products to the market, while the regulatory environment will soften (we believe that this is a natural and irreversible process). Already now we attempt to generate

revenues in the relevant infrastructure. In particular, in September 2017 MTS launched Big Data as a Service (BDaaS) service for commercial operation, which makes it possible for the customers to quickly, flexibly and efficiently organize processing of large data volumes without involvement of own computing capacities.

Growth of Digital Commerce area is a common global trend, which brings overall change of products and services consumption model, virtualization of buying process, gradual displacement of shop windows from the real world to the screen of the computer, tablet, mobile phone. Combination of electronic trading platforms, social media and new technological tools based on deep analysis of consumer behavior based on Big Data principles, generates new rules of the game in such spheres as marketing, advertising, increased sales volume. Today a post by a popular blogger may cause frenzy around a product that would have remained unnoticed under other circumstances, and market players have to reckon with this new reality and use it for their benefit.

This global trend is projected at the Russian digital commerce market as well, which demonstrates confident growth and where we also intend to strengthen our presence. Our online shop ranks first among the Russian operators (E-commerce Index TOP-100, 2017), leaving behind a large number of specialized Internet trading platforms in the "Electronics and Hardware" category. Apart from sale of subscriber equipment and contracts, the online shop is our effective mechanism for promotion and sale of some other products, included into the MTS business perimeter, and a facility to accumulate knowledge about customers.

Already in the new 2018 we entered the market of entertainments, by acquisition of two ticket operators, who are also subjects of e-commerce market: Ticketland.ru and Ponominalu.ru. These transactions are aimed at business diversification, but they will also help to intensify development of competences in the Big Data area, to expand tools of marketing activities, including at the expense of new proposals of loyalty program, promotion of MTS brand and close communication with customers.

In the Cloud Platforms area we achieved considerable success, having launched own cloud IT-platform and having turned this project into an independent commercial product. #CloudMTS platform is implemented on the basis of equipment of leading vendors in geographically distributed DPCs of TIER-III category, relies upon own trunks and local communication channels, and applies VMware software, which in a combination makes it possible for MTS to provide comprehensive

service of highest level. From the main events of 2017 in this area one may particularly note the following:

- in July 2017 MTS Bank transferred critically important IT systems to MTS cloud;
- in October 2017 we successfully completed the project to migrate IT system of British American Tobacco Russia to our cloud platform;
- in November 2017 MTS jointly with Microsoft on the basis of capacities of our local DPCs and global Microsoft cloud launched the project of public hybrid cloud for corporate customers based on Microsoft Azure Stack.

We optimistically look at prospects of expansion of this business area, continue to improve our technical solution and procedures of cooperation with partners, and are confident that in 2018 our success here will be even more significant.

Our ambitious objective is to become Cloud provider No.1 in Russia and further to enter foreign markets, having turned the area into global business

The OTT, Over The Top area is an ecosystem of apps of various purpose: entertainment, educational, financial and others, which may be presented under the umbrella term “smart life”. Here we compete for contact with people, for their time and attention. We try to be with the user on a daily basis, to become a habitual part of his or her life, and in this case for us this is a much more important objective than simple process of making money. By the way, this is why we assess success of such services first of all in the context of their use by our customers.

This area is an important brand promotion channel, and also a channel of contacting those who do not

use MTS communications at the moment, but requires other services, which expand the customer experience, and thus gradually engaging them in the sphere of our activity.

During 2017 we launched around ten new services, including MTS Taxi, Parent Control, My Car, etc. As of the end of 2017, the number of active users of MTS OTT-ecosystem on a monthly basis amounted to 9.4 million, and on a daily basis — 2 million people.

Apart from development of own products, we cooperate with other market players, jointly ensuring forming of customer experience for our users. As an example of such partnership implemented in 2017, the project of MTS and ivi.ru may be given, within the framework MTS TV users became able to watch high quality and, importantly, legal content without additional payment for traffic.

## Dividends

Let us remind you that in 2016, the MTS Board of Directors approved dividend policy for 2016-2018, according to which the target profit per one common share is 25-26 rubles (50-52 rubles per one ADR) during each calendar year. With that, the minimum amount of dividend payments is limited at 20 rubles per one ordinary share (40 rubles per one ADR) per year. Payments are made twice per year.

In 2017 MTS continues to make dividend payments in accordance with this program. On June 29, 2017 the annual general meeting of shareholders approved payment of dividends in the amount of 31.2 billion RUB. At the extraordinary meeting of shareholders held on September 29, 2017, the decision was made to pay dividends in the amount of 20.8 billion RUB. Therefore, the total volume of payments in 2017 achieved the value of



Through acquisition of assets, which control one fourth of sales turnover of theater and concert tickets in Russia, we are entering the steadily growing market with the prospects to become a leading player in it. Apart from consolidation of new business and opportunities to increase ticket sales among MTS subscribers through integration of our services and big data, we also receive additional tools for marketing activities, cooperation with customers and partners.

Vyacheslav Nikolaev, MTS Vice President for Marketing

52 billion RUB (26 RUB per one ordinary share and 52 RUB per one ADR), which is repetition of 2016 result.<sup>1</sup>

It should be added that in September 2017 MTS announced approval of the program for redemption of own ordinary shares and ADR by the Board of Directors for the total amount of up to 20 billion RUB until April 2019.

One of our key priorities in the Dividends area was increased operating efficiency of company's business. Taking into account the changes of external environment conditions, which consist in the fact that all market players started to more pragmatically and reasonably approach the issue of ensuring sales of contracts with large orientation at economic justification of investments, we gained the opportunity to reduce our retail chain approximately by 500 outlets during 2017. Further, with more active displacement of sales and customer service processes to remote channels (first of all, to online), we expect further reduction of costs in this area. It should also be mentioned that according to some polls and research, our self-service app My MTS occupies the leading position among apps of the Russian communication operators.

According to the reaction of the investment community, the results demonstrated by our company do not go unnoticed. Following the results of 2017, the quotations of MTS shares demonstrated best dynamics among players of the Russian telecommunications market, which made it possible for us to increase even more the significant gap from competitors by level of capitalization.

In conclusion of the conversation on 3D areas, let us give a small example that illustrates how our simultaneous presence of MTS in several business areas on the one part helps people to get richer and more saturated customer experience, and on the other part, makes it possible for MTS to increase the scale of operations at once in several areas.

In 2017 we observed rising interest in consumption of "heavy" digital content: online TV and products of streaming platforms, movies and videos in high definition, video calls in messengers, in exchange of multimedia files. This trend was materialized in displacement of demand in the field of subscriber equipment towards highly priced smartphones. Sales of such devices (over 40 K RUB) in our retail chain in 2017 compared to 2016 increased by 79% in monetary terms. By almost the same value (by 74%) credit sales of such smartphones increased, and sales with long-term

instalments for 24 months increased many times (16 times), which became possible due to further expansion of the financial services line in the form of credit programs from one side. Purchase of a higher level device is usually attended by transition to a data plan with high volume of included data traffic (consumption of Internet traffic from smartphones for the last year increased by 252%), which had a rising impact at a monthly average payment (ARPU). This trend positively influenced growth in use of our OTT products, such as MTS Music and MTS TV, which are on the top of value formation pyramid, being the last link of the consumption chain. Such system synergy is exactly the effect that we are trying to achieve, consistently strengthening our positions in the areas that are indirectly related to traditional telecommunications business.

## Digital transformation

Digital transformation is quite a loud and bright term, which in fact relates to activities of slow, painstaking, stage-by-stage change of organizational structure and business processes, corporate culture, motivation system and basically personnel work methods. There are no dramatic marketing initiatives, memorable products or impressive numerical values in financial statements, but this process is a basis for the entire success of the company, therefore its importance is critical.

In the annual report of the last year we already told about our brave experiment — development of the Innovation Center — the cutting-edge subdivision that operates under conditions of most favored treatment, lowest administrative barriers and critical concentration of creative thinking. In 2017 the main result of Innovation Center operation was the full-scale development of business areas of cloud services, which reached the stage of commercial operation and entered the list of key Digital areas of 3D strategy.

Innovation projects implemented in our Center may not be successfully transferred to the environment of linear subdivisions, if a certain base has not been prepared. And substantial work done by our HR management block was exactly about such preparation.

Examples of initiatives included in the plan of the transformation program and implemented in 2017.

- During the year, the Online Digital program was operating in the company, the main objective of which was to tell employees about most recent and relevant trends of the digital world. We invited

<sup>1</sup> Detailed information on MTS dividend policy and payment of dividends in 2017 is provided in the section "Corporate Governance"

experts from popular and successful digital companies, so that they would simply and clearly explain about blockchain, artificial intelligence, neurons, computer-assisted training and much more. Almost 20 K employees watched the interactive course on the new digital MTS strategy within this program. Besides, two practical online laboratories were operating, where employees (both from IT and other subdivisions) mastered programming fundamentals and created chat bots in Telegram.

- In June the company introduced an alternative approach to searching for IT talents. We opened new workplaces, where it was convenient for developers to work, even if MTS had no its own IT subdivisions in that city. Thus, the MTS IT development team was established in Vladimir, and Online Marketing Product Group — in Rostov-on-Don. Our general strategy here consists in searching for established successful teams and their quick and seamless integration into MTS Group structures.
- In the end of summer a competence development center for adaptive development of IT products started its work in MTS IT, which was formed

around a group of agile coaches who help teams conduct development using flexible methodologies.

- The most important organizational change was reformatting of our approach to development and support of marketing products. We replaced the traditional functional hierarchy for product teams operating within product development centers, combined into several product clusters. This made it possible to change to a flatter organizational structure in the marketing functionality, and area managers got more independence in decision making and higher responsibility for the commercial result.

We are confident that these and further initiatives will not only adapt the organization to conditions of more dynamic and competitive Digital environment, but will also modify the employees' perception itself of the company's image, workflows, their own roles and, most importantly, contribution that each of them may make to the success of MTS, being at the same time noticed and lucratively remunerated

## Strategy 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.

# Business Overview

## Mobile business

### Russia

Data plans of SMART line are the bestseller 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, a 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.

More than 80% of voice traffic circulates inside MTS network, which makes it possible for our subscribers to communicate to each other with minimum financial expenses for themselves and to always stay connected.

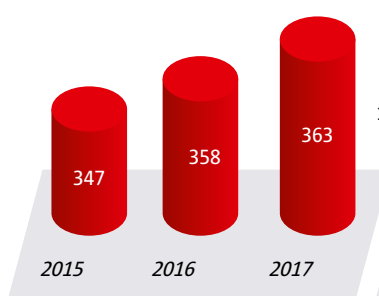
A specific group of data plans are the rates targeted exclusively at the users of mobile Internet services — owners of modems and tablets — have their attractive services. For example, 40% of tablet users receive the service of unlimited access to MTS mobile TV.

For travelling subscribers MTS offers options for the primary data plan, which make it possible to cut roaming

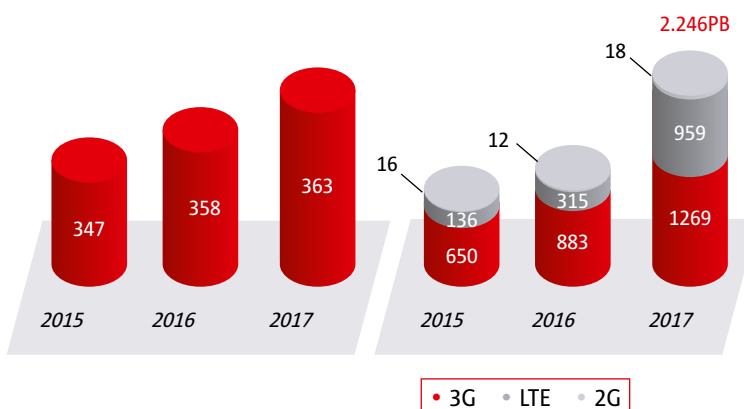
costs and enjoy communicating with one's friends and relatives. "Zero without Borders", "BIT Abroad" options and "Smart Zabugorische" data plan were appreciated by our subscribers.

We continue to ensure uninterrupted and convenient communication when traveling abroad and offer free calls to MTS contact center, free access to MTS websites, methods to top-up the account free of charge, as well as free delivery of SIM cards abroad.

Voice traffic,  
million min.



Mobile traffic



MTS completed 2017 with strong financial results and has secured a footing in the new markets. As for 2018, we maintain moderate optimism regarding prospects of the Russian mobile communications market, taking into account stable improvement of the market and competitive situation, and also future regulatory changes and optimization of retail expenses. Meanwhile, we attempt to achieve good operating parameters, to demonstrate high business efficiency and to provide attractive remuneration to our shareholders.

Alexey Kornya, MTS PJSC President

## Retail distribution

### Sales channels

MTS retail chain remains the primary channel to attract MTS subscribers — more than 60% SIM-cards are sold in MTS outlets. MTS remains the largest non-food retailer in Russia. Following the results of 2017, the number of MTS outlets amounted to almost 5.7 K outlets, including 1.7 K outlets operating under the franchising model.

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. Any new service released by the Company automatically becomes available for sale in the retail chain office. Besides, 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 to more effectively manage the number and quality of activations, as well as provide better service to existing MTS subscribers.

The main priorities of MTS sales channel management in 2017 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 client flow at MTS outlets.

### Key facts for 2017

- In 2017 the share of smartphones among all the phones sold in MTS retail was 76%, where 80% are smartphones supporting LTE. By the level of smartphone penetration the retail chain continues to outstrip market indicators.
- The highest growth in monetary terms was demonstrated by smartphones in the ranges exceeding 40 K RUB (increased by 79% for the year) and from 20 to 30 K RUB (increased by 21%). In the price segment from 30 to 40 K RUB the sales increased by 15%.
- The growth of demand for expensive gadgets resulted in the fact that number of smartphones sold on credit increased in MTS retail chain by 40% in pieces and 74% in monetary terms. Credits with length of 12 and 24 months were granted 12 and 16 times more often than in the previous year.
- Together with the growth of gadget sales, MTS increased revenue from financial services and commercial projects by 26%.
- Following the results of 2017, the number of MTS Money cards issued in MTS outlets was 68% more than in 2016. In 2017 the issue of cards with credit limit was resumed in MTS outlets. New bank cards — Debit and Credit MTS Money Weekend, with higher cashback for certain categories of products and interest paid on balance of own funds in the savings account opened for the debit card — were launched jointly with MTS Bank. These cards may be purchased in MRS outlets, MTS Bank offices, or an application may be filled in in the MTS Money app.

At the expense of conducted federal advertising campaigns “Satellite TV is no longer a luxury. Equipment just for 2990 RUB” and “Set of equipment for rent”, satellite TV sales in MTS outlets increased four times.



## Business in Ukraine and in Other Markets of Our Operation

### Ukraine

In Ukraine, the Company renders services in the standards GSM 900/1800, CDMA 450, IMT-2000 (UMTS). In 2018 LTE launch in ranges of 2600 MHz and 1800 MHz is expected.

In 2017, the 3G network was actively deployed, new tariffs and services were launched under the Vodafone brand:

- in March 2017 the mobile app My Vodafone was launched for prepaid subscribers, making it possible for the subscriber to independently control expenses, to manage services and bonuses;
- on May 5, 2017 a new data plan Vodafone ZAHID was launched for subscribers of Lviv and Lviv region;
- in June 2017, Vodafone Pay service was launched — a tool for making payments for goods and services, card-to-card transfers, topping up mobile phone of any operator and other options;
- in August 2017 the new service “No visa week-end” was launched to use roaming in European countries;
- since August 15, 2017 Vodafone Ukraine was first in Ukraine to launch a new data plan line with unlimited 3G Internet: Vodafone “UNLIM 3G” and Vodafone “UNLIM 3G Plus”;
- in Q4 2017 a New Year promo “Congratulate the entire world” was launched for new and existing subscribers, where subscribers topping up their balance got minutes to call to Ukraine and abroad.

As of the end of 2017 3G network of VF Ukraine PrJSC covers 80% of the population of Ukraine.

### Armenia

Since September 2007, MTS owns a leading operator in the Armenian market — MTS Armenia CJSC (former 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 2017 was 59%, according to our estimates.

The main priority of MTS in the Armenian market in 2017 was the popularization and development of the Viva tariff line, which offers combined package of popular communication services for a fixed monthly payment. An opportunity to call to Russia under the terms similar to calls inside the VivaCell-MTS network was included into the Viva tariff line.

2017 business results:

- maintained high market share in terms of subscribers and incomes;
- increased number of mobile Internet users by 9% compared to last year;
- growth of Viva tariff line users by more than 50% compared to last year.

### Turkmenistan

In September 2017 in connection with termination of the permit to use the dedicated radio frequency spectrum and some other required resources, the provision of communication services to subscribers in Turkmenistan was suspended.

The number of MTS-TM Business Entity subscribers amounted to 1.7 million subscribers.

## Fixed-line communication

### Development of Fixed-Line Networks

Growth rates of the Russian Internet broadband access (BBA) market are falling — in 2017 subscriber growth was 3.9% (in 2016—4.5%, in 2015—4%, forecast for 2018—1.6%). The service is developed mainly due to the growth in the number of private users, but, considering the penetration of 58% at the end of 2017, the market is saturated not only in the large but also in the majority of medium-sized cities. ARPU as of the end of 2017 slightly increased (less than by 1%) and amounted to 346 RUB. This is related to revision of operators' tariff lines — rejection of inexpensive low speed tariffs, and to practice of closing certain archive data plans. In connection with this the operators' income increased by 4.9%. Considerable ARPU growth is difficult under high competition. As of the end of 2017, penetration in cities with a population of more than 50 thousand people reached 65%. 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 settlements with population below 50 K people, penetration is still low — at the level of 35%, but this parameter has increased dramatically since 2016 (28%). The operators have exhausted their opportunities for organic growth and the process of subscriber migration from operator to operator does not bring long-term benefits to the companies. Nevertheless, according to the results of 2017, MTS showed an increase in subscriber base and revenues by 8%.

In the context of market saturation, the main strategy in the fixed broadband market is attraction and retention of subscribers through promotion of bundled offers, access speed, introduction of convergent services. In 2017 the leading providers suggested transition to convergence of fixed and mobile services. As of the end of 2017 mobile communication services (including in MVNO format) were available in offers of all TOP-5 BBA operators in Russia.

### Fixed-Line Telephony Services

MTS launched Interactive TV services at the federal level and completed the main stage of own TV platform development. In 2016 subscribers of 33 cities of Russia, where MTS provided BBA service, could connect to Interactive TV. Since June 2017 Interactive TV is available in all regions of fixed BBA and TV presence, and there are more than a hundred of them in the country.

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, expanding the capacities of the main channels for the growth of speed rates for the subscribers.

In 2017, MTS increased the attractiveness of the Digital TV significantly by increasing the number of available channels — more than 170 channels, including more than 40 HD channels. 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. Supersharpened 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 development of the new generation TV market in Russia, stimulates demand and opens new opportunities and markets for owners of high quality content.

DTV penetration increased up to 85% (compared to 83% in 2016). 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. Average consumption speed of existing BBA subscribers increased by 8% (2016—51 Mbit/s; 2017—55 Mbit/s), and in new connections by 13% (2016—62 Mbit/s; 2017—70 Mbit/s).

In 2017, MTS continued the development of hybrid platform that extends the capabilities of conventional digital and satellite TV by interactive components. At the program level, the hybrid TV solution connected IPTV cable TV on the basis of the MGTS network in Moscow and DVB-C in the regions of Russia, as well as MTS Satellite TV, with online services: web services with access via the TV screen, program guide with advanced features, video on demand and the service of watching later. In 2017 MTS actively promoted Interactive TV, a service using which a subscriber accesses a large number of channels, including HD quality, premium packages and advanced interactive services. Such apps as Yandex.Disc, Wikipedia, Megogo, Amediateka, Easy Payment were integrated into MTS Interactive TV in 2017. In the "Video On Demand" catalog in the Interactive TV service there are more than 6K units of content. Number of TV subscribers using additional theme packages increased in 2017 by 72%, and income from them — by 34%. Penetration of theme packages into the total TV subscriber base increased by 4.2 pp in 2017.

## Quality and improvement of customer experience

The critical element of MTS strategy is still improvement of quality and customer experience. The company introduced a unique process to study customer opinion and to measure loyalty in service channels. We “listen” to our customers — every month we receive around 1 million customer ratings of tNPS in all touchpoints between the customer and the company (call center, outlets, website, social media, online shop, etc.). Customer rating is the basis for the incentive system of our employees, one may say that customers directly influence remuneration level of a certain employee. In virtue of personal interest, many service processes improve right there and then.

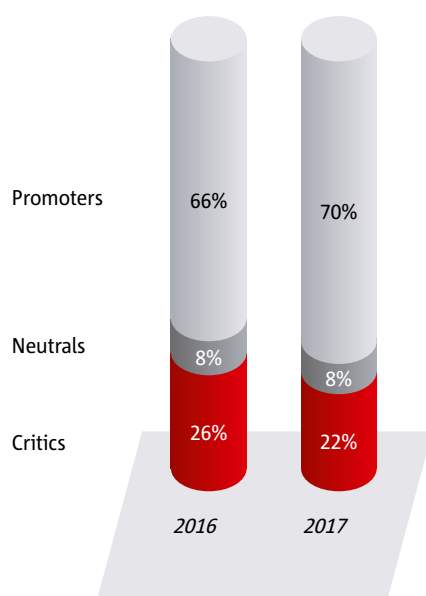
We do not just listen — we analyze and rebuild processes in the manner convenient for the customer — within comprehensive approach to improve customer

experience, we investigate the Customer Journey, project teams are established, which correct/improve the processes. We built an uninterrupted continuous process of improvements based on real customer opinion, and we see the effect of such approach based on customer feedback.

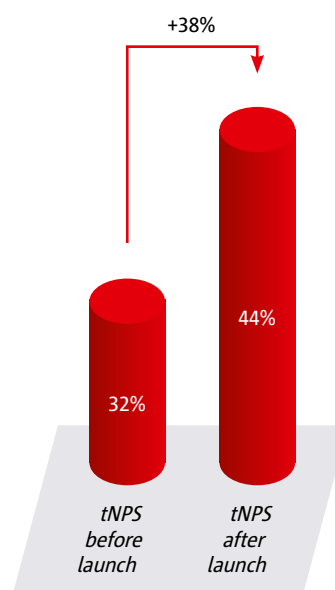
We do not just interrogate, we work personally with critics — providing feedback to them within the “Closed Loop” project: we listen to problems, finalize issues, consult. Such personal approach provides amazing effect — our customers change from critics to promoters (consumer loyalty index (tNPS) of these customers increases from -100% to +70%). One of key achievements in 2017 is growth of total number of promoters by 4% compared to the previous year.

### Result of Customer Journey “Purchase of sim-card”

#### Effect from change of Welcome SMS



### Growth of promoters share in total number of customers



## Key mobile apps for MTS customers

### My MTS

#### Main achievements in 2017

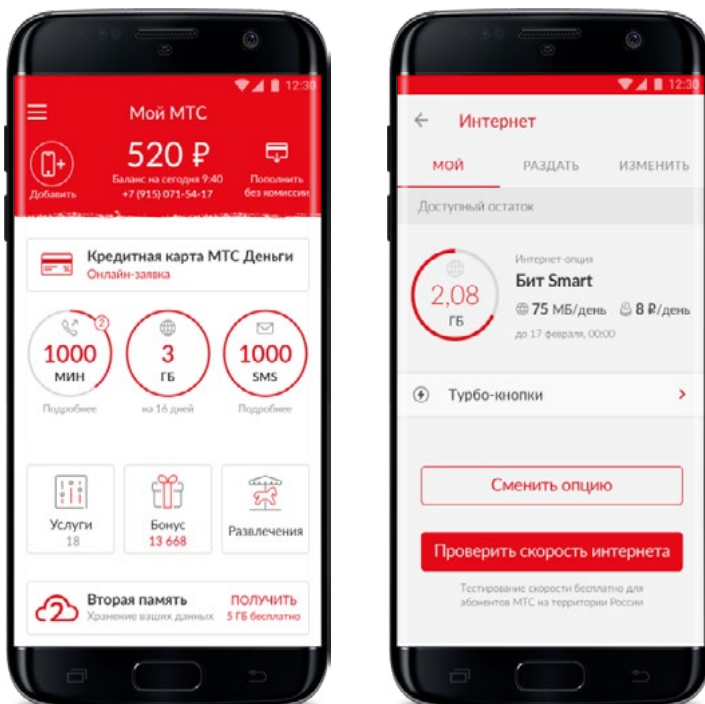
- Penetration of My MTS app in the subscriber base increased by 9 percentage points and reached 26.2% at the end of 2017.
- Penetration of My MTS app in the smartphone base increased by 8 percentage points and reached 42% at the end of 2017.
- The option to top up the balance using Apple Pay was introduced.
- Integration with the online shop was implemented, and several unique offers are generated for each user to buy a smartphone.

- Integration with MTS Cashback service was completed.
- “Cost Control” service was launched with visualization of costs for each area.
- Integration with MTS Bank was realized, the option to file an application for an MTS Bank card was added to the app.

#### Key objectives for 2018

- Growth of My MTS app penetration in the smartphone base up to 50%.

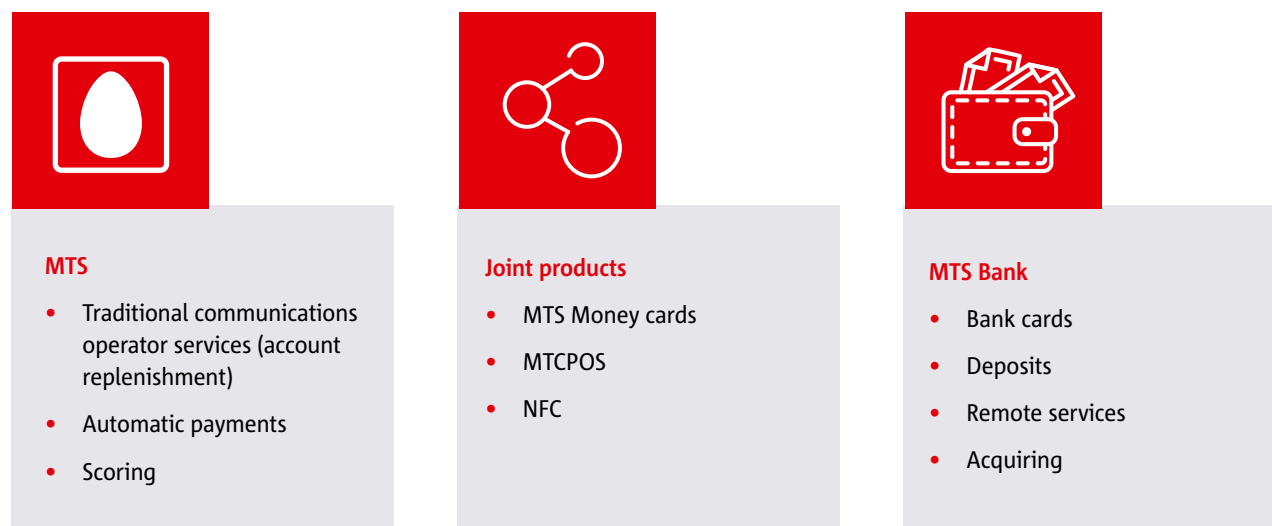
**4.5** average rating in Apple store and Play market



- Tariff management
- Cost control
- Account replenishment
- Service management
- Visualization of package remainders
- Cost breakdown by areas
- Bonus management
- Possibility to measure speed of Internet connection
- Entertainment hub
- Access to unique offers from MTS online shop

## Financial services

### Electronic wallet “MTS Money”



The project was developed by the unified team of MTS, MTS Bank and MTS retain chain, and was launched in the end of 2016. As of the end of 2017 penetration of MTS Money Wallet service in the MTS subscriber base was around 10%.

Payment service "MTS Money Wallet" enables to make payments in MTS Money application, provides mobile banking services and the ability to make transfers between wallet users using phone number. The phone number is a unique ID. Users can access the service via mobile app, website, SMS and USSD, which makes the service independent of the user device, whether it is a phone, smartphone, tablet or computer. Service is also available to subscribers of other operators.

### Support of traditional banking products

In summer of 2017 MTS Bank issued a new card MTS Money Weekend, which may be both credit or debit, and it may be issued not only in the bank offices, but in the MTS mobile provider's outlet.

The credit card makes it possible to get weekly cash-back from the purchase amount (1 or 5% depending on the category of goods/services), grants a grace period of 51 days. The debit card, apart from cashback, makes it possible to earn interest on the balance of funds in the Savings Weekend Account opened automatically with the card.

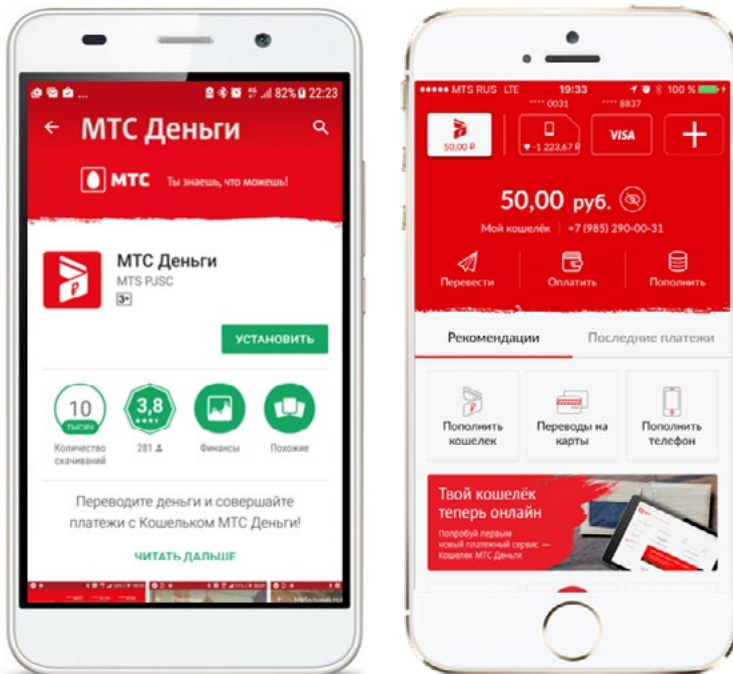
MTS Money Weekend card supports state-of-the-art payment technologies using a smartphone: Android Pay, Apple Pay, Samsung Pay.

Mobile apps MTS Bank, MTS Money Wallet make it possible to efficiently monitor expenses, make payments and transfers, where and when it is convenient for you.

## MTS Money

### Main achievements in 2017

- Growth of MTS Money Wallet services turnover — 25%.
- Growth of unique users' number compared to last year — 22%.
- Upload of MTS Bank cards to Android Pay payment service was implemented.
- The project with Moscow IT Department was launched: MTS became the operator of the single payment gateway at mos.ru.
- Microlending project with MTS Bank was launched.
- Launch of functionality for money transfers for non-users of MTS Money Wallet.
- Insurance of My Wallet account.
- Full identification for MTS Bank customers in Wallet.
- Simplified identification for Wallet customers in MTS outlets.
- Acceptance of MIR payment system cards in MTS Money Wallet was launched.
- The volume of POS-loans in retail stores of MTS increased by 77% compared with 2016.
- MTS Money cards issued in MTS outlets were more by 68% than in 2016.
- New bank cards were launched jointly with MTS Bank: Debit and Credit MTS Money Weekend with higher cashback for certain categories.



- Different tasks — single tool
- Telephone number — single identifier of all operations
- Service is available to all, including subscribers of other operators
- First e-wallet to pay in retail
- Single tool combining all methods of payments in one place



## MTS Cashback

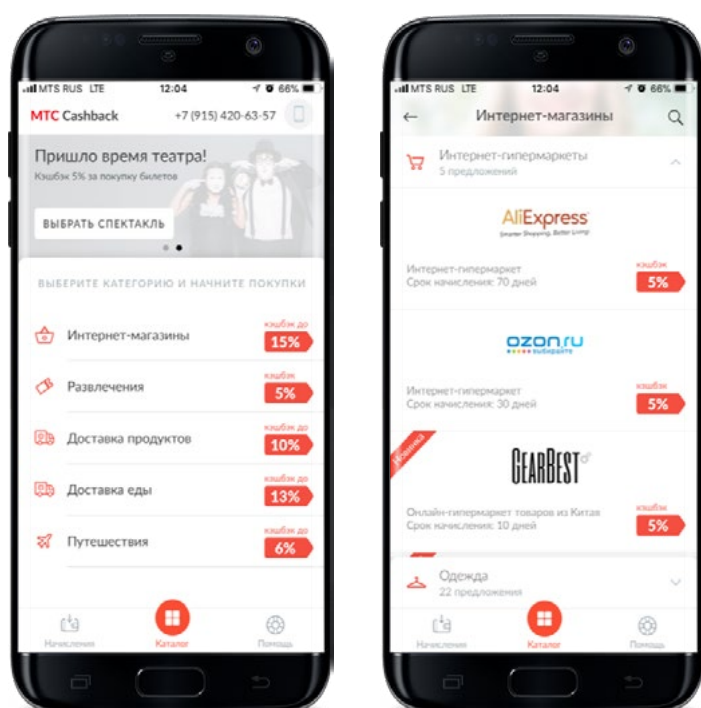
### Free communications concept implementation

#### Main achievements in 2017

- Launch of program pilot in August 2017 — in five months after approval of the concept.
- Launch of three product increments for the first four months of the project.
- Launch of accrual in 120 online shops and services.

#### Key objectives for 2018

- Integration of Smart MTS Money card.
- Cashback accrual for actions in MTS, purchases in RTC.
- Cashback accrual for events in the program (filling in the questionnaire, first purchase).
- Integration with My MTS and MTS Personal Account.
- Implementation of “Invite a friend” mechanics.
- Expected cashback.
- Demonstration of cashback expenditure breakdown for communication services.



- For all MTS subscribers: b2c and b2b.
- 6 partner categories.
- 16 online shop categories.
- 170 online shops.
- Cashback from partners — up to 25% of the purchase amount (compensated by the partner).
- Cashback is spend to pay for any services of MTS mobile communications or to purchase a smartphone in any MTS outlet.

## MTS Music

### Main achievements in 2017

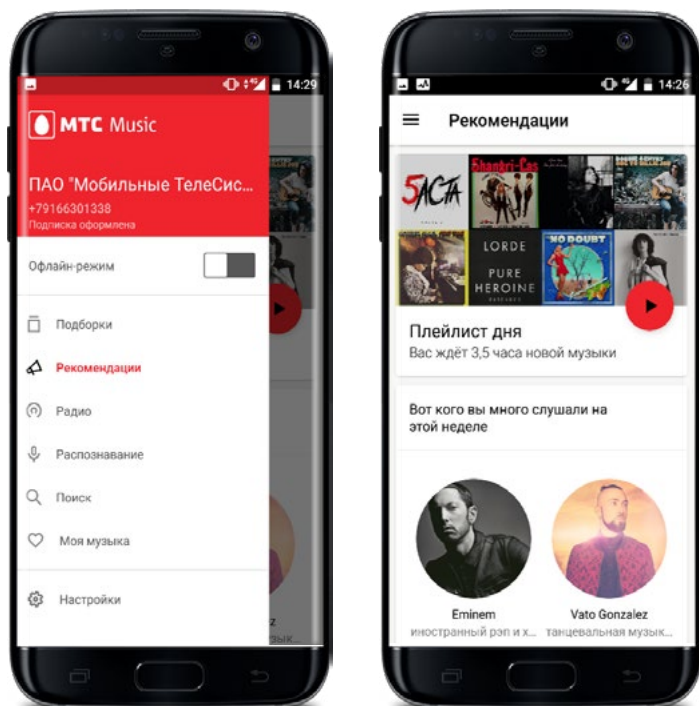
- Number of paying users > 130,000.
- Total number of users > 200,000.
- The option of payment through iTunes was introduced.
- Integration was completed with MTS Bonus, to pay with bonus points.
- Radio functionality was launched, users may listen to radio by genres, hobbies, eras, etc., for free, with personal recommendations depending on Like/Dislike in process of listening.

### Key objectives for 2018

- Growth of active base up to 250K, growth of paying users up to 200 K.
- App redesign (contemporary guidelines).
- Integration into MTS Cashback, MTS GOOD'OK, My MTS.

**3.4** average rating  
in Apple Store

**4.2** average rating  
in Play market



- “Radio” functionality launched (Radio based on genre, time period, activity)
- “Recognition” launched (analogue of shazam)
- Advanced genre search
- Integration with MTS Bonus (buy a month of music for bonuses)
- Section update “Recommendations”
- Selection of subject color — “dark” theme added for Android

## MTS TV

- MTS TV is TV and video content at all mobile devices PC/Mac, SMART TV, Google Chromecast and AppleTV, Android TV.
- Integration with social networks.
- Implementation of concept Multiscreen, Place-shifting.
- Simultaneous viewing on two devices under a single subscription.

Main achievements in 2017	Key objectives for 2018
<b>Number of paying users</b>	
600 thousand subscribers	800 thousand subscribers
<b>Total proceeds</b>	
1.3 billion RUB per year	1.5 billion RUB per year
<b>TV Channels/VOD</b>	
<ul style="list-style-type: none"> <li>• Support for live streaming in HD.</li> <li>• Support for EPG with a detailed description.</li> <li>• Support for video content in HD.</li> <li>• Support for feature films, video clips and scripted series with a different number of seasons and episodes.</li> <li>• Support for the content catalog with breakdown by compilations, genres, years of production, countries, studios with the ability to sort by various parameters and with search.</li> </ul>	<ul style="list-style-type: none"> <li>• Catch UP/Timeshift launch.</li> <li>• Extended support of recommendations.</li> <li>• VR content launch.</li> <li>• PVR support.</li> <li>• Launch of movie trailers.</li> <li>• Support for live streaming in 4K formats.</li> <li>• Launch of OTT/IPTV Android STB.</li> <li>• Targeted offers.</li> <li>• Integration of the recommendation engine.</li> <li>• Provision of service to mobile subscribers of MGTS.</li> </ul>
<b>Integration with cinemas</b>	
<ul style="list-style-type: none"> <li>• Amediateka.</li> <li>• Ivi.</li> <li>• MEGOGO.</li> </ul>	<ul style="list-style-type: none"> <li>• START.</li> <li>• OKKO.</li> </ul>
<b>Support of new windows</b>	
<ul style="list-style-type: none"> <li>• Apple TV.</li> <li>• Android TV.</li> </ul>	<ul style="list-style-type: none"> <li>• Launch of Smart TV Tizen.</li> </ul>

- Authorization on five devices in a single profile.
- Monthly and daily subscription.
- Video section: movies, series, cartoons, etc.
- Integration with Video Aggregators (Amediateka, MEGOGO, Ivi).

3.3

average rating  
in Apple Store

3.6

average rating  
in Play market

&gt; 6 mln

Number of app  
downloads

1.3 bln

Earnings,  
year

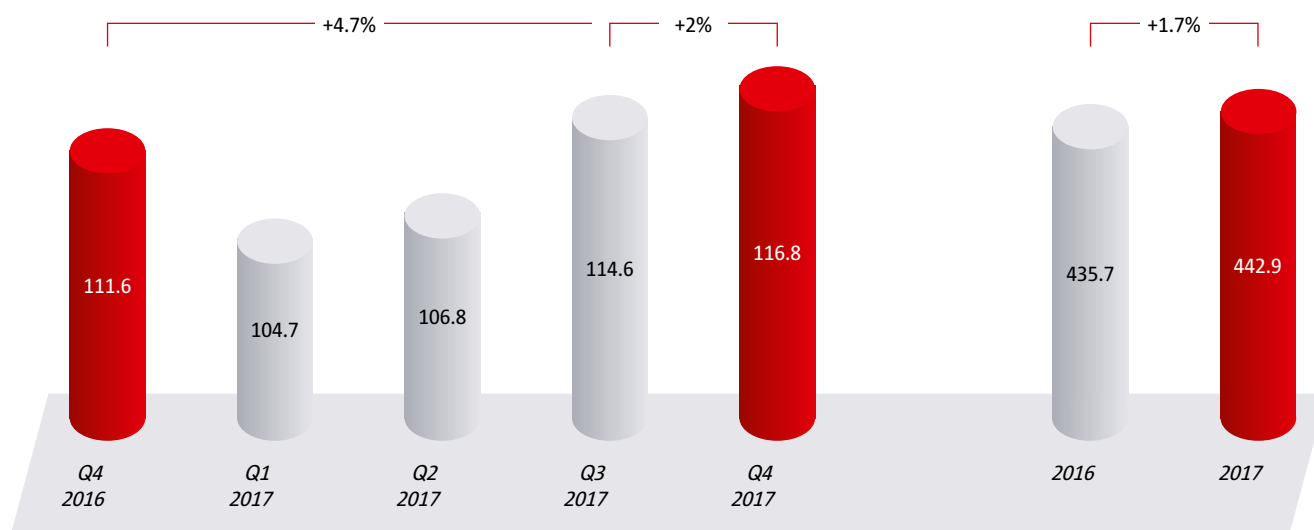
600 K

Paying subscribers,  
month

# Financial Overview

## Income of the Group

Income of the Group  
(billion RUB)



Information on consolidated financial and operating results of MTS Group for Q4 2017 and 2017 is available at the company's website:  
<http://www.company.mts.ru/comp/ir/report/2018-03-19-6061744/>.



This was another successful year for MTS. During the whole year Russia was the catalyst of performance growth rate acceleration. We won from changes in consumer behavior and overall pricing environment, and also observed stable trend in data consumption growth. Volatility of currency exchange rates in the markets of presence impacted Group performance, but target indicators met our expectations.

Positive results of MTS Group in 2017 to a large extent depend on results achieved in Russia as a result of pricing environment improvement in the segment of data transfer services and growing usage of communication services. Besides, the income indicator was also impacted by growth of income from data services in Ukraine. Growth of telephone and equipment sales in Russia and Ukraine also supported increased revenue of the Group

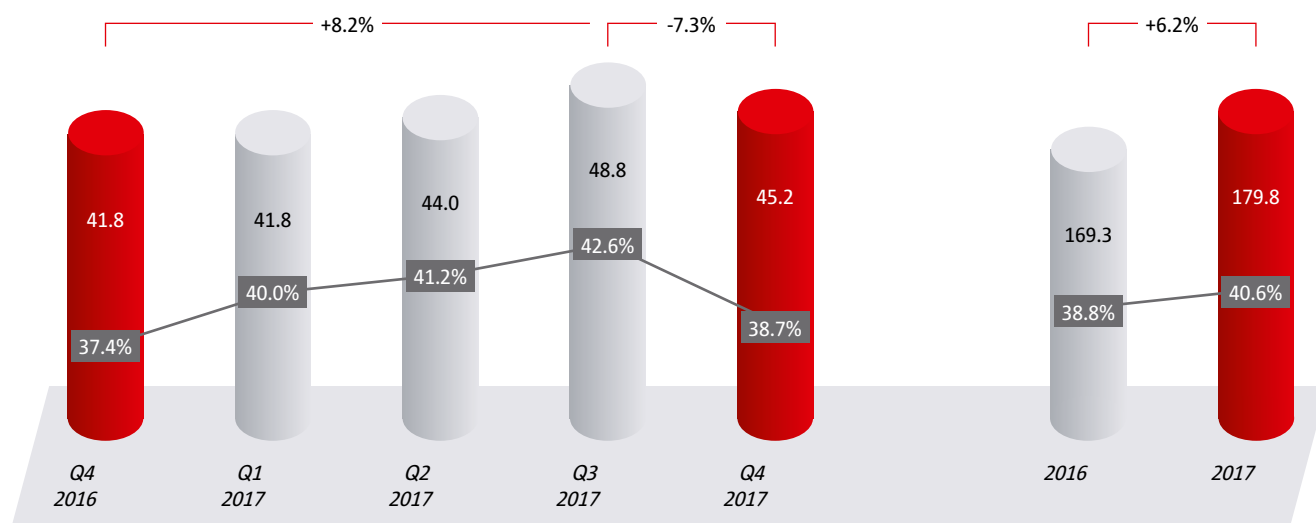
Alexey Kornya, MTS President



OIBDA in 2017 increased at the expense of higher income in Russia on the background of reduced level of SIM-cards sales, increased profitability in Ukraine and relative macroeconomic stability. Key role was played by increased consumption of high margin Internet services.

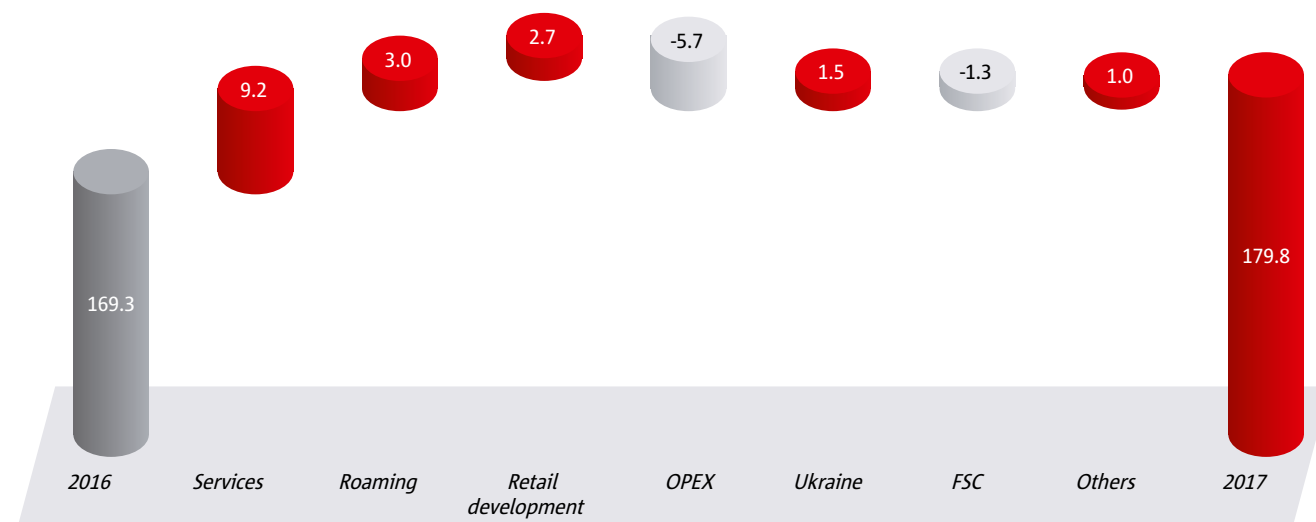
Alexey Kornya, MTS President

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

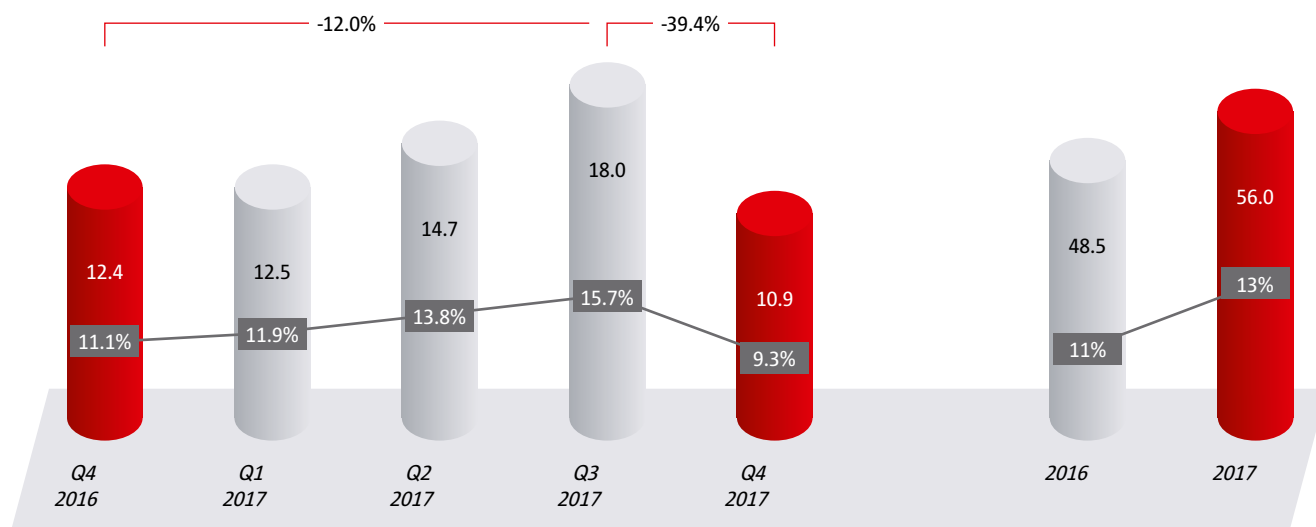


<sup>1</sup> Adjusted OIBDA does not include loss from depreciation of non-current assets in the amount of 1.1 billion RUB and 2.6 billion RUB for Q3 and Q4 of 2017, accordingly.

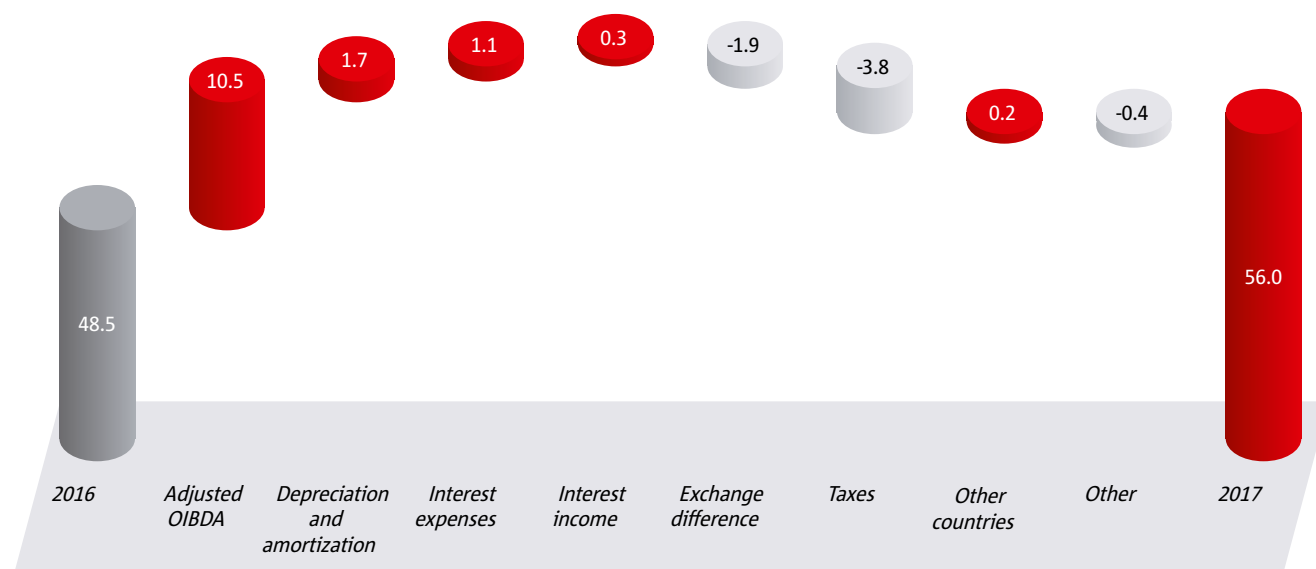
### Factor analysis of Group OIBDA (billion RUB)



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



## Factor analysis of net income (billion RUB)



Main profit growth factors were high performance and higher profitability.

Alexey Kornya, MTS President



## Debt and liquidity (billion RUB)

	As of December 31, 2017	As of September 30, 2017
Short-term part of debt and short-term financial leasing liabilities	64.9	51.4
Long-term debt	228.7	226.5
Financial leasing liabilities	11.1	11.1
Overall debt	304.6	289.0
Less:		
Cash and equivalents	30.6	23.4
Short-term investments	50.8	60.6
Fair value of hedging instruments	7.1	7.8
Net debt	216.2	197.1

## Capital expenditures (billion RUB)

	2017	2016
Russia	65.2	73.8
as % of income	15.8%	18.4%
Ukraine	10.3	7.5
as % of income	39.4%	25.6%
Armenia	0.9	1.0
as % of income	12.5%	11.8%
Turkmenistan	0.1	0.4
as % of income	3.9%	9.0%
Capital expenditures of the Group	76.4	83.6
as % of income	17.3%	19.2%



Free cash flow of MTS Group in 2017 increased up to 71.5 billion RUB from 47.0 billion RUB in 2016. In 2017 MTS paid special attention to deployment of LTE network in Russia and joint use of the network with other operators.

The company installed more than 13 K LTE base stations. As a result, in the end of 2017 the MTS LTE coverage in Russia amounted to around 60% of the populated territory.

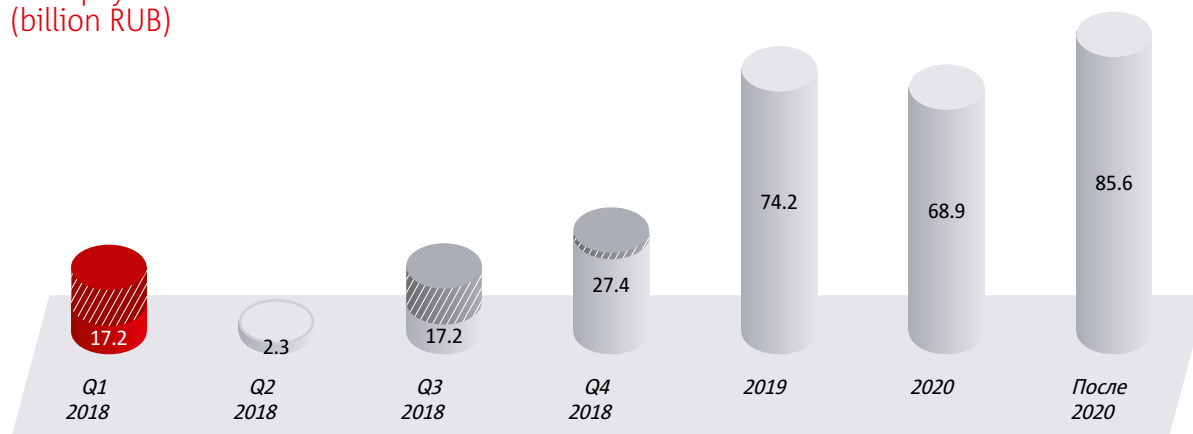
In Ukraine capital expenses increased as a result of active construction of 3G network. In the end of 2017 the areas, where 78% of Ukrainian population lived, were covered by 3G network.

Alexey Kornya, MTS President

## Liabilities

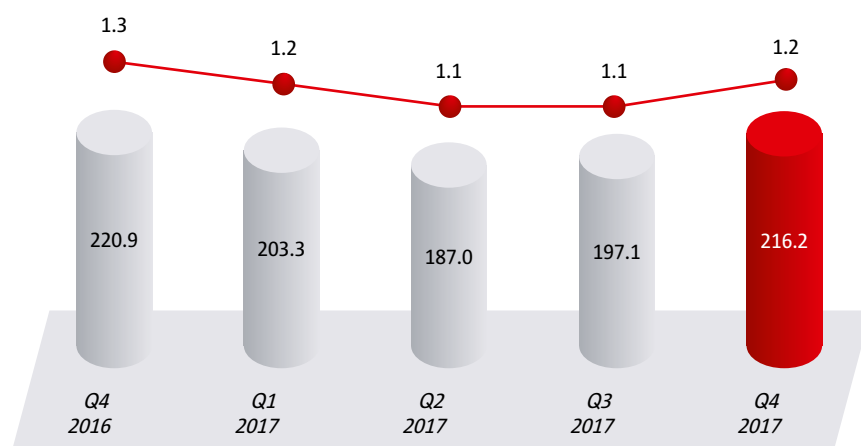
Total Group debt<sup>1</sup> = 292.8 billion RUB

Debt payment schedule  
(billion RUB)



Ruble bonds BO-01 and BO-02, B Series bonds, contain put options that as of December 31, 2017 may be exercised in March 2018, August 2018 and November 2018, respectively

Net debt (billion RUB) to LTM of adjusted OIBDA



Ratio of net debt to adjusted MTS OIBDA is stable.

This is the lowest indicator among main competitors.

<sup>1</sup> Without leasing obligations and expenses for fundraising as of December 31, 2017

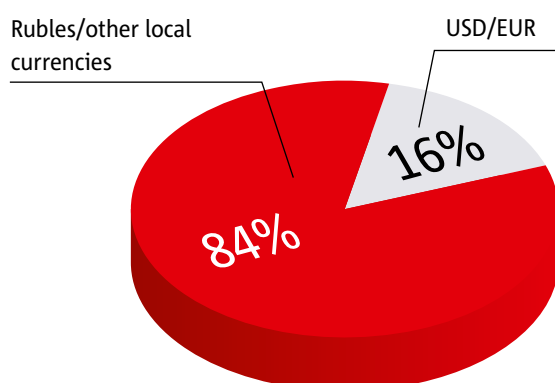


As of the end of the reporting period, the total debt of the Group amounted to 292.8 billion RUB (not taking into account leasing and costs for raising debt capital), this indicator increased compared to 2016 as a result of bonds issue. In particular, in November MTS issued stock bonds for the amounts of 15 billion RUB and 10 billion RUB with the repayment period of 5 years and 1 year, accordingly, with the coupon rate before repayment 7.7% per annum. Issued bonds are quoted at the stock exchange. The company also redeemed within the offer 1,399,626 bonds of 08 series for the amount of 1.4 billion RUB.

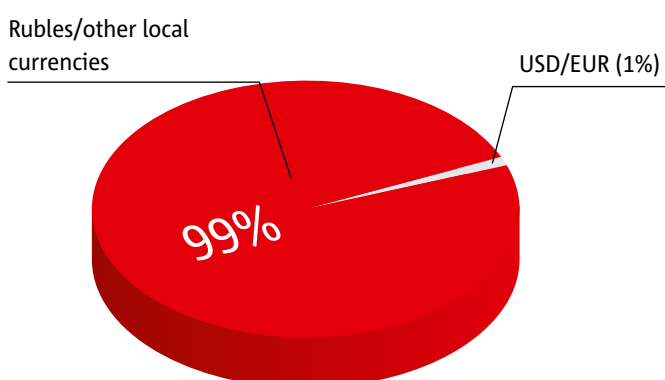
Alexey Kornya, MTS President

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

## Overall debt



## Net debt



<sup>1</sup> Includes hedging of currency risks in the amount of 497.7 million USD as of December 31, 2017 and financial leasing

Share of currency debt liabilities in the structure of the total debt is 16 percent, this is a comfortable level to reduce impact of currency exchange rate oscillations at unpaid debt.

## Subscriber base in countries of Group presence

Mobile subscribers (million)	Q4 2017	Q3 2017	Q4 2016	Variation year-on-year, %	Change Q4 2017/ Q3 2017, %
Mobile subscribers	106.5	108.3	109.9	-3.1%	-1.7%
Russia	78.3	78.5	80.0	-2.2%	-0.2%
Ukraine <sup>1</sup>	20.8	20.8	20.9	-0.2%	б/и
Armenia	2.1	2.1	2.1	1.3%	-0.9%
Turkmenistan	-	1.7	1.7	н/д	н/д
Belarus <sup>2</sup>	5.2	5.2	5.2	0.5%	0.7%

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

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

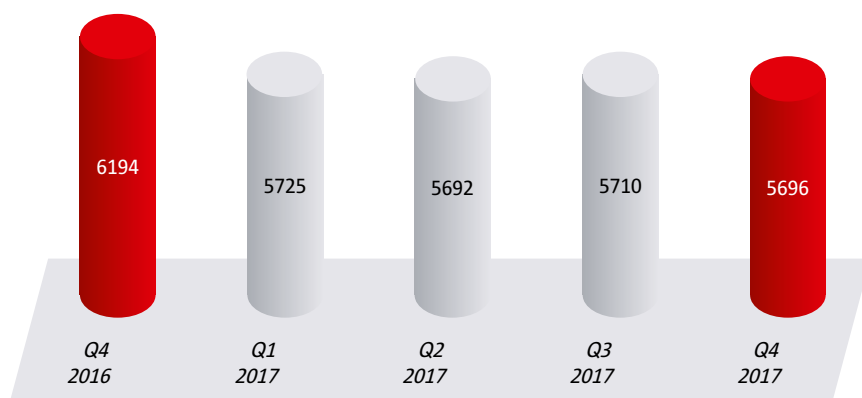


MTS efforts for attraction and retention of high quality subscribers resulted in reduction of SIM-cards sales in Russia by 11% and reduction of subscriber base in Russia by 2.2% per year. Reduction of connection rates became possible at the expense of changes in the MTS retail strategy and price competition decrease. Number of subscribers that consume more than one service and use mobile, fixed and digital services of MTS, increased, which stimulates reduction of subscriber churn and revenue increase.

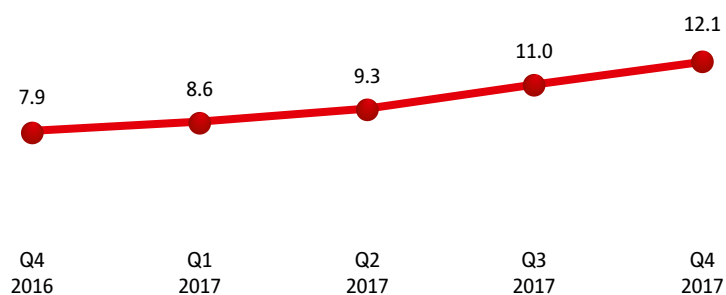
Vyacheslav Nikolaev, Member of the Management Board — Vice President, Marketing, MTS

## Development of retail and self-service

### Number of MTS retail outlets



### My MTS app users (million)



MTS online sales increased by 19.4% for the year and reached 5.2 billion RUB.

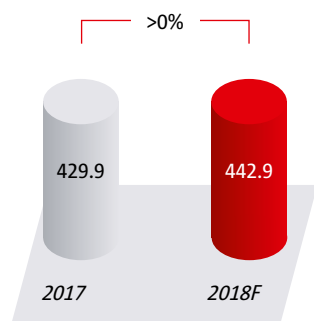
As of the end of 2017 smartphone penetration in MTS network increased up to 64.6% from 53.8% in 2016. Penetration of mobile Internet increased up to 53% from 49.0%, and packaged data plans — up to 45.5% from 38% at the expense of new data plans launch and stimulation of transition of existing users to packaged tariffs.

My MTS app is used by around 15% of the subscriber base. Such app is used as a platform for promotion of other digital services of MTS and reduces the load at the call center.

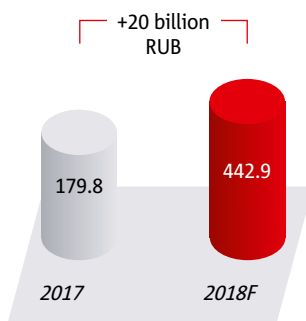
Vyacheslav Nikolaev, Member of the Management Board — Vice President, Marketing, MTS

## 2018 Forecast

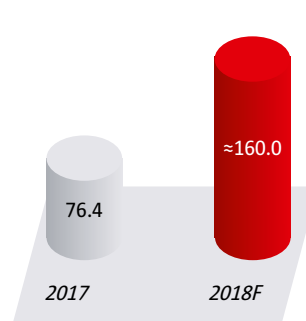
### Forecast of Group revenue (billion RUB)



### Forecast of adjusted OIBDA (billion RUB)



### Forecast of CAPEX (billion RUB)



### Income of the Group

MTS forecasts slight increase of Group income in 2018 based on the following factors:

- Increased data traffic volume with decreased level of voice services use due to 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-cards sales in Russia;
- Changes in telephone sale structure due to optimization of retail distribution channels;
- Continued growth of income in Ukraine, nominated in Ukrainian hryvnias;
- Dynamics of revenue of foreign subsidiaries and volatility of currency exchange rates against
- Russian ruble.

### Adjusted Group OIBDA

MTS forecasts that introduction of new IFRS standards will increase adjusted OIBDA by 20 billion RUB in 2018. Without taking into account new standards of IFRS, MTS expects stable forecast for adjusted OIBDA of the Group for 2018 at the expense of the following factors:

- Growth of competition level and continued uncertainty against the background of potential
- optimization of retail distribution channels;
- Increased personnel costs;
- Potential effect from changes in the services pricing policy in the intra-network roaming in Russia;
- Revision of internal policies that regulate income from external suppliers' content; Consumer conduct and growth of high income products consumption, such as roaming; Expected growth of expenses for payment of frequency spectrum in Russia;
- Development of business in foreign subsidiaries, in particular, termination of operations in Turkmenistan;
- Macroeconomic changes and volatility of exchange rates in the markets where the Company operates.

### Capital expenditures of the Group

In 2018-2019 MTS plans capital expenditures at the level of 160 billion RUB as a result of the following:

- Potential investments for compliance with requirements of the anti-terrorism amendments package; 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 solutions in the Russian market;
- Continued investments into development of digital products.

# Key Markets

## Russia

For 2017 MTS revenue in Russia increased by 2.9% up to 412.3 billion RUB. Stabilization of the market from the point of view of pricing and increased consumption of mobile Internet services influenced mobile revenue growth, while status of economy influenced growth of sales of high quality smartphones of high pricing category. MTS fixed business continued growth in retail BBA and paid TV segments, however, revenue reduction in B2B segment influenced the combined revenue indicator, which demonstrated reduction by 0.6%.

Revenue from mobile business in Russia increased by 3.1% for the year up to 304 billion RUB. Main factors of revenue growth were growth of mobile Internet consumption, monetization at the expense of cancellation of unlimited tariffs and growth in the segment of international roaming. Positive dynamics reflects total improvement of consumer behavior in Russia.

MTS efforts for attraction and retention of high quality subscribers resulted in reduction of SIM-cards sales by 11% and reduction of subscriber base in Russia by 2.2% per year.

Reduction of connection rates became possible at the expense of changes in the MTS retail strategy and price competition decrease.

Number of subscribers that consume more than one service and use mobile, fixed and digital services from MTS, increased, which stimulates reduction of subscriber churn and revenue increase.

MTS fixed business continues demonstrating negative dynamics at the expense of fixed telephony subscribers reduction. In 2017 the revenue reduced by 0.6% down to 60.8 billion RUB.

MTS market share in the mass broadband Internet access and paid TV market amounted to 36 and 38%<sup>1</sup> accordingly as of the end of 2017. Number of GPON users in Moscow increased up to 1.85 million from 1.72 million people at the expense of MGTS efforts for involvement of subscribers into GPON network.

In Q4 2017 the revenue from system integration increased up to the record-breaking 2 billion RUB from 0.8 billion RUB in Q4 2016, however, it demonstrated stable dynamics y/y. Volatility of revenue indicator is caused by uneven distribution of contracts during the year.

MTS revenue from sales of goods increased by 5.8% y/y at the expense of software sales, telephones and accessories sales. The peak of such categories sales was in Q4 2017. Growth of software sales took place at the expense of execution of large corporate contracts for the software in Q4. Telephone sales margin achieved 16.1% at the expense of expensive smartphones sales growth. The growth was caused by user demand for premium smartphones, which make it possible to consume digital entertainment and financial services on them. The average smartphone price in MTS retail chain increased for the year by 24.7% up to 11,846 RUB from 9,502 RUB. The most popular brands were Samsung, Apple and Honor/Huawei, which amounted to around 85.8% of all devices sold in 2017.

<sup>1</sup> Only subscribers using digital TV platform are taken into account.

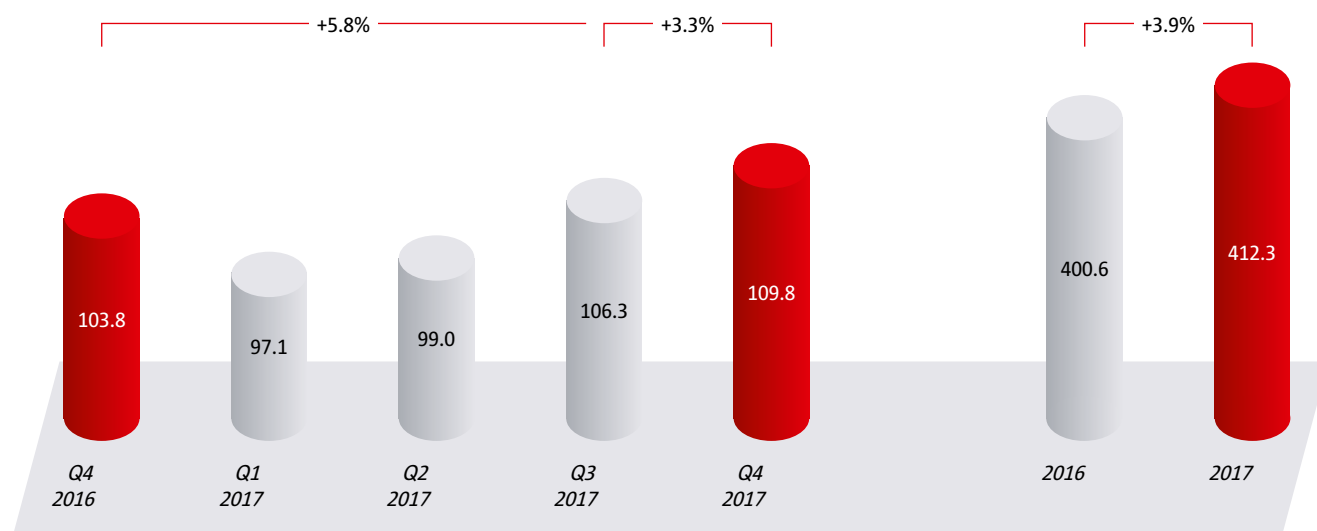


Revenue growth in 2017 was influenced by stabilization of the market from the point of view of pricing and increased consumption of mobile Internet services, and also growth of sales of high quality smartphones of high pricing category, which provide access to state-of-the-art digital services. In Russia MTS demonstrates higher absolute indicators of revenue, and best dynamics both q/q and y/y, increasing the gap from the main competitors.

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



## Revenue in Russia (billion RUB)



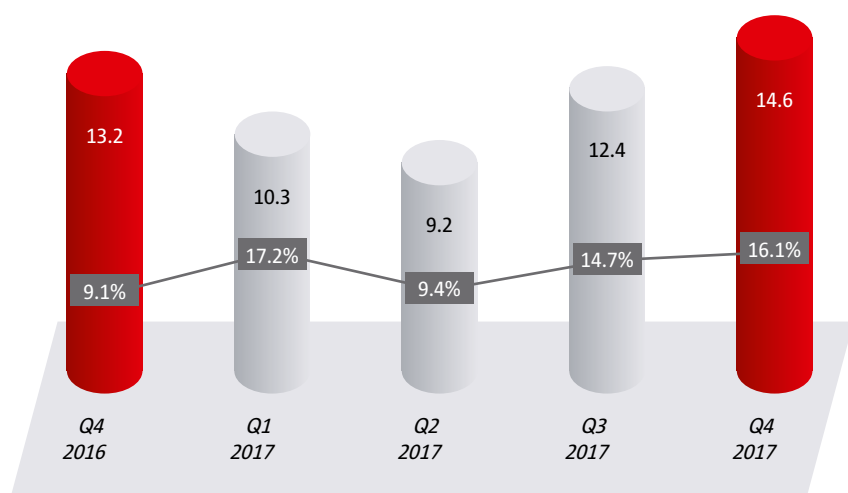
## Key indicators (billion RUB)

	Q4 2017	Q4 2016	Change, %	2017	2016	Change, %
Revenue	109.8	103.8	5.8%	412.3	400.6	2.9%
Mobile services	78.0	75.2	3.8%	304.0	295.0	3.1%
Fixed services	15.3	15.4	-0.6%	60.8	61.2	-0.6%
System integration	2.0	0.8	152.3%	5.6	5.6	-0.6%
Sales of goods	17.7	14.8	20.0%	52.5	49.6	5.8%

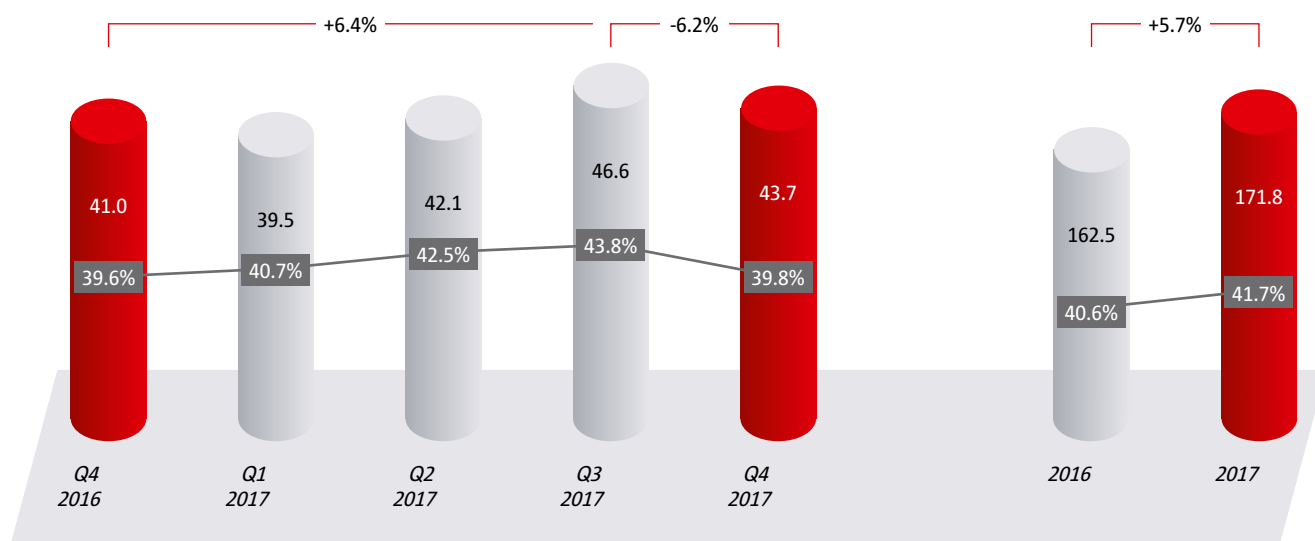
## Income from fixed business (billion RUB)

	Q4 2017	Q4 2016	Change, %	2017	2016	Change, %
Total	15.3	15.4	-0.6%	60.8	61.2	-0.6%
B2C	7.5	7.5	0.1%	30.0	29.9	0.5%
B2B+B2G+B2O	7.8	7.9	-1.4%	30.7	31.3	-1.7%

## Profit and gross income from sales of phones and accessories (billion RUB)



## Adjusted OIBDA and margin in Russia (billion RUB)

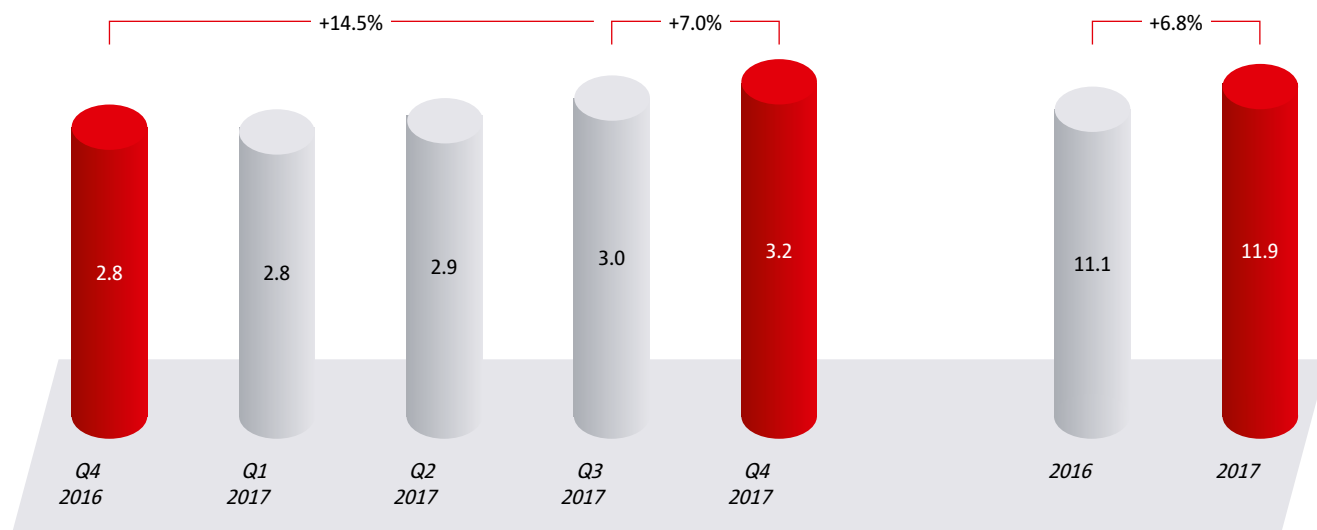


High growth of Internet services and other high margin services consumption, reduction of SIM-cards sales level, and also overall retail optimization influenced strengthening of adjusted OIBDA indicator. Growth of My MTS app users made it possible to optimize call center capacities and to increase efficiency of subscribers service, which positively influenced OIBDA indicator. MTS demonstrates higher OIBDA and OIBDA margin indicators, and best dynamics both q/q and y/y, increasing the gap from the main competitors.

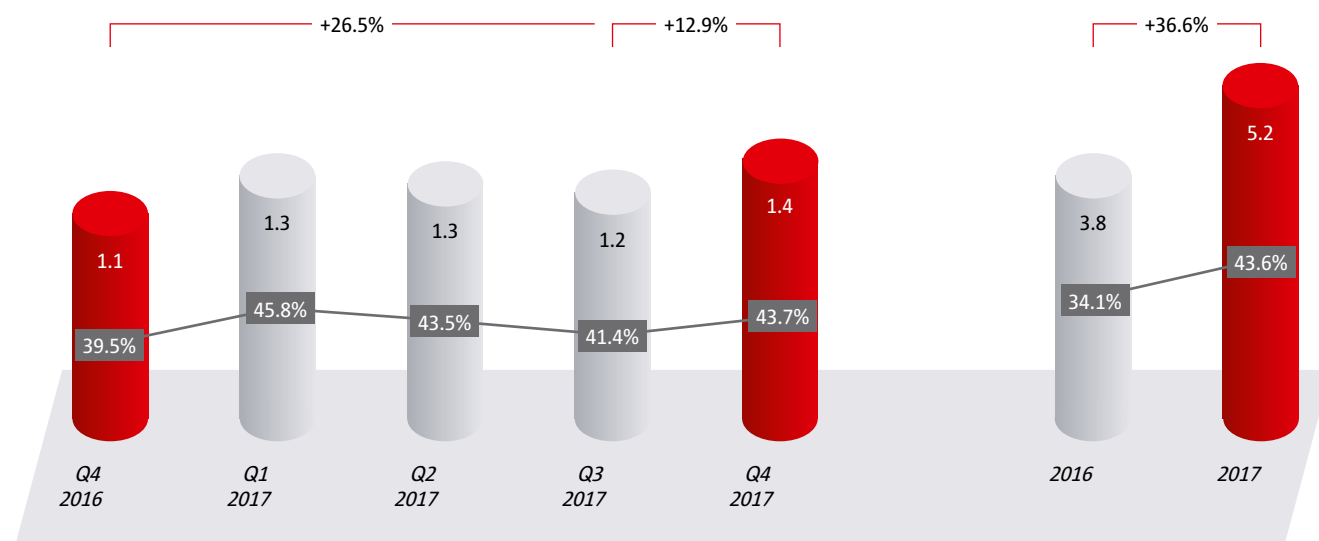
Alexey Kornya, MTS President

## Ukraine

### Revenue in Ukraine (billion UAH)



### OIBDA and OIBDA margin in Ukraine (billion UAH)

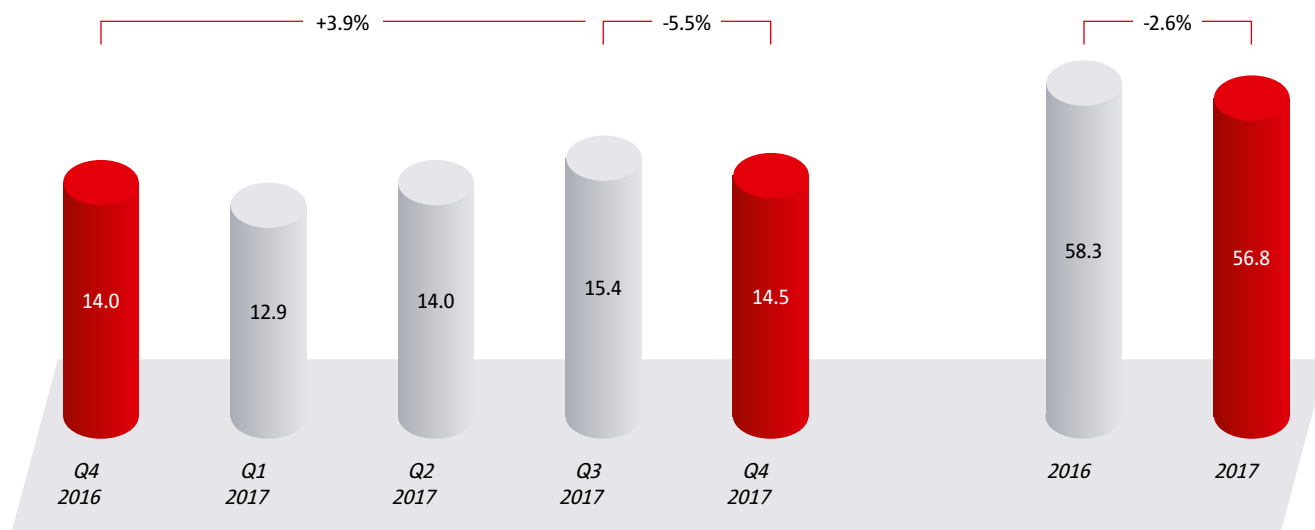


Revenue in Ukraine in 2017 increased at the expense of mobile Internet services consumption growth. The company actively develops the network in Ukraine and increases quality of Internet services. During the year the number of smartphone users and Internet subscribers increased by 27 and 19%, accordingly. Mobile Internet traffic increased more than twice since the start of 2017. OIBDA indicator increased up to 5.2 billion UAH at the expense of the 3G services revenue and optimization of company costs.

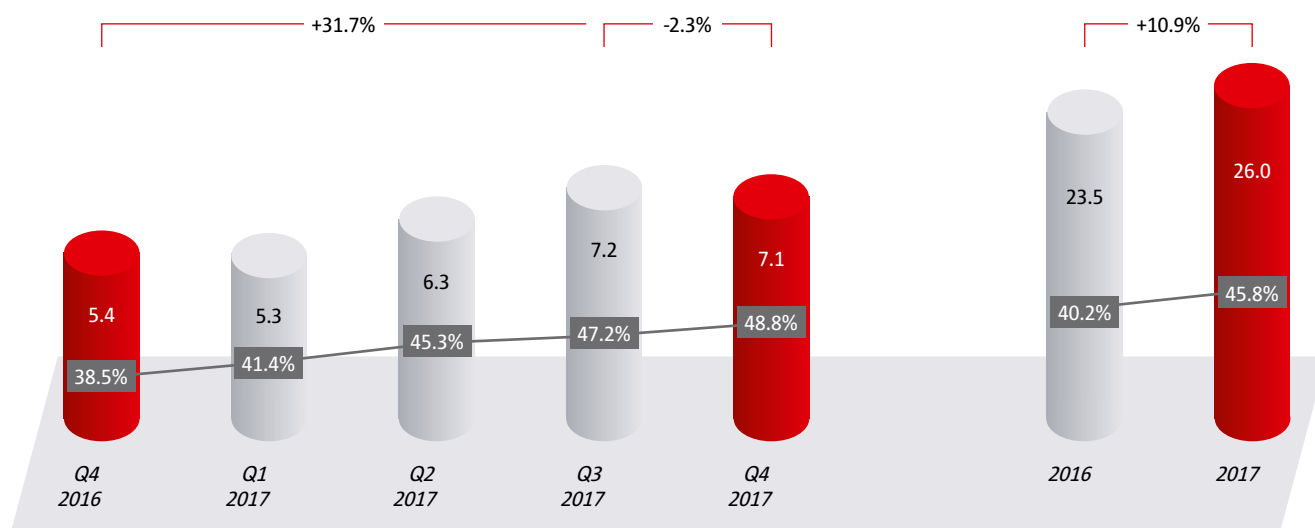
Vyacheslav Nikolaev, Member of the Management Board — Vice President, Marketing, MTS

## Armenia

### Revenue in Armenia (billion AMD)



### OIBDA and margin in Armenia (billion AMD)

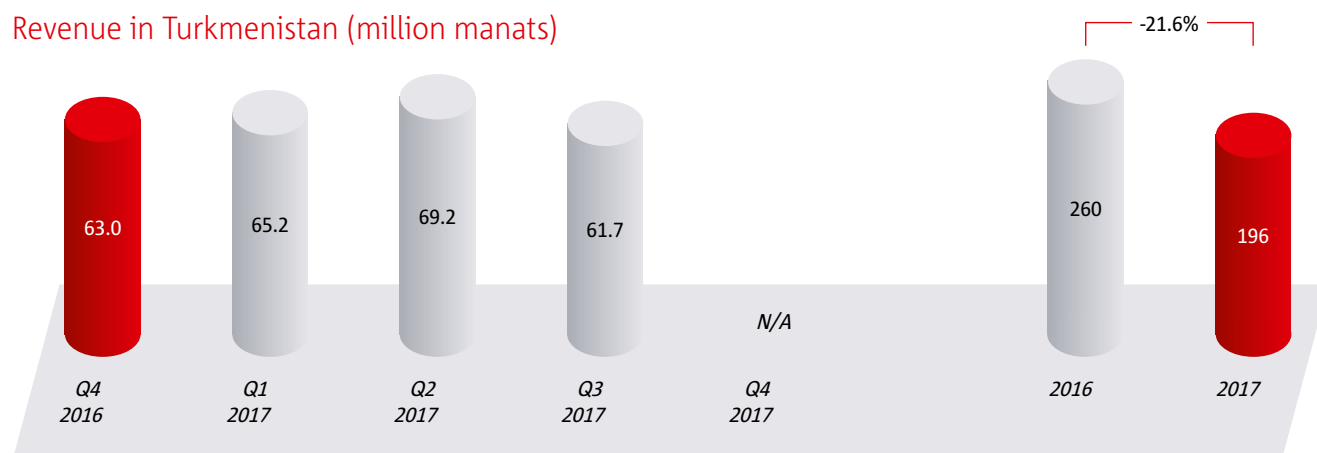


Revenue in Armenia reduced at the expense of voice services revenue reduction. The reduction is compensated by growing revenue from data transfer services at the expense of user number growth and increased popularity of packaged tariffs. OIBDA indicator in Armenia increased by 10.9% up to 26.0 billion AMD as a result of company efforts to reduce costs.

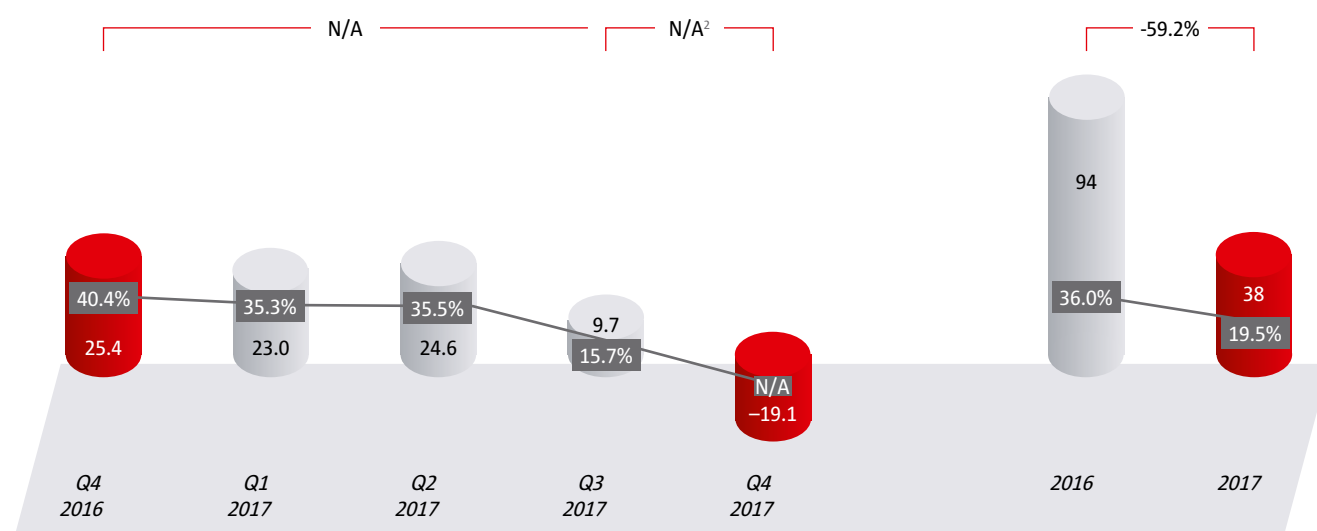
Vyacheslav Nikolaev, Member of the Management Board — Vice President, Marketing, MTS

## Turkmenistan

### Revenue in Turkmenistan (million manats)



### Adjusted OIBDA<sup>1</sup> and margin in Turkmenistan (million manats)



<sup>1</sup> On September 29 MTS had to suspend communication services provision in Turkmenistan in connection with actions of the state communication system Turkmentelecom for disconnection of services of international and long-distance zonal communication and services of access to Internet.

<sup>2</sup> Adjusted OIBDA for Q3 and Q4 2017 does not include loss from depreciation of non-current assets in the amount of 69.6 million manats and 122.9 million manats, accordingly



On September 29, 2017 MTS had to suspend communication services provision in Turkmenistan in connection with actions of the state communication system Turkmentelecom, which resulted in disconnection of services of international and long-distance zonal communication and services of access to Internet.

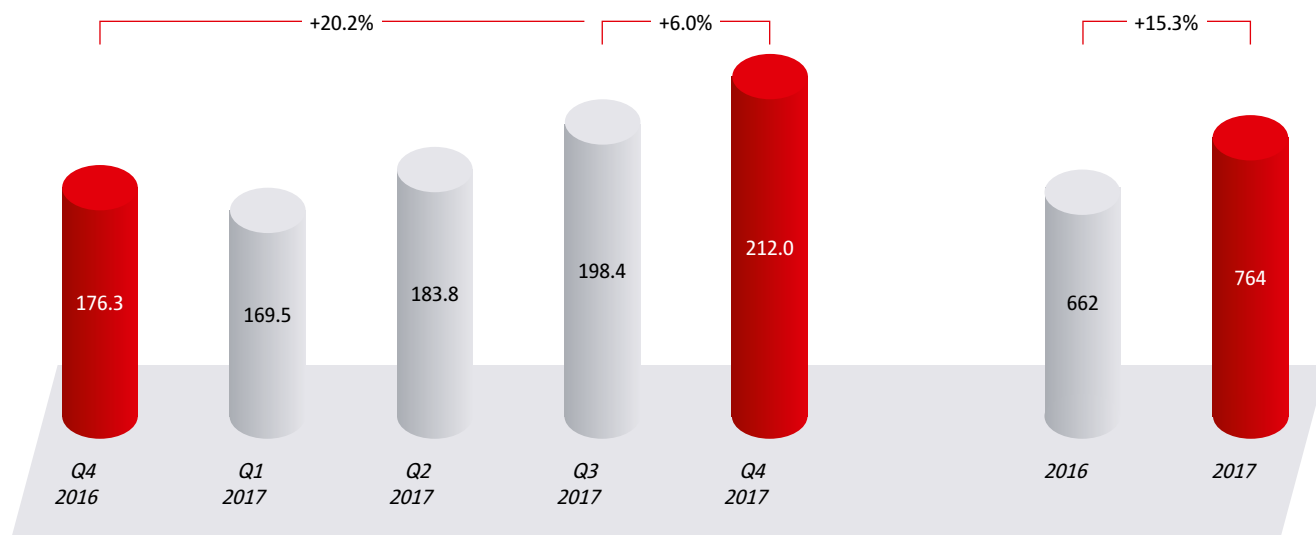
The license for services provision in Turkmenistan is valid till the end of July 2018.

MTS recorded the loss from depreciation of non-current assets in Turkmenistan in the amount of 192.4 million manats (3.2 billion RUB).

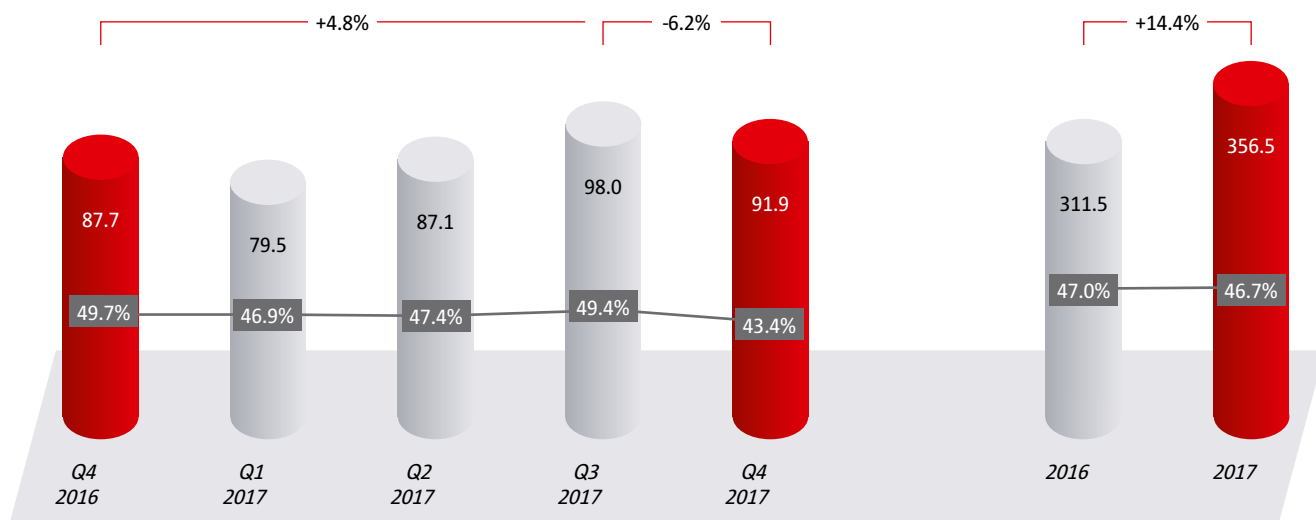
Vyacheslav Nikolaev, Member of the Management Board — Vice President, Marketing, MTS

## Belarus

### Revenue in Belarus (million BYR)



### OIBDA and margin in Belarus (million BYR)



Revenue in Belarus was growing during the year and achieved 763.7 million BYR. Indicator growth by 15.3% per year occurred at the expense of planned increase of tariffs in March 2017, growth of Internet services consumption and launch of packaged tariffs “Bezlimitische” and “4G”. High revenue indicators in retail based on marketing initiatives of the company also supported the revenue indicator. OIBDA indicator increased in accordance with revenue dynamics and amounted to 356.5 million RUB. OIBDA growth was supported by strengthening of local currency in respect to USD and EUR. OIBDA margin in Belarus amounted to 46.7%.

MTS maintains leadership positions by subscriber base in Belarus. The subscriber base in the country is stable at the level of 5.2 million subscribers.

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



## Essential 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 authorised capital of the affiliate, %: 100

Primary business: sales of MTS PJSC services.

### VF Ukraine Private Joint Stock Company

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

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

### Moscow City Telephone Network Public Joint Stock Company

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

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

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

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

## Information on Significant Transactions of Affiliates

No such transactions were carried out in 2017.

## MTS 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, Credit watch "under revision"
Fitch	BB+, Rating watch "negative"
RA Expert	ruAA, developing "under observation"

On December 20, 2017 the rating agency RAEX (Expert RA) completed the procedure of rating assignment to MTS PJSC, and the decision was made to assign credibility rating to a non-finance company at the level of ruAA.

Changes that occurred after the reporting date

Standard & Poor's	BB, Credit watch "negative"
Fitch	none
RA Expert	none

<sup>1</sup> As of December 31, 2017

# 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 capitalisation, taking into account the relation between risk and return of investments acceptable to the shareholders and the management of MTS Group.

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

The main principles of the risk management process are as follows:

- integration principle. Provides for systemic approach to management of all types of risks inherent in MTS business, in all 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 in implementation of a complex of ordered risk management procedures on a regular basis;

- justification principle. Provides for analysis of ratio between costs for risk assessment reduction and potential damage from their realization.

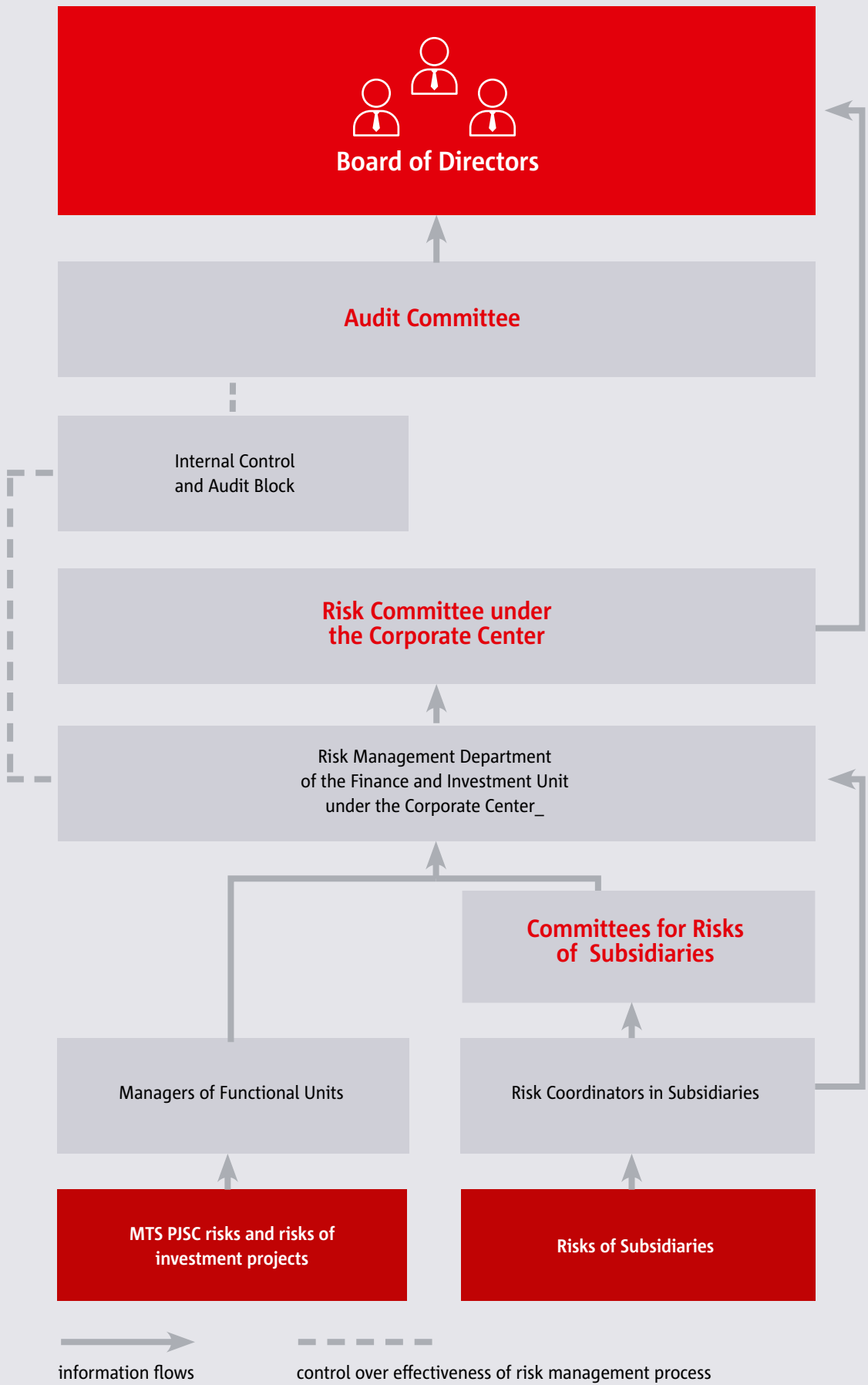
Integrated risk management includes building and quarterly maintaining the effective system for detection and systematic analysis of Company risks, mandatory accounting of considerable risks when making management decisions, distributing responsibility for risk management, developing Additional Actions and plans of response to considerable risks and control of their fulfilment, monitoring risks and effectiveness of their management, accumulation of knowledge in the field of integrated risk management.

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 the cross-functional projects and the preparation of external reporting), that 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.

Risk Management Department of the Corporate Center (RMD CC) assesses the most significant risks on the basis of 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.

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



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 feasibility of their costs and restriction of resources; MTS risk portfolio management strategy, etc.

Notification of the 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.

## Organisational 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 integrated risk management in the company. Cross-functional interaction with the risk owners in subsidiaries is provided by risk coordinators in 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, implementation of risk management measures and reporting on the activity 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. MTS Board of Directors delegates monitoring of risk management efficiency to the MTS Audit Committee, as well as reviews the Audit Committee reports.

## 2017 Key Activities

- Risk Committee meetings of MTS CC, MTS-Ukraine, MGTS and RTC 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 2018

In 2018, it is planned to update section 20-F for the New York Stock Exchange and regularly hold Risk Committee meetings. 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 may potentially influence MTS PJSC business results are provided below.

Details on these and other risks see in the section "Item 3 — Key Information — D. Risk Factors" of the Annual Report according to the form 20-F, and in quarterly reports of MTS PJSC<sup>1</sup>.

<sup>1</sup> [http://www.mtsgsm.com/resources/annual\\_reports/](http://www.mtsgsm.com/resources/annual_reports/).

## Risk Factors

Risk Description	Risk Mitigation Measures
<b>External environment risks</b>	
<p>Macroeconomic and socio-political instability, just as possible future downturns or 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 can lead to the decrease in our revenues and performance indicators and adversely affect the security of assets.</p>	<p>We are now monitoring the macroeconomic situation in the markets where the Group operates. In order to strengthen our leading position, we are focused on the expansion of coverage and capacity of the existing network, as well as on ensuring the satisfaction of customers with the quality of communication services.</p>
<p>We can be influenced by country and political risks, as well as the risks associated with the legal status and the ability to provide uninterrupted services in the countries where we operate, which may affect our financial condition, the security of assets and operating results.</p>	<p>We are now monitoring the political situation in the markets where the Group operates, which allows responding quickly to the changing conditions in the markets functioning.</p>
<p>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, an issue on changes in the existing approaches and rules in the field of regulating prices for the services of interconnection and traffic transit is being considered. On 04.04.2016. The Ministry of Communications of Russia adopted Order No. 135 "On Approval of Requirements for the Operation of Communication Networks and Correction of Communication Networks In Terms of the Use of Services of Third-Party Organizations by Communication Operators". The order came into force on July 26, 2017. According to the Requirements, a telecom operator must provide on quarterly basis information about foreign organizations and foreign citizens involved in services and works associated with operation and management of its communication network. At the same time, telecom operator must store for three years information about all actions performed with communication facilities by its maintenance staff or third parties in the course of operation and management of the communication network, both from workstations and using remote access. Currently, consultations are being held with the Russian Ministry of Communications in order to determine the exact list of communication facilities and actions with them, details of which must be stored. 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 three 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. The effective date of the specified regulation in part of message content storage is set forth as July 01, 2018. On April 19, 2018 the Regulation of the Government of the Russian Federation was approved on the rules of communication providers storage of text messages, voice information, images, sounds, video and other messages by communication services users. According to this Regulation, voice traffic storage shall be carried out from July 01, 2018 during six months, data network traffic from October 1, 2018 — in technical means of information accumulation with capacity equal to the volume of telecommunications messages sent and received by subscribers of the specified operator (actual traffic) for 30 days, preceding the date of commissioning of the technical means. Besides, the Regulation provides for annual increase of data network traffic storage system storage by 15%. Compliance with these requirements will require significant material investments. These and other potential regulatory changes in the future may entail decrease in revenues/additional costs for the operator, which may adversely affect the financial position and performance.</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>

## Operation risks

The considerable part of our expenses, costs and financial obligations, including capital expenses and loans, are denominated in USD and/or EUR or linked to USD and/or EUR exchange rate, while the large portion of our income is denominated in local currencies of the countries where we operate. The situation in our markets, including stability of the banking system, inflation, change in exchange rates of local currencies against USD and/or EUR, a possibility for free conversion of currencies and making currency payments impacts our operating performance and business results.

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.

A number of portfolio structuring measures has been taken in order to reduce dependence on exchange rate fluctuations, including implementation of currency risk hedging program.

The 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 negative effects on our business.

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.

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

In order to ensure stability of the network and continuity of communication services rendering, the network management system is centralized, and the operation system provides for regular maintenance and use of the reserve telecommunications equipment. Information security in network management is provided by a complex system of technical and organizational information security measures.<sup>1</sup>

We invest in expanding the portfolio of value added services and also in building communication systems (including 4G), developing wireless and fixed-line communication services, television and other new competitive services. Our competitive status, financial and performance indicators, among other things, depend on success in implementation of these initiatives.

We provide a balanced investment policy in order to expand the network infrastructure and the range of services rendered.

## Compliance with requirements

Being a company whose stock is 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 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.

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. MTS PJSC is cooperating with the above-mentioned organizations: it provided the information upon request and continues to provide answers on demand. Since the investigation has not been completed, there is no way to predict its outcome, including the possible imposition of fines and penalties which could be significant.

There are special rules and procedures necessary for the prevention of corrupt practices both on the part of employees and contractors applicable in the company<sup>2</sup>.

The system of taxation in the countries where we operate is undergoing constant changes; 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 use the experience of qualified consultants quite often.

We use radio frequencies distributed by the governments of the countries where we operate. Our network capacity and possibility of its expansion, which, among other things, is important to maintain our market share in terms of subscribers and profits, depends on the possibility of timely prolong the right for currently used radio frequencies and receive new ones.

We are monitoring the deadlines for the licenses for the provision of telecommunication services and take all necessary measures for their timely extension, ensure compliance with license conditions and other regulatory requirements.

<sup>1</sup> More detail on information security may be found in "Information Security and Protection" of this report.

<sup>2</sup> More detail on compliance system may be found in section "Compliance and Culture of Good Faith Behavior" of this report.



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**Strategic risks**

Our business, performance indicators and financial position depend on the competitive environment in the countries where we operate, demand for our services and efficiency of operations. The telecommunications market is characterized by rapid technological changes and differs by continuous emergence of new competitive products and services. Increased competition associated with the emergence of new market players, as well as the increased use of IP-telephony and other services provided via the Internet, may adversely affect the ability to support subscriber base growth and lead to a reduction in operating income margin, a reduction in market share and use of different pricing, servicing or marketing policies, and have a material adverse effect on the business, financial condition and operation performance.

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We invest in the development/update of the communication networks, as well as in the related business areas. Our strategy involves the creation of synergies with the Group companies as part of the development of the technological base for the expansion of the range of services for all market segments and strengthening the leadership in the telecommunication industry.

# Compliance and Culture of Good Faith Behavior

## Unified Compliance System of MTS PJSC

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

In 2017 systematic and forward development of the Unified Compliance System continued, and the Company implemented several significant projects in this area. Following the results of 2017, the Unified Compliance System included eight risk areas (compliance programs):

- Anti-Corruption Compliance;
- Inside Compliance;
- Personal Data Processing Organization;
- Counteraction of the Laundering of the Proceeds of Crime and the Financing of Terrorism (CLPC/FT);
- System of Antimonopoly Risk Prevention (Antimonopoly 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 implementation and operation of the Unified Compliance System is entrusted to the Compliance Department of MTS.

Introduction of the Unified Compliance System enabled the Company's management and management bodies to gain more structured understanding of the existing compliance risks and take these factors into account when making management decisions, which positively affected the overall performance of the Company.



Our company was one of the first in Russia to implement best global practices in the field of compliance management. The certification audit successfully completed in 2017 and obtaining the certificate of conformity of the MTS compliance management system with the international standards ISO19600:2014 "Compliance Management Systems" and ISO37001:2016 "Anti-Corruption Compliance Management Systems" once again confirm commitment of the company to the standards of doing business with account of compliance, demonstrate to investors, regulators and business partners high level of corporate culture established in the company.

Yulia Romashkina, Director, MTS Compliance Department

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

The most substantial for the purposes of compliance management development in MTS was the project of certification audit of conformity of compliance program with the unified compliance system with international standards ISO19600:2014 “Compliance Management Systems” and ISO37001:2016 “Anti-Corruption Compliance Management Systems”. The audit was performed by the international team of auditors — recognized global experts in the field of compliance. The decision on certification of the company was made by the Certification Committee of the International Compliance Association (ICA). All risk areas of the unified compliance system, which during more than one month were audited for their efficiency, participated in certification. Within the project framework, over 110 meetings and video conferences were held in the Corporate Center and regions with the President and top managers, officers and employees. Besides, the auditors studied more than 220 internal documents of MTS and other proof of efficient operation of the unified compliance system and individual compliance programs.

Following the results of the project, the Certification Committee decided on the issuance of the certificate of MTS Unified Compliance System conformity with ISO international standards.

Besides, the Company received recommendations on system improvement, results of work on which will be provided by the Company to independent auditors within the following supervisory audits.

## Compliance Committee

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

The Committee was established to make decisions on the issues of formation and implementation of compliance programs making the Unified Compliance System; the main tasks of the Committee are implementation of a policy in the field of compliance risk management and making proposals on the development priorities of MTS Group in this area. For 2017 five Committee meetings were held, the process to provide the management reporting to the Committee was adjusted, and such management reporting is generated on a quarterly basis by the work team under the Committee, comprising the employees functionally responsible for compliance programs and performing the instructions of the Compliance Committee.

## Day of Ethics and Compliance

For the third year already on October 23 the Company is celebrating the corporate Day of Ethics and Compliance.

In 2015 the main subject of the Day of Ethics was the anti-corruption compliance. A year ago organization of the Days of Ethics was joined by colleagues from the Corporate Law Department (anti-monopoly compliance) and H&S Bureau (labor protection control system). This year co-organizers of the Day of Ethics and Compliance were all departments supervising compliance programs in the company.

Within preparation for celebration, a large-scale information campaign was conducted. Directly on October 23 all employees received a letter with the message of the Compliance Department Director on the good faith conduct culture.

More than 700 employees from all regions of Russia took part in training sessions, workshops, competitions. Over 20 events and other activities were held in total, including a general quiz that contained questions in all areas of compliance. Following the results of events, 45 employees became winners and were awarded with books and diaries with the compliance logo.

## Code of business conduct and ethics of MTS PJSC

Code of Business Conduct and Ethics (hereinafter, the Code) contains the basic business principles of MTS PJSC. In its activities the Company complies with legislation and generally accepted standards of business ethics and does not accept any other ways of doing business that are contrary to these rules.

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The Code should be regarded as a document containing a minimum set of standards and requirements adopted by the Company in order to promote fair and ethical business practices and to prevent abuse. The Code defines the rules and standards that should be followed by the employees in their everyday work. In cases requiring application of higher standards

than the accepted commercial practice, or regulations having greater legal force under the current legislation, MTS will use such higher standards.

The MTS PJSC Code covers such subjects as MTS and employees, MTS and customers, MTS and society, MTS and laws, messages and contacts regarding violation of the Code, which strengthen responsibility of the Company to employees, subscribers, shareholders, partners and all stakeholders and the public.

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

The Code is a fundamental document which guides the Company in its daily activities and helps to protect the good name of the Company and maintain its competitive advantage.

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

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

MTS operates successfully in the markets of Russia, CIS and Eastern Europe. Acting sometimes in difficult political and economic conditions, MTS invariably adheres to high business ethics, transparency and legality standards, regardless of business customs and other conditions of business of a certain jurisdiction.

Being a large public company, MTS understands the necessity for development of a favorable business environment in the markets of presence and undertakes efforts aimed at promotion of best compliance practices.

The anti-corruption compliance system at MTS PJSC sets forth measures aimed at regulatory risk management, prevention and protection of the Company against any manifestations of corruption both inside the Company and against attempts to involve the Company into the corruption activities from outside, improving corporate

culture of the Company, implementing and developing in the Company best corporate governance practices as well as standards of responsible business conduct relying on norms of applicable legislation, recommendations of regulatory bodies, industrial specifics and best practices in this area.

Complying with recommendations of regulatory bodies, specialized international organizations and researching best practices in the field of development of corporate anti-corruption compliance programs, MTS generated its approach on the basis of the following principles:

- active involvement and support from the side of the management in development and functioning of compliance system and direct participation in its individual mechanisms (Tone from the top);

- performance of regular events to detect and subsequently update corruption risks;
- introduction of anti-corruption procedures that reasonably and proportionately meet the level and nature of detected risks, improvement of internal policies and procedures;
- orientation at achievement of long-term strategic objective for establishment and development of compliance culture in the company;
- training of employees and members of management bodies in principles and standards of compliance with applicable anti-corruption legislation by means of a specially developed training system;
- monitoring of efficiency of introduced procedures for corruption prevention and monitoring of their compliance;
- implementation of specially developed due diligence procedures both in respect of contract parties — legal entities (including members of joint ventures, companies or associations, including when the Company acquires the interest in any legal entities) and in respect of individuals with whom the Company plans to enter into a labor contract or a civil law contract;
- annual assessment of corruption risks in business processes of the organization with active participation of business units;
- realization of preliminary control, generating of reporting and subsequent analysis of riskiest transactions from the compliance point of view;
- inspections of the discipline of execution of the established procedure for implementation of business processes, including inspections of lawfulness of executed transactions with Company's assets;
- ensuring operation of a single "hot line" (control&audit@mts.ru), making it possible to send messages on violations in the field of compliance anonymously. Bona-fide claimants are provided by the Company with protection from any forms of persecution or discrimination;
- continuous study of potential for automation of compliance procedures and controls on the basis of cutting-edge IT solutions.

Classroom training on the subject of anti-corruption compliance was provided to 3935 (within 128 training events) Company employees and subsidiaries and affiliates of MTS, including Company top management

17,641 MTS employees had e-training

Classroom training on the subject of principles and requirements of MTS in the field of anti-corruption compliance was attended by 169 contractors of the company

In 2017, the Company implemented many projects and initiatives within the framework of the development of the anti-corruption compliance program and strengthening of compliance culture:

- in the beginning of 2017 the Company performed the survey on assessment of compliance culture, where 1880 respondents — company employees — took part. Based on survey results:
  - 98.2% of respondents noted that the compliance with the anti-corruption laws at MTS was a value that MTS employees adhered to at all levels, as well as it was what was expected of them by the Company;
  - more than 95% of employees stated a good level of awareness of the requirements of MTS regulations on Compliance and ethical values existing in the Company;
  - 92.9% of the survey respondents highly appreciated the personal example of managers on non-acceptance of corruption and ethical violations;
  - the majority (79.7%) of the survey respondents noted that the existing corporate compliance culture has improved over the past three years;
- independent assessment of efficiency of the corporate anti-corruption compliance program was performed in the largest subsidiary VF Ukraine PJSC, and subsidiaries for further such assessment were identified;
- the IT-solution was identified, and the supplier was chosen under the project of compliance processes and procedures automation;

- large-scale campaign was conducted for classroom training of employees of the Corporate Center and regions in the field of anti-corruption compliance;
- internal communications actively covered the subject of compliance: during the year, newsletters on quarterly monitoring of the regulatory environment, news on update of the compliance section in the internal portal of the Company, notices of compliance events, a video was published, which was

prepared for the International Anti-Corruption Day, a notice of the webinar by invited speaker, news on launching the project of compliance representatives, etc. The corporate magazine published four articles on compliance;

- in 2017 the company launched the program of compliance representatives designed to improve involvement of representatives of business units into compliance system operation. Within the program, 14 employees-volunteers were engaged from various business functions;
- during the year, work was in progress to improve internal compliance controls, three new controls were introduced, 15 controls were amended. In total as of the end of 2017, 140 compliance controls were introduced in local regulations of the company in 48 documents.

**In 2017 following the results of voting by the expert council of the international award C5 Women in compliance Awards 2017 Yulia Romashkina, Director of MTS Corporate Center Compliance Department, became the winner in the nomination “Best Chief Compliance Officer in Europe, region of the Middle East and Africa”**

## Handling conflicts of interest

For the purposes of establishment of a uniform and efficient actual and potential conflict of interests management system as well as definition of requirements for employees’ conduct, observance of which enables to minimise risks of making decisions under the influence of personal interests and connections, in 2012 the Company put into operation the Policy “Conflict of Interests Management”; in 2015, a new version of the Policy was approved, in 2016 a new version of the Annex “Disclosure of information about the conflict of interests” was adopted, supplemented with a clause on relatives in government structures. Compliance with the Policy is an obligation of any employee of the Company, irrespective of its official position. Employees holding management positions are obliged to show the example of law-abiding and ethical conduct and actively support execution of the Policy “Conflict of interests management”.

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

In the beginning of 2017 the Company conducted annual survey-testing of knowledge and certification of compliance with the standards of the Code of Business Conduct and Ethics and the Anti-Corruption Policy. Out of 433 participating managers, eight declared data containing features of the conflict of interest (COI). Five potential COIs and three actual COIs were settled.

During 2017 the inspection was conducted, and expert review was provided on data of 255 situations for availability of conflict of interest: nine actual COIs, nine potential COIs were settled, in 221 situations there were no conflicts of interest, 16 actual and potential COIs, which were announced in 2017, were settled earlier.

## System of antimonopoly risk prevention (antimonopoly compliance)

Anti-monopoly compliance of MTS is based on requirements of applicable anti-monopoly law, changes of which are monitored continuously. MTS also analyzes anti-monopoly practice and experience of preventing risks of other companies, improving control procedures and adapting training and information materials for the personnel.

In 2017 training of employees on anti-monopoly requirements continued, a remote training was launched, which made it possible to expand the training geography and involve more employees compared to previous periods. Besides, the company issues information materials for employees on issues of working with competitors, contractors and consumers of services, and interaction with anti-monopoly authorities.

Company management participated in internal meetings, including those with attendance of a large num-

ber of regional employees, with reports on importance of compliance with anti-monopoly restrictions.

The Company in 2017 conducted internal audit of individual anti-monopoly controls, which confirmed their efficiency, but also detected the potential for improvement and reinforcement of control procedures that will be implemented in the nearest future.

All mandatory and necessary procedures were implemented: annual risk reevaluation was completed, which found no substantial changes in the company's anti-monopoly risk map, employees consulting is being performed, and the unified "hot line" is operating, the anti-monopoly compliance managers participate in business processes that are largely exposed to anti-monopoly risks: pricing, execution of agreements, cooperation with communication operators and many more.

## 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 insider 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. This person is accountable to the Board of Directors.

The Company operates the system of measures, processes and procedures aimed at preventing breaches of legislation on the usage of insider information built with due account 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 order to ensure compliance with the requirements for "closed" periods, the system provides for quarterly reporting (twice per quarter) of employees and members of management bodies on their beginning and end. In addition, special calendar has been created in a special information system for members of the management bodies, which contains up-to-date information on the current "closed" or "open" period.

In 2014, full-time regular training program for all insider employees of the Company has been operating, covering their duties, requirements and prohibitions of legislation on the use of insider information as well as procedures for insider information protection applied in MTS. In addition, when hiring, each employee is familiarized with MTS regulatory documents aimed at preventing violations of insider laws.

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



## 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 any 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 it is allowed to make a transaction or not, it is better to refrain from the transaction

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

In order to maintain an effective system of insider compliance, the Company audits system's controls: on an annual basis by efforts of employees involved in the operation of insider compliance system (verification of compliance with insider system requirements related to notification of insiders on their addition and removal from the List of insiders, and fulfillment by insiders of their obligations to notify the company of transactions with MTS securities, compliance with insider information disclosure rules, maintaining the List of insiders etc.); as necessary (on the basis of risk-oriented approach) — by internal audit department, headed by a person accountable to the Board of Directors. In the end of 2017 we started building a formalized risk map in the area of inside compliance and plan to complete this project in Q1 2018. Our next step will be elimination of faults that will be detected as a result of map building.

## Personal Data Processing Organization

The main and most significant event within the program in 2017 was inspection (state control) for compliance of Company's business with requirements of the legislation of the Russian Federation in the field of personal data conducted by 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.

The Company developed a plan to prepare for inspection, and all stakeholders in the Corporate Center and branches of MTS PJSC were involved to perform actions of it. The plan was approved by the Vice President, Corporate Security and Access Control, who was notified on a quarterly basis on completion of planned actions.

The inspection was completed by the regulator in the period from November 1 to December 27, 2017.

As a result of inspection of facts of illegal access to data on subscribers, no illegal transfer and distribution was established.

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

ance program did not stop in 2017. For example, within the process of rising awareness of Company employees in the field of personal data processing, the remote training course "Personal Data Processing in MTS PJSC" in accordance with requirements of the Federal Law No.152" was attended by 7,880 MTS employees.

## Counteraction of the Laundering of the Proceeds of Crime and the Financing of Terrorism (CLPC/FT)

The AML/CFT program has been developed in accordance with the applicable legislation, which is monitored on a regular basis.

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

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

In 2017 the Company:

- approved the regulation of the process "Rules of Internal Control for the Purposes of Counteraction of the Legitimization (Laundering) of Proceeds of Crime and the Financing of Terrorism";

- approved the new version of Operating Instruction "Freezing (Blocking) Funds Deposited in Clients' Personal Accounts";
- approved the new version of Policy "Rules of Internal Control for the Purposes of Counteraction of the Legitimization (Laundering) of Proceeds of Crime and the Financing of Terrorism";
- external training of 121 management employees was organized;
- working meetings on current AML/CFT compliance issues were held with regulators: representatives of the Federal Financial Monitoring Service, the Federal Service For Supervision In The Sphere Of Communications, Information Technology And Mass Media (Roskomnadzor), and telecom operators.

Roskomnadzor's audit of compliance with the law requirements in the area of AML/CFT was supported (in the CC and all branches (except for the Kursk and Astrakhan Regions). Formal comments made during the audit were cleared. The auditors noted high level of work organization in this area".

## Health and Safety Management System<sup>1</sup>

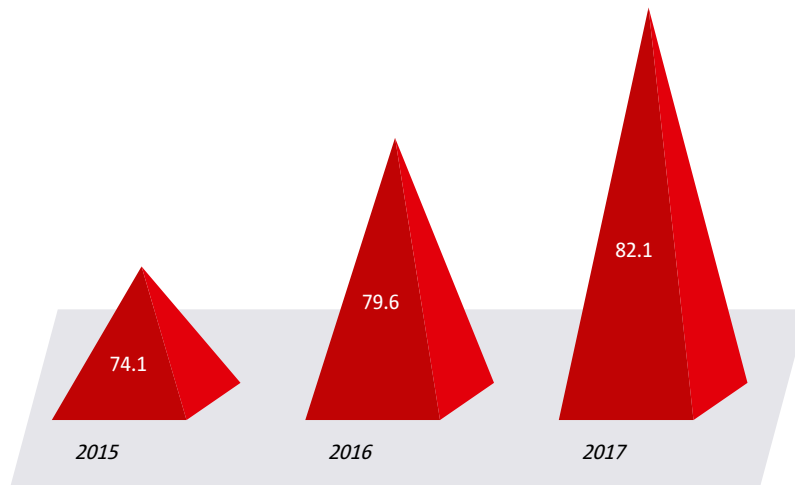
Personnel safety is the main component of corporate social responsibility of the Company.

When building "Health and 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 environment, prevention of occupational injuries and personnel training of safe work rules.

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

## Total amount of expenses for health and safety in 2017



The following is provided within the program:

- special evaluation of labor conditions and production monitoring, with the purpose to identify and minimize risks;
- medical examination;
- training of employees and experts in the field of health and safety;
- 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 of various levels, and cooperation with regulatory authorities is also provided.

In 2017 16,917 persons underwent external and internal health and safety training. As of December 31,

2017, in the MTS Group Corporate Center and MTS PJSC branches, 24,456 workplaces (92% of the total quantity of workplaces) were evaluated.

MTS employees engaged in work with harmful and (or) dangerous working conditions undergo preventive (at employment) and periodic (during work) medical examinations.

During the reporting period, MTS PJSC held preventive and periodic medical examinations of 3021 and 8301 employees, respectively. Following the results of periodical medical examinations, 35 employees needed transfer to another work — their functionalities were accordingly amended; health resort treatment was recommended to 52 employees, which they were able to get at the expense of the Company's funds.

H&S management system in MTS PJSC has been recognized at the federal, provincial and regional levels. In 2017 some MTS branches became prize winners of various H&S review competitions.

## Ecology<sup>1</sup>

In its activities MTS strives to not only have a minimal impact on the environment, but also to reduce this impact. Achieving this objective, the Company is guided by the environmental legislation, as well as the

principles of responsible business conduct, strives to improve the environmental culture of employees and partners and to implement services based on advanced technologies.

<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>

Within development of the “Ecology” compliance program, in 2017 the MTS Environmental Safety and Environment Protection Policy was developed, which reflects the position of the Company in respect to the environment at facilities of administrative purpose and implementation of sustainability principles in the

current context, and is also the basis for determination of MTS development strategy, scheduling of Company’s business in the sphere of environmental protection in the short and mid run. Internal programs for employees are also important in order to attract their attention to issues of environmental protection.

## “Human Rights at the Workplace” compliance program

In 2017 the “Human Rights at the Workplace” compliance program was included into the Unified Compliance System of MTS. The program is a combination of the necessary and sufficient elements, development of which makes it possible for the Company to ensure effective compliance with its obligations in the sphere of respect for human rights. Program development is aimed also at notification of employees, contractors and partners of MTS on main Russian and international principles of respect for human rights.

MTS fully shares the generally recognized global approach to respect for human rights. Human rights are basic, and all people are entitled to them.

There are several corporate documents in MTS, where the employees may find exhaustive information on their rights, obligations of the employer, on methods of settlement of possible conflict situations; The Policy “MTS Activities in the Field of Corporate Social Responsibility”, Annex “Human Rights” to the Policy “MTS Activities in the Field of Corporate Social Responsibility”, Functional strategy of MTS in the Field of Corporate Social Responsibility, Code of Business Conduct and Ethics, MTS PJSC Compliance Policy and Internal Code of Labor Conduct. There is a unified hotline operating in the Company, where employees may send their questions and get qualified answers from employees of responsible business units.

Following the results of 2017, “Human Rights at the Workplace” compliance program has been further developed.

- An informational video commercial — address of MTS top management regarding the respon-

sible conduct of business and transparent supply chains — has been developed for MTS suppliers.

- Certified training in “Corporate Social Activity Management” has been conducted for suppliers within the framework of the Day of MTS Suppliers, 130 representatives of MTS partners completed the training.
- An informational video commercial — address of MTS top management — “Simply about Important Things: CSR” has been developed for MTS employees regarding the CSR, particularly, human rights.
- Supplements to Policy “MTS Activities in the Field of Corporate Social Responsibility”, in particular, Annex to the Policy “Human Rights” have been developed.
- Certified training have been conducted for MTS regional employees and employees of functional divisions that participate in the implementation of CSR projects (including issues of respect for rights of employees) on the subject: “Corporate Social Responsibility”.
- Independent audit of MTS internal processes was held on working, responding and eliminating possible disputable situations on human rights issues.
- In the area “Human Rights at the Workplace”, risks were evaluated at the level of business processes, the relevant risk map was developed.



An abstract geometric composition featuring a large red sphere and a smaller yellow sphere resting on a white ribbon that curves across the frame. The background includes a red curved surface, a light brown wooden surface, and a light blue surface. In the bottom right, there is a pink cylindrical object with a red dot on top. In the bottom left, there is a stack of light brown wooden blocks. The text "Corporate Governance" is overlaid on the left side of the image.

# Corporate Governance





# Report of the Board of Directors

## Results of the year in the context of implementing the Company's strategy

The year of 2017 became for the Board of Directors and the company as a whole a year of sweeping changes, related to start of implementation of 3D strategy: Data. Digital. Dividends and performance of the digital transformation process. For several years the Company's business has been undergoing evolutionary changes, where its core element — mobile communication services — became surrounded by new components: fixed segment, retail chain, banking services, satellite TV. Acceptance of Digital areas as the main vector of further development resulted in dramatic acceleration of our forward movement towards new areas, and at the same time significantly expanded the horizon of management decisions taken by us. Now we are looking not only at the telecommunications environment, but also at the areas that are less and less connected to it, but in which, in our opinion, we may achieve success. Besides, the management and the Board of Directors of the Company have the following key objective: to focus at a wide spectrum of different markets, prudently selecting areas for concentration of efforts and expansion. And this presents stricter requirements to qualification of the management and increases the price of decision making.

The necessary condition of success achievement in the dynamic requirement is flexibility, therefore, during the year, we added changes to the business structure, the organizational environment, corporate culture, approaches to strategic management. We formulated the principles that we adhere to in process of making decisions under Digital reality conditions.

- The scale of the business core — telecommunications — shall not shadow new areas. Areas that currently generate units of percent in the structure of our revenue, need the same attention as communications, require management resource involvement, we dedicate more and more time to them at the meetings of the Board of Directors and during work in the Committees. We think it is normal, this is payment for growth, progress of the company, for increased business scale.
- Making decisions on new areas, we do not give priority to the concept of synergy with current activities, but strive to grow full-scale independent businesses, which may survive and demonstrate strong operating results in the tough competitive environment. We do not refuse from searching for synergetic effects — it is necessary to use all chances to move towards success, but we proceed from the fact that neither area shall exist at the expense of reduced efficiency of the other one. There is a large telecommunications part of business generating significant cash flow, but we handle this flow pragmatically and prudently, first of all meaning the achievement of company's sustainability and compliance with all obligations undertaken before the shareholders.
- Innovation projects are characterized by the need for high speed of decision making, fast response to results or change of external conditions, therefore, such issues are of priority status for the Board of Directors. Jointly with the company management, we strive to both simplify as much as possible the regu-



lating procedures in such areas, and to respond as fast as possible, when it is necessary for the Board to take part in making corresponding management decisions.

- Having included digital areas in the company's business sphere, we came to understanding that managers in charge of new product development, shall have more freedom and powers in decision making and undertake more responsibility for the result. Besides, the Board of Directors have higher responsibility that consists in the vision of project implementation results that may be expected at a certain moment of time. Which actions to take, if something is happening not in accordance with the plan? Are the observed deviations permissible, or are they related to inflated expectations in the short run or the capacities of the company in this area were overestimated, and the objectives may not be achieved, and we should exit the project with minimum damage? The answers to the questions above are usually within the sphere of responsibility of the top management and Board of Directors, and we are ready to make decisions of such kind, but it should be noted that currently we do not see the areas, where the company's activities result dissatisfies us.
- A separate sensitive area is management of integration of organizations merged with MTS through M&A transactions. Acquisition and incorporation into the core business, for example, of regional fixed networks has become a routine procedure for us, however, actions in respect to acquired successful companies in the sphere, let's say, of financial technologies or digital commerce shall be prudent. First of all, we strive to become an assistant for them, to ensure support and opportunity for further growth. Therefore, all relevant organizational changes take place with mandatory participation of the Board of Directors, and the main condition for making an integration decision shall be confidence in readiness of both parties for successful further activities within the unified corporate structure.

The Board of Directors responsibly treats the issue of own compliance with those changes, which occur in the business environment as a whole and within our business, in particular. The need to ensure sustainability of the company motivates us to search for alternative approaches to management, generates new thinking properties: sense of dynamics and prospects of markets, aspiration for active and creative search, readiness for reasonable risk, ability to see the result. The current composition of the Board of Directors, undoubtedly,

has sufficient competences, experience, motivation and personal qualities necessary to perform all functions imposed upon it, and the best confirmation for it shall be high business results of MTS PJSC demonstrated in this year.

In the reporting year we spent certain time on issues of conceptual nature, paradigms that we focus on, while managing the company. And the Board of Directors' activities results are first of all specific decisions. The following issues were considered in 2017 by the Board of Directors.

- In the field of strategic management, we adopted a small correction of the strategy that consisted in transfer of "System Integration: area from Digital block to Data<sup>1</sup>. We spent a lot of time to discuss and make decisions on strategy of development of different business areas, both traditional ones (including mobile data transfer, TV) and Digital (in the field of mobile apps, financial services, promising projects of the Innovation Center). All critical decisions related to strategic positioning and definition of company priorities, were formalized within the process of strategic planning and approved by the Board of Directors in autumn last year.
- A large volume of work was held in the M&A field, during the year the company continued consolidation of certain significant assets and entered new spheres related to digital commerce (Ticketland and Ponominalu), investment products (Sistema Capital), cybersport (Gambit Gaming), financial technologies (Litebox). These transactions were also approved by the Board of Directors.
- Promising Digital areas, being the main area of future company growth, are our topmost priority, therefore here we considered issues of operating nature as well, working in close cooperation with the management, on the one side, ensuring the controlling function, and on the other side — playing the role of the expert council when making some key decisions.

**The Board of Directors confirms previously adopted dividend policy for 2016-2018 and declares that the work of management and the Company as a whole is aimed at achievement of our final objective – unconditional compliance with rights and interests of investors, ensuring high level of yield for our shareholders.**

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

- While properly supervising the level of capital expenses, the Board of Directors spent a lot of time discussing the general CAPEX program of the company, and also individually some projects with key vendors (in particular, supplies of network solutions by Ericsson, Huawei, Nokia).
- During the year we considered some programs of corporate development related to changes of organizational structure, risk management, IT competence management (within transformation of business processes using Agile practices), etc.
- Among other issues that required review by the Board of Directors, one should mention preparation of materials for the annual general meeting of shareholders, approval of the annual report of MTS, establishment of strategic indicators of business efficiency for the company and the management, review and approval of the annual budget, and also the program for long-term remuneration of employees.

## Role of independent members of the 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.

We recognize that independent directors should be included in the composition of the Board of Directors for effective implementation of its functions and making informed decisions, ensuring control over management in the interests of the company's owners.

In June 2015, we increased the number of independent directors in the Board of Directors to four. The increase in the number of independent directors empowers the independent position in the Board of Directors to exert greater influence on the business decisions, corporate policies and strategies of the Company.

According to recommendations of the Code, the key committees (Audit, Remuneration and Nomination) are formed exclusively from independent directors. Other committees include at least two independent directors.

## Evaluation 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 by evaluation of performance of the Board of Directors.

In 2016, with the assistance of consultants, we revised the methodology for evaluation of performance of the

Board of Directors, focusing, among other things, on the recommendations of the Corporate Governance Code.

In 2017 we conducted self-assessment of Board of Directors' work efficiency according to the new methodology for the second time. You may find out more details about its results below in this section.

## Development of Corporate Governance System and Plans for 2018

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

As before, our main efforts were focused on Corporate Governance Code introduction.

During the first half of the year, the results of Code Implementation Road Map performance were summarized. It was a journey of more than three years, and for this time we were able to achieve quite a high level of Code execution. Today we may assume that the project was completed. But it does not mean that we will stop following market trends and practices in this sphere.

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

We understand that we are unable to objective assess our place in the corporate governance world, relying

on our internal feelings only. Therefore, we pay a lot of attention to benchmarking of corporate governance practices available in the market. First of all, they provide us with food for analysis and development.

As you all know, we always strive to be at the cutting edge of corporate governance, that is why we pay a lot of attention to new trends. Today we see a stable interest of the investment community in ESG-factors, issues of cybersecurity, Stewardship Code development and many more. These issues are a certain challenge for use and our focus.

**Finalizing the results of the year, it is important to note that we are able to stay in the group of leaders of the Russian corporate governance, despite the changing external factors. And such awareness makes us stronger to move forward.**

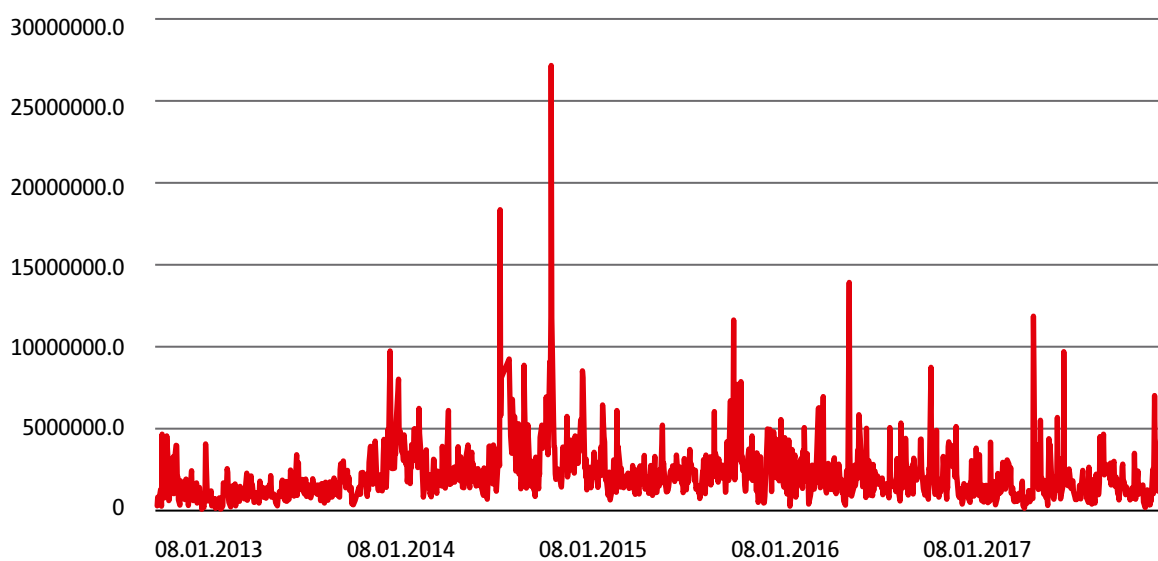
Ron Sommer,  
Chairman of Board of Directors, MTS PJSC

# Interaction with Shareholders and Investors

## MTS Securities

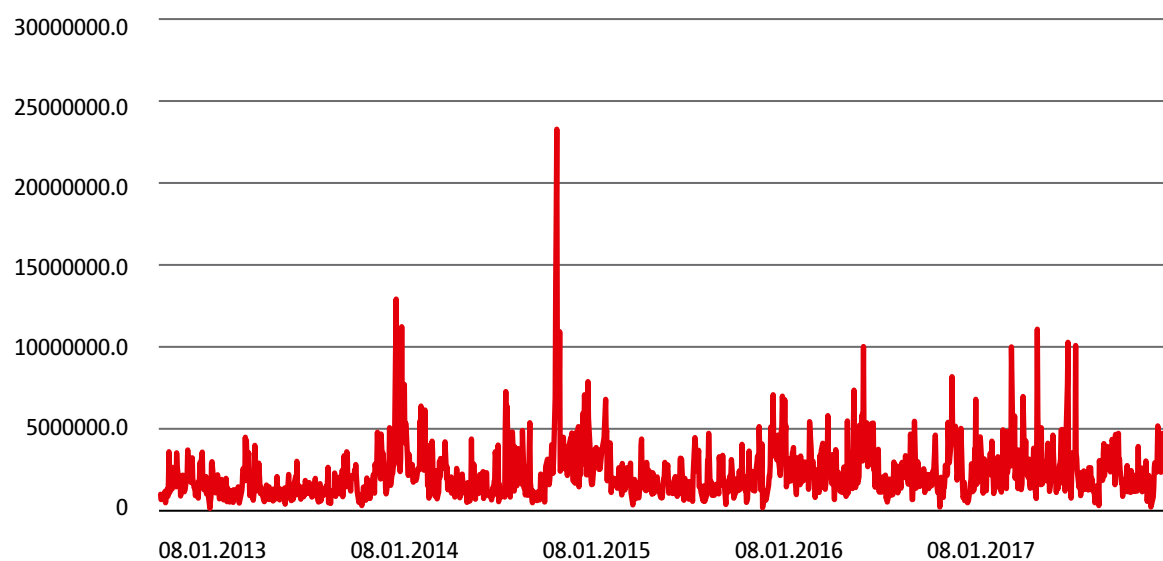
Dynamics of prices and volume of trading in MTS PJSC common shares

Trading platform: MOEX (Moscow), issuer code MTSS

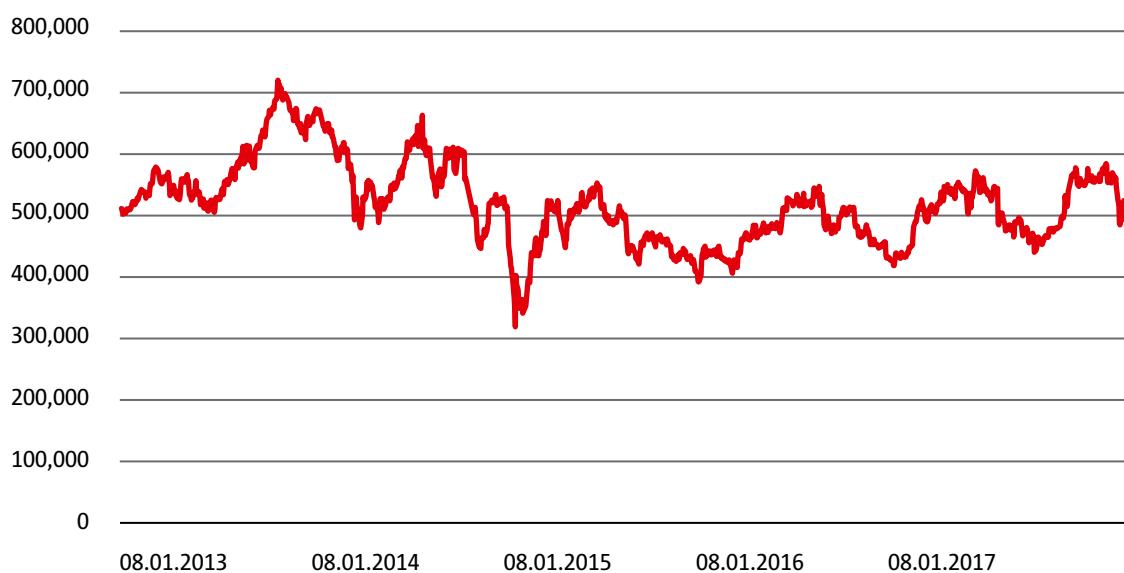


## Dynamics of prices and volume of trading in American Depositary Receipts of MTS PJSC

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



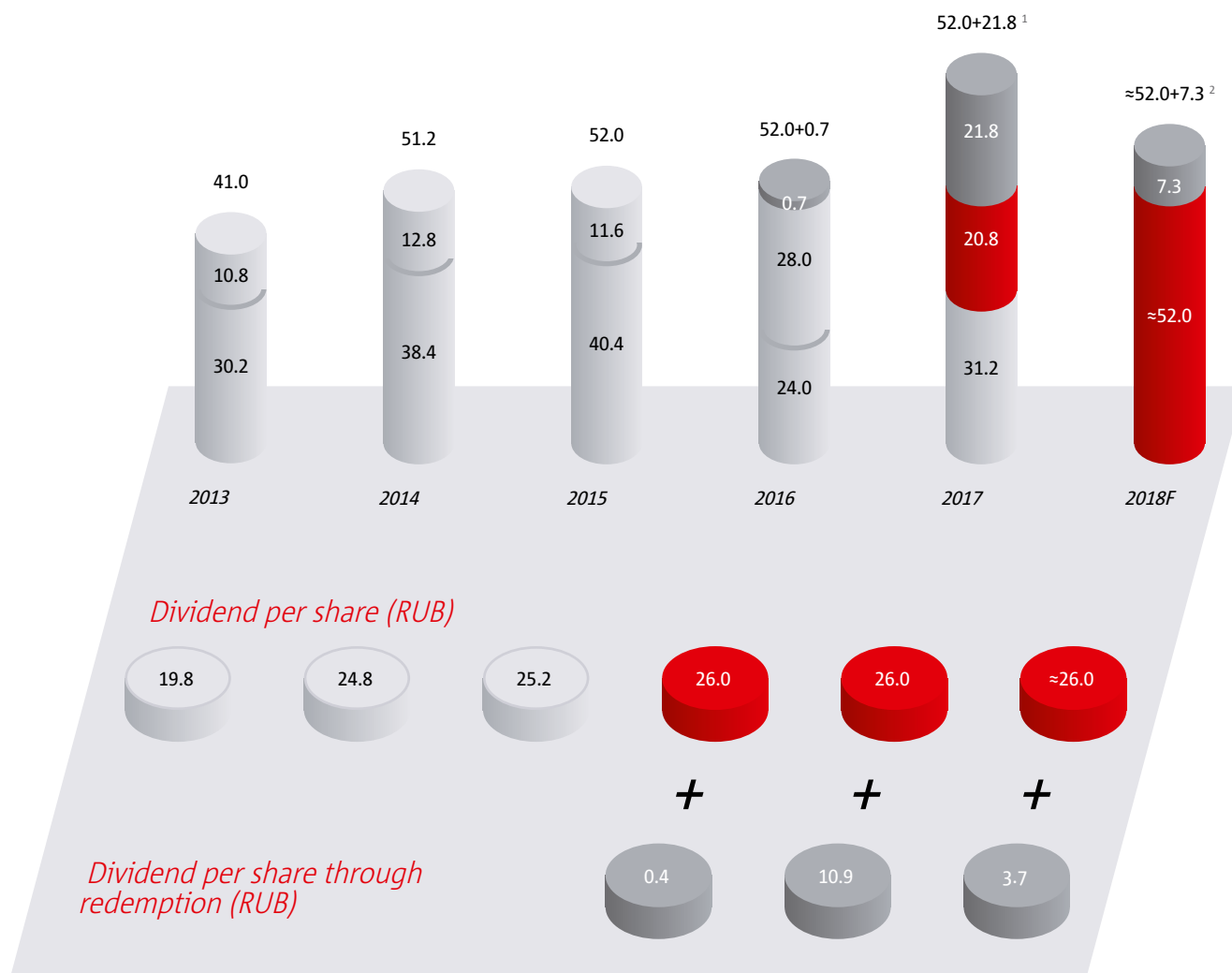
## Market capitalization of MTS PJSC, million RUB (MOEX)



Bloomberg data.

# Dividends and share redemption program

Dividend history and forecast – dividends + shares redemption (billion RUB)



- paid dividends
- forecast for dividends
- payments under shares redemption program

<sup>2</sup> Includes 9.3 billion RUB under redemption program launched in January 2017

<sup>2</sup> 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 28, 2018.

## Share redemption program

	Number of shares, including ADSs	% of share capital	Average share price, RUB <sup>1</sup>	Total spent for redemption, RUB
Shares redeemed during the reporting period	43,647,128	2.18%	286.80	12,518,183,515
Total shares redeemed from the moment of program launch as of March 19, 2018	69,044,332	3.46%	287.30	19,836,539,891

<sup>1</sup> Actual average price and total amount spent may differ from calculated indicators by the amount of commissions and other relevant expenses.

- MTS in 2017 paid 52.0 billion RUB or 26.0 RUB per share in the form of dividends, and also provided additional income for its shareholders at the expense of shares redemption program. The shares redemption program provides for additional income for shareholders — 10.9 RUB per share or additional 21.8 billion RUB in 2017.
- It is planned that the total amount of dividends in 2018 will make 52 billion RUB and additional 7.3 billion RUB under redemption program (26.0 RUB per share in the form of dividends and 3.7 RUB per share at the expense of redemption).

## History of dividend payment in 2017

- In 2017, MTS paid out 52 billion rubles or 26 rubles per share in the form of dividends. In June MTS made the first payment in the amount of 31.2 billion RUB. (15.6 RUB per ordinary share and 31.2 RUB per ADR) on the basis of results of the full 2016. In Q4 MTS additionally paid 20.8 billion RUB or 10.4 RUB per ordinary share (20.8 RUB per ADR) for the first half of 2017. The Company has fully met its obligation to shareholders on payment of dividends.
- In October and December 2016 the Board of Directors made the decision on holding modified Dutch auctions for the share redemption program for the amount of up to 10 billion RUB. Within two rounds in Q4 2016 and Q1 2017 MTS redeemed 21.9 million shares for the amount of 5 billion RUB. MTS also redeemed proportionately the shares of Sistema JSFC to maintain the efficient share of shareholder's ownership. In general, MTS used 10 billion rubles for the program, having redeemed 35.1 million shares.
- On September 2017 the Company declared Board of Directors' approval of the MTS share and ADR purchase program from the open market for the total amount not exceeding 20 billion RUB, until April 2019. The purchase program was adopted in accordance with the Rule 10b5-1 of the Securities and Exchange Act 1934 in the current version and Rule 10b-18 of the Exchange Act. Following the results of 2017, within this program the Company purchases 42 million shares and ADR of MTS for the total amount of 11.9 billion RUB, including redemption of the proportionate quantity of shares from Sistema PJSC.



# 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.

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, establishment of trust relations with the 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 at the website of US Securities and Exchange Commission<sup>1</sup>, of the Russian Information Agency (newsfeed)<sup>2</sup>, at the official website of MTS: for shareholders<sup>3</sup> and investors<sup>4</sup>, as well as in iOS application<sup>5</sup>.

MTS also publishes at its official website other information. Sections "For investors and shareholders"<sup>6</sup> and "Corporate Governance"<sup>7</sup> include 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>8</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 6552. Fax: +7 (495) 911 6551.  
E-mail: shareholder@mts.ru

**Department for Corporate Finances and Investor Relations:**  
Joshua Tulgan (Director of the Department)  
Tel.: +7 (495) 223 2025. Fax: +7 (495) 911 6588.  
E-mail: 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.mtsqsm.com>

<sup>5</sup> <https://itunes.apple.com/gb/app/mts-investor-relations/id928385820?mt=8>

<sup>6</sup> <http://www.company.mts.ru/comp/ir/>

<sup>7</sup> <http://www.company.mts.ru/comp/ir/control/>

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

# Investor's calendar for 2017

The specified information is available at MTS website at <http://www.company.mts.ru/comp/ir/events/>.

## Matters of interest for investors

Matters of interest for investors in 2017 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;
- thesis on telecom market recovery in Russia;
- competition;
- pricing policy;
- surplus retail optimization;
- regulatory environment.

### Matters related directly to company's business:

- company's strategy;
- M&A transactions;
- launch of new services and products;
- impact of Sistema and Rosneft litigation at company's business;
- dividend policy and redemption program;
- capital investments.

## Our achievements

1. XX Annual contest of annual reports (organizers: Moscow Stock Exchange and RCB media group). **MTS PJSC annual report – prize winner in the nomination “The best disclosure of information on Corporate Governance”.**
2. **The Chairman of the Board of Directors Ron Sommer entered the rating of “Top-25 Chairmen of the Boards of Directors” within “Director of the Year 2017” National Award ceremony.**
5. The unified compliance system of MTS is certified for compliance with the international standard ISO19600:2014 “Compliance Management Systems”. “Anti-Corruption Compliance and Business Ethics” compliance program is certified for compliance with the international standard ISO37001:2016 “Anti-Corruption Compliance Management System”.
6. The Company went from TOP-10 to **TOP-5 companies with best practice of corporate governance following the results of 2017 research “National Corporate Governance Index”** held by the National Association of Corporate Directors and Center of Corporate Development TopCompetence with support of the Moscow Stock Exchange and Lomonosov Moscow State University.

3. The independent Director Stanley Miller entered the rating of “Top-50 Independent Directors” within “Director of the Year 2017” National Award ceremony.

4. The independent Thomas Holtrop entered the rating of “Top-50 Independent Directors” within “Director of the Year 2017” National Award ceremony.

7. Index of Association of Independent Directors: 2nd place in inquiry of experts, managers, investors and owners of business; 19th place according to formal attributes when assessed by the criteria of the British Institute of Directors (in final index prepared on the basis of two researches MTS was included into TOP-6).

8. 7th place in the rating of transparency of corporate reporting among 200 largest companies of Russian (Transparency International).

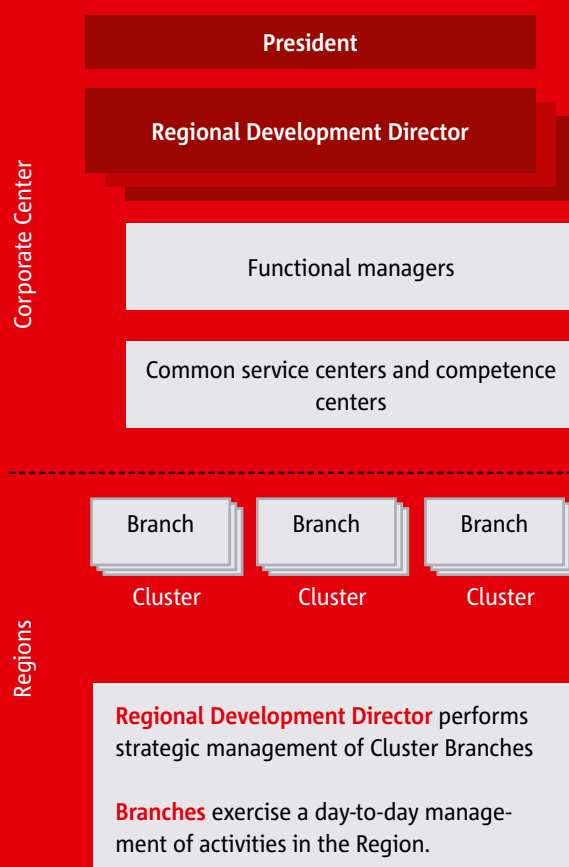
# MTS Group Governance System

Model of Group management supposes a single development strategy of Group's companies with regard to priorities and business peculiarities.

## 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 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.

Differentiation is associated not only with our intention to generate value in the promising markets, but also with the desire to diversify the service portfolio, thus mitigating the industry risks and strengthening 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 the 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 operation 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.



## Business Unit MTS Foreign Subsidiaries

Operational management of subsidiaries doing business in the territory of Turkmenistan, Armenia and the Republic of Belarus.

## Business Unit MTS Ukraine

Management of activities in Ukraine.

MTS PJSC is successfully implementing the goals on strengthening of its leadership and maintenance of high business efficiency due to an 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.

## Main business areas of the Group

### Telecommunications

Key competence, core business. Intellectual, organizational and management potential gained is used as a basis to look for the points of growth at the adjacent markets, using synergy effect of interaction with the parent company.

### Fixed business

MTS is among the largest Russian companies providing services of a broadband access (BBA) to the internet and cable television. Synergy with the fixed BBA is used to provide to MTS customers a digital cable television (IPTV and DVB-C), video services, complex solutions for offices, combining landline and mobile communications

### Mobile 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. Own retail network of MTS, 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 the financial services and promote consumption of the data transfer services, including by selling our own range of branded subscriber devices, facilitates the increase of operational efficiency

### System integration

Due to NVision Group the operator offers comprehensive services in the areas of IT, communications and system integration to its customers. Considering that IT market is

growing faster than traditional telecommunication services for the corporate customers, the entire business of MTS experiences a positive impact.

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

Ensuring unified structure engaged in development of billing system and some other key IT systems, simplification and acceleration of software products testing processes and optimization of internal IT expenses.

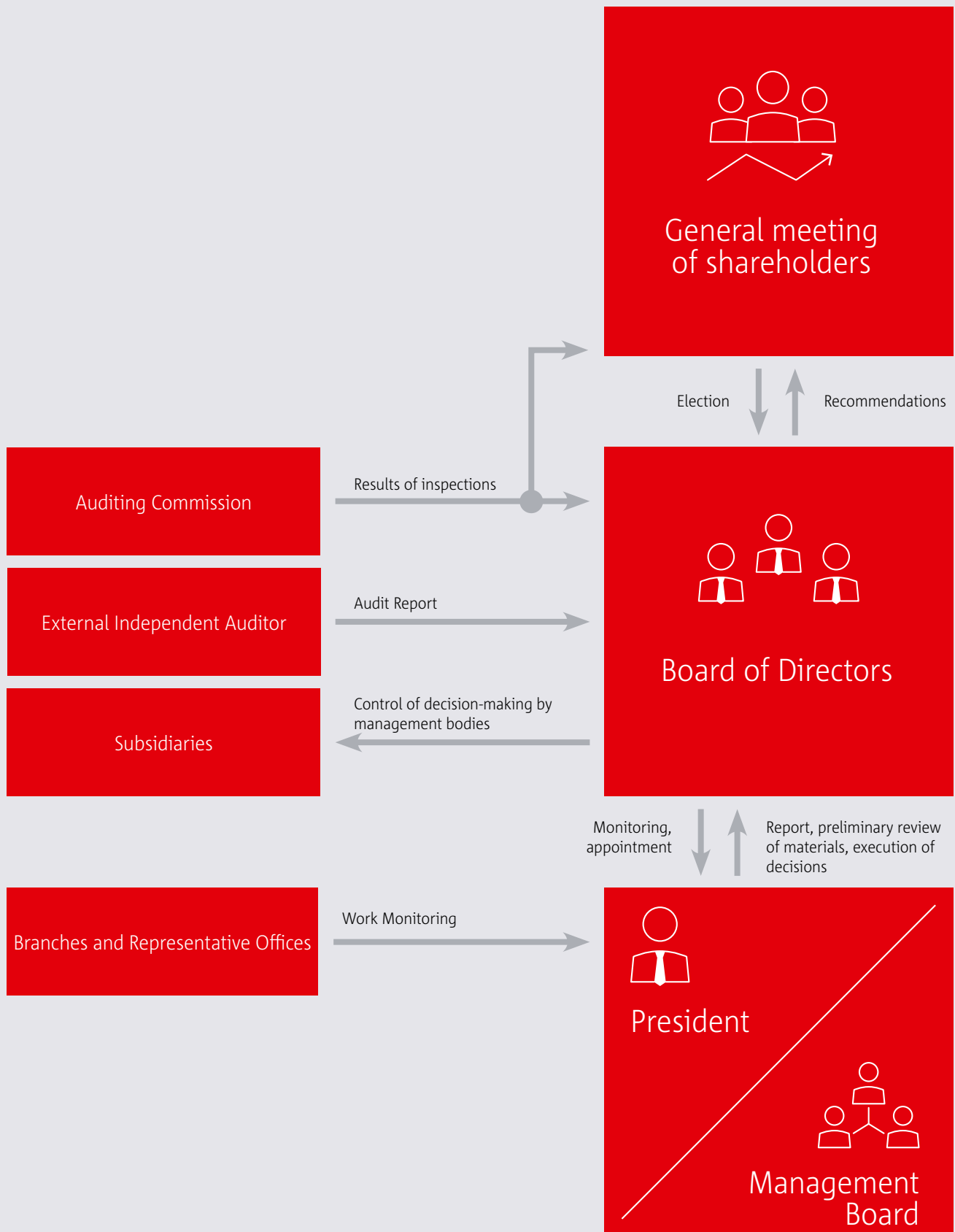
### Banking and Financial Services (MTS Bank)

Partnership with MTS Bank allowed us to become an integrated provider of telecom and financial services, use a synergy of the two areas to increase a loyalty and monetization of customers, become the first provider of financial services for the largest subscriber base in Russia in order to increase loyalty and service life of the subscribers and rise ARPU.

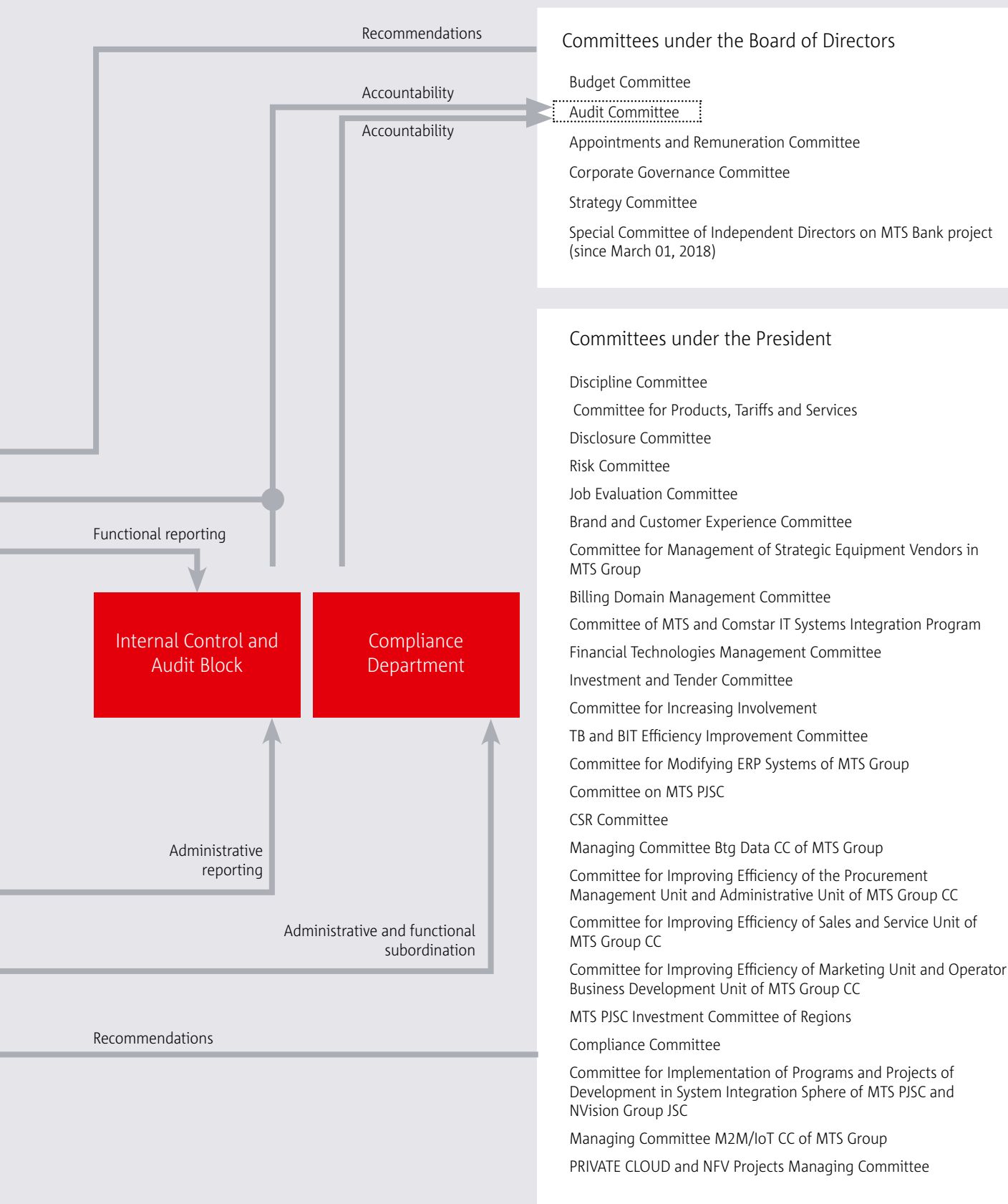
### Satellite TV

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

# Structure of Management and Supervisory Bodies







# Structure of management and control bodies

## Governing Bodies

General meeting of shareholders	<p>Higher Governing 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>
Board of Directors	<p>Board of Directors exercises a general management of MTS PJSC activities.</p> <p>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> <http://www.company.mts.ru/comp/ir/control/regulations/gms/>.

<sup>2</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/).

<sup>3</sup> [http://www.company.mts.ru/comp/ir/control/regulations/executive\\_board/](http://www.company.mts.ru/comp/ir/control/regulations/executive_board/).

<sup>4</sup> <http://www.company.mts.ru/comp/ir/control/regulations/ceo/>.

## Internal Control System

Audit Committee under the Board of Directors	<p>The Audit Committee is a collegial advisory body of the Board of Directors that reviews issues related to monitoring of risk management and internal control system performance, reliability of the financial statements of MTS Group, consideration of nominees and assessment of performance of external auditors, and also provides recommendations to the Board of Directors for to make decisions on such issues</p>
Auditing Commission	<p>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.</p> <p>Its activities are regulated by the Charter and the Regulation on Auditing Commission of MTS PJSC<sup>1</sup></p>
Internal Control and Audit Unit	<p>The Internal Control and Audit Unit is an independent structural subdivision of MTS PJSC and consists of the Internal Audit Department, Control Department, Methodology and Coordination Department. Head of the Internal Control and Audit Unit 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.</p> <p>Objectives, tasks, obligations, principles of functioning and powers of the Internal Control and Audit Block are set in the Policy "Internal Control and Audit"<sup>2</sup>. The Internal Control and Audit Block regulates its activities complying with the mandatory guidance of the international Institute of Internal Auditors, which includes Main Principles of Professional Practice of Internal Audit, Code of Ethics, International Professional Standards of Internal Audit and Internal Audit Definition</p>
Department of Internal Control Systems	<p>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</p>
Compliance Department	<p>Compliance Department is an independent structural unit consisting of compliance system development, subsidiaries relations, unified compliance system coordination groups and functional compliance group in the regions. 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.</p> <p>The activities of the department are regulated by the Regulations on Compliance Department</p>
Auditor	<p>Independent assessment of reliability of accounting (financial) statements of the Company.</p> <p>In order to audit and approve the annual financial statements of the Company, the General Meeting of Shareholders shall annually approve the Auditor.</p>

<sup>1</sup> [http://www.company.mts.ru/comp/ir/control/regulations/audit\\_commission/](http://www.company.mts.ru/comp/ir/control/regulations/audit_commission/).

<sup>2</sup> [http://www.company.mts.ru/comp/ir/control/regulations/kontrol\\_aydit/](http://www.company.mts.ru/comp/ir/control/regulations/kontrol_aydit/).

# 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.

By making decisions at the General Meeting of Shareholders, the Company's shareholders take part in governance over the Company and may significantly influence the 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.

## Notifying 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.

## 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

<sup>1</sup> <http://www.company.mts.ru/comp/ir/control/regulations/gms/>.

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.

## Electronic services for shareholders

### Electronic voting


In 2016 we launched, and in 2017 we continued successful experience of using e-voting when holding shareholders' meetings. At the annual and extraordinary General Meeting of Shareholders, on June 29 and September 30, 2017, MTS shareholders could remotely attend the meeting via the MTS Shareholder's Personal Account: to view the broadcast, to study meeting materials, to send a question to the Meeting Presidium and to vote.

E-voting is available to all shareholders: those that store their shares directly in the register, or customers of the broker, depository or Central Depository.

### Personal Account of the Shareholder








In 2017 we proposed to our shareholders a convenient online service — MTS Shareholder's Personal Account.

The personal account was developed specially for MTS shareholders in our corporate style. It provides shareholders with 24/7 access to information on the quantity and cost of their shares, accrued and paid dividends, contacts and useful links; makes it possible to attend general meetings of shareholders through Internet, including review of meeting materials, watching online broadcast that are held in presence, to send questions to the Meeting Presidium directly in process of the



Личный кабинет акционера

Захаров А. О.  
N000000002

 Портфель
  Дивиденды
  Запросы
  Подготовка документов
  Информация
  Голосование
  Уведомления (1)

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Эмитент: Публичное акционерное общество "Мобильные ТелеСистемы"

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Статус собрания

Собрание завершено

[СКРЫТЬ ИНФОРМАЦИЮ О СОБРАНИИ](#)

Место нахождения общества: 109147, г. Москва, ул. Марксистская, д.4

Вид собрания: Годовое собрание акционеров

Форма проведения общего собрания акционеров: Собрание

Дата и время проведения общего собрания акционеров: 29 июня 2017 года, 11:00

Время начала регистрации: 09:00

Место проведения: Российская Федерация, г. Москва, Новинский б-р, д. 8, стр. 2, гостиница «Лотте», зал «Кристалл»

Дата, на которую определяются (фиксируются) лица, имеющие право на участие в общем собрании акционеров: 26 мая 2017 года

Дата и время окончания приема бюллетеней: 26 июня 2017 года, 23:59

meeting; makes it possible to fill in document forms in advance for transactions in the securities owners register and to receive notices on delivery of documents under the shareholder's personal account.

During the annual general meeting of MTS shareholders in June 2017, our shareholders in real time ob-

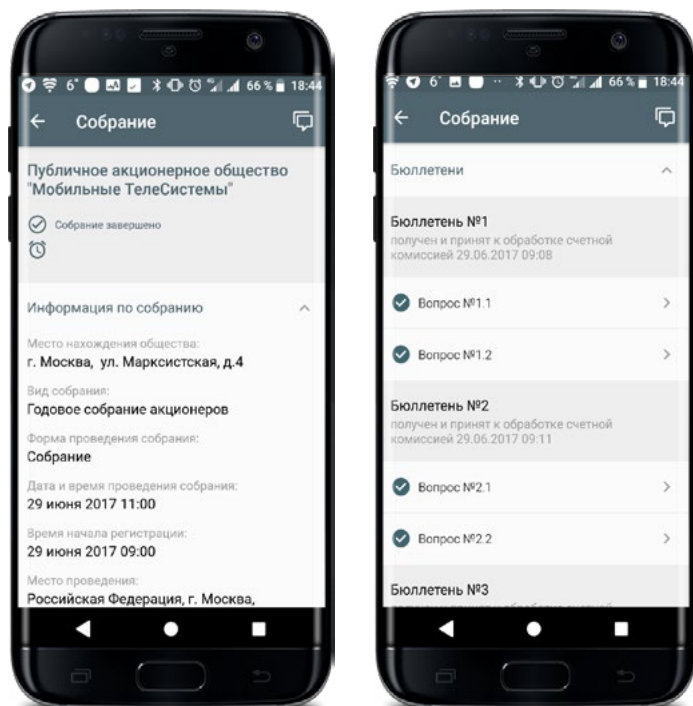
served not only the meeting process from the screens of their gadgets, but also monitored voting online from the MTS shareholder's Personal Account.

## Mobile app for shareholders

In 2017 we declared development of a mobile app for our shareholders.

In 2018 our shareholders may participate in the annual General Meeting of MTS Shareholders with the help of a mobile app Shareholder.online, developed by the MTS registrar — JSC Independent Registrar Company.

Apart from voting at the shareholder's meeting, the app will make it possible to study materials of the meeting, to watch its broadcast and ask a question to the Presidium. Such app will provide access to information on quantity and cost of shares in the shareholder's account in the registrar, and will also notify about delivery of documents to its account in the registrar.



## General Shareholders' Meetings in 2017

Two General Shareholders' Meetings were conducted in 2017.

**Annual General Meeting of MTS PJSC shareholders**  
June 29, 2017  
In the form of joint attendance  
(minutes No.41 dated 29.06.2017)

The Annual General Shareholders' Meeting approved the Annual Report for 2016 and annual accounting statements for 2016. A decision on the profit distribution was taken, and the dividends were announced on the results of the reporting 2016. New compositions of the Board of Directors of the Company and Auditing Commission were elected.

Company's auditor was appointed

Changes to the Charter, Regulations on the Board of Directors were approved.

The decision was made on reorganization of MTS PJSC via subsidiaries incorporation into MTS PJSC: TP LLC, COMSTAR KMAO JSC, SMARTS Yoshkar-Ola JSC.

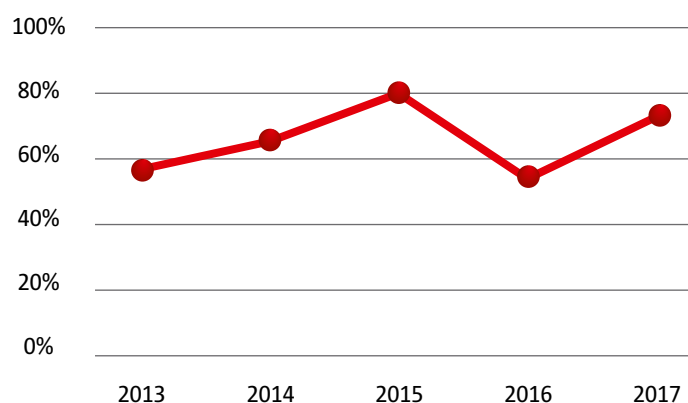
New revisions of the documents were drawn up with regard to legislation changes, requirements of regulating bodies and recommendations of the Corporate Governance Code.

**Extraordinary General Meeting of MTS PJSC shareholders**  
September 29, 2017  
in the form of absentee voting  
(minutes No.42 dated 02.10.2017)

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 2016, on making amendments and additions to the charter of MTS PJSC, as well as made decision on participation of MTS PJSC in non-profit organizations:

- Association of Participants in the Internet of Things Market.

### Quorum of annual General meetings of shareholders of MTS PJSC for the last 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 Board of Directors have act 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.

## Organization of the Board of Directors' activities

At least six in-person meetings 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.

In-person meetings of the Board of Directors are usually held in Moscow headquarters. First meeting of the newly elected Board of Directors shall be held with personal attendance, on the day of the General Shareholders' Meeting which decided on election 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/).

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 managers 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.

## Electronic 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 electronic document management system – Portal of the Board of Directors, installed on personal tablets of members of the management bodies. In 2017 we finalized functional capabilities of the Portal, in particular, the following improvements were implemented.

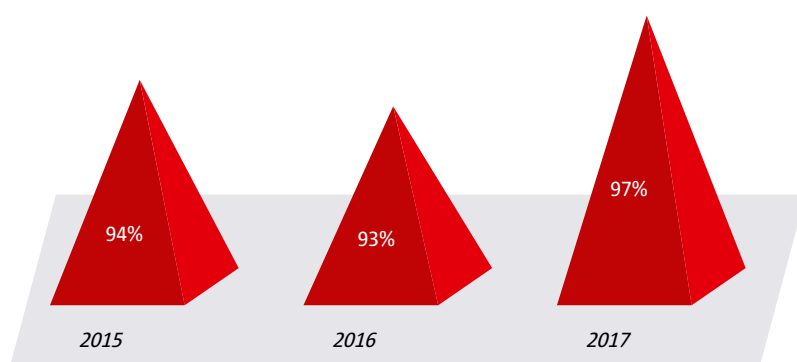
1. System user form (questionnaire): in November 2017 for the first time the performance of the Board of Directors was assessed through the Portal in November 2017.
2. Screen of notification about timing of transactions with shares: Portal users actively this option.

In 2018 we plan to implement the capability of voting at the Portal, at the meetings of the management bodies, with the help of an electronic signature implemented on a SIM-card.

These improvements allowed us to accumulate in a single mobile space the necessary and relevant set of options for the work of members of the Company's collegial management bodies, to automate their work, as well as to improve the ergonomics of the system's use.

2017 saw 10 meetings of the Board of Directors, including six in-person meetings and four meetings by correspondence.

Average percentage of participation the Board of Directors members in the meetings, 2015–2017



Over

90%

meetings of the Company's Board of Directors were held with 100% participation of the Board of Directors members

## Participation of the directors in meetings of the Board of Directors in 2017

Director	In-praesentia meeting	In-absentia meeting
Ron Sommer	6	4
Aleksandr Evgenievich Gorbunov	6	4
Andrey Anatolievich Dubovskov	6	4
Artem Ivanovich Zasursky <sup>1</sup>	4	3
Michel Combes Independent Director, not a member of MTS PJSC executive management	6	4
Stanley Miller Independent Director, not a member of MTS PJSC executive management	6	4
Vsevolod Valerievich Rozanov	6	4
Regina von Flemming Independent Director, not a member of MTS PJSC executive management	6	4
Thomas Holtrop Independent Director, not a member of MTS PJSC executive management	6	4
Mikhail Valerievich Shamolin <sup>2</sup>	0	1

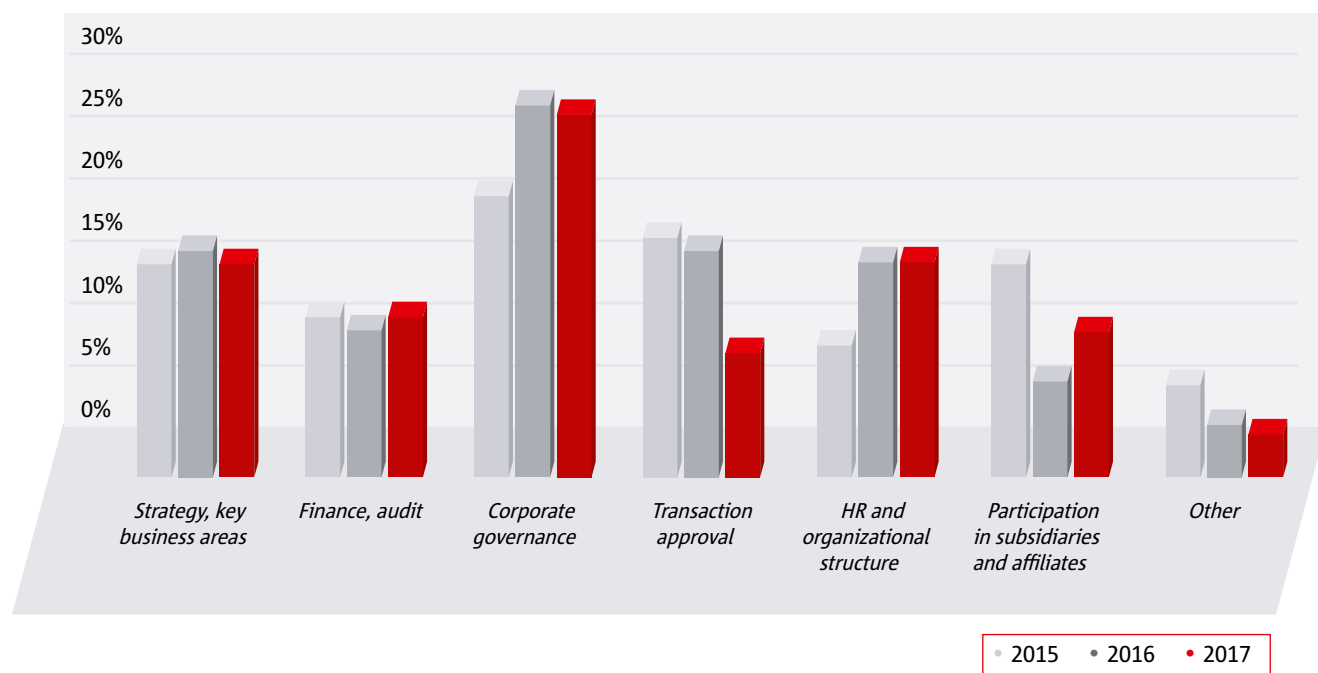
<sup>1</sup> Elected as a member of the Board of Directors on June 29, 2017.

<sup>2</sup> Powers of the Board of Directors member terminated on June 29, 2017.

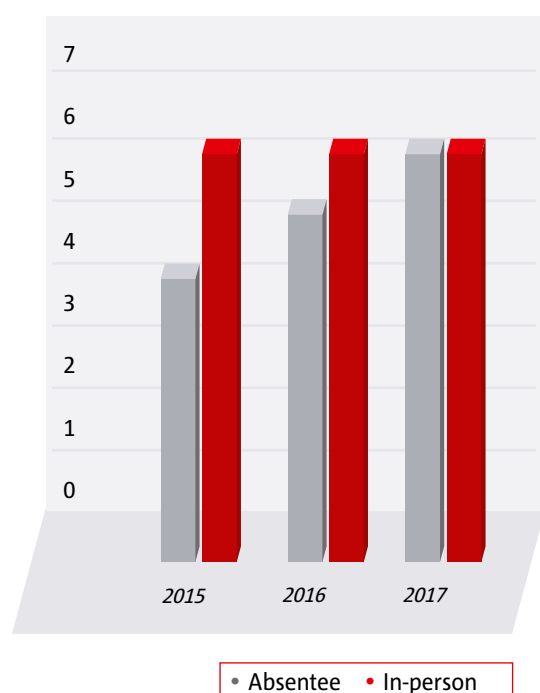
## Duration of meetings of the Board of Directors and committees in 2017

Meetings (in presence)	Number	Average duration (h)
Board of Directors	6	3.3
Audit Committee	10	1.5
Remuneration and Nomination Committee	6	1.5
Corporate Governance Committee	3	1
Strategy Committee	5	2.2
Budget Committee	5	2

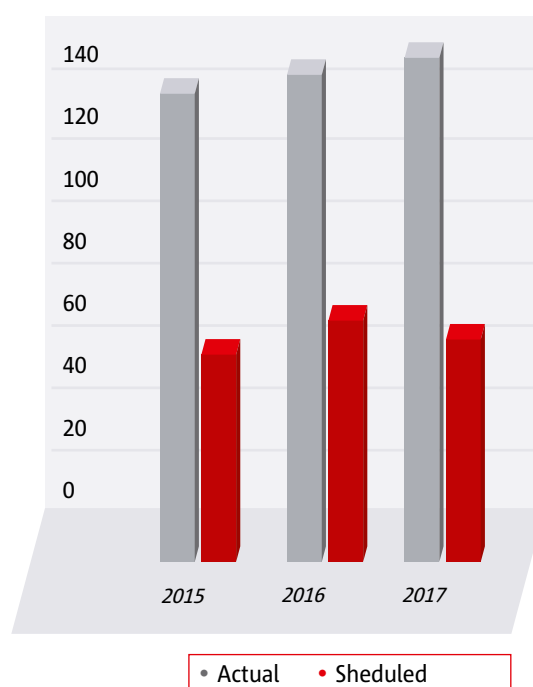
## Structure of issues reviewed at meetings of the Board of Directors in 2015-2017



## Number of meetings of the Board of Directors in 2015-2017



## Number of issues considered at meetings of the Board of Directors in 2015-2017



## Agenda items of the meetings of the Board of Directors of MTS PJSC in 2017, decisions on which had significant importance for the Company

- |   |   |
|---|---|
| <ol style="list-style-type: none"> <li>1. MTS Group strategy for 2018-2020, MTS PJSC foreign assets development and management strategy.</li> <li>2. Review of the results of MTS Group budget fulfilment for 2016, on MTS Group budget adoption for 2018.</li> <li>3. Appointment of the President of MTS PJSC.</li> <li>4. Election of MTS PJSC Management Board Members.</li> <li>5. Procedure of implementation of MTS PJSC bond option program.</li> <li>6. Development of the compliance system of MTS Group.</li> <li>7. Recommendations of the Board of Directors on a payment of dividends for 2016 and first half of 2017.</li> <li>8. Acquisition of subsidiaries, participation of MTS PJSC in other organizations.</li> <li>9. Approval of the repurchase price of MTS PJSC shares.</li> </ol> | <ol style="list-style-type: none"> <li>10. Approval of the agreement between the strategic partnership between MTS PJSC and Rostelecom PJSC.</li> <li>11. Strengthening of MTS PJSC corporate culture by Agile practices.</li> <li>12. Review of reports: <ul style="list-style-type: none"> <li>• on risk management;</li> <li>• on evaluation of completion of individual tasks of the President and Management Board members;</li> <li>• on business status of essential subsidiaries of MTS PJSC;</li> <li>• on the results of the self-assessment of the Board of Directors;</li> <li>• on operation of the units of internal audit, control and compliance, including the report on risk management system efficiency;</li> <li>• on CSR program implementation.</li> </ul> </li> </ol> |
|---|---|

## Instructions of the Board of Directors given to managers of the Company

Members of the Board of Directors get information on the status of completion of Board's assignments at each in-person meeting.

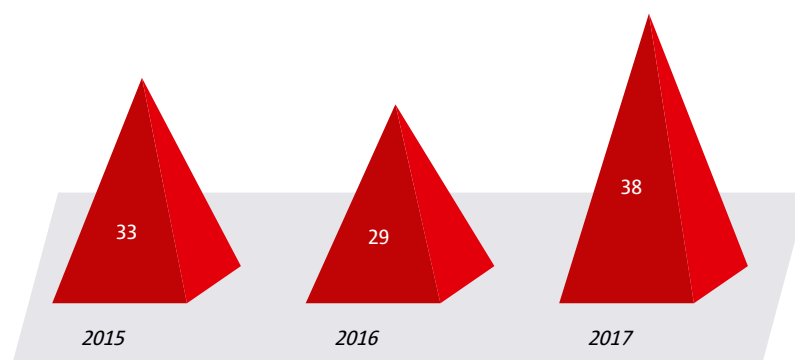
Proper completion of the Board of Directors' assignments is one of the conditions for awarding the Company's personnel.

In 2017 the Board of Directors gave

**38** instructions

to managers of the Company.

Instructions of the Board of Directors given to managers of the Company



## Composition 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 of all, be able to communicate effectively with people, participate efficiently in a discussion, understand the difficult situation based on the information prepared by management, relying on his experience and ability to quickly analyze information, checking responses to the questions asked.

In accordance with the Company Charter, the quantitative composition of the Board of Directors is determined by decision of the General Meeting of Shareholders and may not be less than seven (7) members. The quantitative composition of the Board of Directors of the Company is permanent, it was elected at the annual General Meeting of MTS PJSC Shareholders on June 23, 2016, and for the entire of 2016 the Board of Directors consisted of nine (9) members. Such number of members of the Board of Directors makes it possible to form the composition, which is balanced from the point of view of professional qualification, experience and business skills of the members of the Board of Directors, to provide high efficiency of work and fully meets the needs of the Company and interests of the shareholders. Issues related to the needs of the Board of Directors in the field of professional qualification, experience and business skills of the members of the Board of Directors, and also to the 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").

We recognize that independent directors should be included in the composition of the Board of Directors for effective implementation of its functions and making informed decisions, ensuring control over management in the interests of the company's owners. Independent directors allow to ensure a reasonable balance of interests of all the parties concerned: the Company itself, its shareholders and other concerned parties. For the independent directors to be able to influence the decisions taken by the Board of Directors, their number must be equal to at least one third of the total composition of the Board of Directors. In this connection, the number

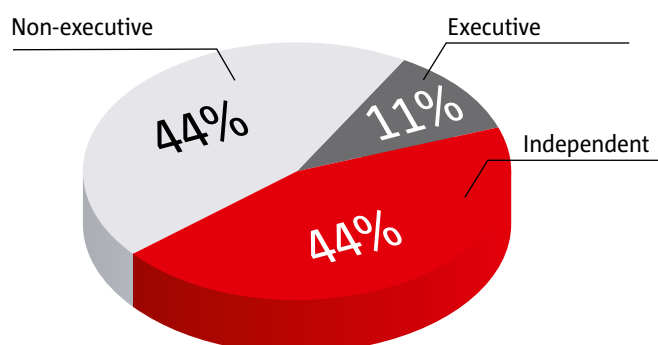
of independent directors in our Board of Directors is over one third.

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. It is worth noting that current independent directors fully correspond to the criteria of independence stipulated both in the Corporate Governance Code and in the Listing Regulations of the Moscow Exchange and NYSE.

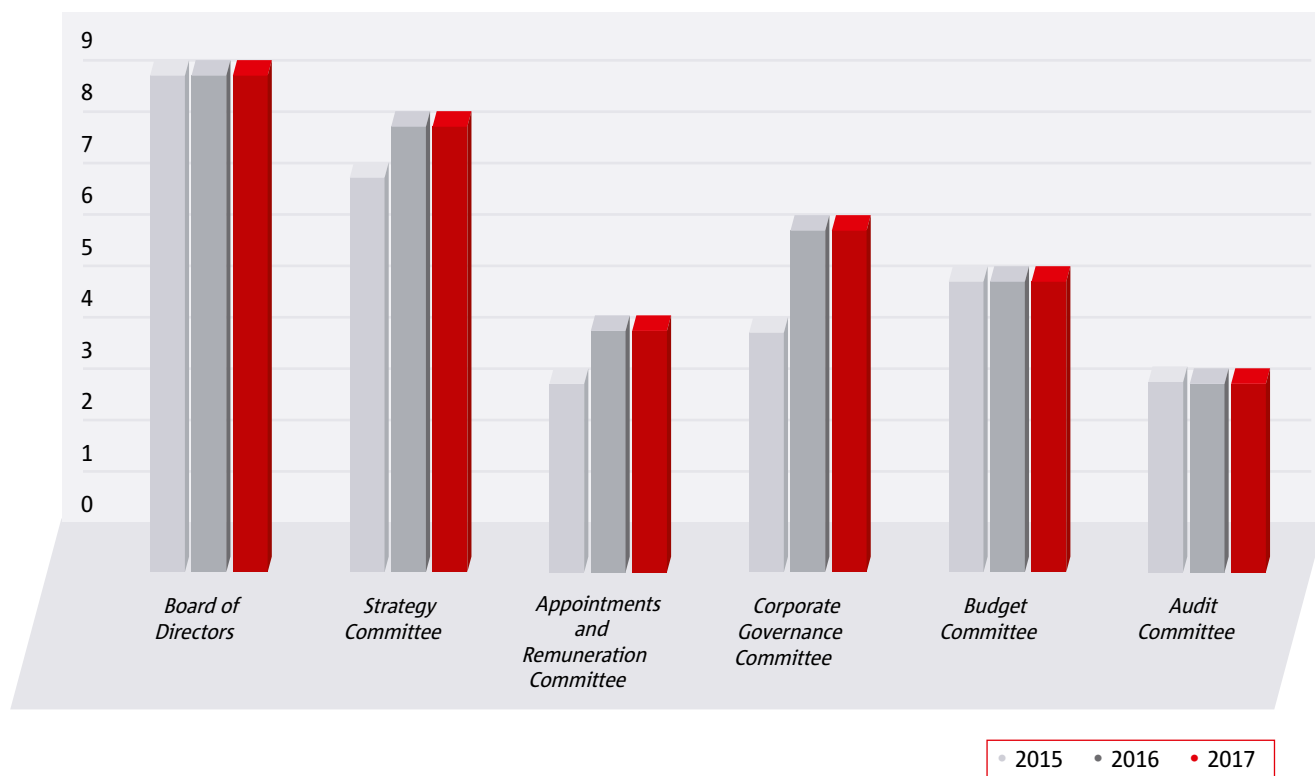
NYSE listing also adds additional obligations for us related to the composition of the Board of Directors: we are required to have at least one member of the Board of Directors (in the Audit Committee) with expertise in accounting or relevant financial management experience (financial expert). The Audit 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.

### Composition of the Board of Directors as of December 31, 2017

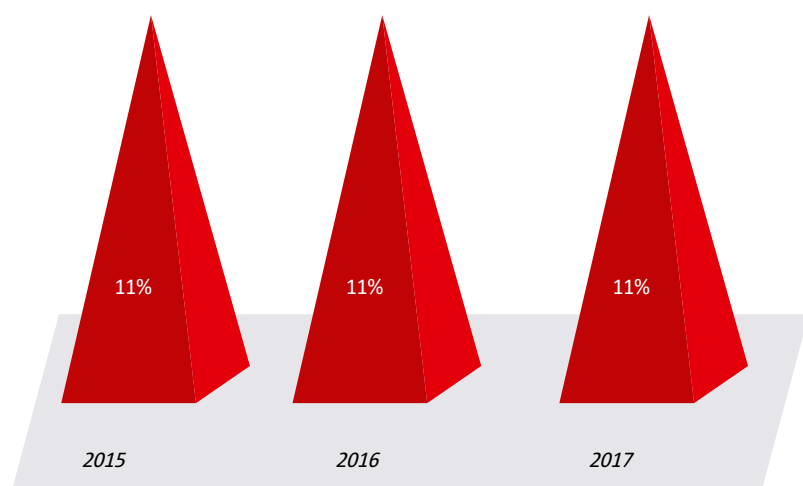


<sup>1</sup> [http://www.company.mts.ru/comp/ir/control/regulations/board\\_of\\_directors\\_new/](http://www.company.mts.ru/comp/ir/control/regulations/board_of_directors_new/).

## Numerical composition of the Board of Directors and Committees in 2015-2017

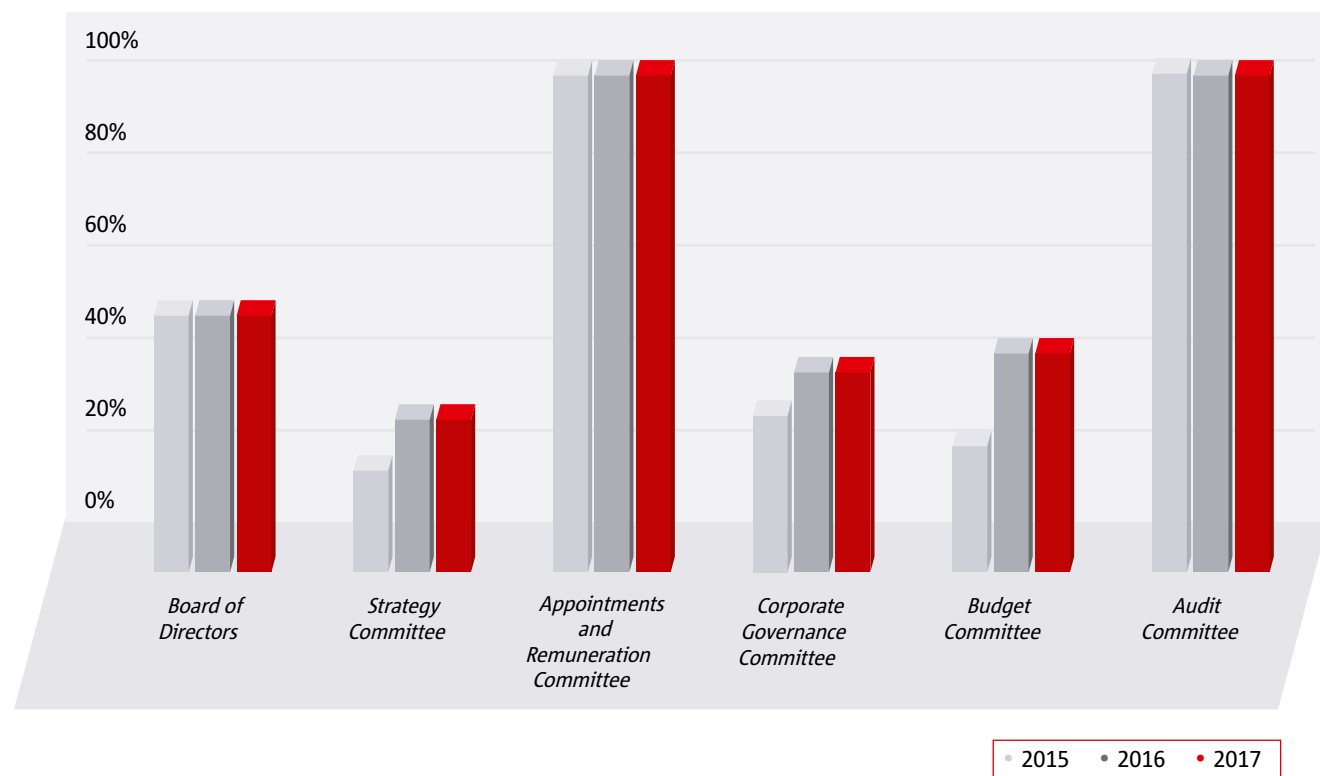


## Share of female directors in the composition of the Board of Directors in 2015-2017

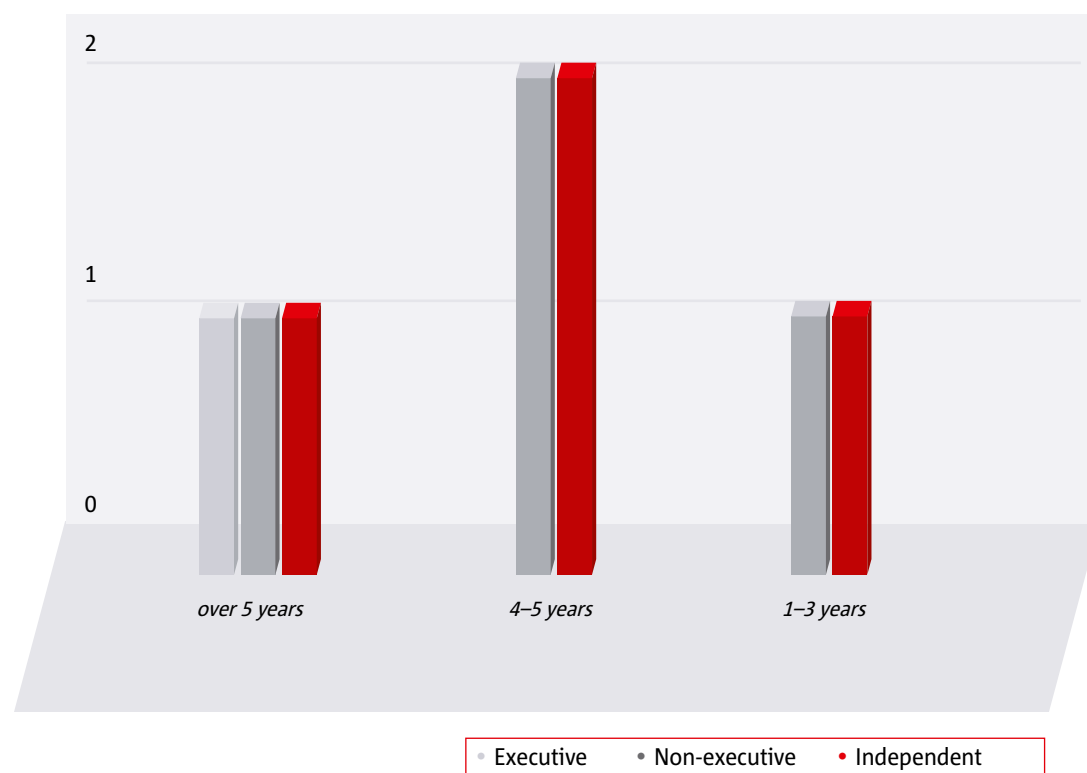




## Share of Independent Directors in the composition of the Board of Directors and Committees in 2015-2017



## Duration of work in the Board of Directors



## Information on members of the Board of Directors as of December 31, 2017



### Ron Sommer

Non-executive Director

Chairman of the Board of Directors

Chairman of the Strategy Committee under the Board of Directors

In 2017 entered the rankings of “25 best representatives of the Board of Directors” during the ceremony of “Director of the year 2017” National Awards

Born in 1949 in Haifa.

In 1971 graduated from the University of Vienna and earned Ph.D. in Mathematics.

#### Professional experience

In 1980 took the position of an executive director in 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 in 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).

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 MTS PJSC Board of Directors for the first time at the General Shareholders' Meeting on June 25, 2009.

As of December 31, 2017 he owned ordinary registered shares of MTS PJSC in the amount of 129,770 shares.

## Andrey Dubovskov

Executive Director

Member of the Corporate Governance Committee under the Board of Directors

Member of the Strategy Committee under the Board of Directors



Born in 1966 in Almaty.

In 1993 graduated from the All-Russian State University of Cinema n.a. S.A. Gerasimov with the specialty in film direction.

### Professional experience

1993–2002: a range of leading positions in Millicom International Cellular S.A., Millicom International Cellular B.V., “Regional cellular communications” LLC, “800” LLC and other companies in Moscow, Alma-Ata, Nizhny Novgorod, Ekaterinburg, Perm and Kiev.

2002–2004: CEO of “Tele2” Group company in Nizhny Novgorod.

2004–2006: Director of MTS PJSC Branch in Nizhny Novgorod.

2006–2007: Director of “Ural” Macro-Region of MTS PJSC.

2007–2008: First Deputy CEO of MTS Ukraine PrJSC.

2008–2011: CEO of MTS Ukraine PrJSC.

2011–2018: President, Management Board Chairman of MTS PJSC.

2018 to present: President, Management Board Chairman of Sistema PJSC.

Chairman of the Board of Directors in MGTS PJSC and Russian Telephone Company JSC, Deputy Chairman of the Board of Directors in “Mobile TeleSystems” JLLC, member of the Supervisory Board in VF Ukraine PrJSC, member of the Board of Directors in JSFC Sistema OJSC, Member of the Board of Trustees of BF Sistema, member of the Board of GSM Association (GSMA).

Citizenship: Russia.

He was elected as a member of MTS PJSC Board of Directors for the first time at the General Shareholders’ Meeting on June 27, 2011.

As of December 31, 2017 he owned ordinary registered shares of MTS PJSC in the amount of 467,805 shares.



## Aleksandr Gorbunov

Non-executive Director

Deputy Chairman of the Board of Directors

Member of the Strategy Committee under the Board of Directors

Member of the Budget Committee under the Board of Directors

Born in 1967 in Moscow.

In 1992 graduated from Moscow Engineering Physics Institute with specialty in experimental nuclear physics and plasma physics.

In 1999 earned 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 to present: Vice President, manager of telecommunication assets of Sistema PJSC.

Chairman of the Board of Directors in SISTEMA SHYAM TELESERVICES LIMITED, member of the Board of Directors of Detskiy Mir PJSC.

Citizenship: Russia.

He was elected as a member of MTS PJSC Board of Directors for the first time at the General Shareholders' Meeting on February 14, 2013.

As of December 31, 2017 he didn't own shares of MTS PJSC (directly/indirectly).

## Michel Combes

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



Born in 1962 in Bologna.

He graduated from Ecole Polytechnique and National Higher School of Telecommunications in Paris; he has degrees from Paris Dauphine University (Ph.D. in the Corporate Strategy) and Conservatory of Arts and Crafts (Ph.D. in Prognostics).

### Professional experience

1991–1995: Government of France, Paris Branch of Transport and Tourism Ministry, Technical Advisor for International Civil Aviation Matters.

1995–1999: Chief Executive Officer of Globecast France Télécom, Paris.

1999–2001: Chief Executive Officer of Nouvelles Frontières, Paris.

2001–2002: Chief Executive Officer of Assystem, Paris.

2001–2002: Chief Executive Officer of TDF (Télédiffusion de France), Paris.

2003–2006: Senior Vice President and Financial Director of France Télécom, Paris.

2001–2002: non-executive director of Assystem, Paris.

2008–2012: European CEO of Vodafone, London; Non-executive Director of Vodafone PLC.

2009–2014: Chairman of the Supervisory Board of Assystem, Paris.

2010–2013: Director of ISS.

2013–2015: Chief Executive Officer of Alcatel-Lucent SA.

2014–2015: Non-executive Director, member of ALTICE Audit Committee.

2015–2016 — Member of the Board of Directors and Chief Executive Director of Altice NV.

2015–2017 — Chief Executive Director and Chairman of Board of Directors of SFR Group.

President, Financial Director, Member of the Board of Directors of Sprint Corporation, Non-Executive Director of HDL Development.

Citizenship: France.

He was elected as a member of MTS PJSC Board of Directors for the first time at the General Shareholders' Meeting on February 14, 2013.

As of December 31, 2017 he didn't own shares of MTS PJSC (directly/indirectly).



## Stanley Miller

Independent Director

Chairman 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

**In 2017 entered the rankings of “50 best independent directors” during the ceremony of “Director of the year 2017” 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 in NETHOLD company.

1994 to the present day — Chief Executive Officer of Athena Investment Holdings SA Luxembourg (former Leaderman — SA Luxembourg).

1997 to the present day: Chief Executive Officer of Leaderman — NV Belgium.

1998: 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.

2002 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 in E-Plus GMBH Germany.

Director and owner of Main Branch Pty South Africa, director of Arrow Creak Investments 75 (PTY) LTD South Africa, Chairman of the Board of Directors of Ice Group (former AINMT Holdings AB), non-executive director of MTN Group Limited.

Citizenship: Belgium.

He was elected as a member of MTS PJSC Board of Directors for the first time at the General Shareholders' Meeting on June 24, 2010.

As of December 31, 2017 he 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



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 to the present day: Senior Vice President, Head of the Finance and Investments Complex, Management Board member in 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 of LLC Sistema Capital MC, EAST-WEST UNITED BANK S.A., Landshaft LLC, Segezha Group MC, Mikron PJSC, INSITEL Services Private Limited, Deputy Chairman of the Management Board member in Sistema Charity Fund.

Citizenship: Russia.

He was elected as a member of MTS PJSC Board of Directors for the first time at the General Shareholders' Meeting on June 27, 2012.

As of December 31, 2017 he owned ordinary registered shares of MTS PJSC in the amount of 72,792 shares.





## Regina Von Flemming

Independent Director

Member of the Budget Committee under the Board of Directors

Member of the Corporate Governance Committee under the Board of Directors

Member of the Remuneration and Nomination Committee under the Board of Directors

Member of the Special Committee under the Board of Directors

She was born in 1965, in Lubeck.

In 1992 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 post graduate training course at the German Developing Aid Institute (Germany).

### Professional experience

1996–1999: CEO of Krone Russia

1999–2000: CEO of Ehrmann Russia

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

Member of the Board of Directors of Wirtschaftsforum, member of the Board of Russky Standard Charity Foundation, member of the Board of Trustees of the German-Russian Forum in Berlin, member of the Board of the Endowment Fund of the Jewish Museum, Moscow.

Citizenship: Germany

She was elected as a member of MTS PJSC Board of Directors for the first time at the General Shareholders' Meeting on June 25, 2015.

As of December 31, 2017 she didn't own shares of MTS PJSC (directly/indirectly).

## 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

Finance Expert

In 2017 entered the rankings of “50 best independent directors” during the ceremony of “Director of the year 2017” 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 MTS PJSC Board of Directors for the first time at the General Shareholders' Meeting on February 14, 2013.

As of December 31, 2017 he didn't own shares of MTS PJSC (directly/indirectly).



## Artem Zasursky

Non-executive Director

Member of the Strategy Committee under the Board of Directors

Born in October 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 — present day — Vice President — Head of the Strategy Complex, JSFC Sistema PJSC.

Member of the Board of Directors, Sitronics JSC, System-Bio Tech LLC, System-BioTechnologies LLC, Detskiy Mir PJSC, Sistema Finance S.A.

Citizenship: Russian Federation.

He was elected as a member of MTS PJSC Board of Directors for the first time at the General Shareholders' Meeting on June 29, 2017.

As of December 31, 2017 he didn't own shares of MTS PJSC (directly/indirectly).

## Key competences of the Board of Directors

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	Personnel Management	Risk Management	M&A	GR/IR
Ron Sommer	7 years (since June 2009)	■	■	■	■	■	■	■	■
Andrey Dubovskov	5 years (since June 2011)	■	■	■	■	■	■	■	■
Aleksandr Gorbunov	3 years (since February 2013)	■	■	■	■	■	■	■	■
Artem Zasurskiy	1 year (since June 2017)	■	■	■	■	■	■	■	■
Michel Combes	3 years (since February 2013)	■	■	■	■	■	■	■	■
Stanley Miller	6 years (since June 2010)	■	■	■	■	■	■	■	■
Vsevolod Rozanov	4 years (since June 2012)	■	■	■	■	■	■	■	■
Regina von Flemming	2 years (since June 2015)	■	■	■	■	■	■	■	■
Thomas Holtrop	3 years (since February 2013)	■	■	■	■	■	■	■	■

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 2017.

## Role of the Board of Directors Chairman and independent directors in the operation of the Board of Directors

### Chairman of the Board of Directors

The key figure in 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 this position, 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.**

Large experience of Ron Sommer in management bodies of Russian and largest foreign companies, including in telecom industry, in combination with high qualification, make a substantial contribution into the effective organisation of the work of the Board of Directors of our Company.

Two deputy Chairmen of the Board of Directors were elected to provide for an efficient BoD operation, with competences determined for each of them:

- Alexander Gorbunov: strategy, international mergers/acquisitions and partnerships of MTS Group;
- Vsevolod Rozanov: operational and financial control, management of debt and exchange risks of MTS Group.

### Independent directors

The role of an independent director and a properly built Board of Directors is to ensure control over management in the interests of the owners of the company.

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 professionalism 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.

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.

## Corporate secretary<sup>1</sup>

Functions of the Corporate Secretary in MTS PJSC are performed by a special structural subdivision – Corporate Governance Department, main functions, rights and obligations of which are defined in the Regulations on Corporate Governance Department<sup>2</sup>.

The Corporate Secretary shall ensure 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.

Functions of the Corporate Governance Department in 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 profes-

sional 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 Board of Directors of the Company.

The functions of the Director of Corporate Governance include:

- preparation and conduct of meetings of MTS PJSC shareholders ;
- management of subsidiaries of MTS Group;
- ensuring timely disclosure of information in accordance with the requirements of the securities market legislation;
- integrated management of intangible assets ;
- other functions.

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 Director of Corporate Governance of MTS PJSC, Maxim Kalinin.

<sup>1</sup> [http://www.company.mts.ru/comp/ir/control/department\\_management/](http://www.company.mts.ru/comp/ir/control/department_management/).

<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 Kalinin.



## Maxim Kalinin



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 from 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 Award “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.

### Professional experience

2005 to present: Corporate Governance Director of MTS PJSC.

Corporate Governance Director of MTS PJSC is also responsible for:

- preparation and conduct of meetings of the shareholders of MTS PJSC;
- ensuring the timely disclosure of information in accordance with the requirements of the securities market legislation;
- development of Corporate Governance System of MTS Group;
- other functions.

Citizenship: Russia.

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 2017: Budget Committee, Audit Committee, Remuneration and Nomination Committee, Corporate Governance Committee, Strategy Committee.

Powers of and requirements to compositions of the committees shall be determined by regulations on

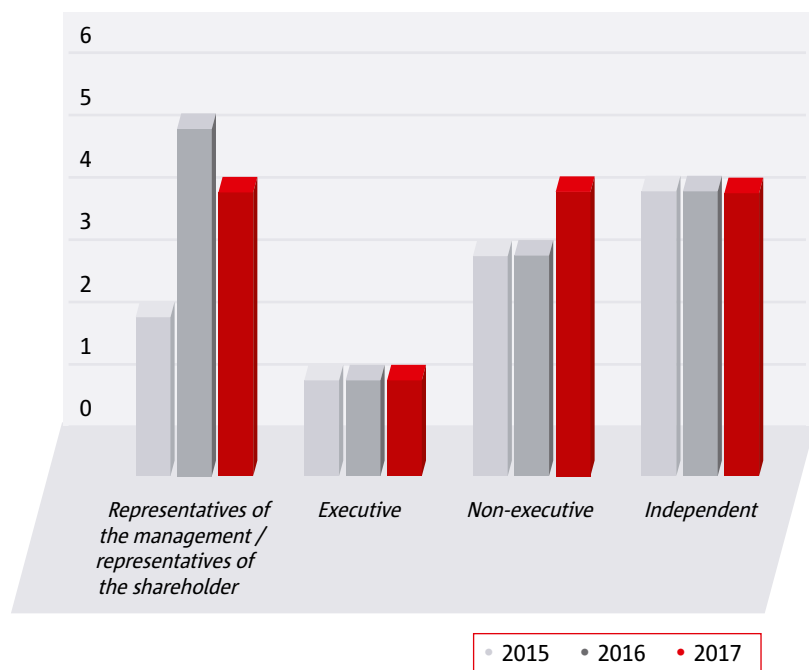
committees approved by the Board of Directors. Committees may involve external experts and advisors in order to resolve their tasks. Results of review of agenda issues by the Committees shall be communicated to Board of Directors members before each BoD meeting.

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.

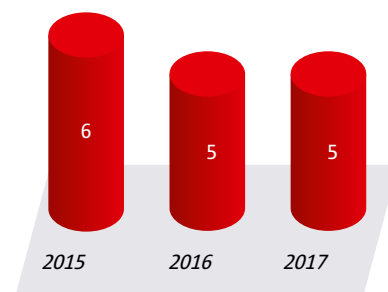
Committee	Committee Overview
Budget Committee	Preparation of recommendations to the Board of Directors on issues of preparation, approval, correction and supervision over performance of budgets, long-term business plans and investment plans of the Company
Audit Committee	Preparation of recommendations to the Board of Directors in part of supervision over 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.
Strategy Committee	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
Special committee of independent directors under the Board of Directors of MTS PJSC on the project of increased interest of MTS PJSC in the charter capital of MTS Bank PJSC <sup>1</sup>	Preparation of recommendations to the Board of Directors on issues of transaction closing terms and related risks, development on an opinion on feasibility of transaction closing

<sup>1</sup> Created on March 1, 2018.

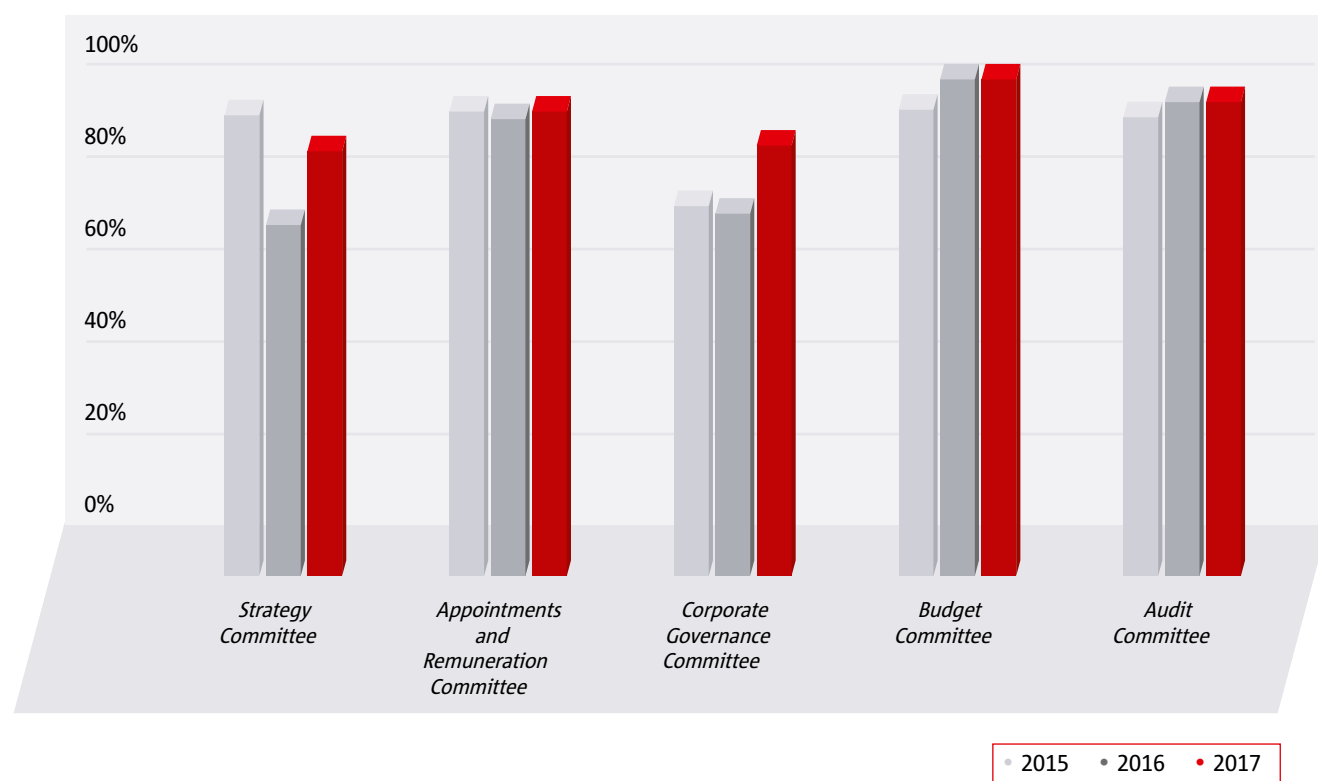
## Members of the Board of Directors, 2015-2017



## Number of committees of the Board of Directors in 2015-2017



## Average level of attendance of the meetings of the Committees in 2015-2017



## Attendance of Committee meetings in 2017

Committee Member	Remuneration and Nomination Com- mittee (7 meetings including 5 in-person meetings and 2 meetings in the form of absentee voting)	Audit Committee (11 meetings in- cluding 10 in-per- son meetings and 1 meeting in the form of absentee voting)	Budget Com- mittee (5 in-person meetings)	Strategy Com- mittee (5 in-person meetings)	Corporate Governance Committee (3 in-person meetings)
Ron Sommer				4/5	
Andrey Dubovskov				3/5	2/3
Aleksandr Gorbunov			5/5	5/5	
Artem Zasursky				4/5	
Ruslan Ibragimov					3/3
Aleksey Kornya			5/5		
Michel Combes Independent Director, not a member of MTS PJSC executive management	4/7	9/11		3/5	
Vasily Latsanich <sup>1</sup>				3/5	
Stanley Miller Independent Director, not a member of MTS PJSC executive management	7/7	11/11		5/5	2/3
Vyacheslav Nikolaev <sup>2</sup>				2/5	
Vsevolod Rozanov			5/5	5/5	3/3
Regina Von Flemming Independent Director, not a member of MTS PJSC executive management	7/7		5/5		3/3
Thomas Holtrop Independent Director, not a member of MTS PJSC executive management	7/7	11/11	5/5		
Sergey Shishkin					0/3

<sup>1</sup> Powers of the Strategy Committee member terminated on June 29, 2017

<sup>2</sup> Elected as Strategy Committee member since June 29, 2017.

# Activities of Committees in the reporting year

## Budget Committee

Budget Committee is an auxiliary body of MTS PJSC Board of Directors for preparation of recommendations to the Board of Directors upon review of matters of preparation, approval, amendment and supervision over the execution of budgets, long-term business plans and investment plans of MTS PJSC.

### Tasks

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

Number of the Committee members within the reporting year didn't change (five members, including the Chairman).

Committee Member	From June 23, 2016	From June 29, 2017
Vsevolod Rozanov, Chairman, Non-executive Director	■	■
Aleksandr Gorbunov, Non-executive Director	■	■
Regina Von Flemming, Independent Director	■	■
Thomas Holtrop, Independent Director	■	■
Aleksey Kornya, President, Management Board Chairman of MTS PJSC	■	■

■ — person was/is a Committee member

## Meetings

Reporting year saw 4 (four) in-person meetings of the Committee.

Participation of Committee members in the meetings.

Committee Member	April 12 (in-person)	June 28 (in-person)	September 19 (in-person)	October 25 (in-person)	December 14 (in-person)
Vsevolod Rozanov	■	■	■	■	■
Aleksandr Gorbunov	■	■	■	■	■
Aleksey Kornya	■	■	■	■	■
Regina Von Flemming	■	■	■	■	■
Thomas Holtrop	■	■	■	■	■

■ — Committee member participated in the meeting      □ — Committee member didn't participate in the meeting

## Issues and recommendations reviewed

- CAPEX Budgetary Performance by MTS Group in 2016 and Forecast for 2017
- Management of MTS Group accounts receivable Report for 2016
- Results of MTS PJSC debt and liquidity management in 2016
- Performance of CAPEX budget in 2017 and objectives for 2018
- Approval of MTS Group budget for 2018.
- And others.

## The Committee has provided the following recommendations to the Board of Directors:

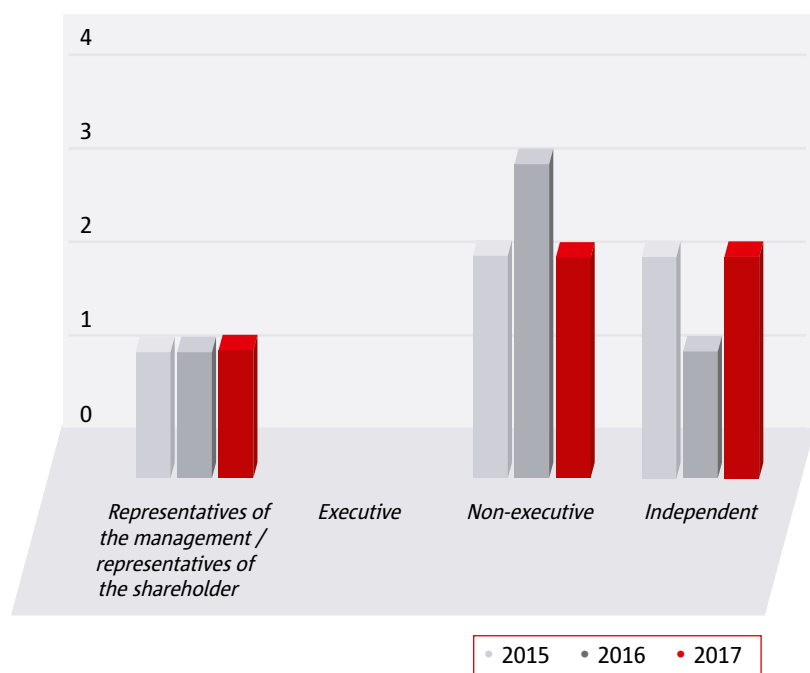
- take note of the report on MTS Group Budget and CAPEX Program Execution in 2016 and Current Forecast of Execution in 2017;
- take note of the preliminary MTS Group budget for 2017 and performance improvement program;
- submit draft budget 2017 for consideration of the Board of Directors of MTS PJSC.

## Work results in 2017

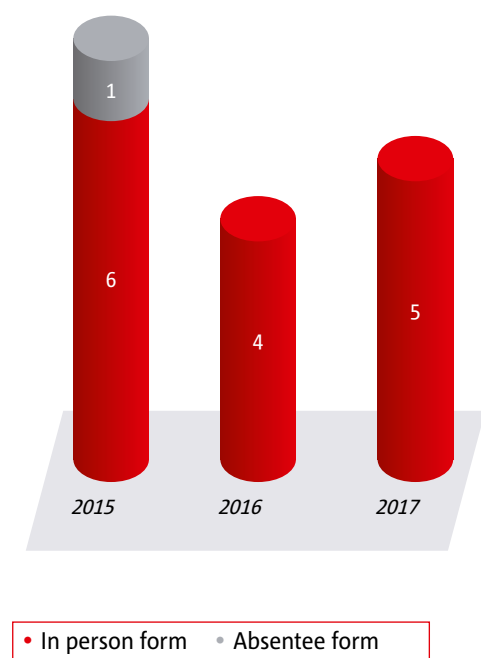
The Committee considered during the reporting year all required issues related to approval and amendment of budgets, long-term business plans and investment plans.

Besides, the Committee's operation plan for the next year on main functional areas was drafted and approved.

## Composition of the Budget Committee 2015-2017



## Meetings of the Budget Committee 2015–2017



# 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>.

## Tasks:

- 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 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 tasks.

<sup>1</sup> <https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/dokumenty-pao-mts/polozhenie-o-komitete-po-auditu/>



## Number and identities of the members

Number of the Committee members within the reporting year didn't change (three members including the Chairman).

Committee Member	From June 23, 2016	From June 29, 2017
Thomas Holtrop, Chairman, Independent Director	■	■
Michel Combes, Independent Director	■	■
Stanley Miller, Independent Director	■	■

■ — person was/is a Committee member

## Meetings

Committee activities were based on the approved action plan according to main functions assigned to the Committee. Reporting year saw 11 (eleven) meetings of the Committee: 10 in person form, 1 in the form of absentee voting.

Besides these meetings the Committee members held meetings with financial executives of the Company and managers responsible for the system of management of risks and internal control, as well as with external advisors of the Company on a number of issues.

Committee Member	February 21 (in-person)	March 20 (in-person)	April 11 (in-person)	May 18 (in-person)	June 28 (in-person)	July 27 (by correspondence)	August 18 (in-person)	September 19 (in-person)	October 25 (in-person)	November 13 (in-person)	December 14 (in-person)
Thomas Holtrop	■	■	■	■	■	■	■	■	■	■	■
Michel Combes.	□	■	■	■	■	■	□	■	■	■	■
Stanley Miller	■	■	■	■	■	■	■	■	■	■	■

■ — Committee member participated in the meeting

□ — Committee member didn't participate in the meeting



In 2017 the Audit Committee continued its work to supervise over financial statements of the group, including control of corresponding information disclosure, over efficiency of the group's internal control system, including risk management, compliance system and corporate governance, and also over efficiency of internal audit and external auditor activities to support their independence and objectiveness, assessment of their activities' quality.

Thomas Holtrop, Chairman of the Audit Committee

## Key areas of the Audit Committee activities in 2017

### In the sphere of risk management and internal control system

During 2017 the Committee controlled the procedures providing for Group's compliance with the requirements of Sarbanes-Oxley Act. Plan for 2017 and operation results of the Department for Internal Control Systems for the first half of 2017 and for 2016 in general were reviewed. The committee reviewed and preliminarily approved the risk management report of MTS PJSC for the first half and 2017.

The analysis of intermediate financial information of the Group was conducted jointly with the executives and external auditor for the first, second and third quarters of 2017; also they analyzed consolidated financial statements of the Group for the year, prepared in accordance with International Financial Reporting Standards (IFRS). The Annual Report of MTS PJSC of 20-F form for 2017 was discussed and approved. The reports on financial and operational performance of MTS Group for I, II, III, IV quarters and 2017 were reviewed and approved.

During 2017 the Committee reviewed transactions of interest, whose cost exceeds the established materiality threshold, and with companies of Sistema PJSC Group, the results of analysis of economic feasibility and compliance with requirements of regulatory documents in 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 2017 in MTS Group of Companies and discussed reports on the status of compliance system implementation in MTS PJSC and subsidiaries in the first half of 2017, and the results of the year. The Committee positively assessed the compliance function and considers it to be effective. The Committee took under advisement the Report on development of MTS PJSC Unified Compliance System. In February 2018, the Committee approved the functional strategy of MTS Group in the field of compliance for 2018.

### In the area of internal control and audit management

During 2017 the Committee reviewed information about current operation of the Internal Control and Audit Unit. The Chairman of the Audit Committee held regular meetings with the Director for Internal Control and Audit. In December 2017 the Committee reviewed and approved the strategy, KPIs, work plan and budget of the Internal Control and Audit Block for 2018, and also the new version of the "Internal Control and Audit of MTS PJSC" Policy.

The Audit Committee reviewed and took under advisement the results of external assessment of the 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 reviewed and approved the results of Internal Control and Audit Block performance for the first half of the year and in total for 2017, the compliance with 2017 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 the area of external audit management

The audit committee recommended CJSC Deloitte and Touche CIS 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.

On June 29, 2017 according to the recommendation of the Audit Committee, on June 28, 2017 the Board of Directors approved the amount of remuneration for the auditor of CJSC Deloitte and Touche CIS for audit of financial statements of MTS Group of Companies for 2017 in the amount of 125,070 thous. RUB (VAT and overhead expenses excluded).

Each year at the beginning of audit process the auditor shall present to Committee's consideration a detailed audit plan, identify and evaluate key risks. Evaluation

of efficiency and quality of the audit process shall be prepared by the Committee according to the results of analysis of auditor's reports. Audit Committee discussed and approved results and conclusions of the external auditor based on results of the review of quarterly overviews of financial information for the first, second and third quarters of 2017 and the annual audit, including comments in the area of internal control. Based on 2017 results the Committee gave a positive evaluation of the audit quality and audit procedure efficiency in general.

The Audit Committee gave a positive evaluation of auditor's opinions based on results of the audit of MTS PJSC financial statements for 2017 prepared in accordance with Russian accounting standards, and consolidated financial statements of MTS PJSC and its subsidiaries for 2017 prepared in accordance with IFRS.

The Committee exercised supervision over compliance of the auditors with independence principles. During 2017 the Committee considered information an

permissible non-audit services, which was provided by the external auditor, and discussed with the auditor a possible impact of the service on independence of the auditor. Permissible non-audit services were preliminarily approved by the Committee in accordance with the procedure described in the Regulation on Audit Committee.

### **In the area of counteraction to unethical practices of MTS Group employees and third parties and compliance with ethical standards and conflict of interest management**

In 2017, 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. The reports of the Discipline Committee for 2017 were considered and taken into account.

## **Issues and recommendations of the Audit Committee reviewed at the meetings in 2017:**

- approval of reports on financial and operational results of MTS Group for 2016, and for the 1st, 2nd and 3rd quarters of 2017;
- review and approval of reports of CJSC Deloitte and Touche CIS on the results of annual audit for 2016, and quarterly reviews of financial information for the 1st, 2nd and 3rd quarters of 2017, annual audit plan for 2017, preliminary approval of permissible non-audit services;
- recommendation to the Board of Directors to approve CJSC Deloitte and Touche CIS as auditor of financial statements of MTS PJSC in 2017 with remuneration in the amount of 125,070 thous. RUB (VAT and overhead expenses excluded);
- discussion and approval of the Annual Report of MTS PJSC by the form 20-F;
- review of MTS PJSC Risk Management Report for the first half of 2017 and recommendation to the Board of Directors to approve the same;
- 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 performance of Internal Control and Audit Unit for 2016 and the first half of 2017;
- taking under advisement confirmation of organizational independence of the Internal Control and Audit Block for 2017;
- review and approval of the strategy, KPIs, work plan and budget of the Internal Control and Audit for 2018;
- review of the plan for 2017 and operation results of the Department for Internal Control Systems for 2016 and the first half of 2017;
- review and approval of the report on implementation of MTS Group compliance strategy 2016 and report on the status of implementation of compliance strategy at MTS PJSC and its subsidiaries in the first half of 2017;

- review of the report on development of MTS PJSC Unified Compliance System;
- review of work results of the Single Hotline of MTS Group of Companies for 2017;
- review of transactions of interest, whose cost exceeds the established materiality threshold, and

with companies of Sistema PJSC Group, the results of analysis of economic feasibility and compliance with requirements of regulatory documents in closing of such transactions;

- approval of the Committee work plan for 2018.

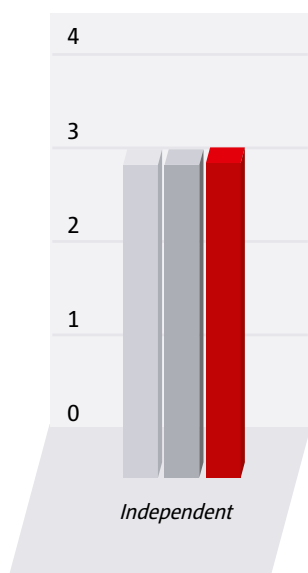
## Work results in 2017

In the reporting year the Committee reviewed issues related to the assurance of control over reliability and efficiency of the system for risk management and internal control, compliance system, veracity of financial statements of MTS Group of Companies, independence and fairness of internal and external audit implementation, efficiency of the system for notifying on potential

cases of unethical practices of the Group's employees and third parties or other violations in the Group.

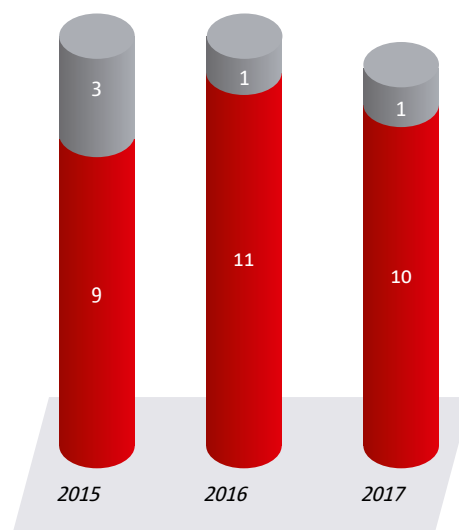
The Committee's operation plan for the next year on main functional areas was drafted and approved.

### Composition of the Audit Committee 2015-2017



• 2015 • 2016 • 2017

### Meetings of the Audit Committee 2015-2017



• In person form • Absentee form

# Remuneration 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>.

## Tasks:

- 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.

<sup>1</sup> <https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/dokumenty-pao-mts/polozenie-o-komitete-po-voznagrazhdeniyam-i-naznacheniyam>

## Number and identities of the members

Number of the Committee members within the reporting year didn't change (five members, including the Chairman).

Committee Member	From June 23, 2016	From June 29, 2017
Stanley Miller, Chairman, Independent Director	■	■
Michel Combes M. Combes, Independent Director	■	■
Thomas Holtrop, Independent Director	■	■
Regina von Flemming, Independent Director	■	■

■ — person was/is a Committee member

## Meetings

Reporting year saw 7 (seven) in-person meetings of the Committee.

Participation of Committee members in the meetings is reflected in the table.

Committee Member	February 21 (in-person)	April 11 (in-person)	May 25 (by correspond- ence)	June 28 (by correspond- ence)	June 29 (in-person)	September 18 (in-person)	December 14 (in-person)
Stanley Miller	■	■	■	■	■	■	■
Michel Combes	□	■	□	□	■	■	■
Thomas Holtrop	■	■	■	■	■	■	■
Regina Von Flemming	■	■	■	■	■	■	■

■ — Committee member participated in the meeting

□ — Committee member didn't participate in the meeting

## Main areas of activities of the Remuneration and Nomination Committee in 2017:

### Matters of appointments and succession assurance

- Candidates for positions of an immediate subordination to the Company's President were considered. Experience sufficiency was evaluated; the results achieved in 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.

### 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.
- 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

tions on the main areas of activities were given to the Company's managers.

- Key transformations of the Company's organizational structure, their correspondence to the upper-level business objectives and the Company's strategy

## Issues and recommendations reviewed

- Assessment of the results of activities performed by the President and top managers of the company in 2016.
- Setting goals for 2018, including the list, target values and influence (weight) of each of the parameters upon the resulting remuneration award.
- Review of KPI results of the long-term awarding programs for 2017 and setting goals for 2016.
- 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.



In the reporting year the Appointments and Remuneration Committee continued working over important aspects of personnel management for the company. Efficiently using the international corporate governance experience and best professional practices, the committee consults the Board of Directors on these issues.

We strive to ensure that the MTS policy in the field of compensation and benefits is recognized as the best practice in the labor market; best managers work in the Company, and employees' work is assessed using clear and transparent indicators established by the management authority 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.

All members of the Committee are confident that in virtue of engagement of the best personnel, investment into training, retention and fair remuneration at the market level, creation of opportunities for their development in the competitive, but fair environment, the Company provides for its success for many years ahead.

The Committee watches implementation of Company's strategic development initiatives. An important goal, on the one hand, is to ensure fair remuneration of outstanding results, and on the other hand, not to ignore absence of efforts. Together with the Audit Committee, special attention is paid to compliance with the corporate governance rules, regulatory requirements and prevention of financial crimes. In accordance with the recommendation of the Appointments and Remuneration Committee, company's management KPIs were supplemented with objectives related to corporate governance and adherence to compliance principles.

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 results in 2017, and also approved the strategy in the field of personnel management for 2018-2019.

Stanley Miller, Chairman, Appointments and Remuneration Committee

- 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.

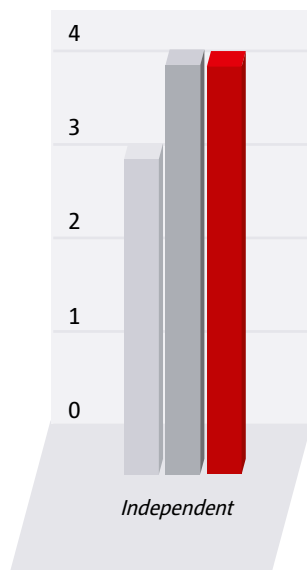
## Work results in 2017

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.

Besides, the Committee's operation plan for the next year on main functional areas was drafted and approved.

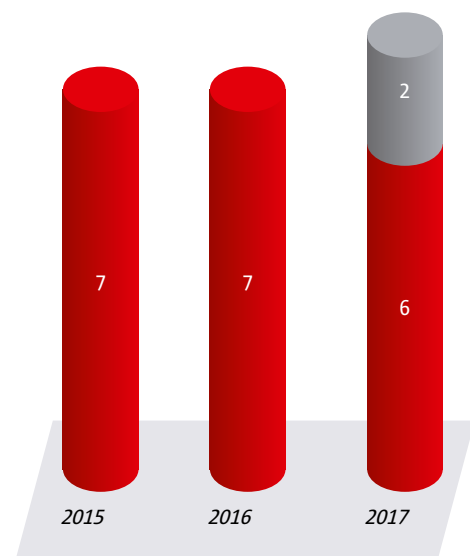
Particular attention was paid to the development of internal successors to leadership positions and digital transformation of the company.

### Composition of the Remuneration and Nomination Committee 2015-2017



• 2015 • 2016 • 2017

### Meetings of the Remuneration and Nomination Committee 2015-2017



• In person form • Absentee form



# Corporate Governance Committee

The committee was formed 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>.

## Tasks

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.

In relation to the goals that were set the Committee performs the following functions:

- control over 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 in 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 prevention and settlement of corporate conflicts between the shareholders and between the shareholders and executive bodies of the Company, as well as review of complaints and comments of the shareholders;
- preliminary review of internal regulatory documents of the Company submitted for approval (preliminary review) of the Board of Directors, and of the Company's annual report.

<sup>1</sup> <https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/dokumenti-pao-mts/polozenie-o-komitete-po-korporativnomu-upravleniyu>

## Number and identities of the members

Number of the Committee members within the reporting year didn't change (seven members, including the Chairman).

Committee Member	From June 23, 2016	From June 23, 2016
Vsevolod Rozanov, Chairman, Non-executive Director	■	■
Andrey Dubovskov, President, Chairman of Sistema PJSC Management Board, Executive Director	■	■
Ruslan Ibragimov, Management Board Member, MTS PJSC-Vice-President on Corporate and Legal Issues	■	■
Stanley Miller, Independent Director	■	■
Regina von Flemming, Independent Director	■	■
Sergey Shishkin, Member of the Management Board, Sistema PJSC	■	■

■ — person was/is a Committee member

## Meetings

Reporting year saw three in-person meetings of the Committee.

Participation of Committee members in the meetings is reflected in the table.

Committee Member	April 11 (in-person)	September 19 (in-person)	December 14 (in-person)
Vsevolod Rozanov	■	■	■
Andrey Dubovskov	□	■	■
Ruslan Ibragimov	■	■	■
Stanley Miller	■	■	□
Regina Von Flemming	■	■	■
Sergey Shishkin	□	□	□

■ — Committee member participated in the meeting

□ — Committee member didn't participate in the meeting

## Issues and recommendations reviewed

6 issues were reviewed in total during the reporting year, such as:

- report on company's corporate governance system for 2016;
- MTS PJSC corporate governance benchmarking for 2016, 2017;

- self-assessment of the Board of Directors 2017;
- extension of the D&O Insurance Agreement;
- notification on relevant changes to legislation;

## The Committee has provided the following recommendations to the Company's Board of Directors:

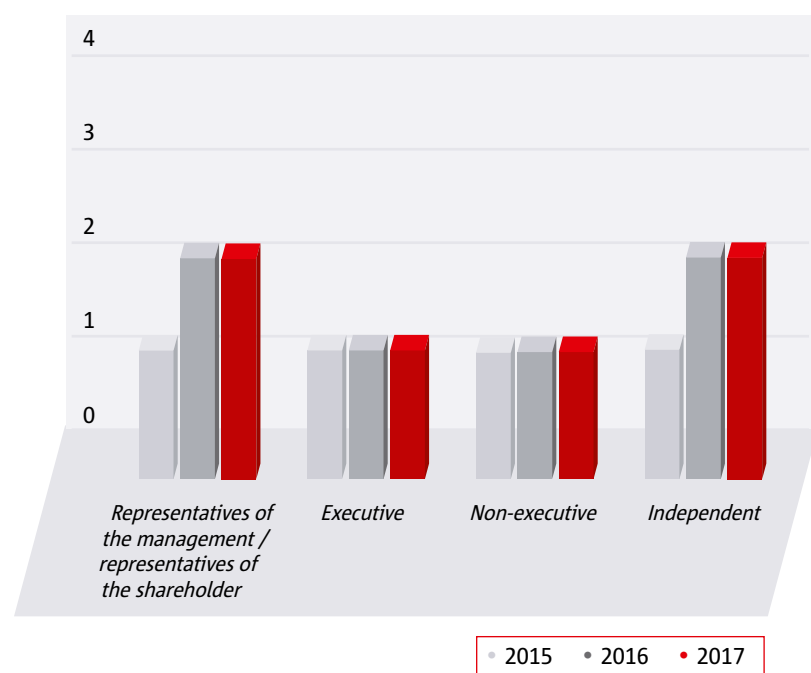
- to take into account the provided information on extension of MTS Group companies directors and officials liability insurance agreement (D&O Agreement);
- to engage an external consultant to support the process of self-assessment of the MTS PJSC Board of Directors in 2017.

## Work results in 2017

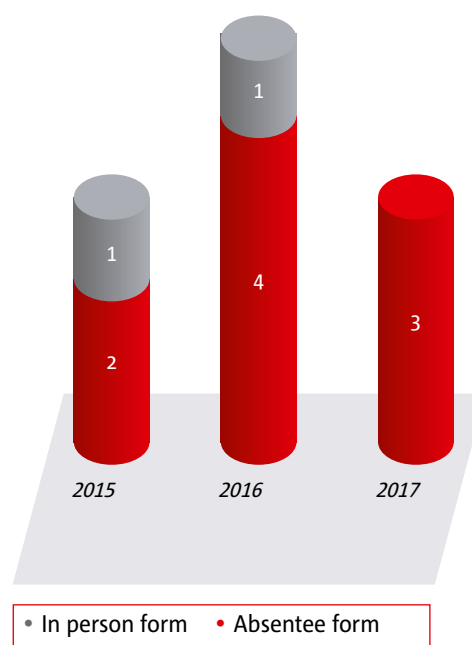
The Committee considered in 2015 all the matters related to the corporate governance in the Company; no issues on settlement of corporate conflicts arose; no complaints or comments from the shareholders on a competence of the Committee were received.

Main attention of the Board of Directors was focused on implementation of the Corporate Governance Code provisions and self-assessment of the Company's Board of Directors.

### Composition of the Corporate Governance Committee 2015-2017



### Meetings of the Corporate Governance Committee 2015-2017



# Strategy 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.

## Tasks:

- 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

Composition of the Committee was changed during the reporting year.

New composition of the Committee was approved at the meeting of the Board of Directors dated June 29, 2017

Committee Member	From June 23, 2016	From June 29, 2017
Ron Sommer, Chairman, Non-executive Director	■	■
Aleksandr Gorbunov, Non-executive Director	■	■
Andrey Dubovskov, President, Chairman of MTS PJSC Board	■	■
Sistema PJSC, Executive Director	■	■
Stanley Miller, Independent Director	■	■
Michel Combes, Independent Director	■	■
Vsevolod Rozanov, Non-executive Director	■	■
Artem Zasursky, Vice President, Head of the Strategy Complex, Sistema PJSC	■	■
Vyacheslav Nikolaev, Member of the Management Board — Vice-President for Marketing, MTS PJSC <sup>1</sup>	-	■
Vasily Latsanich, Management Board Member, Vice President for Strategy and Marketing, MTS PJSC <sup>1</sup>	■	-

■ — person was/is a Committee member

<sup>1</sup> Elected as a committee member on June 29, 2017

<sup>2</sup> Excluded from the composition of the Committee since June 29, 2017.



In the reporting year, we reviewed all the key aspects of MTS 'long-term business development. Our attention was focused on the transformation of MTS business, including management of these transformations; functional strategies in the field of technologies, IT, TV services, and also innovations and digital areas. It should be noted that all the issues evoked lively discussions among the members of the Committee, and resulted in a number of recommendations to the management of the Company.

Ron Sommer, Chairman of the Strategy Committee

## Meetings

Reporting year saw five (5) in-person meetings of the Committee.

Participation of Committee members in the meetings.

Committee Member	February 21 (in-person)	April 11 (in-person)	June 28 (in-person)	September 19 (in-person)	December 14 (in-person)
Ron Sommer	■	■	■	■	■
Aleksandr Gorbunov	■	■	■	■	■
Andrey Dubovskov	■	□	□	■	■
Stanley Miller	■	■	■	■	■
Michel Combes	□	■	□	■	■
Vsevolod Rozanov	■	■	■	■	■
Artem Zasursky	■	■	□	■	■
Vyacheslav Nikolaev	-	-	-	■	■
Vasily Latsanich	■	■	■	-	-

■ — Committee member participated in the meeting      □ — Committee member didn't participate in the meeting

## Issues reviewed by the Committee in 2017

- MTS Group IT Strategy for 2017-2019
- Technological strategy of MTS Group for 2017-2019
- MTS Innovation Center: current status and plan of works for 2017-2019
- Main strategic subjects/areas for MTS Group for 2018-2020. Discussion of top-down indicators for subsequent cycle of strategic planning.
- Clustering: 2016 results, 2017 objectives and plans
- Key changes and innovations in regulation of MTS business areas in Russia. Threats, opportunities, status and plans.
- Report on the Digital range.
- MTS Strategy in the field of TV (all types, including relevant aspects of fixed BBA).
- Satellite TV: current status and strategy.

## The Committee has provided the following recommendations to the Company's Board of Directors and Management of MTS Group:

- To develop the plan of actions for recruitment of IT experts and building of competences in MTS.
- In technological reports and strategies, to use indicators of network traffic and quality prime cost, and also to disclose subjects of IoT, WiFi Calling, VoLTE, OTT Voice at strategic session.
- To consider at the strategic session the problems of OTT messenger penetration growth, projects of digital transformation, data transfer pricing, priorities of capital investments between 3G and 4G, long-term prospects of Big Data, WiFi calls and process aspects of IoT development.
- To recommend to MTS management to organize a meeting on global scenarios of MTS business devel-

opment, in order to demonstrate their comparison in materials of the strategic session.

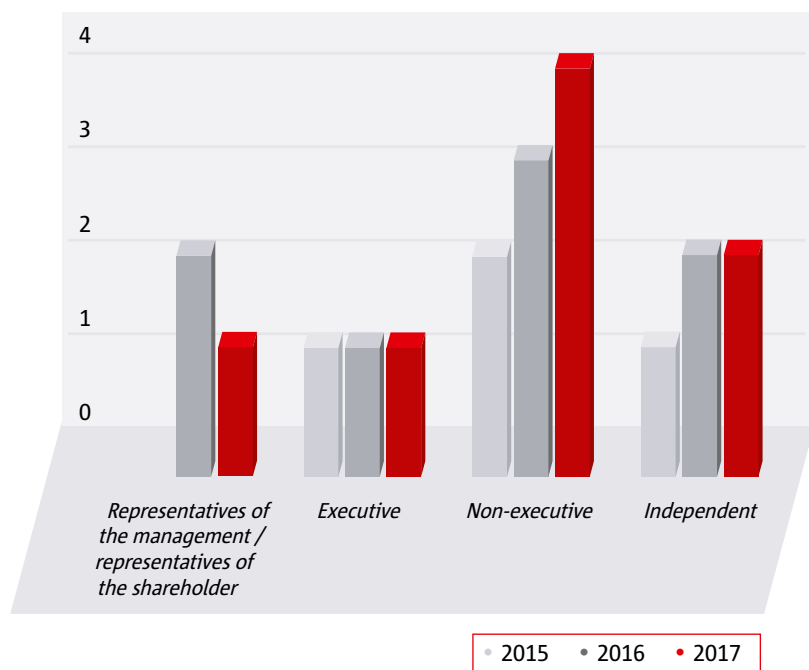
- Within business planning and budgeting, to develop the decision on changing the KPI weights within the system of motivation for directors of clusters and regions inside clusters.
- To develop a differentiated approach to definition of target reduction of retail chain for its application to scheduling and budgeting of sales operations in 2018.
- To recommend to MTS management to add information to the report on status of Digital project on structure of active use base of MTS payment services (MTS Wallet), quantity of customer profiles and metrics, collected for them, quantitative information on financial effect of key Big Data projects, metrics of MTS mobile app user satisfaction, exclusion of “M2M SIM-cards quantity” from the list of strategic KPIs.
- To select and elaborate the optimal scenario of satellite TV project development.

## Work results in 2017

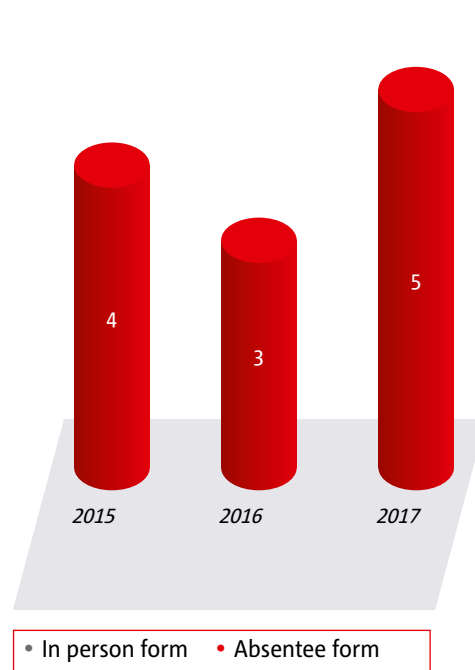
In the reporting year the Committee considered issues related to the strategic development of the Company in the main functional areas, as well as to key projects for differentiation and transformation of MTS Group busi-

ness. In addition, a work plan for the Committee for the next year was developed, based on an analysis of the development of new digital business areas of MTS and consideration of functional strategies.

### Composition of the Strategy Committee 2015-2017



### Meetings of the Strategy Committee 2015-2017



## Events after the reporting date

On March 2018 the Special committee of independent directors under the Board of Directors of MTS PJSC was formed on the project of increased interest of MTS PJSC in the charter capital of MTS Bank PJSC.

Committee composition:

- Thomas Holtrop – Committee Chairman;
- Stanley Philip Miller;
- Michel Combes;
- Regina Von Flemming.

# 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>

**Remuneration** for the fulfilment of obligations of MTS PJSC Board of Directors members shall be paid to the Board of Directors members who are independent directors and to the Board of Directors members who are not employees or members of management bodies of the companies included in MTS Group.

**All the categories of Company's Board of Directors members shall have the right for compensation of overhead expenses** related to the fulfilment of obligations of a Board of Directors member.

<sup>1</sup> [http://www.company.mts.ru/comp/ir/control/regulations/bod\\_compensation/](http://www.company.mts.ru/comp/ir/control/regulations/bod_compensation/)

## There are three forms of remuneration for Board of Directors members

### Basic remuneration

Basic remuneration shall be paid for the fulfilment of obligations of a Company's BoD member during the corporate year; it doesn't depend on number of meetings the Director participated in.

**Amount of basic remuneration of the Director is 250,000 USD**

### Remuneration for fulfilment of additional obligations related to the work in Board of Directors Committees

Mandatory committees: 15,000 USD per year (for the work in each committee);

Other committees: 5,000 USD per year (for the work in each committee);

Special committees: 20,000 USD per year (for the work in each committee).

### Performance-based bonus

Members of the Board of Directors receive bonus based on their performance over the year, depending on amount of Company's capitalization according to results of Company's operation in case of profit.

With that, value of the year-end bonus paid to Directors can't exceed 200,000 USD

### Total amount of remuneration can't exceed 500,000 USD

The Company does not compensate for Directors who are not Russian tax residents the amount of individual income tax that should be deducted from them according to the Russian legislation and/or paid by them in accordance with legislation of another country.



## Compensations of expenses

Compensations shall be paid in accordance with actually made and documented target expenses:

- on travelling to the destination and back
- on accommodation lease
- on communication services
- other documented expenses.

Board of Directors members also get compensations for miscellaneous expenses in amount not more than 200 thousand USD per year

Directors who are not Russian citizens receive compensations in US dollars.

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.

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 2017

Indicator	Total, RUB
Remuneration for participation in operations of the management body	119,468,631.14
Cost compensations	4,334,241.71
TOTAL	123,802,872.85

# Evaluation of 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 joint participation of Remuneration and Nomination Committee, Corporate Governance Committee and the Board of Directors, an independent consultant was selected to update the existing methodology for the evaluation of performance of the Board of Directors. A new methodology was approved by the Board of Directors.

The Methodology defines the approach to the Evaluation, the purpose of which is to improve performance of the Board of Directors, its committees, Board of Directors members, and improve the quality of corporate governance in MTS as a whole. The methodology contains description of the following:

- context of international and Russian practice, where the issue of evaluation is being considered;
- 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 basis (annually) and can be conducted both independently (by questionnaire method) and with involvement of an independent consultant.

Following 2016 evaluation results, a plan of actions was generated to develop corporate governance, with the following key actions:

- change the approach to formation of the agenda for in-praesentia meetings of the Board of Directors (split off technical issues into a separate block);
- arrange for the participation of independent Board of Directors directors in the work of the Strategy Committee;
- ensure meetings of independent members of the Board of Directors with individual categories of employees;

- include individual issues of management remuneration and succession into the plan of work of the Remuneration and Nomination Committee;
- ensure research on issues of top management remuneration, etc.

All listed actions were performed.

In 2017 we evaluated the Board of Directors according to the new methodology for the second time: in the form of self-evaluation by survey method. For the evaluation, a 4-point scale was used. It should be noted that in order to produce more complete results, this year we additionally had interview with all members of the Board of Directors and individual representatives of the management.

In process of evaluation, a wide list of issues was analyzed: balance of power in the Board of Directors, role of the Board of Directors in generation and implementation of the Company strategy, analysis of quantitative and personal composition of the Board of Directors and Committees, qualification and experience of the members of the Board of Directors, role of independent directors, procedure of Board of Directors and committees meetings, evaluation of efficiency of Chairman's, Secretary's work and work of each of the committees under the Board of Directors.

During self-evaluation, the Board of Directors considered issues aimed at detection of faults in the field of professional qualification, experience, business skills of the members of the Board of Directors, and also compliance of the quantitative composition of the Board of Directors with the Company's needs. The results of self-evaluation demonstrated that the composition of the Board of Directors was balanced, combination of professional competences, knowledge and experience of the members of the Board of Directors reflects the needs of the Company and makes it possible to efficiently perform tasks and functions of the Board of Directors.

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 in-person meetings.

The average score on all evaluation elements was 3.84 and did not change almost compared to the similar indicator of 2016 (3.85). At the same time the average score was no less than 3.69 points for all evaluation components.

In the opinion of the assessment process participants, the Board of Directors plays a crucial role in MTS corporate governance system, duly performing its functions and paying sufficient attention both to strategic issues and to those in the field 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.

Besides, directors and other participants of the evaluation process expressed their proposals for further improvement of the work of the Board of Directors and key issues that the Board of Directors should focus on.

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 2018. The key recommendations are related to issues of strategy, succession, business efficiency and committee operations.

We positively evaluate the results of last year evaluation and see high level of its participants' involvement, therefore we plan to conduct it further, and will also consider the feasibility of engagement of a separate consultant for the evaluation process (in accordance with the Code 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 familiarise 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 senior functional management of the Company 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.

No induction was provided in 2017.

# 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 organisation 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.

## Officials and MTS Group Companies Liability Insurance

Insurance amount (limit of liability) for five (5) last years remained unchanged and amounts to 250 million USD (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 authorised 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).

<sup>1</sup> A more detailed information is presented in the section "Risk Management and Internal Control System".

# President and Management board of MTS

A key role in implementation of the selected strategy, organisation 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 executive bodies of the Company 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 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 organisation 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 President's powers as well as on termination of powers of an individual member of the Management Board or all members of the Management Board and on establishment of new Executive Bodies.

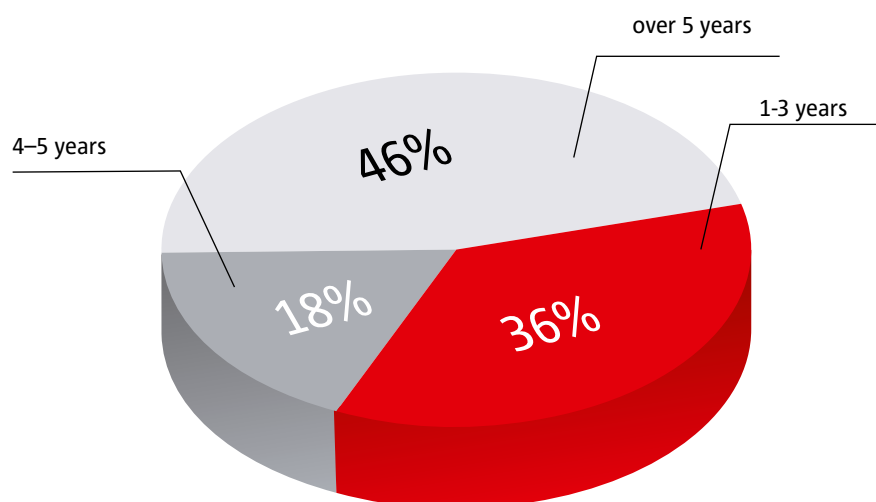
During 2017 (from March 5, 2011) Andrey Anatolievitch Dubovskov performed functions of the President of MTS PJSC.

Since March 13, 2018 the functions of MTS PJSC President are performed by Alexey Valerievich Kornya.

<sup>1</sup> <http://www.company.mts.ru/comp/ir/control/regulations/ceo/>

<sup>2</sup> [http://www.company.mts.ru/comp/ir/control/regulations/executive\\_board/](http://www.company.mts.ru/comp/ir/control/regulations/executive_board/)

## Duration of work in the Management Board



## Composition of the Management Board in 2017

Information about the President and members of the Management Board as of December 31, 2017

### Aleksey Kornya

President, Management Board Chairman of MTS PJSC (since March 13, 2018)



Born in 1975 in Bryansk.

In 1998 he graduated from St. Petersburg State University of Economy and Finance.

#### Professional experience:

2000–2000: CJSC PricewaterhouseCoopers Audit, consultant-auditor

2000–2004: OJSC North-West Telecom, chief financial consultant, chief specialist on financial consultation

2004–2007: MTS PJSC, in July 2004 — financial director of the branch of MTS PJSC of Ural 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 of the 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 — present — MTS PJSC, President, Member of the Management Board

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 the Budget Committee at the Board of Directors of MTS PJSC.

Member of the Management Board of MTS PJSC since 2008.

As of December 31, 2017 he owned ordinary registered shares of MTS PJSC in the amount of 148,624 shares.



## Andrey Dubovskov<sup>1</sup>

President, MTS PJSC Management Board Chairman  
(until March 12, 2018)

Born in 1966 in Almaty.

In 1993 he graduated from the All-Russian State University of Cinema n.a. S.A. Gerasimov with the specialty in film direction.

### Professional experience

1993–2002: a range of leading positions in Millicom International Cellular S.A., Millicom International Cellular B.V., “Regional cellular communications” LLC, “800” LLC and other companies in Moscow, Alma-Ata, Nizhny Novgorod, Ekaterinburg, Perm and Kiev

2002–2004: CEO of “Tele2” Group company in Nizhny Novgorod

2004–2006: Director of MTS PJSC Branch in Nizhny Novgorod

2006–2007: Director of “Ural” Macro-Region of MTS PJSC

2007–2008: First Deputy CEO of MTS Ukraine PrJSC

2008–2011: CEO of MTS Ukraine PrJSC

2011–2018: President, Management Board Chairman of MTS PJSC

2018 to present: President, Management Board Chairman of Sistema PJSC

Chairman of the Board of Directors in MGTS PJSC and Russian Telephone Company JSC and Deputy Chairman of the Board of Directors in Mobile TeleSystems JLLC, member of the Supervisory Board in VF Ukraine PrJSC, member of the Board of Directors in JSFC Sistema OJSC, Member of the Board of Trustees of BF Sistema, member of the Board of GSM Association (GSMA).

Citizenship: Russia.

He was elected as a member of MTS PJSC Board of Directors for the first time at the General Shareholders’ Meeting on June 27, 2011.

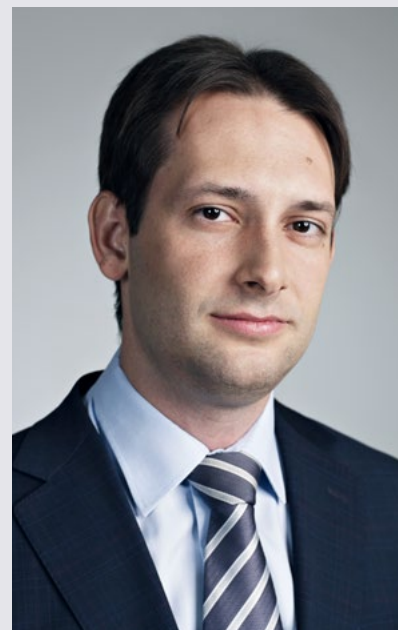
As of December 31, 2017 he owned ordinary registered shares of MTS PJSC in the amount of 467,805 shares.

<sup>1</sup> Deputy Chairman of the Management Board was not elected.



## Mikhail Arkhipov

Member of the Management Board — Vice-President,  
Human Resources  
(until January 9, 2018)



Born in 1982 in Murmansk.

In 2004 he graduated from the faculty of sociology of Lomonosov Moscow State University.

### Professional experience

2004–2004: LLC MPZ Campomos, HR manager

2004–2008: OJSC San InBev, compensations and benefits manager, compensations and benefits director

2008–2009: senior human resources manager of CJSC KPMG

2009–2013: human resources director of PJSC SIBUR Holding

2013–2018: Member of the Management Board — Vice-President, Human Resources, MTS PJSC

Member of the Board of Directors of SHYAM TELESERVICES Limited.

Member of the Management Board of MTS PJSC since 2013.

As of December 31, 2017 he owned ordinary registered shares of MTS PJSC in the amount of 28,783 shares.



## Kirill Dmitriev

Member of the Management Board, Vice President for Sales and 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 of Baltic Beverages Holding (Ukraine)

2009–2011: PJSC MTS Ukraine, Director of the Western Territorial Department

2011–2014: PJSC MTS, General Director of North-West macroregion

2014–2016: PJSC MTS, Member of the Management Board — Director of Moscow Macro-Region

2016 to present: MTS PJSC, Member of the Management Board — Vice-President for Sales and Service

Member of the Supervisory Board of MTS Ukraine PJSC, Member of the Board of Directors, Member of the Strategy Committee, Member of the Nomination and Remuneration Committee of MGTS PJSC, Member of the Board of Directors of RTK JSC and CITY TELECOM CJSC, Member of Supervisory Board of VF Retail LLC.

Member of the Management Board of MTS PJSC since 2014.

As of December 31, 2017 he owned ordinary registered shares of MTS PJSC in the amount of 58,449 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 in 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: 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, Vice-President, Corporate and Legal Issues, Management Board Member

Management Board Member, vice-president of the Non-Profit Partnership “Association of Corporate Lawyers”, member of the Non-Profit partnership “Assistance to Competition Development in CIS countries”, member of the All-Russian Public Organization “Association of Russian Lawyers”, senior director of the Association of Independent Directors, Board Member, Chairman of the Board of the Association of National Payment System Organizations “National Payment Association”, member of the Partnership of Antimonopoly Experts Association, Member of the Supervisory Board of Autonomous Non-Profit Organization “Digital Economy”, independent director of OJSC “Publishing House “Higher School”, member of the Board of Directors of LLC “Doctor nearby” 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, 2017 he owned ordinary registered shares of MTS PJSC in the amount of 113,877 shares.



## 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 in 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.

Member of the Management Board of MTS PJSC since 2017.

As of December 31, 2017 he didn't own shares of MTS PJSC (directly/indirectly).

## Igor Yegorov

Member of the Management Board, Moscow Region Director



Born in 1968 in Irkutsk.

Graduated from St. Petersburg State Electrotechnical University with a 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 Management Board of MTS PJSC since 2016.

As of December 31, 2017 he owned ordinary registered shares of MTS PJSC in the amount of 29,035 shares.



## Andrey Smelkov

Member of the Management Board — Vice President, Director,  
MTS Foreign Subsidiaries Business Unit

Born in 1976 in Velikiy Novgorod.

In 1998 he graduated from the faculty of management and economics of Novgorod State University named after Y.Mudriy. In 2000 he received a degree in Telemark University (Norway) majoring in economics and business administration. In 2012 he completed the course in Wharton business school (USA) for competence development program for heads of companies.

### Professional experience

He has extensive professional experience in telecommunication industry in CIS countries.

2001–2002: Arrive AS (Norway), Information Security Director

2002–2002: CJSC Novgorod Telecommunications, Marketing and Advertisement Manager

2002–2003: CJSC Novgorod Telecommunications, Marketing and Advertisement Director

2003–2004: CJSC Novgorod Telecommunications, Deputy General Director

2004–2006: PJSC Vimpelcom, Head of the Branch in Nizhniy Novgorod.

2006–2008: PJSC Vypelcom (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 to present: 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 of JLLC Mobile TeleSystems, Sistema Shyam Teleservices Limited.

Member of the Management Board of MTS PJSC since 2013.

As of December 31, 2017 he owned ordinary registered shares of MTS PJSC in the amount of 34,487 shares.

## Andrei Ushatskiy

Member of the Management Board — Vice President,  
Engineering and IT



Born in 1974 in Moscow.

In 1997 graduated from the Moscow Energy Institute.

In 2002–2004 studied under MBA program for managers in the Academy of National Economy at the RF Government.

### Professional experience

He has been working in MTS PJSC since 1996, starting from the post of the radiorelay line service specialist, then head of the network operation service, director of the network operation department and director of 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 of JSC Metro-Telecom, Member of the Board of Directors of ES MTS-Turkmenistan, JSC NVision Group, Sitronics JSC, STS JSC, Member of the Board of Directors, Member of the Strategy Committee of PJSC MGTS.

Member of the Management Board of MTS PJSC since 2009.

As of December 31, 2017 he owned ordinary registered shares of MTS PJSC in the amount of 111,239 shares.



## Valery Shorzhin

Member of the Management Board — Vice President, Procurement and Administration

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 to present: MTS PJSC, Management Board Member — Vice-President, Procurement and Administration

Member of the Board of Directors, MGTS PJSC, NVision Group JSC and NIS JSC.

He was elected for the first time in the Management Board of MTS PJSC in 2009; he was reelected in the Management Board in 2011.

As of December 31, 2017 he owned ordinary registered shares of MTS PJSC in the amount of 89,776 shares.



## Events after the reporting date

### 1. Appointment of Maria Golyandrina to the position of the Member of the Management Board — Vice President, Human Resources<sup>1</sup>

The Board of Directors of MTS PJSC on December 15, 2017 made the decision to terminate since January 9, 2018 the powers of the Member of the Management Board, MTS PJSC, Mikhail Arkhipov and on election of Maria Golyandrina as the Member of the Management Board since January 10, 2018, who previously for three years headed the MTS Department of Compensations, Benefits and HR Administration.

### 2. Appointment of Alexey Kornya as the MTS President<sup>2</sup>

The Board of Directors of MTS PJSC on March 1, 2018 made the following decision:

- to terminate early the powers of the President, the Chairman of the Management Board of MTS PJSC Andrey Dubovskov on March 2018;
- to appoint the President, the Chairman of the Management Board of MTS PJSC Mr Alexey Kornya for three years since March 13, 2018.

### 3. Appointment of Andrey Kamenskiy as the Member of the Management Board, Vice President for Finance and Investment, Mergers & Acquisitions<sup>3</sup>

### 4. Appointment of Alexandre Gorbunov as the Member of the Management Board — Vice President, Strategy and Development<sup>4</sup>

The Board of Directors of MTS PJSC on April 10, 2018 made the following decisions:

- Appointment of the new Management Board Member-Vice President, Finance, Investments, Merger and Acquisitions.
- Appointment of the new Management Board member — Vice President, Strategy and Development.
- Determination on April 16, 2018 of quantitative composition of the Management Board of MTS PJSC as 11 members as follows:
  1. Aleksey Kornya — Chairman of the Management Board, MTS PJSC
  2. Maria Golyandrina
  3. Aleksandr Gorbunov
  4. Kirill Dmitriev
  5. Igor Yegorov
  6. Ruslan Ibragimov
  7. Andrey Kamenskiy
  8. Vyacheslav Nikolaev
  9. Andrey Smelkov
  10. Andrei Ushatskiy
  11. Valery Shorzhin

<sup>1</sup> Information on M. Golyandrina at <https://moskva.mts.ru/about/obshhestvennosti-i-smi/rukovodstvo/top-menedzhment/golyandrina>

<sup>2</sup> Information on A. Kornya at <https://moskva.mts.ru/about/obshhestvennosti-i-smi/rukovodstvo/top-menedzhment/kornya>

<sup>3</sup> Information on A. Kamenskiy at <https://moskva.mts.ru/about/obshhestvennosti-i-smi/rukovodstvo/top-menedzhment/kamenskiy>

<sup>4</sup> Information on A. Gorbunov is provided in the section “MTS PJSC Board of Directors”

## Activities of Management Board

For the previous 2017 the Management Board held 26 meetings:  
20 in person form, 6 in the form of absentee voting.

Participation of members of the Management Board in meetings of the Management Board in 2017

Member of the Management Board	In-Person Meetings	Meetings by Correspondence
Andrey Dubovskov	20	6
Mikhail Arkhipov	17	6
Kirill Dmitriev	18	6
Igor Egorov	18	6
Ruslan Ibragimov	16	6
Aleksey Kornya	16	6
Vasily Latsanich <sup>1</sup>	6	2
Vyacheslav Nikolaev <sup>2</sup>	12	4
Andrey Smelkov	15	5
Andrey Ushatskiy	17	6
Valery Shorzhin	20	6

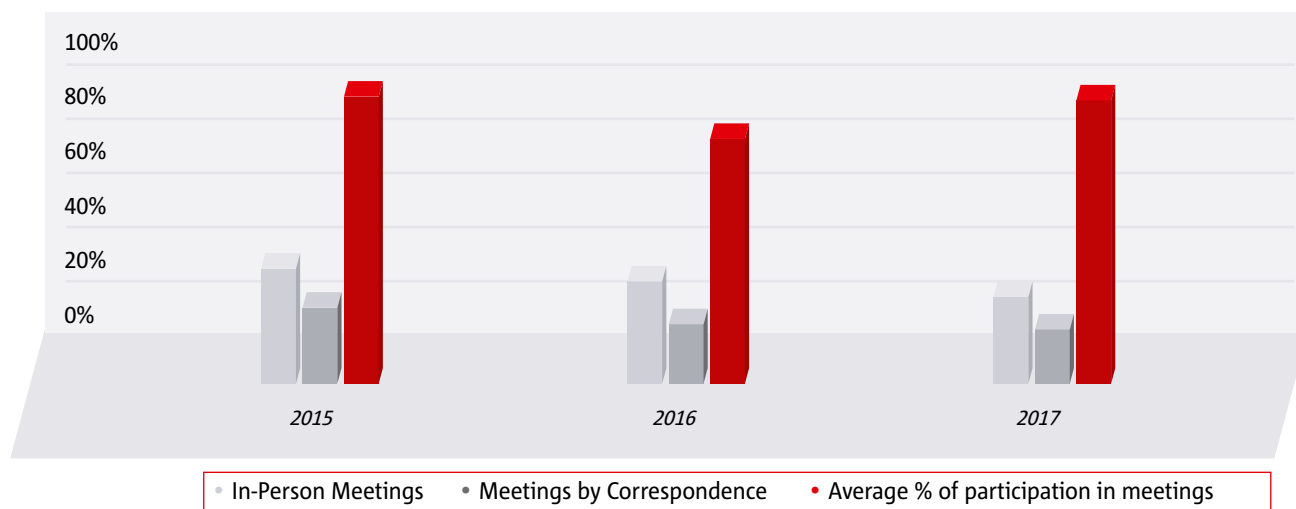
<sup>1</sup> Powers of the Member of the Management Board terminated from July 01, 2017.

<sup>2</sup> Elected Member of the Management Board since July 01, 2017

According to the information available to the Company, in the reporting year there were no conflicts of interest among the members of the Management Board, including those related to the participation of these persons in the management bodies of competitors of MTS PJSC.

The Company did not grant loans (credits) to the President and Management Board in 2017.

Statistics of the Management Board performance for 2015-2017.



## Significant issues considered at the meetings of the Management Board of MTS PJSC in 2017

1. Performance of MTS Group for 2016
2. Results of rating of MTS PJSC, subsidiaries, branches of MTS PJSC for 2016, quarters I-III, 2017
3. Approval of the principles of the KPI system of MTS PJSC for 2017.
4. Risk management in the field of intellectual property in MTS PJSC.
5. Results of audit of the processes in the field of intellectual property (IP), changes to risk map of MTS PJSC and approaches to building IP management system.
6. Extension of liability insurance agreement of directors and officials of MTS Group companies
7. Review of business plan of the MTS Group for 2018-2020 and preliminary review of business plans of Mobile TeleSystems JLLC, MTS Armenia CJSC, for 2018-2020
8. Changes to the system for MTS PJSC employees performance evaluation.
9. Usage of electronic signature in MTS PJSC.
10. Review of reports on projects and performance of subsidiaries for 2016.
11. Review of reports on implementation of functional strategies of MTS Group for 2016 in the fields of:
  - marketing;
  - sales and service;
  - engineering and IT;
  - personnel management;
  - procurement;
  - safety;
  - PR;
  - compliance;
12. Approval of functional strategies for 2017:
  - MTS Group strategy in the field of HR management;
  - MTS Group sales and service strategy (new revision).
13. Approval of functional strategies for 2018 in the following fields:
  - marketing;
  - sales and service;
  - personnel management;
  - engineering and IT;
  - regulatory risk management;
  - PR;
  - corporate security and access control;
  - compliance;
  - procurement;
  - corporate social responsibility.
14. Controlling reports on MTS Group for the fourth quarter of 2016 and 2016, I-III quarters of 2017.
15. Participation, termination of participation in non-profit organizations:
  - determining the position of MTS PJSC on the issue of participation of NVision Group JSC in non-profit organization — Association of Computer and Information Technologies Enterprises (AP KIT);
  - termination of MTS PJSC participation in self-regulated organizations Soyuz ProektSvyazTelekom and Soyuz StroySvyazTelekom;
  - participation of MTS PJSC in Association of IoT Market Participants;

- participation of MTS PJSC in non-profit organization “Atlantic Council”;
- determining the position of MTS PJSC on the issue of participation of NVision Group JSC in autonomous non-profit organization “Jurisdiction for Development and Introduction of XBRL Format” (XBRL Jurisdiction);
- participation of NIS PJSC in non-profit organizations;
- participation of MTS PJSC in the autonomous non-profit organization “Digital Economy”;
- participation of MTS Energo LLC in Association “Non-Profit Partnership Market Council for Organization of Effective System of Wholesale and Retail of Power and Capacity” (NP Market Council).

## Key competences of the Management Board Members

Member of the Management Board	Duration of work as Management Board Member	Key competences								GR/IR	GR/IR
		Strategy	Finance and Audit	Industry Specialization (Telecom)	Marketing Legal Matters and Corporate Governance	Personnel Management	Risk Management	M&A	GR/IR		
Andrey Dubovskov	6 years (from June 2011 to March 12, 2018)	■	■	■	■		■	■	■	■	■
Mikhail Arkhipov	4 years (from April 2013)	■		■			■	■			■
Kirill Dmitriev	3 years (from February 2014)	■	■	■	■		■	■	■	■	■
Ruslan Ibragimov	10 years (from April 2007)	■		■		■	■	■	■	■	■
Aleksey Kornya	9 years (from September 2008)	■	■	■	■		■	■	■	■	■
Vyacheslav Nikolaev <sup>2</sup>	1 year (from June 2017)	■		■	■		■	■	■	■	■
Igor Egorov	1 year (from April 2016)	■	■	■	■		■	■	■		
Andrey Smelkov	4 years (from October 2013)	■	■	■			■	■	■	■	■
Andrey Ushatskiy	8 years (from April 2009)	■		■	■		■	■			
Valery Shorzhin	3 years (from March 2014)	■		■	■		■	■			

<sup>1</sup> Elected Member of the Management Board since July 01, 2017.

# Principles of remuneration of Management Board members and senior officials

A contract is entered into with every Management Board member, which defines labour 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 authorised 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 labour 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 labour and corporate relations between the Company and its management;
- Variable part of remuneration is determined in accordance with the results of the performance of Company in reporting period in compliance with Company's by-laws and is approved by 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 assure control of operation of the President and member of the Board of Directors as well as evaluate their performance which is performed based on materials approved by the Remuneration and Appointment Committee.

The evaluation of the President and member of the Management Board for 2017 was performed in accordance with an existing method based on fulfilment of key performance indicators of the Company in general, functional individual tasks and competence development level.

## Remuneration of members of the Management Board and senior officials based on 2017 results

### Remuneration paid to members of the Management Board in 2017

Indicator	Total, RUB
Remuneration for participation in operations of the management body	0
Salary	172,591 777.99
Bonuses	519,199,718.00
Cost compensations	119,126,592.11
Other remuneration types	6,645,612.49
<b>TOTAL</b>	<b>817,563 700.59</b>

Remuneration paid to senior officials in 2017<sup>1</sup>

Indicator	Total, RUB
Salary	304,451,351
Bonuses	560,723,785
Cost compensations	145,892,087
Other remuneration types	5,100,808
<b>TOTAL</b>	<b>1,016,168,032</b>

<sup>1</sup> Includes information on remuneration of 25 top officials of the Company (including Members of the Management Board).

## Structure of remuneration of top management in 2017.

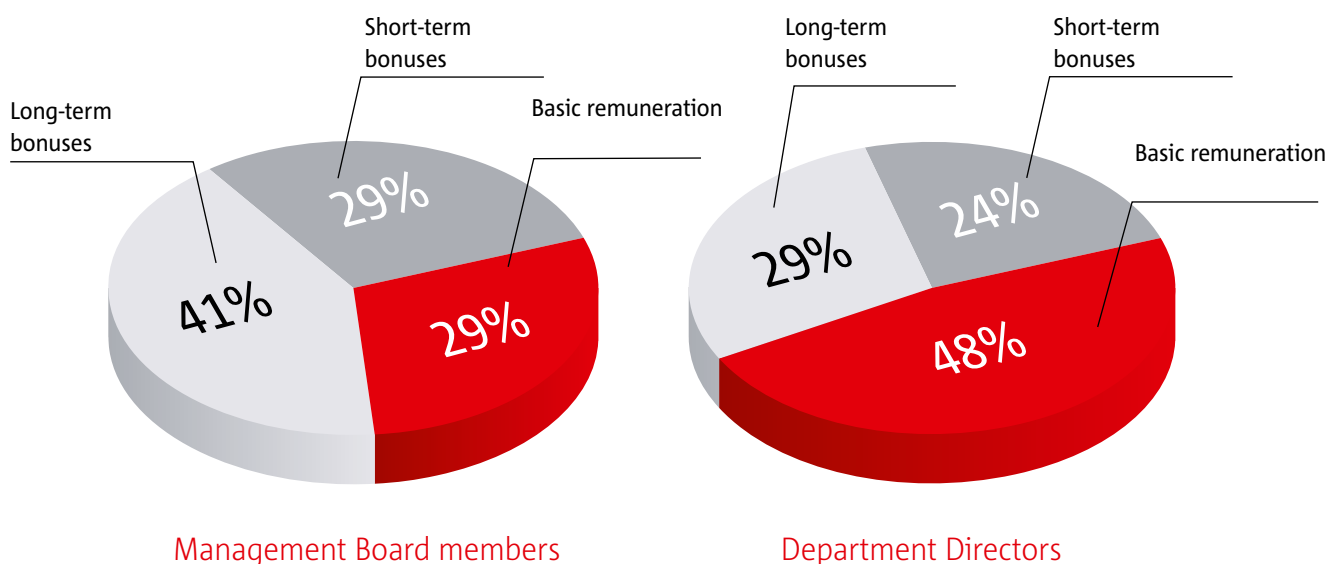
The structure of income of Company's chief executives varies depending on the post level.

The higher is the post in the internal hierarchy of the Company, the larger share is the variable remuneration part.

The actual element value individually varies depending on the work schedule in the reporting year, reached results as per KPIs and shareholder value according to the long-term bonus payment program.

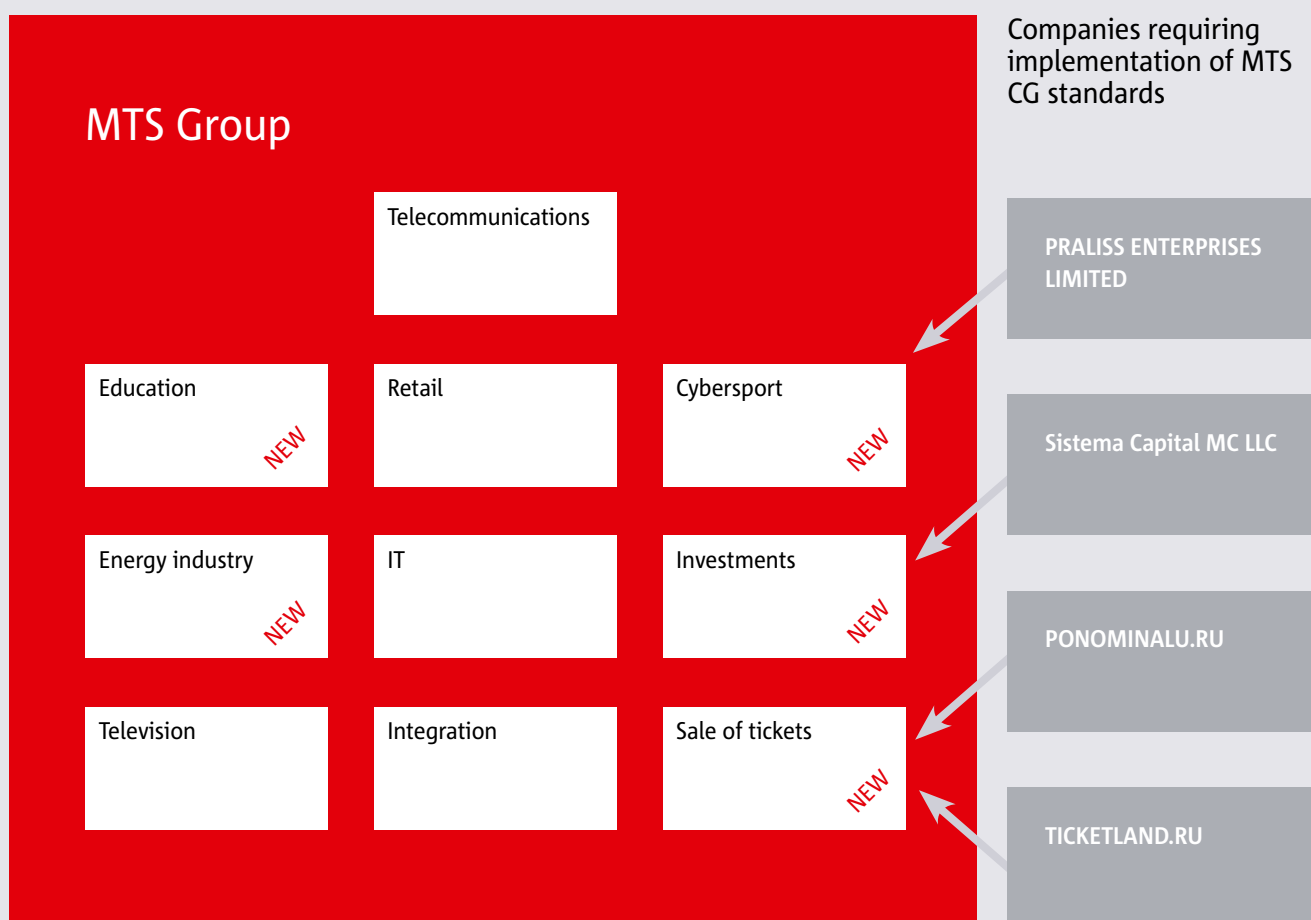
Typical element ratio is presented in the following options.

## Typical remuneration structure ratio



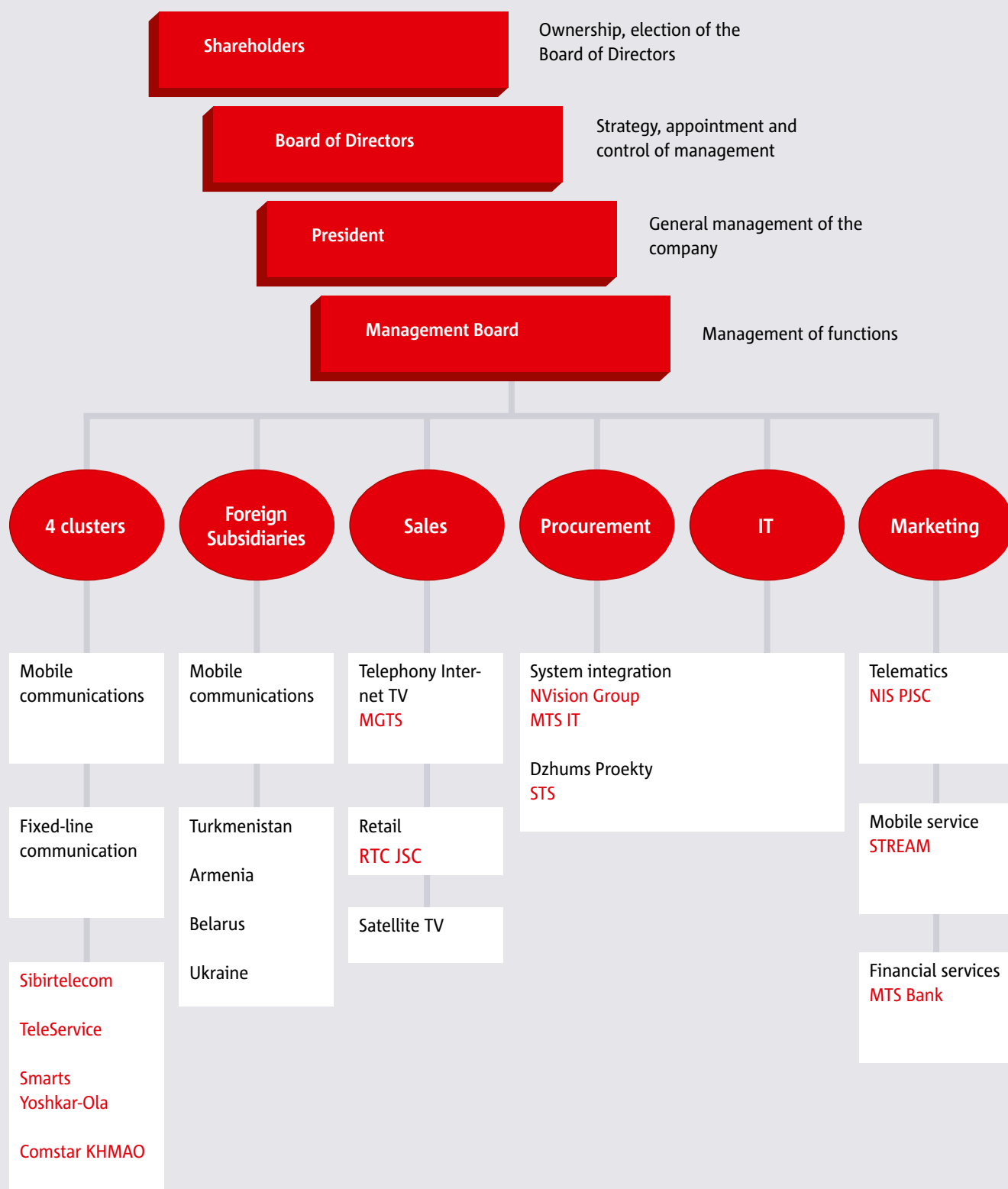
# Management of subsidiaries of MTS Group:

In 2017, new businesses were included into MTS Group. Currently, work on implementation of MTS corporate governance standards is carried out in the companies.





The Company established a multi-level corporate management system, which provides for consecutive interaction of all holding's management bodies starting from General Meeting of Shareholders of MTS to executive bodies of subsidiaries. Such a model enables a parent company to efficiently coordinate operations of all subsidiaries while assuring interests of all stakeholders.



## Subsidiaries management principles

### Factors affecting management style



Subsidiaries sent to MTS PJSC information for the purposes of disclosing information on substantial facts in accordance with the requirements of the existing legislation:

- on corporate conflicts;
- on occurrence of substantial facts in accordance with the Russian legislation on securities.

Subsidiaries independently disclose information to Unified Federal Register of Information and in accordance with legislation on securities.

## 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

Conflict of interests/stake

2

**Curators** are nominating candidates for subsidiaries BoD

### 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

**Representatives** based on the Management Policy of the subsidiary:

- Supervision over implementation of decisions
- Voting recommendations
- Information about subsidiaries

### End-to-end competences of MTS Board of Directors with respect to subsidiaries

Strategy and budget of the Group

Nominations to BoD and Auditing Commission of foreign companies

M&A, reorganization

132

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 guid-  
ed 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 organisational 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 is provided. For the purposes of counteraction to abuses, authorisation 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, organisational structure, rules and procedures assuring non-admission of corruption.

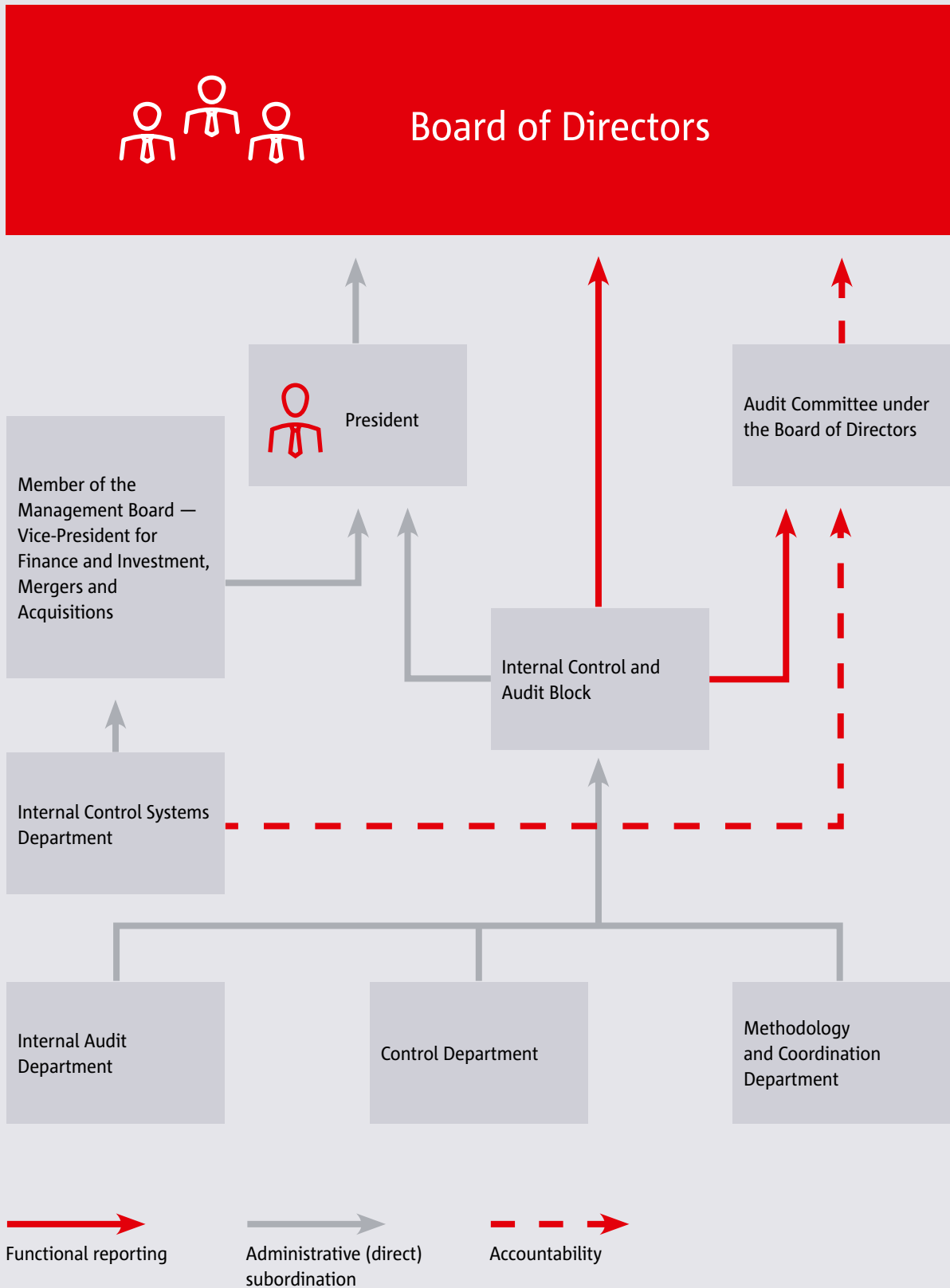
As part of the Single hot line of MTS Group of Companies the line of the internal control and audit unit was organised as a safe, confidential and available method of the Audit Committee informing of the Board of Directors and Internal Control and Audit Unit about facts of breaches of legislation, internal procedures, Code of Business Conduct and Ethics of MTS PJSC by its any employees and (or) any members of the management



“The function of internal control and audit in MTS Group has travelled a long way of development and improvement. For the last three years separate internal control and audit units with often overlapping functionalities were formed into a single effective Internal Control and Audit Block with new objectives and tasks, which is continuously developing, different from the point of view of employees' skills and competences, including in innovation spheres, ready to think out of the box and to solve difficult issues. Currently the approach to control and audit has been essentially modified — from the current practice of relations “Controller/Auditor — Under Audit” to the partnership scheme. The Internal Control and Audit Block is first of all a business assistant and assistant.

Following the results of external assessment completed in the beginning of 2018, the Internal Control and Audit Block 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 the Russian companies”.

Maxim Mamonov, Internal Control and Audit Director



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 submitted relevant information is protected from any forms of pressure (including from dismissal, persecution, any forms of discrimination).

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 by the Internal Control and Audit Unit of MTS PJSC was organised in MTS PJSC. 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 Audit Committee of the Board of Directors of MTS PJSC twice a year reviews reports on operation of the Internal Control and Audit Block, Internal Control Systems Department, Compliance Department and Risk Management Unit. The Audit Committee positively evaluated the work of the Internal Control and Audit

Block in terms of evaluation of internal control, risk management and corporate governance system efficiency as well as evaluated operation of the risk management functions as efficient and meeting tasks as of today and also positively evaluated performance of the compliance function and considers it to be effective.

The Audit Committee positively evaluated the work of the Internal Control Systems Department with regard to creation, implementation and development of an effective system of internal control over reliability of preparation of financial statements of MTS Group, including in new businesses, for 2017.

The Audit Committee of the Board of Directors of MTS PJSC on a quarterly basis reviewed reports of external auditors CJSC Deloitte and Touche CIS approving their performance.

The Board of Directors defines a policy in respect of internal control and annually reviews the report of the Audit Committee based on the work results for a year with an analysis of current control systems and discovered violations. Report of the Auditing Commission is annually attached to materials of the annual General Shareholder Meeting of MTS PJSC.

## Audit 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 29, 2017 the followings persons were elected as members of the Auditing Commission at the annual general shareholder meeting of MTS PJSC:

- 1) Borisenkova Irina Radomirovna, born in 1963, takes the post of the Chief Accountant, managing director of the Finance and Investment Complex of Sistema PJSC;
- 2) Mamonov Maxim Aleksandrovitch, born in 1978, takes the post of the internal control and audit director of MTS PJSC;
- 3) Panarin Anatoliy Gennadyevich, 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 2017, based on the results of the performed audit, the Auditing Commission did not record material facts of violation of accounting and financial statements submission procedures while carrying out financial and economic activities of the Company.

The Auditing Commission confirmed that financial statements of the Company for 2016 and the Annual report on Company's activities for 2016, in terms of Company's financial statements, are authentic.

In April 2018 the Auditing Commission inspected business operations of the Company for 2017. The report of the Auditing Commission will be provided for approval of the Annual General Meeting of MTS Shareholders in June 2018.



## 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.

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 since February to March 2018 underwent external independent evaluation, following the results of which its operations were recognized as complying with the International Professional Standards of Internal Audit and Code of Ethics of the Internal Auditors' Institute.

### Report on operation of the Internal Control and Audit Block

During 2017 the Internal Control and Audit Block operated in accordance with the set objectives, tasks and performed functions.

In December 2017 the Board of Directors developed and approved a new revision of the Policy "Internal Control and Audit" complying with the requirements of the Corporate Governance Code of the Central Bank of Russia, Regulations "On listing for on-exchange trading", International Fundamentals of Professional Practice of Internal Audit adopted by the International Internal Auditors' Institute.

Results of the Internal Control and Audit Block's operation for the first six months and in general for 2017 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 2017 the Audit Committee approved the strategy, KPIs, work plan and budget of the Internal Control and Audit Block for 2018.

## Department of Internal Control Systems

The Internal Control Systems Department is a business unit, which is included into 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, 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.

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 separation of authorities in SOX-essential information systems (SoD-analysis);
- coordinate interaction of external auditors and functional subdivisions of the company during the audit of efficiency of the internal control system of 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 2017, within the framework of internal control system development in MTS Group of Companies, including 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 coverage of essential risks, and their efficiency was assessed.

In accordance with the function development area, changes were made to the organizational structure of the ICSD. Standards and regulations that govern the operations of the Internal Control System Department were revised

Methodology was approved, and works were performed to reduce the identified conflicts of roles and powers (SoD) in Oracle EBS.

The MTS Group internal control system is tested and certified in accordance with the 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, 2017 was found efficient having no material and significant deficiencies.

# External Audit

## Auditor

On June 29, 2017 at the Annual General Meeting of shareholders of MTS PJSC, Closed 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:

- the audit of annual financial statements of MTS PJSC for 2017 prepared in accordance with the Russian Accounting Standards as per the International Audit Standards (IAS);

- audit of consolidated financial statements of MTS PJSC and its subsidiaries prepared in accordance with IFRS for 2017, as per the International Audit Standards;
- integrated audit of consolidated financial statements of MTS PJSC and its subsidiaries prepared in accordance with IFRS for 2017 and efficiency of the internal control system over its preparation as of December 31, 2017, conducted in accordance with the standards of the US Public Company Accounting Oversight Board.

In March 2018 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 authenticity of financial statements of MTS PJSC prepared in accordance with the 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 candidacy is approved by the Audit Committee, Board of Directors and General Shareholder Meeting of the Company, a contract for

financial statements audit services shall be signed with an auditing company.

The auditor's remuneration for audit of statements of MTS PJSC and its subsidiaries for 2017 is approved by the Board of Directors of MTS PJSC, and based on 2017 results it amounted to 125,070 K RUB, VAT excluded (including works to audit efficiency of the internal control system over preparation of consolidated financial statements as of December 31, 2017 to ensure issuer's compliance with requirements of the Sarbanes-Oxley Act).

# Capital and securities

## Joint stock capital structure

Authorized capital of MTS PJSC as of December 31, 2017 amounted to 199,838,157.50 RUB.

Placed and declared shares of MTS PJSC as of December 31, 2017

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

## Shareholder capital structure of MTS PJSC as of December 31, 2017<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 of authorized capital
Sistema PJSC <sup>1,2</sup>	951,164,561	47.6% <sup>3</sup>
MGTS PJSC <sup>4</sup>	7,569,230	0.38%
Stream Digital LLC	88,817,679	4.44%
Bastion LLC	1133	0.00%
MTS PJSC	497	0.00%
Shares in free circulation <sup>5</sup>	950,828,475	47.58%
Total	1,998 381,575	100%

<sup>1</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. (4.8% of shares of PJSC MTS).

<sup>2</sup> Vladimir Petrovitch Evtushenkov is a controlling person of JSFC Sistema PJSC.

<sup>3</sup> The stake of Sistema PJSC, including indirect ownership through controlled entities (MTS PJSC, MGTS PJSC, Stream Digital LLC and Bastion LLC) is 52.42% of shares, while an effective interest is 50.00884%.

<sup>4</sup> MGTS PJSC, Stream Digital LLC and Bastion LLC are subsidiaries of MTS PJSC.

<sup>5</sup> Includes 9.1% of shares of MTS PJSC and ADR for 38.47% of shares of MTS PJSC.

## Information on the number of shareholders

Total number of persons registered in the shareholder register of the issuer as of the end of Q4 2017: 879.

5% of authorized capital of MTS PJSC apart from the above-mentioned.

Total number of persons included in the list of persons compiled by the latter (as of September 5, 2017) 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: 19,527

For updated information about the shareholder capital structure visit the Company's web-site — <http://www.company.mts.ru/comp/ir/shareholders/>.

The management of MTS PJSC has no information<sup>2</sup> about existing share ownership interests exceeding

The management of MTS PJSC has no information about existing share ownership interests exceeding 5% of authorized capital of MTS PJSC apart from the above-mentioned.<sup>3</sup>

<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> Information is understood as documented data received by (handed over to) the management.

<sup>3</sup> Information is understood as documented data received by (handed over to) the management.

# Information about securities

## 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.moex.com;)

<http://www.nyse.com.>



### Price and volume of shares of MTS PJSC (RUB), 2017

	Price (RUB)
Minimum share price	224.05
Maximum share price	295.95
Average daily trade volume (pcs.)	1,861,335
Price as of December 31, 2017	276.00



### Price and volume of american depositary receipts of MTS PJSC (USD), 2017

NYSE	Price (USD)
Minimum share price	7.78
Maximum share price	11.51
Average daily trade volume (pcs.)	3,027,920
Price as of December 31, 2017	10.19

## 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 which implemented the ADR program of the highest level.

At present Company's ADRs are also traded at the London stock exchange, Frankfurt stock exchange, Berlin stock exchange and Munich stock exchange. The New York stock exchange accounts for main trade volumes.

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 work day of April 28, 2010 received additional 1.5 ADRs for every available ADR.

As of December 31, 2017 the total number of ADRs for ordinary registered shares amounted to 391,398,362 ADR, which makes up 782,796,724 ordinary registered shares or 39.17% of Company's authorized capital.

A depositary under ADR program and shareholder of MTS PJSC is JP Morgan Chase Bank, N.A., to 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.

The first issue of the bonded loan of MTS PJSC in rubles for 10 billion RUB took place in June 2008. In October 2008 MTS PJSC placed two more issues of bonds for 10 billion RUB. In May 2009 the issue of the bonded loan for 15 billion RUB took place, in July 2009 – another issue for 15 billion RUB. On November 16, 2009, MTS PJSC placed two issues of bonds for 10 and 15 billion RUB. Funds received from bonds' placement were used for corporate goals, for optimization of company's debt portfolio and investment program implementation.

In April 2011 three issues of A,B,C series bonds were placed for the total amount of 35,990,400 RUB by means of conversion of registered interest-bearing book-entry inconvertible bonds of OJSC COMSTAR – United TeleSystems into registered interest-bearing book-entry inconvertible bonds of MTS PJSC.

On January 28, 2012 Eurobonds of Mobile TeleSystems Finance SA were repaid for 400 million USD.

On April 3, 2013, the first issue of exchange-traded bonds in rubles of MTS PJSC was performed for 10 billion RUB with the circulation period of 10 years and offer within five years.

On May 30, 2013 dollar Eurobonds for 500 million USD with repayment within 10 years were placed.

On October 17, 2013 bonds of 01 series for 10 billion RUB were repaid in full.

On May 13, 2014 bonds of 04 series for 15 billion RUB were repaid in full.

On October 20, 2015 bonds of 02 series for 10 billion RUB were repaid in full.

On November 30, 2015 bonds of A series for 11,991,600 RUB were repaid in full.

On July 19, 2016 bonds of 05 series for 15 billion RUB were repaid in full.

On September 2, 2016, the second issue of exchange-traded bonds in rubles of MTS PJSC was performed for 10 billion RUB with the circulation period of 15 years and offer within two years.

On August 21, 2016 bonds of B series for 11,998,800 RUB were repaid in full.

On February 10, 2017 within the Program of Exchange-Traded Bonds of MTS PJSC of 001R series, the first issue of exchange-traded bonds 001R-01 was provided for the amount of 10 billion RUB with circulation period of five years.

On March 30, 2017 the second issue of exchange-traded bonds 001R-02 for the amount of 10 billion RUB with circulation period of four years was provided.

On November 9, 2017 the third issue of exchange-traded bonds 001R-03 for the amount of 15 billion RUB with circulation period of five years was provided.

On December 5, 2017 the fourth issue of exchange-traded bonds 001R-04 for the amount of 10 billion RUB with circulation period of one year was provided.

On November 7, 2017 bonds of 07 series for 10 billion RUB were repaid.

## Bonds' 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 03 series
Coupon	1–4th coupons — 8.7% per annum, 5–10th coupons — 8% per annum, 11th coupon — 7% per annum, 12–13th coupons — 7.5% per annum, 14–15th coupons — 12% per annum, 16–20th coupons — 10% per annum
Placement price	100%
Issue currency	Ruble
Issue amount	10,000,000,000
Placement date	June 24, 2008
Repayment date	June 12, 2018
ISIN Reg No	RU000A0JPTJ4
Offer	—

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	Ruble
Issue amount	15,000,000,000
Placement date	November 16, 2010
Repayment date	November 03, 2020
ISIN Reg No	RU000A0JR4J2
Offer	November 06, 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	Ruble
Issue amount	10,000,000,000
Placement date	April 03, 2013
Repayment date	March 22, 2023
ISIN Reg No	RU000A0JTTA5
Offer	March 28, 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-02 series
Coupon	1–4 coupons — 9.40% per annum
Placement price	100%
Issue currency	Ruble
Issue amount	10,000,000,000
Placement date	September 02, 2016
Repayment date	August 15, 2031
ISIN Reg No	RU000A0JWRV9
Offer	August 31, 2018



Issuer	Mobile TeleSystems Public Joint Stock Company
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	Ruble
Issue amount	12,000,000
Placement date	April 01, 2011
Repayment date	June 28, 2022
State Reg. No.	4-11-04715-A
Offer	–

Issuer	MTS International Funding Limited
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

Issuer	MTS International Funding Limited
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

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-01 series
Coupon	1–10 coupons – 9% per annum
Placement price	100%
Issue currency	Ruble
Issue amount	10,000,000,000
Placement date	February 10, 2017
Repayment date	February 4, 2022
ISIN Reg No	RU000A0JXEV5
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	Ruble
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	Ruble
Issue amount	15,000,000,000
Placement date	November 09, 2017
Repayment date	November 03, 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-04 series
Coupon	1–2nd coupons – 7.7% per annum
Placement price	100%
Issue currency	Ruble
Issue amount	10,000,000,000
Placement date	December 05, 2017
Repayment date	December 04, 2018
ISIN Reg No	RU000A0ZYJ83
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.

**Bank of Russia highly appreciates MTS PJSC contribution to the development of corporate governance in the company and striving for improvement of corporate culture in the Russian Federation in general.**

From letter of Bank of Russia  
dated 05.02.2018 No.28-3-1/472

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 efficient 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 system approach also covers areas where compliance with legislation is essential. Thus,

systems of assurance of compliance with anticorruption, antimonopoly and insider legislation were built in the Company based on best international compliance standards.

## Settlement of possible conflicts of interests of management bodies of 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 Auditing Commission 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.

During the conflict of interests management the Company is guided by the principles of lawfulness, confidentiality, impartiality, objectiveness and reasonable sufficiency, obligatory immediate disclosure of information by Company's employees about the actual or potential conflict of interests or likelihood of such a conflict.

During 2017 no conflict of interests of members of the Management Board of MTS PJSC was found.

Procedures preventing a possible conflict of interests of directors are also established in 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 interest in agenda items of the Board of Directors, do not take part in discussion and voting on the specified agenda items.

During 2017 no conflict of interests of members of the Board of Directors of MTS PJSC was detected.

## Development of Corporate Governance System at Plans for 2018

In 2017 we continued the work on development of our corporate governance system.

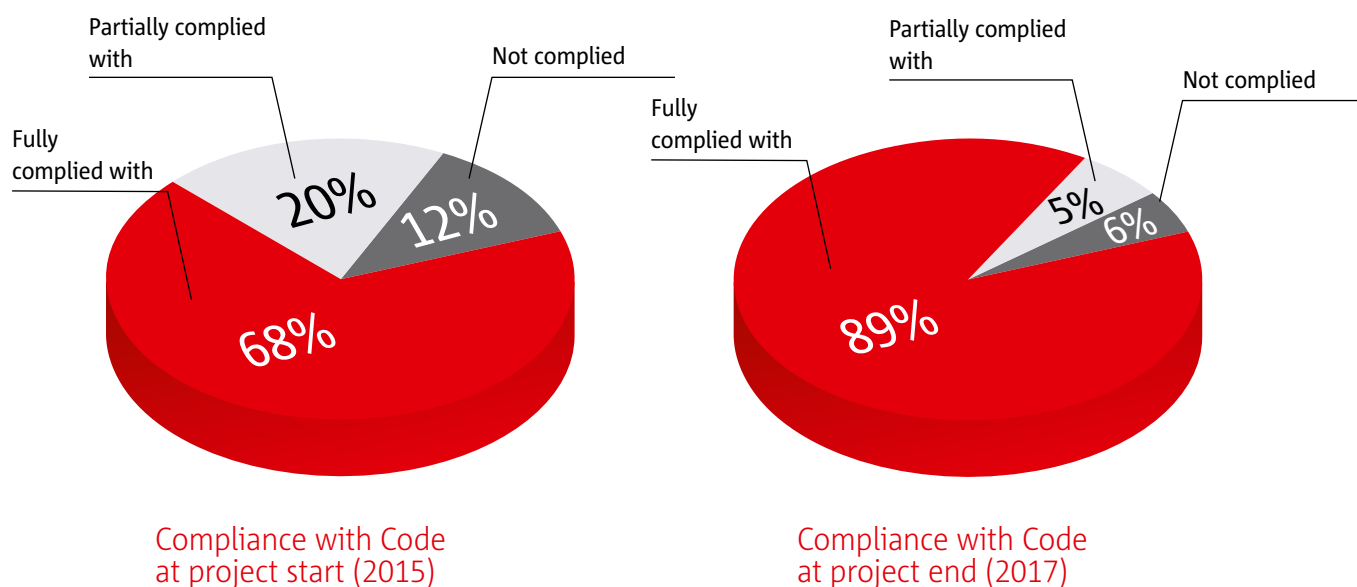
For the last years our attention was primarily focused on introduction of Corporate Governance Code provisions. After we completed audit of the Company's corporate governance system back in 2015 (for compliance with Code principles and recommendations), the Code Implementation Road Map was approved. Last year we completed its implementation and achieved significant progress in compliance with the Code recommendations (see schedule).

You may review the key Code recommendations implemented by us in the Annual Report of the Company for 2016.

The main principle that we adhered to was reasonable introduction of the Code, and not rushing for its formal implementation.

Our Board of Directors decided to comply with those Code recommendations that the Company was able to follow without using additional resources. In respect to the remaining part of recommendations, we had to do analysis and to make a management decision

## Compliance with Code



on the need for fulfilment. Each of such “complicated” recommendations was elaborated in detail with participation of all interested units. In respect to certain “complicated” recommendations we made a decision on introduction, in respect to others we perform annual monitoring in order to be on track with where the market is moving to.

For example, now we do not use the “controlling shareholder’s memorandum” tool, and we do not have a senior independent director appointed. We are

consciously going toward such step<sup>1</sup>, but at the same time we continue regular monitoring of market trends on such recommendations.

We believe that we have achieved quite a high level of compliance with the national Code provisions and may shift the focus of attention to best foreign practices and other market trends. These are such individual issues as ESG-factors, Stewardship Code, Succession planning, etc.

## Corporate governance index

There are not so many tools in the market, which may enable the issuer to objectively assess its position in the corporate governance market. For many years such a tool was 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 technical support of the Moscow Stock Exchange and Center of System Transformations

<sup>1</sup> You may review justification of non-compliance in the section “Report on Compliance with Corporate Governance Code”, page 240.

of Lomonosov Moscow State University) evaluates the companies according to formal metrics, based mainly on the provisions of the Corporate Governance Code, and 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 2017 results, we entered TOP-5 companies according to the National Corporate Governance Index. Therefore, we managed to improve our positions compared to the last year, but there is still a lot of work left on "sustainability and CRS" and "essential corporate actions" elements.

In the study "Corporate Governance Index – 2017" for the second year in a row we are on the second position (after the Moscow Stock Exchange) according to perception of stakeholders (members of the Board of Directors, Corporate Secretaries, Shareholders and Investors, experts in the field of corporate govern-

ance), however, according to formal research metrics, we could not make it to TOP-10. We plan to analyze the reasons for such results and to make certain conclusions.

The above research results, in our opinion, speak about quality of work completed by us in the field of corporate governance.

In 2018 we will continue regular monitoring in respect of Code recommendations not complied with by MTS, will assess the changing practice and analyze the opportunity to introduce non-complied recommendations. An individual task for us would be detection of MTS weaknesses in the field of corporate governance (based on the above research results) and identification of further areas for system development.

We will focus our attention primarily on new trends and international corporate governance practices.

The background is an abstract composition of geometric shapes and planes. A large, vibrant red plane occupies the lower-left and central portions of the frame. Above it, a white plane is visible, and further up, a light gray plane. In the top right corner, there's a small, white, L-shaped structure with red vertical bars. On the right side, a large, white, curved shape, possibly a cylinder or a thick wedge, extends vertically. In the bottom right, a white rectangular block is partially visible. The overall effect is one of clean, modern architecture or design.

Sustainable  
development





# Our Approach to Sustainable Development/Social Responsibility

In 2017 MTS continued to adhere to the approved Corporate Social Responsibility (CSR) Strategy<sup>1</sup>.

Being aware of our responsibility to our stakeholders and taking into account social and environmental issues at a global scale, within the strategy we included the main areas: economic, environmental and social ones.

In 2017 we continued operations in nine core areas:

- improving the quality of life of subscribers;
- care for employees and their development;
- development of corporate volunteering;
- charity;
- development of regions, territories of presence and local communities;
- synergy between CSR practices and creation of common values;
- responsible business conduct;
- development of services increasing environmental sustainability;
- environmental protection measures.

The quality of life is the main condition for the sustainable social development of civil society and the individual; it includes a number of socio-economic or other criteria reflecting the level and extent of the person's well-being achieved in various areas of his life.

Our current approach to safety is the reliable foundation which is needed to meet the needs of society now and in the future.

We pay significant attention to the creation of a flexible corporate culture of the company, which stimulates the development of innovations and allows us to contin-

uously improve our services and technologies, thus contributing to the improvement of the quality of life.

Our corporate social responsibility and sustainable development strategy (further CSR) is a continuation of the company's business strategy 3D (Date, Digitalisation, Dividends).

We build 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 principles of socially responsible business aimed at ensuring sustainable development and growth of the Company's well-being, formation of a competitive economy, improving the quality of life and the prosperity of the society underlie the CSR activities of MTS. These principles were formulated with involvement of all stakeholders and taking into account their expectations, and are set out in the Corporate Social Responsibility Policy. The policy "MTS Activity in the Field of Corporate Social Responsibility" is an internal document which regulates implementation of CSR projects.

The Company's activities in the field of CSR are based on the following principles:

- respect for the interests of stakeholders;
- rule of law;
- compliance with international standards of conduct;

<sup>1</sup> [http://www.company.mts.ru/comp/social\\_responsibility/strategy/principles/](http://www.company.mts.ru/comp/social_responsibility/strategy/principles/).



- development and implementation of innovative technologies;
- ethical conduct;
- observance of human rights;
- transparency;
- improvement of corporate governance system;
- accountability;
- zero tolerance to corruption in all forms and manifestations.

The Board of Directors and the Management Board of MTS are the main governing bodies of CSR. Their competence includes the approval of CSR strategy and social programs, monitoring their implementation and assessing the effectiveness of social projects. Vice President for Human Resources, together with Corporate Social Responsibility Department of the Human Resources Unit are responsible for planning, direct implementation and consolidation of CSR activities. Planning and implementation of social initiatives of MTS in the regions are carried out by MTS HR, Marketing and PR department employees appointed locally.

In 2017 the CRS Committee continued its work — it is an advisory body under the President, whose members work to initiate partner programs, translation of the CSR Policy of the Company into the external and internal environment, creation of CSR environment within and around the Company, consolidation and efficient use of Company resources in integrated CSR-projects, preparation of Sustainability Report, approval of work plans of the Corporate Center and Clusters of MTS.

**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.**

Our official website contains MTS Group's Sustainability Reports, main charitable projects implemented by the Company, and also contacts for feedback. We maintain continuous dialogue with stakeholders and give an opportunity to obtain all information about one's social activities.

One of the strategic goals and objectives within the framework of the HR strategy is the involvement of top management in implementation of social projects and their personal active participation.

We are firmly convinced that management involvement raises the level of projects, helps to gain strategic vision and develop new directions. The focus on realizing the social potential of employees and the opportunity to participate in events together with top management undoubtedly raise the level of staff involvement and positively affect the development of the business as a whole.

In 2017, top management took part in key federal CSR projects: "Children on the Internet", "Networks for all Ages", "Telecom Idea" and International Volunteer Day.

In 2018, we plan to continue to involve top management representatives in implementation of key projects by raising their awareness.



Social responsibility in MTS is focused on a wide spectrum of socially significant objectives, from employees' engagement into development of products that are in demand for the society, to enabling personnel to personally participate in society development and its support.

Being the largest employer of MTS, we strive to be responsible and attentive to rights of our employees, to provide decent living standards for them and their families, to develop their professional and personal skills and competences, to provide opportunities to them for self-fulfilment both professionally and as volunteers in social projects.

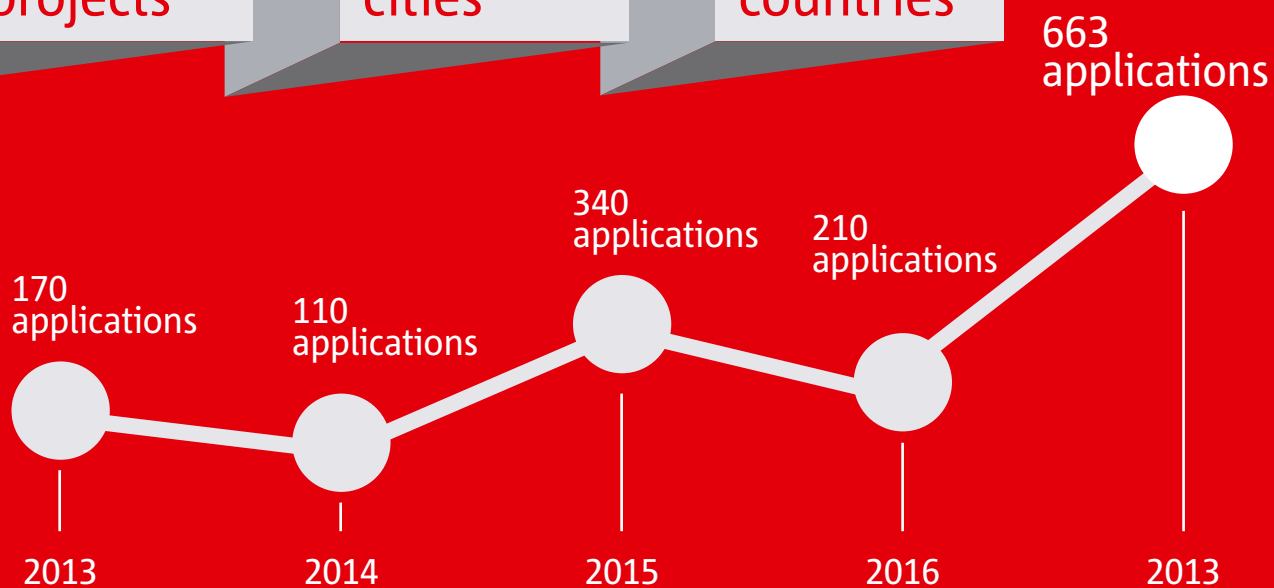
Maria Golyandrina, Member of the Management Board, Vice President, Human Resources, MTS PJSC

# Telecom Idea in figures

**660+**  
projects

**60+**  
cities

**14**  
countries



## Main Outcomes for 2017

- Increased number of employees — participants of volunteering movement of MTS “Just Give Good” — 6500 (in 2016—6000 employees (7.5% growth). In 2017 volunteers took part in social projects of MTS in the entire territory of presence.
- The “Recognition Program” was developed to recognize employees in the sphere of volunteer activities.
- The federal volunteering project “MTS Green Express” was awarded with the “Champions of Good Deeds” award established by the Association of Managers of Russia.
- Competition “Telecom Idea” — number of submitted applications 660 (triple growth). Award “Time of Innovations — 2017”.
- The international audit of the unified Compliance system was successfully completed, the programs “Human Rights at the Workplace” and “Ecology” were developed.
- Code and questionnaire of MTS supplier are supplemented with sections and questions on CSR.
- A new program “MTS — Company for All Ages” was initiated.
- The MTS CSR Department Director was included into TOP-3 leading domestic CSR managers (according to RBC rating in 2016 — sixth place).
- Update of CSR Policy in accordance with best practices.
- Issue of non-financial reporting: application of GRI Standards, which will enable to focus on the essential aspects of sustainable development of MTS Group when compiling Sustainable Development Report.
- Increased share of cross-functional projects with involvement of all MTS functional units.
- Involvement of regions of MTS presence, subsidiaries and partners in implementation of key regional CSR projects. In 2017 the percentage of regions — participants of promotions increased by 7.5%, and amounted to 55%, and in 2018 we expect that 80% of regions will participate in CSR activities.
- Development of MTS corporate volunteering system “JUST Give Good”.
- Development of “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 socially significant activities aimed at the socialization of vulnerable segments of the population.
- Work in “Eco-Telecom” area: popularization of environmentally responsible way of life and attitude to natural resources among company employees, support of federal and international environmental activities.

## Plans for 2018

- Popularization and promotion of mobile Internet in the society in order to improve subscribers' quality of life.
- Self-evaluation according to recommendations of the international standard ISO 26000: 2010 “Social Responsibility Guidelines” with functional units of MTS.

Strategic priorities remain as follows: involvement of top management into CSR projects (tone from the top), development of corporate volunteering, cascading projects to regions and implementation of cross-functional projects helping to strengthen CSR culture in the Company.

# Our Employees

The economically active number of employees of MTS PJSC as of December 31, 2017 amounted to 27,906 people.

The Company operates a competitive payroll system consisting of fixed and variable parts. Package of compensations and benefits provided to Company employees, meets current labor market practices.

The amount of the fixed salary (official salary) part is defined taking into account salary ranges established for each position category (grade) on the basis of labor market analysis in the region of operations and Company's Positioning Policy in respect of the labor payment market.

The variable part in the Company is 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.

Apart from the above incentive system, the Company operates a bonus system for employees engaged in sales and subscriber services, the basic principle of which is motivation to reach the final result. A distinctive feature of the system is a revenue structure with a large variable part and other payment frequency. For Company's employees responsible for direct sales a commission bonus scheme (direct sales interests).

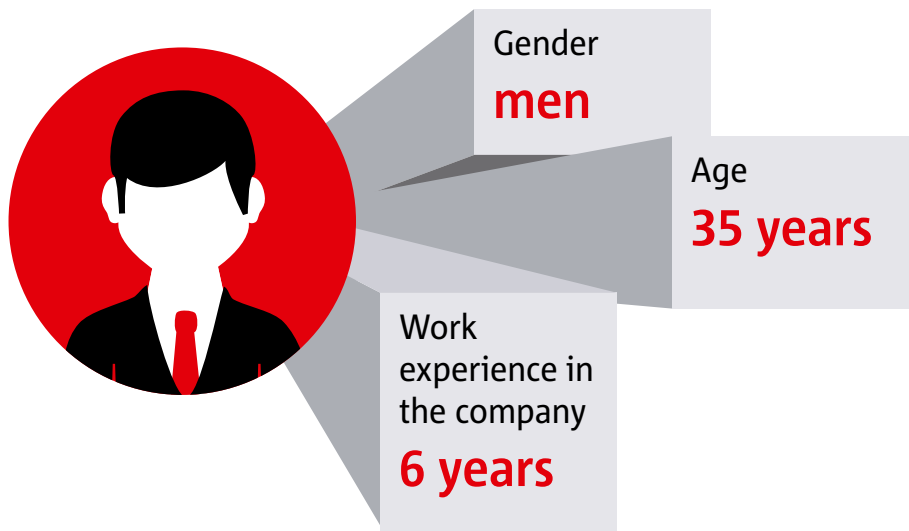
All company's employees participate annually in the performance evaluation procedure which includes both an evaluation of fulfilment of key performance indica-

tors 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.

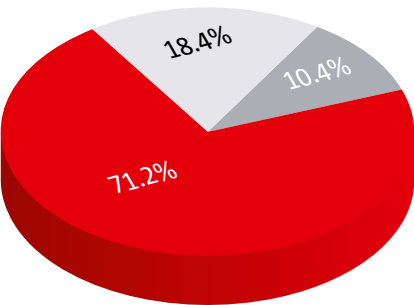
Thanks to a qualitatively built personnel development system, four out of five manager's vacancies in the company are closed by means of in-house candidates. Use of new advanced remote training platforms in 2017 will enable in future to provide opportunities for employee's development with high quality and availability in 2017.

MTS provides its employees a broad compensations' and benefits' package focused on social protection of employees. Employees receive official benefits (including cars and compensation of costs for their usage, mobile communication with a wide limit), social benefits (including life insurance, additional payment for the sick list, material assistance), representative benefits, additional benefits (including compensation of fitness and swimming pools, wide range of services under voluntary medical insurance, benefits' package during relocation within the Company). Employees are also allowed to take part in the cafeteria benefit program where based on employee's individual decision his set of benefits may be changed. Such an approach enables to qualitatively satisfy varying employees' needs with high cost effectiveness.

Portrait of an average company employee

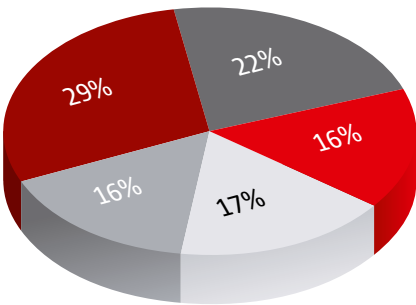


Personnel structure by education



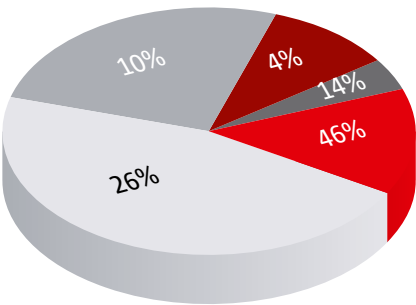
- Higher education
- Professional education
- Secondary education

Personnel structure by experience



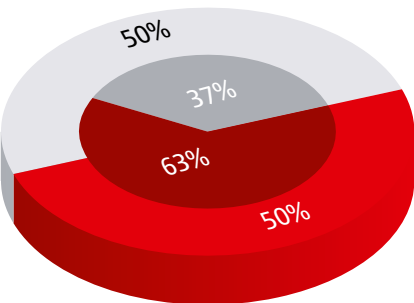
- <1
- 1-3
- 3-5
- 5-10
- 10-20

Personnel structure by age



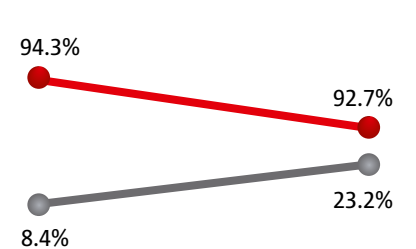
- <25
- 25-35
- 35-44
- 45-54
- >55

Gender composition

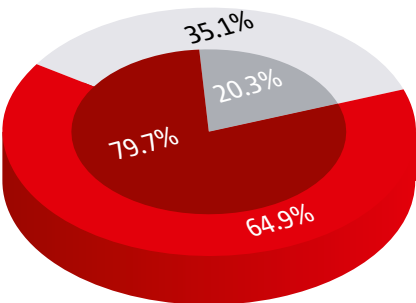


- Experts:
- мужчины
  - женщины
- Managers:
- мужчины
  - женщины

Closing of vacancies



- Sufficiency
- Churn



- Experts:
- Internal employees
  - External employees
- Managers:
- Internal employees
  - External employees

# Personnel advanced training

MTS PJSC applies a system training model which is based on Company's strategic objective and human resources management objectives. The training system is also based on corporate values SIMPLY 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 people and business borders, for MTS confident future.

## Corporate University awards as of the end of 2017:

- "Crystal Pyramid-2017" award, 2nd place in the nomination "Corporate University of the Year — 2017";
- "A Woman Matters" award, winner in the nomination "Best Conditions for Professional Growth of Women";
- "Effective Business Education" Award, winner in the nomination "Best Internal Practices of Start-up Projects Development";
- Leadership Coaching Awards-2017, winner in the nomination "Leadership in Life" — "Stars that Light Others" (Coaching as Style of Interaction inside Company);
- Skolkovo Trend Award, winner in the nomination "For development of educational program of new type — accelerator of internal corporation development projects».
- 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.

### 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 required knowledge, skills and attitudes required for employees and managers for raising efficiency at the existing position;
- **Integration training.** The Company holds uniform centralised 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 organisational 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 candidates pool training system is based on individual development plans of every employee included in the candidates pool group. Training programs are formed individually in accordance with results of evaluation measures and competence development level.
- **Self-education.** Conditions for employees' self-education are created in the Company. The internal library of recommended literature on competences was established.
- **In-person trainings, 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 the feedback from the employees and discuss the prospective changes in their processes.

## Virtual Academy

The Virtual Academy turned two in January 2018.

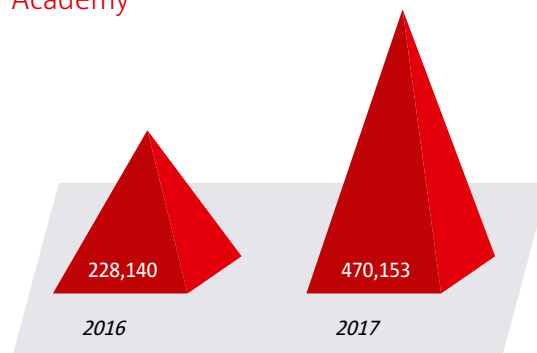
In the beginning of 2016 a new system of employee training management appeared in MTS PJSC — Virtual Academy based on LMS Success Factors (SAP). The Virtual Academy creates opportunities for establishment of a self-trained organization, a single training environment, a common point of entry for all processes related to training: from scheduling of conferences to watching a new video course. Employees may find more than 70 video courses in the system on various subjects — from negotiations to Excel.

In 2017 we achieved our personal best and held over 300 webinars. 96% of employees at least once a year completed training in the Virtual Academy. Almost 60% had two and more optional courses. Users had courses, passed tests and watched webinar records 243,065 times for 2017.

In 2016 employees entered the Virtual Academy 228,140 times, and in 2017 — already 470,153 times (more than double growth).

In October 2017 we launched a survey on the corporate portal on satisfaction with Virtual Academy operation. 87% of people surveyed would recommend training in the Academy to peers.

### Number of entries into Virtual Academy



## Online programs

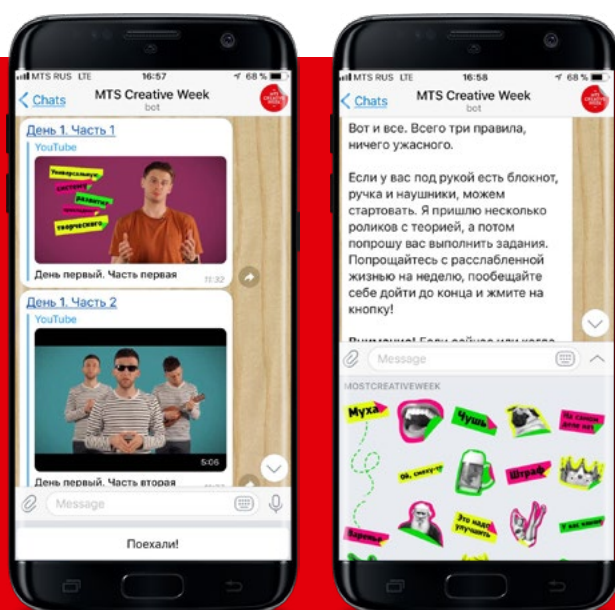
In 2017 we actively used the format of online programs that represent series of webinars and home tasks. Excel program was in most demand: 1700 participants registered for it. The program was on for two months, and during that time the participants submitted 1000 tasks for testing. The program ended with Excel Olympics, where 100 most experienced analysts of the company battled with each other.

Another large-scale program would brief employees most recent and relevant trends of the digital world. Experts from most popular and successful digital companies were invited, in order to speak to MTS employees in simple and clear terms about blockchain technologies, artificial intelligence, neuronets, computer-assisted learning, and many more.

Besides, in 2017 two practical online labs were held. Employees of IT and non-IT departments mastered Python programming basics, created chat bots in Telegram.

The most unusual format for us was remote training on creativity that was held with the help of a chat bot. This was an intensive seven-day marathon, where participants had to daily perform tasks sent by the bot. If you failed to perform the task, you were out of the game. It was a pleasant surprise that in such intensive mode more than 50% of participants performed all tasks and went till the end.





## Course of creativity on chat bot

- A week of intensive training in your smartphone
- A chat bot instead of a teacher
- Short videos and articles
- Tasks every day
- You are out, if you fail to perform a task
- More than 50% went till the end out of 50 course participants

## What's next?

In 2018 we started active training of employees on most popular digital professions. “Product Valley” program was launched in February, about digital product management. We will discuss user research, product metrics, Agile, Scrum, Kanban and interface design. In spring we are launching “Computer Assisted Training” program, which will be conducted by our experts from

Big Data Department. An absolutely new unparalleled program “Data drive: how to make decisions based on data” will be provided for analysts and managers. Besides, programs are being prepared on the recent trends of digital world for marketing experts, IT experts and employees working in B2B segment.

## Walking in Space

In November 2017 MTS registered “MTS Corporate University”. Huge expertise was accumulated in training and development of HR potential, and we became aware that we were ready to launch our training pro-

grams in on-site and online format to the external market. In the beginning of 2018 we already had our first customers — large corporations and state universities.

## Talent management

In 2017 the two-year cycle of “Talent Management” program that started in 2016 was continued. Successors and high potential employees (Hi-Po) attended training events under their development plans. Employees with narrow professional expertise (Hi-Pro) in 2017 held more than 200 events to transfer knowledge and

trained 260 peers. For each talent groups, target training programs were developed, career interviews were held, on the basis of which the individual development plan of participants was made. Employees underwent Hogan evaluation, internal training, external training, took part in competitions and by request could use

services of internal coaches and mentors that support them throughout the entire program. Traditionally, the program covers 4% of the total number of Company/Block/Region/Cluster personnel. The total number of participants as of the end of 2017 amounted to 578 people (55.4% — HiPo, 26.8% — HiPro, 17.8% — suc-

cessors). Promotion to target positions as of the end of 2017 was granted to 31% (138 people) of program participants (successors and Hi-Po). Three-module training program “HiPro Academy” was held for employees in HiPro category.

## Electronic Library

In 2017 the Publishing House “Mann, Ivanov and Ferber” developed e-library specially for MTS. It includes masterpieces of business books on marketing, PR, sales skills, psychology, economics, personal development, healthy life style, children and parents relations, etc. Books are both suitable for training sessions and self-education. Currently the e-library includes more than 750 books, which may be listened to in audio format or read from PCs and personal mobile devices at any time convenient for employees. Library interface is very convenient: you may send links to colleagues,

leave feedback, see the rating of most popular books in the company.

As of the end of 2017 the number of active users of MIF library was 15,570 employees, number of downloads — 659,031.

Besides, since November 2017 MTS employees have been granted access to the periodicals resource Public.ru, where some of the best business editions are available (Forbes, Kommersant, RBC, Profile, Expert, Psychologies, Geo, Law, Computerworld Russia, etc.).

## Joint project with Skolkovo Business School

In the beginning of 2017 the MTS Corporate University, jointly with the Moscow Management School of Skolkovo, launched the corporate training program for top managers. Its 57 participants include MTS Vice Presidents, General Directors of subsidiaries, Regional Development Directors, Directors of key departments and regions focused on achievement of significant business results and professional and personal growth inside the company. The program was aimed at training of new type leaders, who were ready to develop corporate culture, business processes and strategic planning on the basis of digital approach under conditions of high economic turbulence and uncertainty, and make the necessary changes in the company.

The training program comprised five modules that included academic and project work. Attendees studied strategies of company management under digital conditions, nuances of innovation project and corporate start-up management with account of financial risks, and also behavioral economy, effective communications and leadership psychology. Invited experts, opinion leaders and leading professors of Skolkovo Business School spoke to program participants. The result of training was defense of projects developed in the process of training.

## Training events to support the Company’s strategy

Within support of the Company’s strategy:

target training programs were developed and conducted: “Working with conflict customers. Stress management skills”, “Emotional intellect”, “Agile. Fundamentals”, “System thinking as new approach to self-development”, “Team nature: how to create an environment for its evolution”;

number of training hours per single employee in 2017 total and broken down by categories (in-person and remote) amounted to 16.5 hours — average number of training hours per single employee in 2017, where 9.4 hours — in-person training, 7.1 hours — remote;

number of training days per single employee in 2017 — two business days;





number of trained employees, pers./courses in 2017 broken down by in-person and remote training — 229,607 (187,912 — remote, 41,695 — in-person);

the English teaching program implementation continued in full-time club format. In 2017 300 employees from all regions of the country got an opportunity to study English within the “English online” project;

10,697 man-courses of external training are organized for employees;

110 professional conferences, participants of which were MTS PJSC employees;

300 employees from all regions of the country got an opportunity to study English within the “English online” project;

more than 60 permanent participants of the English Club operating in four MTS offices in Moscow;

more than 80 employees completed external course “Product Manager”;

37 employees of the Finance and Investment Block (Accounting Department and Unified Service Center) were trained on “IFRS: IAS 39, IFRS 9, IAS 32, IAS 23, IAS 37” (customized course for MTS);

60 employees of the Marketing Block completed training on “Google Analytics 360 Suite”;

non-conventional employee development formats gained popularity: Management Battle Tournament, Oratorical Club for the development of presentation skills, “Woman in Business” program, “Business Case Marathon”.

In line with the Company’s HR strategy, functional academies work continued:

- **Customer Care Academy** for the employees engaged in customer service;

- **Business Sales Academy** for the employees engaged in sales of products and services for corporate customers;
- **Coaching Skills Academy** for the development of coaches within MTS Group. The goals of the Academy are professional development of corporate and in-house trainers of MTS Group and spreading single philosophy/policy/learning principles across the Company;
- **“Leadership Academy”** in 2017 transformed towards development of innovations and changed the name to “Leadership Academy. Business Breakthrough”. Participants were 250 employees of MTS and subsidiaries from across Russia, which changed into 30 project teams. The program combines remote training on development of corporate start-up projects and practice of knowledge on real projects. 10 teams qualify for the final with the jury represented by the Company’s TOP-management. The winner goes on a business tour abroad;
- **HR Academy** for employees of the HR Block;
- **Third wave of iMBA for employees in remote region;**
- **“Academy of Marketing”;**
- **“Academy of Procurement”.**

The criteria for sending the 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

MTS PJSC pays close attention to the issue of ensuring comfortable and safe working conditions. 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, prevention of occupational injuries and personnel training of 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 the special conditions of employment;
- Ensuring the safety of production equipment and processes;
- Accounting and analysis of occupational injuries, organisation 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.

In 2017 16,917 persons underwent external and internal health and safety training. Employees trained on health and safety are 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 Corporate MTS University. The Company provides training on first aid to persons injured at the production facility. First aid is a complex of actions aimed at recovery or preservation of life and health of the injured. The main objective of training is practice of independent actions and behaviour of employees aimed at preserving life of every injured, before arrival of rescue services.

One of the major trends in the prevention of occupational injuries and diseases is a special assessment of working conditions. This process allows to fully identify and objectively evaluate the harmful and (or) dangerous production factors and risks in the workplace, to plan the activities to improve working conditions. As of December 31, 2017, in the MTS Group Corporate Center and MTS PJSC branches, 24 456 workplaces (92% of the total quantity of workplaces) were evaluated (as of the end of 2016, 23,576 workplaces were evaluated, as of the end of 2015–21,061 workplaces). In 2018 the work on special evaluation of labor conditions will continue. Detailed information on evaluation results is available at [http://www.company.mts.ru/comp/social\\_responsibility/ocenka/](http://www.company.mts.ru/comp/social_responsibility/ocenka/).

Personal protective equipment (PPE) plays an important role in the prevention of employee's direct exposure to harmful and (or) hazardous production factors. MTS PJSC developed and approved norms of free issue 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 organised 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. The purpose of the periodic medical examination is a dynamic monitoring of the employee's health in the workplace, prevention and timely establishment of the signs of occupational and general disease, and prevention of accidents. During the reporting period, MTS PJSC held preventive and periodic medical examinations of 3021 and 8301 employees, respectively. Following the results of periodical medical examinations, 35 employees needed transfer to another work — their functionalities were accordingly amended; health resort treatment was recommended to 52 employees (the opportunity of treatment at the expense of the Company's funds was provided).

Particular attention is paid to the organisation 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 development of annual H&S Safety Plans in branches for the next year (10%) and in development of the List of actions to improve conditions and H&S of employees, at whose workplaces special labor conditions evaluation was conducted.

MTS PJSC joined compliance with the following agreements:

- Moscow three-party agreement for 2016–2018 between the Government of Moscow, Moscow associations of trade unions and Moscow associations of employers;
- Federal industrial agreement on organizations of communication and information technologies of the Russian Federation for 2015–2017.

Annually MTS PJSC cooperates with the Social Insurance Fund of the Russian Federation (SIF RF) for financial support of preventive measures to reduce accident injury rate and occupational diseases of employees and health resort treatment of employees working with hazardous and (or) dangerous production factors, as well as to obtain discounts on insurance tariff for compulsory social insurance against industrial accidents and occupational diseases. In 2017 the total amount received from this work made 2.6 M RUB (in 2016–9.1

M RUB, in 2015–9.6 M RUB). Reduction of amount received is caused by the fact that after organizational structure transformation conducted in MTS PJSC, names of some branches were changed, and the Social Insurance Fund of the Russian Federation withheld discounts to insurance tariff and financial support to preventive measures for reduction of workplace injuries and occupational diseases of employees and health resort treatment of employees.

At the expense of funds of 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.

H&S management system in 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.

A lot of attention is paid to promotion of labor protection issues, various forms of operation are used. Every year in April, in anticipation of the Global Labor Protection Day, various actions are taken to improve the labor conditions and protection of the Company employees, to prevent accident frequency rate and occupational diseases.

In the reporting year the representatives of MTS and subsidiaries participated in the work of the third 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 best practices and experience of colleagues, to learn about the main directions of labor protection law improvement, to get recommendations and answers to practical questions.

In 2017 one of branches of MTS PJSC was given a "Employer Trust Certificate" from the state labor inspectorate. Every year the Company assesses the effectiveness of OSH management system based on quantitative indicators that objectively assess the degree of implementation of the labor policy. Assessment is carried out for each region. As a result of evaluating the OSH management system effectiveness, the analysis is performed, concrete measures on improvement of labor protection are planned.

## Indicators of injuries in MTS PJSC, 2015-2017

Indicator	2015 r.	2016 r.	2017 r.
Lost time Accident Frequency Rate (LTAFR) <sup>1</sup>	0.21	0.16	0.22
Accident Severity Rate (ASR)	16.28	51.57	21.3
Accident and Lost Work Day Rate (ALWDR)	0.03	0.02	0.03
Lost Work Day Rate (LWDR)	0.49	1.46	0.48
Absentee Rate (AS)	5.51	4.19	4.27

<sup>1</sup> Lost time Accident Frequency Rate (LTAFR) defines the number of accidents for the reporting period per 1000 workers.

# Social investments

## Social projects and charity

### Generation M

MTS continued in 2017 implementation of the key social project of the company — comprehensive charity program “Generation M”, initiated and implemented by MTS Company in partnership with leading creative associations, federal and regional authorities, business corporations under support of the Ministry of Culture of the Russian Federation. The project combines the idea of development of creative abilities of children from regions of Russia and help in treatment of seriously ill kids. The objective of the project is to give equal opportunities to Russian children for creative development and personal growth, regardless of place of residence and family prosperity. 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. Within the project MTS uses innovative philanthropy mechanisms, creating a mass movement of young philanthropists in Russia. All activities in groups and on website of Generation M are converted into “live money”, which MTS transfer for treatment of seriously ill children.

The creative group of Generation M includes more than 150 recognized masters: teachers of the State Tretyakov Gallery, Producer Center Ecole, film directors Vladimir Khotinenko and Vladimir Grammatikov, animator Konstantin Bronzit and Melnitsa studio, Neposed studio, singer Polina Gagarina, designers Vyacheslav Zaitsev, Igor Gulyaev, etc. Winners of Generation M competitions get wide opportunities: from internships at largest animation and film studios of Russia to entering the big stage together with the stars.

For three years the winners and prizetakers of Generation M were 240 children from 60 regions of the coun-

try, for each of which the project became a creative launch pad.

#### Project results in 2017:

- The Internet audience of the project reached 15 million people.
- The range of creative areas was substantially expanded: in Generation M, apart from traditional areas, programs on clothes design, robotics, journalism, blogging and others were added.
- More than 150 event with coverage of 500 K people, including the concert tour “SuperChildren of Generation M”, series of fashion shows from stellar designers “Fashion day of Generation M”, exhibition of World Press Photo prize winners.
- The amount of collected funds for treatment of children in 15.5 million RUB, and funds were forwarded for treatment of 42 children.

#### Awards received by the project in 2017

- Award of Digital Communications AWARDS — 2017 in the nomination “Digital-projects and strategies / CSR-communications”.
- Award of Effie Awards Russia 2017 in the nomination “Contribution to general welfare. Social responsibility and sustainability”



## Direct communication with regional communities

Since the end of 2016, MTS has been implementing a new type of charity activities — direct operation 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 important for their local community, getting in groups according to their interests. A specific feature of such local groups is public significance and unselfishness of their activities, which is not related to any political, religious and commercial activities.

For 2017 MTS implemented 290 projects in 33 regions of the country for assistance to local communities in 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 equipment required for their work, helped young sportsmen with equipment and travelling to competitions. Thus, in Vladivostok we supplied uniforms to the children's national rowing team, in Tomsk we helped to recover a historical building, purchased loudspeakers for the amateur society of Penza tour guides.

The considerable part of events for operation with communities is performed with involvement of MTS volunteers — our employees participate in Saturday cleanup

days, plant trees, collect clothing and essentials for the homeless. Such social projects go beyond internal ones and become an important part of the company dialog with the local community. In 2017 such volunteer undertakings were attended by 3700 employees of MTS.

We see the important social mission in operation with local communities in transfer of experience and professional expertise, implementing projects of mentorship and training for school, student and other youth associations. MTS launched the project “MTS Lecture Hall”, within which employees of the company hold lectures on the subjects of priority for MTS, related to development of smart-technologies, in regions of Russia. The first similar training projects are implemented in Odintsovo in Moscow region and in Ivanovo region.

Help in solving relevant issues of specific people manifested itself as an effective tool of interaction with social communities: speaking directly on behalf of the company and studying in detail the life context of local groups, we get a live feedback and sincere gratitude. High engagement into activities initiated by MTS demonstrates that people are ready to dive into what is really close for them. In plans for 2018 there is increase of the number of implemented projects up to 400, scaling and expansion of their geography.

## Educational project “MTS/Media”

MTS implements the educational project “MTS/Media”, which is a unique media resource built into the MTS website with explanatory, training and helping content, designed for a wide circle of country residents and aimed at improvement of population's life quality, its involvement into digital economy.

MTS/Media covers issues in demand for the society, which are related to using data services in daily life of Russians. In 2017 two large cycles of publications were developed at the portal: “Savings” and “State Services”, which explained how with the help of a smartphone and Internet to save and receive different services from the government.

Federal and regional campaigns rely on publications of “MTS/Media” written in simple and clear language, in social media, links to website materials are built into email and SMS communications campaigns. In 2017 more than 850 K people changed to materials of MTS/Media from social media.

High time of publications reading means that most people following the links read the materials till the end. In general the monthly audience of the website is around 300 K people.

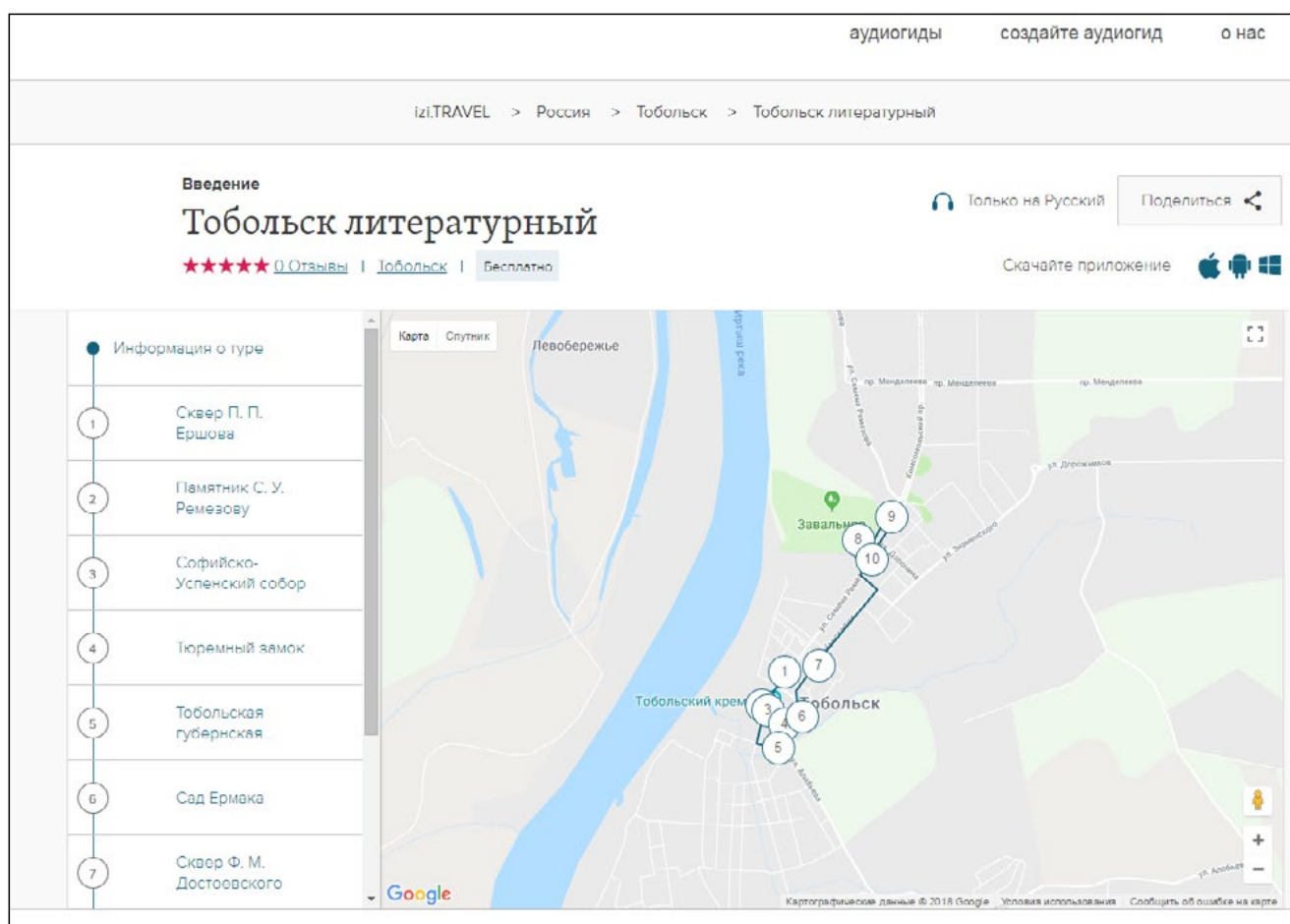
In 2018 “MTS/Media” plans to expand subjects of materials, in particular, to promote apps and IT services for a wide circle of residents.

# Projects for development of regional infrastructure

## MTS mobile guide

In 2017 MTS continued development of the project. In particular, in Tobolsk the historical and cultural project “Mobile Guide “Literature Tobolsk” was launched. It included monuments of history and architecture of federal and regional purpose, with which biographies

of outstanding literary figures are related. Guests of the tourist pedestrian route will be able to both see main sights of Tobolsk and read about them, and to listen to the audio version of the guide.



## The project for recovery of cultural appearance of historical cities

The festival of recovery of historical environment “Tom Sawyer Fest” originated in 2015 in Samara, and in 2016 and 2017 covered more than 10 Russian cities. Within the festival active and indifferent residents themselves restore unique wooden houses built before revolution, returning color and beauty to run-down houses. MTS

provides volunteering and financial assistance to “Tom Sawyer Fest”, operates over restoration of historical and cultural sights, conducts workshops for children. In 2017 MTS volunteers from Tomsk, Kazan, Samara, Saratov, Orenburg and Buzuluk participated in the project.

## Poplar of Victory

The Great Patriotic War is still alive in memory of millions of Russians. However, there are less and less physical proof left every year. Therefore, anything that reminds about heroic deeds of our soldiers, becomes a relic in the eyes of the young generation. The Volgograd’s poplar has become a true symbol of life for Russians. It was the only one to survive the violent and ravaging battle of Stalingrad, when the city was nearly wiped out. The tree endured hostile fire — its entire trunk is literally spattered with scars and grazes from bullets and shell fragments. But in spring of 1943, after liberation of the city, the tree blossomed again, symbolizing the victory of life above death and war.

The story of the Volgograd’s poplar has been a subject of discussions for a long time, but has not yet been popularized. The crucial moment was the initiative of MTS: to create a project, which would respect military and historical heritage of the country and proposed new opportunities for improvement of territories. Thus, in 2017 the promotion “Poplar of Victory” appeared, within which in 17 regions of the Russian Federation, MTS jointly held environmental volunteering promotions to preserve the poplar’s genotype. The promotion was attended by more than 1100 people: employees of the company, veterans, representatives of authorities, mass media, public organizations. In 2018 the promotion will be expanded to include another 15 regions of the country.

## ECO-projects

Annually MTS employees participate in eco-descents and Saturday cleanup days in the territory of natural reserves, recreation areas, city parks and zones of rest of the regional residents. More than 30 K trees were totally planted in 30 regions of Russia.

With support of the forestry department of Novosibirsk region, in September 2017 activists of EKA Movement and employees of MTS company planted 15 K pines in

the area of 3 ha in Kochenevskiy district. The event was held within the project of PosadiLes.ru.

In Udmurtia MTS employees planted more than 1000 pine trees in the territory of the city zoo. Additionally, zoo visitors were given around 500 trees for independent planting. Each tree was given in an individual package and with a memo on how to plant a young tree.

## Forest monitoring against fire

MTS jointly with the forestry department of Novosibirsk region develops the project of forest areas monitoring to prevention and urgent clearance of fire threats in the region. Video cameras of the “Forester Beat” sur-

veillance system are installed at MTS base stations in Moshkovskiy, Novosibirskiy, Kolyvanskiy, Ordynskiy and Suzunskiy districts of the area.

## Projects aimed at educational support

Within this area MTS in 2017 supported organization of the training process in the Innopolis University in Kazan, and also implements its own educational programs for younger school children and elderly people teaching state-of-the-art technologies.

### “Children on the Internet”

The objective of MTS as the leading communications provider is not only to demonstrate the global network capabilities, and to also warn children, parents and teachers on potential risks when using Internet by younger school children. “We are responsible for those whom we connected” — this is one of the premises of MTS social responsibility program.

To protect young users, MTS together with the Internet Development Fund and the faculty of psychology of the Lomonosov Moscow State University in 2011 developed a lesson of “Useful and Secure Internet”, which became the basis of MTS’s federal 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 section about useful websites now includes more interesting resources, which the children may study together with parents, developing their creative potential and mastering skills of environmental behavior. The lesson is designed to give a better impression to school children both about positive and negative sides of Internet use. Seven safety rules are shown via seven



stories. Each story discloses one of hazards in the Internet environment and teaches a child to leave the crisis situation. After attending the lesson the children secure the received knowledge in play and active form — going through an entertaining quest. The interactive format of the exhibition suggests that one here may and even has to touch the exhibits, play with them and give free reign to one's fantasy, using unique art objects.

For the first time the updated lesson was presented within the international forum EDU Russia in March 2017 in Kazan. Exhibitions and lessons were held in eight cities of Russia in 2017: Kazan, Voronezh, Irkutsk, Chita, Perm, Chaikovsky, Solikamsk and Balakovo (Saratov Region). City's libraries, museums, and houses of children's creativity provided their venues for educational exhibitions and lessons, and became full partners and participants in the project. In each region at least than 2000 junior schoolchildren became participants in the Children on the Internet project. In total over six years, around 400 K 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. The lesson is welcomed with interest by both children and teachers.

Active support to the project "Children on the Internet" in 2017 was provided by regional ministries of education, ministries of culture, public organizations.

The leading role in attracting the younger generation to the information society culture is played by adults — parents and teachers, they are the ones that young Internet users take for a model. We developed a special training online course for teachers and parents in 2017 [http://www.safety.mts.ru/ru/deti\\_v\\_inete/for\\_adults/lessons/](http://www.safety.mts.ru/ru/deti_v_inete/for_adults/lessons/).

The presentation of the course took place in September 2017 in Irkutsk. In total in 2017 MTS and Internet Development Fund held several workshops for teachers in Kazan, Voronezh and Perm. For 2017 the number of downloads of the lesson methodology increased by almost 50% , and number of project page visits in the Internet amounted to 290,000 times (<http://detionline.com/>). More than 100 publications on the MTS project were published in regional mass media. In 2018 MTS will expand the project to regions of the Far East

## Mobile Academy

In 2016 MTS developed a special educational course Mobile Academy designed for people older than 50 years. 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.

We train the audience of the Academy on confident work with Internet services: in any place at any time with the help of a smartphone and table 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 comfortable, saturated. Lessons are available for download and review at the project website<sup>1</sup>.

In 2016/17 academic year, "Mobile Academy" courses were held for about 2000 people in Moscow, Orel, Kurgan, Novosibirsk, Amur, Saratov regions, Krasnodar and Altai regions, the Republics of Adygea and Dagestan. And already in September 2017 the classes of MTS "Mobile Academy" were opened in another 10 regions: Belgorod, Tambov, Rostov, Kirov, Penza, Samara, Irkutsk,

Nizhny Novgorod regions; Republics of Bashkortostan and Tatarstan, Stavropol and Zabaikalye Territories.

Graduates of the MTS Mobile Academy defended the honor of their regions at the VIIth All-Russian Computer All-Round Championship among pensioners. In 2017 the championship took place in Saint Petersburg and has become the greatest in its history: 74 constituent entities of the Russian Federation sent their teams for the competitions. Performing the tasks of the "mobile" stage, "sportsmen" completed online quest in search engines, downloaded mobile apps, published selfies and made posts in social media, searched videos on YouTube, demonstrated online shopping skills. Participants of the championship proved that the age was not an obstacle for using new technologies, development and travelling!

Studies of the Union of Pensioners of Russia confirm that mobile devices are becoming a habitual part of life of the elderly people. For the last three years the number of pensioners — participants of the computer championship using a smartphone increased from 15% to 60%, a tablet — from 20% to 50%.

<sup>1</sup> <http://baba-deda.ru/news/categorie/14/>.





## Working with students

MTS actively cooperates with the student community in different cities of the country, maintaining educational and social events in universities, thus helping to improve quality of young experts education and to form talent pool. We support student hackathons, meetups, workshops and scientific conferences in regional universities. MTS opens MTS Laboratories in specialized universities, where students of technical majors are able to control state-of-the-art telecom equipment in practice, to study new communications standards and leading IT technologies. In 2017 MTS launched innovation labs in the Irkutsk National Research Technical University, in the Tambov Technical University, in the Zabaikalye State University.

In 2018 MTS jointly with universities all over the country plans to develop educational, scientific and innovation activities and search activities to improve quality of specialized major students training. Within the agreements, MTS plans to provide expert and resource support of student projects related to telecom sphere, to organize workshops, business labs, and also training, production and pre-diploma practices of students. Technical experts of the Company developed methodological materials for successful inclusion of MTS Lab into training programs of universities.

## “Telecom Idea”

In the annual federal competition of MTS “Telecom Idea 2017” — competition of innovative projects of youth in the sphere of information and communication technologies and services to solve commercial, social and state objectives — students, young scientists, scientific teams and young entrepreneurs participated.

Project coverage — 500 K of students and 300 universities all over Russia, 5 K participants of the competition. For the competition 660 projects were submitted from 100 cities and 14 countries, 29 projects were included

into the corporate accelerator of MTS, 17 projects are piloted in MTS and subsidiaries of Sistema JSFC, more than 50 MTS employees participated as experts of the competition jointly with 30 external experts.

The main award for competition winners was an invitation for the innovation educational tour to Finland, where they visited the headquarters of Nokia and participated in the Slush 2017 conference in Helsinki — an international event for start-ups, investors and anyone who is interested in new technologies.

## MTS corporate volunteer movement “JUST Give Good”

The corporate volunteer movement "JUST Give Good!" has been operating at MTS for more than seven years, and is gaining momentum from year to year, providing opportunities for social self-realization; more and more kind-hearted MTS employees with an active lifestyle join the movement.

Today, the movement includes 6,500 MTS employees who are constantly participating in the company's volunteer promotions.

The company's volunteers support children from children's social institutions — children in a difficult life





situation, as well as veterans of the Great Patriotic War and the “Communications” industry. Volunteers take part in the activities of the Company timed to significant dates and events: Day of Victory, Children's Day, Day of Knowledge, New Year's Eve. In addition, MTS activists participate in the actions of Sistema Charitable Foundation. The "Green Express of MTS" timed to the beginning of the academic year and the New Year's tour "Firs for children!" became the most anticipated events for many children from sponsored institutions.

In general in 2017 more than 200 volunteering promotions were held in the entire country: “Christmas trees for children” — in 42 regions, “MTS Green Express” — in 30 regions, “Tango of Victory!” — in more than 20 regions.

The International Volunteer Day was celebrated on a large scale: 16 nominations, more than 150 most active volunteers and masterminds were awarded.

## Mobile Fairytale Puppet Theater<sup>1</sup>

In 2012, the most creative volunteers of MTS created a puppet show “Mobile Theater of Fairy Tales”. Over five years, the theater's repertoire included New Year's musical tales Morozko, Magic Mirror, an educational musical fairy tale “Children on the Internet”, environmental plays “Saving the Planet Earth” and “The Story of a Prince” and many more. These performances are created by MTS volunteers for children from sponsored children's institutions, hospitals, rehabilitation centers, children of employees and partners.

### Theater performance in 2017:

50 performances for 4500 viewers, including Moscow and Moscow Region, Kazan, Petrozavodsk, Krasnodar, Saint Petersburg, Ivanovo, Arkhangelsk. The 2017 repertoire includes 9 performances, with two new performances (on the subject of environment and kids safety), 7 troupes are working, more than 60 MTS employees are actors. MTS “Mobile Fairytale Puppet Theater” is the nominee of the international festival in Armenia “High Fest”, participant of the “Solony” festival in Karelia jointly with the Charitable Foundation “Sistema”.

<sup>1</sup> [puppet-mts.ru](http://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 to promotion of physical culture and sports;
- support of 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 2017 amounted to RUB 10 million. For 2017 program funds were funneled into treatment of 65 children from 40 Russian regions.



# Information Protection and Security

## Information security

### Global trends of threats in the sphere of information security

The global trend is a high level of legislative initiative in terms of strengthening information security requirements (hereinafter IS). The trend is associated with the strengthening of the importance of information technology in the economy, social sphere, national and international security, countering cybercrime. The Russian specifics are in the fact that compulsory information protection measures apply to non-state information resources (personal data, professional, commercial secrets and other information protected by law), which leads to limitations in the development of the information and telecommunication technologies market, increased information security legislation compliance costs for owners (holders) of information, information systems and communication systems.

A special category of data appeared: Big Data, whose legal status is not defined by law. The government of the Russian Federation suggests issuing a separate law regulating the Big Data processing, which may limit the ability to create business projects with its use.

The Federal Law No.187-FZ adopted on July 26, 2017 "On security of critical information infrastructure of the Russian Federation" requires the following from owners of information and telecommunications systems and networks facilities:

- development of a complex of actions for its implementation;
- definition and approval of the list of critical information infrastructure (CII) facilities;
- compliance with requirements to development of CII facilities safety systems and ensuring their safety;

- organization of protection of data referred to as state secret;
- taking actions to ensure safety of CII facilities against computer attacks.

The Internet of Things is actively developing and new threats of information security are becoming urgent.

### Information Security Risks

Information security (IS) risks can be realized by three main scenarios.

- **Risk of information security breach.** Violation of confidentiality, integrity or accessibility of information due to 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 IS 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.
- **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.).

- **Ambiguity and uncertainty of the provisions of the IS legislation.** Laws establish different IS requirements for the same regulation object which may conflict with each other. In this case, no priority of laws is established.

## Information Security System at MTS

- Centralized information security infrastructure built in line with the best world practices on the basis of international standards ISO 27000 and 15408.
- Personal data protection system with the third level of PD protection in accordance with the legislation of the Russian Federation.
- Protection of communication secrets in communication networks with information protection mechanisms meeting the international communication standards.
- FSTEC and FSB of Russia licenses for activities on technical and cryptographic protection of confidential information for the provision of IS services.

## Results and achievements in 2017

- The agreement is executed on cooperation with state system for detection, prevention and liquidation of effects from computer attacks (GosSOPKA).
- Works were deployed in the area of cybersecurity structure development in the largest Russian enterprises and in corporations.
- Services are provided for monitoring and response to IS incidents to the Sistema JSFC Group of Companies.
- MTS received the award Safety Leaders Awards 2017 in the nomination "Best Complex Solution of the Year" in the category "Information Security: Complex Information Security Support".
- The MTS team took the 1st place in competitions for investigation of IS incidents CyberRange within the conference Cisco Connect 2017.
- MTS received a prize in the nomination "Not a single break" in the team competition for practical security (The Standoff. Enemy inside") at the

Positive Hack Days VII Conference in the role of the telecom provider defense team.

## Information security issues

- **Significant delay between the development of measures and means of protecting information and the process of introduction new information technologies.**

New information technologies and means of their implementation are introduced two-three years before the advent of information protection tools that mitigate the new information security threats. Information security threats can be realized.

- **Use of information security products certified in line with the requirements of FSTEC and FSB of Russia while ensuring the personal data protection.**

The legislation on personal data establishes the requirement to use personal data information protection tools that have passed conformity assessment. FSTEC or FSB certified information protection tools generally are more expensive, have limited functionality and can create technological problems in implementation. Certified information protection tools market is limited. Some protection measures may be implemented without certified information protection tools. Certificates are valid for no more than five years (usually three years), which leads to the need to extend the certificate or to replace the tool. A draft order of FSTEC of Russia has been prepared, which expands the list of certified tools for personal data protection and modifies their protection classes.

- **Implementation of protection measures established by regulatory acts of the Ministry of Communications, FSTEC and FSB of Russia, which may exceed the minimum sufficient level.**

The level of requirements for the protection of confidential information is comparable with the level of protection of state secrets.

- **Ambiguity and uncertainty of the provisions of the IS legislation.**

Laws may establish different IS requirements for the same regulation object which may conflict with each other. In this case, no priority of laws is established. For example, information at the same time can be a secret of communication, personal data and commercial secrets, regulated by different information security requirements.

## Economic security

Today successful operation and economic development of the Company directly depends on improving activities in the field of ensuring economic security. Extensive business relations and significant number of counterparties make management of the Company's activities more complicated. Economic security threats can be realized in the field of internal and external relations of the Company.

Protection of the Company's vital interests from internal and external economic threats is provided by the Department for Economic Security and Anti-Corruption of MTS PJSC (hereinafter the Department).

The Department on the basis of analysis of external and internal factors influencing Company's business shall provide strategic forecasting and scheduling of activities, which makes it possible to detect in advance and localize the potential economic threats, to minimize the possible risks.

Special attention in 2017 was paid to detection and discontinuation of illegal entrepreneurship for provision of communication services using Company resources. The results to liquidate channels of transmission of illegal international and long distance voice traffic helped to increase Company's income.

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 development of the Unified Complex Security Center in our Company, the HR security system was developed, and radical 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;
- cooperation with state and management authorities (processing of inquiries from law enforcement agencies and the court) — processing of inquiries of law enforcement agencies and court for the entire territory of the Russian Federation, apart from Moscow and Moscow Region, North-West Federal District;
- subscriber service — support of subscriber service processes safety, communications confidentiality.

The Department on a continuous basis performs support of processes of procurement and contract activities. It defines risks that may arise during procurement procedures and notifies accordingly the members of the procurement commission, and if required, it may decline the decision on vendor selection. It actively participates in approval of investment projects. Employees of the department within working groups consider projects when presenting them at the Executive Committee of MTS, form expert opinions.

The high level of economic security of the Company allows to effectively prevent threats and risks, eliminate damages from negative impacts on various elements of economic security. The priority areas for counteracting economic risks include the following:

- **Internal fraud.** Theft of inventory and cash assets by Company employees.
- **Dealer and subscriber fraud:**
  - 1) conclusion of fictitious contracts for the purpose of obtaining dealer commission;
  - 2) social engineering (deception of users under different pretexts to extort funds for their subsequent theft).
- **Partner fraud:**
  - 1) conclusion of contracts for the supply of goods (works, services), obviously unfeasible, for the purpose of theft of funds;
  - 2) increase in prices for the supply of goods (works, services).

- **Theft of inventory and basic equipment.** Infringement of operation of communication and IT infrastructure facilities due to damage or theft of equipment.

In order to ensure economic security of the Company, the Department has set the following priorities:

- analysis and control of investment project preparation;
- checking counterparties before entering into contracts and agreements;
- organization and implementation of measures to prevent manifestations of corruption;

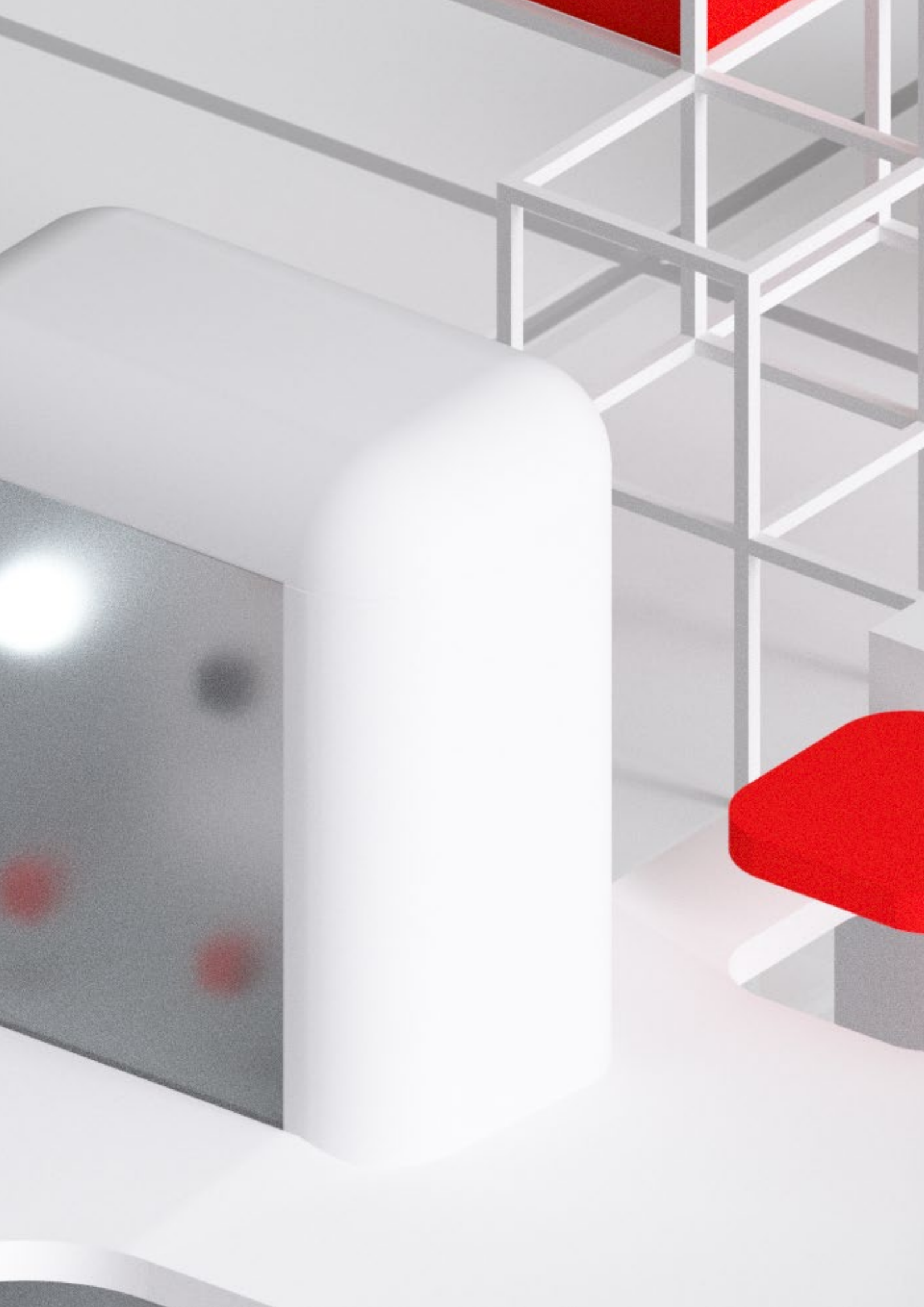
- checking candidates before employment;
- verification of execution of contracts concluded as a result of procurement procedures;
- taking part in the activities to collect, minimize and prevent overdue accounts receivable;
- functionality in the field of internal security.

An important element in maintaining high professional level of the Department's employees is the improvement of business skills, expansion of knowledge, which is achieved through continuous professional development and training during specialized courses.



# Additional Information





# 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 Uzdunrobita 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 Altimio, 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.

# Report on fulfilment of the principles and recommendations of the Corporate Governance Code

Hereby the Board of Directors of MTS PJSC 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 Representation.

This report on compliance with the principles and recommendations of the Corporate Governance Code in MTS PJSC was considered by the Board of Directors of MTS PJSC at the meeting on May 28, 2018, the meeting minutes No.268.

The Board of Directors confirms that the data given in this report contain full and valid information on compliance of the company with the principles and recommendations of the Corporate Governance Code for 2017, 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 Road Map for implementation of the Corporate Governance Code recommendations in MTS PJSC (hereinafter referred to as the Road Map). Data on results of Road Map implementation were considered by the Corporate Governance Committee under the Board of Directors in 2017. Information on planned actions for improvement of the corporate governance model and practice is given in section “Development of corporate governance system and plans for 2018”.

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 recommendations is provided below in the Annex to this Application.

<sup>1</sup> The reporting year is specified, and if the report on compliance with the principles and recommendations of the Corporate Governance Code comprises data for the period that elapsed from the moment of reporting year completion and to the date of making this report, the date of making this report is specified.

## 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 favourable 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>■ complied with □ partially complied with □ not complied with</p> <p>■ complied with □ partially complied with □ not complied with</p>	
1.1.2	The procedure of communicating holding of a general meeting and providing materials for the general meeting enables the shareholders to properly prepare for their participation in it.	<p>partially complied with</p> <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.</p> <p>2. The message on holding a general meeting specifies the venue of the meeting and documents required to be admitted into the venue.</p> <p>3. Shareholders were provided access to information on those who proposed agenda items and candidates for the Board of Directors and Audit Commission of the Company.</p>	<p>■ complied with □ partially complied with □ not complied with</p> <p>■ complied with □ partially complied with □ not complied with</p> <p>□ complied with ■ partially complied with □ not complied with</p>	<p>We adhere to the position that such information should definitely be disclosed. However, in materials to Extraordinary General Meeting of Shareholders (date September 29, 2017) in respect to two meeting agenda items, it was not disclosed who proposed the item:</p> <p>1. On introduction of amendments and additions to MTS PJSC Charter. The item was presented for review in order to bring the charter in compliance with the Law on joint stock companies and Corporate Governance Code.</p> <p>2. On MTS PJSC membership in non-commercial organizations. The item was presented for review in order to promote MTS PJSC position in the preparation of standards, requirements, regulations in the field of IoT, as well as search and participation in start-ups. Corporate governance practices show that items of such category are presented for review at the management's initiative. Having found this evident for the market, we did not include information on item review initiator into the materials for the shareholders' meeting.</p> <p>Unavailability of disclosed information on the initiator of issue consideration on making amendments to the charter of the Company and MTS entrance into the non-profit organization (if there are recommendations of the Board of Directors on voting and detailed justification of reasons for issue consideration in the materials of the meeting), in our opinion, does not entail additional risks for the Company and its stakeholders.</p> <p>Nevertheless, from the next general meeting of shareholders already, we will return to practice of information disclosure on the fact who suggested the issue, in respect to all items of the meeting agenda.</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.

1.1.3	In process of preparation and holding of a general meeting the shareholders could freely and timely receive information on the meeting and materials to it, ask questions to the executive authorities and members of the Board of Directors of the company, communicate with each other.	<p>partially complied with</p> <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.</p> <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.</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> <p><input type="checkbox"/> complied with</p> <p><input checked="" type="checkbox"/> partially complied with</p> <p><input type="checkbox"/> not complied with</p>	<p>We adhere to the position that such information should definitely be disclosed. However, in materials to Annual General Meeting of Shareholders (date June 29, 2017) the voting position of the Board of Directors was not disclosed in respect to all meeting agenda items:</p> <p>Approval of the annual report of MTS PJSC, annual accounting statements of MTS PJSC, including the income statement of MTS PJSC, MTS PJSC profit and loss distribution for 2016 fiscal year (including dividend payment).</p> <p>The item is presented for voting annually, but should be first reviewed by at the meeting of the Board of Directors. This means that the item may not be included into the agenda without proper elaboration at the meeting by the Board of Directors.</p> <p>This item was previously considered at the meeting of the Board of Directors (minutes No.257 dated April 12, 2017; minutes No.258 dated May 25, 2017), the General Meeting of Shareholders was advised to approve the annual report of MTS PJSC, annual accounting statements of MTS PJSC, including the profit and loss statement of MTS PJSC, distribution of MTS PJSC profit and loss by results of 2016 (including dividend payment).</p> <p>Information on recommendations of the Board was disclosed in the company's website:</p> <p><a href="https://moskva.mts.ru/upload/contents/10677/sf_resheniya_sd_12_04_2017.pdf">https://moskva.mts.ru/upload/contents/10677/sf_resheniya_sd_12_04_2017.pdf</a>;</p> <p><a href="https://moskva.mts.ru/upload/contents/10677/sf_resheniya_soveta_direktorov_250517.pdf">https://moskva.mts.ru/upload/contents/10677/sf_resheniya_soveta_direktorov_250517.pdf</a>.</p> <p>Since information on the position of the Board of Directors was disclosed earlier in the form of a notice of substantial fact, and following the above circumstances, we found repeated disclosure of information excessive and did not include information on the Board's position on this item into materials for the shareholders' meeting.</p> <p>Election of the members of MTS PJSC Board of Directors and Auditing Commission.</p> <p>The item is presented for voting on an annual basis, and first the Board of Directors evaluates candidates proposed by shareholders.</p> <p>Since the quantity of nominated candidates and quantity of seats taken in the established management bodies was same, we found it excessive to include the formal position of the Board of Directors on this issue into the materials for the shareholders' meeting.</p> <p>Approval of the revised charter and Regulations on the Board of Directors of MTS PJSC.</p> <p>The item was presented for review in order to bring the internal documents in compliance with the Law on joint stock companies, Moscow Stock Exchange Listing Regulations and Corporate Governance Code. Such items are not presented for review of the General Meeting of Shareholders without prior review at the meeting of the Board of Directors.</p> <p>This issue was first considered at the Board of Directors meeting (minutes No.258 dated May 25, 2017), the General Meeting of Shareholders was advised to approve the amended charter and the Regulations on the MTS PJSC Board of Directors.</p> <p>Information on recommendation of the Board was disclosed in the company's website:</p> <p><a href="https://moskva.mts.ru/upload/contents/10677/sf_resheniya_soveta_direktorov_250517.pdf">https://moskva.mts.ru/upload/contents/10677/sf_resheniya_soveta_direktorov_250517.pdf</a>.</p> <p>Since information on the position of the Board of Directors was disclosed earlier in the form of a notice of substantial fact, and following the above circumstances, we found repeated disclosure of information excessive and did not include information on the Board's position on this item into materials for the shareholders' meeting.</p> <p>Unavailability of disclosed information on the position of the Board of Directors on the issues specified above (provided that there are above circumstances present), in our opinion, does not entail additional risks for the Company and its stakeholders.</p> <p>Nevertheless, from the next general meeting of shareholders already, we will return to practice of information disclosure on the position of the Board of Directors in respect to all issues</p>
		<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.</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>	

1.1.4	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.	complied with	<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>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>■ complied with □ partially complied with □ not complied with</p> <p>■ complied with □ partially complied with □ not complied with</p>
1.1.5	Each shareholder was able to freely implement their voting right by most simple and convenient for them ways.	complied with	<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>■ complied with □ partially complied with □ not complied with</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.	complied with	<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>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>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>■ complied with □ partially complied with □ not complied with</p> <p>■ complied with □ partially complied with □ not complied with</p> <p>■ complied with □ partially complied with □ not complied with</p>
1.2	Shareholders were provided equal and fair opportunity to participate in the profit of the Company by receiving dividends.			
1.2.1	The company developed and introduced a transparent and clear mechanism for determination of the dividend amount and their payment.	complied with	<p>1. The dividend policy in the Company was developed, approved by the Board of Directors and disclosed.</p> <p>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.</p>	<p>■ complied with □ partially complied with □ not complied with</p> <p>■ complied with □ partially complied with □ not complied with</p>

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>3</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.</p> <p>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.</p> <p>In 2014, the MTS "3D" strategy was introduced, according to which the payment of dividends is one of its key elements.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>It was noted that MTS PJSC does not comply with the recommendations for formal grounds only. Besides, in our opinion, the Company complies with the Code's basic principle.</p> <p>The main objective of MTS PJSC when implementing the Code is first of all compliance with principles and spirit of the Code. Therefore, aspiration for formal compliance with certain recommendations (not exceeding the real level of corporate governance) may not be a significant ground for the company to make changes to the main investment document of the shareholder: Dividend Policy.</p> <p>Besides, we plan to return to consideration of the issue of full compliance with the recommendation upon expiration of this Dividend Policy in 2019<sup>4</sup>.</p>
1.2.3 The Company does not allow for deterioration of the dividend rights of the existing shareholders.	complied with	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with	
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.	complied with	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with	

<sup>3</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)

<sup>4</sup> In connection with the fact that the plan of work of the Board of Directors as of 2019 on the date of Annual Report release is not approved, the company is unable to report the precise date of issue consideration at the meeting of the Board of Directors

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		
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	<p>complied with</p> <p>1. Quality and reliability of activities executed by the Company registrar to keep the register of securities' owners comply with the needs of the Company and its 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>
2.1	The Board of Directors executes strategic management of the Company, determines the main principles and approaches to organisation 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.		
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.	<p>complied with</p> <p>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.</p> <p>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.</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>
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.	<p>complied with</p> <p>1. During the reporting period at the meetings of the Board of Directors, the issues were considered, which were related to the progress of achievement and update of the strategy, approval of the financial and business plan (budget) of the Company, as well as consideration of criteria and indicators (including interim ones) for achievement of the strategy and business plans of the Company.</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>

2.1.3	The Board of Directors defines principles and approaches to organisation of the risk management and internal control system in the Company.	complied with	1. The Board of Directors defined principles and approaches to organisation of the risk management and internal control system in the Company.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
			2. The Board of Directors assessed the risk management and internal control system in the Company during the reporting period.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
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.	complied with	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.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
			2. During the reporting period, at the meetings of the Board of Directors, issues related to the specified policy (policies) were considered.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
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.	complied with	1. The Board of Directors plays a key role in prevention, detection and settlement of internal conflicts.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
			2. The company created a system of identification of transactions related to a conflict of interest, and a system of actions aimed at resolution of such conflicts	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
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.	complied with	1. The Board of Directors approved the Regulation on Information Policy.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
			2. There are persons defined in the Company as responsible for implementation of the information policy.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
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.	complied with	1. During the reporting period the Board of Directors considered the issue on the practice of corporate governance in the Company.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
2.2.	The Board of Directors reports to all shareholders of the Company.			
2.2.1	Information on operation of the Board of Directors is disclosed and provided to shareholders.	complied with	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.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with



	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.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
2.2.2	The chairman of the Board of Directors is available for communication with the Company shareholders.	<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> <input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
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.	
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 realisation of its functions, are elected by the members of the Board of Directors.	<p>complied with</p> <p>1. The procedure accepted in the company for assessment of efficiency of operation of the Board of Directors also includes assessment of professional qualification of the members of the Board of Directors.</p> <input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
	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.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
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>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> <input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
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>complied with</p> <p>1. Within the procedure for assessment of work of the Board of Directors performed in the reporting period, the Board of Directors analysed its needs in the field of professional qualification, experience and business skills.</p> <input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with

2.3.4	The quantitative composition of the Board of Directors of the company makes it possible to organise 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.	complied with	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.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
2.4	The Board of Directors includes sufficient number of independent directors.			
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 recognised 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.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> 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 the opinion on independence of each candidate to the Board of Directors and provided the appropriate report to the shareholders.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> 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 independence of the existing members of the Board of Directors, which are specified by the Company in the annual report as the independent directors.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> 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.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
2.4.3	Independent directors make at least one third of the elected composition of the Board of Directors.	<p>complied with</p> <p>1. Independent directors make at least one third of the composition of the Board of Directors.</p>	<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.	<p>complied with</p> <p>1. Independent directors (with no conflict of interests) preliminarily assess the substantial corporate actions related to a potential conflict of interest, and results of such assessment are provided to the Board of Directors.</p>	<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 realisation 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.	<p>partially complied with</p> <p>1. The chairman of the Board of Directors is an independent director, or a senior independent director is defined among independent directors<sup>5</sup>.</p>	<input type="checkbox"/> complied with <input checked="" type="checkbox"/> partially complied with <input type="checkbox"/> complied with <p>1. The Chairman of the Board of Directors is not an independent director, or a senior independent director is not defined.</p> <p>1.1. In our opinion, director's independence is basically his or her mindset, independence of his or her nature and judgements. Recommendations of the Code and Listing Rules contain a wide list of situations, where the director is not recognized as independent. Despite the fact that established criteria provide a useful benchmark, they are external and only indicate the probability of the fact that the director may operate independently. In reality the director may act independently, regardless of formal restriction criteria.</p> <p>The chairman of the Board of Directors of MTS OJSC since 2009 is a non-executive director – Mr. Ron Sommer. Large experience of R. 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 R. Sommer is highly appreciated by independent experts<sup>6</sup>. Under the chairmanship of R. 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.</p> <p>For the second 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 it is planned to introduce changes to the remuneration system of the Board of Directors members with the purpose to bring it in compliance with the best foreign practices.</p> <p>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 R. 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 upgrade of the independent block in the Board of Directors is expected, in connection with nomination of a new independent candidate to the Board of Directors.</p> <p>Since 2017 R. Sommer has been a member of the Board of Directors of our controlling shareholder. Besides, R. Sommer is not an employee or a member of executive bodies of the controlling shareholder, he permanently resides outside the Russian Federation.</p>

<sup>5</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>6</sup> In 2017 Ron Sommer entered the rating of “Top-25 Chairmen of the Boards of Directors” within “Director of the Year 2017” National Award ceremony

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>7</sup>.

Taking into account the specified factors, where we first of all consider the huge experience of Sommer as a director and a chairman of the Board of Directors, and also independence of his judgements and contribution to development of MTS corporate governance system, we find it unreasonable to select and appoint another chairman in the available composition of the MTS Board of Directors, even though he or she meets formally 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

	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.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
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.	complied with 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. <input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
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.	complied with 1. The obligation of the chairman of the Board of Directors to take actions to provide for 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. <input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with

<sup>7</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.

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.	
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>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>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>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>
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>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>
2.6.3	Members of the Board of Directors have sufficient time to perform their obligations.	<p>complied with</p> <p>1. Individual attendance of the meetings of the Board and the committees, as well as 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>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>
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>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 formalised 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>

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.		
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>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</p> <p><input type="checkbox"/> partially complied with</p> <p><input type="checkbox"/> not complied with</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>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</p> <p><input type="checkbox"/> partially complied with</p> <p><input type="checkbox"/> not complied with</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>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 in-person meetings of the Board.</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>
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>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</p> <p><input checked="" type="checkbox"/> partially complied with</p> <p><input type="checkbox"/> complied with</p> <p>1. The charter of the Company does not provide that the decisions on the 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>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. 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>

2.8	The Board of Directors establishes the committees for preliminary consideration of the most important issues of the Company's business.		
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>complied with</p> <p>1. The Board of Directors established the Audit Committee made exclusively of independent directors.</p> <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.</p> <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.</p> <p>4. Meetings of the Audit Committee were held at least once per quarter 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><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>
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>complied with</p> <p>1. The Board of Directors established the Remuneration Committee, which comprises only independent directors.</p> <p>2. The chairman of the Remuneration Committee is an independent director, who is not the chairman of the Board of Directors.</p> <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.</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>
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>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>8</sup>), the majority of the members of which are independent directors.</p> <p>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.</p>	<p><input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with</p> <p><input type="checkbox"/> complied with <input checked="" 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> <p>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; — composition of the Company's Board of Directors is quite stable: seven of nine directors were appointed until 2014, when the Code took effect. Therefore, the circle 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.</p>

<sup>8</sup> If objectives of the Nomination Committee are implemented within a different committee, specify its name

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 recognised necessary (Strategy Committee, Corporate Governance Committee, Ethics Committee, Risk Management Committee, Budget Committee, Health, Safety and Environment Committee etc.).	complied with	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with	<sup>9</sup> 1. As of January 01, 2017, 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 29, 2017 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.
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.	complied with	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with  <input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with	1. Committees of the Board of Directors are headed by independent directors.  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.
2.8.6 Chairmen of the committees regularly inform the Board of Directors and its chairman on the work of its committees.	complied with	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with	1. During the reporting period the chairmen of the committees regularly report to the Board of Directors about the work of the committees.

<sup>9</sup> Specify the list of the established additional committees



## 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.

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.	complied with		
		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.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with	
		2. Results of self-assessment or external assessment of the Board of Directors performed during the reporting period were considered at the in-person meeting of the Board of Directors.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with	
2.9.2	Assessment of work of the Board of Directors, Committees and members of the Board of Directors is realised 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 organisation (consultant) is employed.	partially complied with		
		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 organisation (consultant).	<input type="checkbox"/> complied with <input checked="" type="checkbox"/> partially complied with <input type="checkbox"/> not complied with	1. To perform independent assessment of quality of work of the Board of Directors within the last three reporting periods, no external consultant was engaged. At the same time, in the reporting period, under methodological support of the external consultant, the Company conducted self-evaluation of the Board of Directors' work. Evaluation methodology that existed in MTS previously, was developed before Code adoption and only partially complied with the Code recommendations. In connection with it in 2016 the Company revised the methodology of evaluation of the Board of Directors. New methodology was developed with employment of an external consultant and fully takes into account recommendations of the Code and best international practice in the field of organization of the Board of Directors' work. In the reporting year the evaluation of the Board of Directors according to the new methodology was performed for the second time and was performed in the form of self-evaluation by survey method. The results of the evaluation were considered at the in-person meetings of the Board of Directors. In 2018 MTS plans to consider the issue of the Board of Directors' evaluation with employment of the external consultant In connection with the fact that the three-year period, during which an external consultant was employed for evaluation, started in 2016, in accordance with the provisions of the Company Code, the external consultant shall be employed not later than in 2018. Therefore, no additional risks will arise in connection with non-employment of the external consultant for evaluation of the Board of Directors in 2016.
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.			
3.1.1	The corporate secretary has knowledge, experience and qualification, sufficient for performance of its obligations, stellar reputation and enjoys confidence of shareholders	complied with		
		1. The corporate secretary has knowledge, experience and qualification, sufficient for performance of its obligations, stellar reputation and enjoys confidence of shareholders.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with	
		2. On the website of the Company in the Internet and in the annual report there is biographic 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.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with	
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.	complied with		
		1. The Board of Directors approves appointment, dismissal and additional remuneration of the corporate secretary.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with	

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.		
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>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</p> <p><input type="checkbox"/> partially complied with</p> <p><input type="checkbox"/> not complied with</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>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</p> <p><input type="checkbox"/> partially complied with</p> <p><input type="checkbox"/> not complied with</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>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</p> <p><input type="checkbox"/> partially complied with</p> <p><input type="checkbox"/> not complied with</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>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</p> <p><input type="checkbox"/> partially complied with</p> <p><input type="checkbox"/> not complied with</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.		
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.	not complied with	
		<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 type="checkbox"/> complied with  <input type="checkbox"/> partially complied with  <input checked="" type="checkbox"/> not complied with</p>	<p>1. Fixed annual remuneration was not the only monetary form of remuneration of the members of the MTS Board of Directors for work in the Board of Directors during the reporting period.</p> <p>Amount and procedure of making payments of remunerations and compensations to members of the Board of Directors are regulated by the Regulations on remunerations and compensations paid to members of the Board of Directors. In accordance with the Regulations, the members of the Board of Directors get their remuneration in the following forms:</p> <ul style="list-style-type: none"> <li>- basic remuneration;</li> <li>- remuneration for fulfilment of additional duties (for work in committees);</li> <li>- year-end bonus.</li> </ul> <p>The Regulations on remunerations and compensations were developed with employment of the external consultant and were approved in 2009 before introduction of the Code. The norms fixed in it complied with market practices that existed at that moment and were designed to ensure compliance of the applied remuneration forms with the Company objectives.</p> <p>Thus, use of the variable part in the structure of the remuneration based on the market cost of the Company shares is aimed at motivation of the members of the Board of Directors at increase of the shareholder value of the Company for the benefit of the shareholders and investors.</p> <p>The existing remuneration procedure was absolutely transparent, which makes it possible to minimize possible risks of failure to comply with the Code recommendations.</p> <p>The Code recommendation not to use the short-term motivation forms was considered at the meeting of the Remuneration and Nomination Committee in 2016. Representatives of the management were instructed to perform due diligence on this issue and provide the corresponding information for review by the Remuneration and Nomination Committee.</p> <p>For the reporting period, the specified item was presented for review by directors twice: once at the meeting of the Remuneration and Nomination Committee, for the second time – at the joint meeting of the Remuneration and Nomination Committee and Corporate Governance Committee.</p> <p>Two meetings were insufficient for clearing all disputable issues.</p> <p>In 2018 we plan to continue consideration of the issue and make a final decision on applicability of the Code recommendation to our company.</p>
4.2.2	Long-term ownership of the Company shares to a 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.	Complied with	
		<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>	
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.	complied with	
		<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>	

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.	
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>complied with</p> <p>1. During the reporting period the annual indicators of efficiency approved by the Board of Directors were used to determine 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 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>
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>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>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>

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>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>
5.1	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.	
5.1.1	The Board of Directors of the Company defined principles and approaches to organisation of the risk management and internal control system in the Company.	<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>
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>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>
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>complied with</p> <p>1. In the Company there is an approved anti-corruption policy.</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 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>
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 organisation determined by the Board of Directors and functions effectively.	<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>

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 organised by the Company.		
5.2.1	For internal audit, there is a separate structural subdivision in the Company, or an independent external organisation 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>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 organisation is employed with the same principle of accountability.</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>
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>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>2. The Company applies generally accepted approaches to internal control and risk management.</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> <p><input checked="" type="checkbox"/> complied with</p> <p><input type="checkbox"/> partially complied with</p> <p><input type="checkbox"/> not complied with</p>
6.1	The Company and its activities are transparent for shareholders, investors and other stakeholders.		
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>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>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</p> <p><input type="checkbox"/> partially complied with</p> <p><input type="checkbox"/> not complied with</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>
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>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>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</p> <p><input type="checkbox"/> partially complied with</p> <p><input type="checkbox"/> not complied with</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>

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.	<input type="checkbox"/> complied with <input checked="" type="checkbox"/> partially complied with <input type="checkbox"/> not complied with	<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.</p> <p>The controlling shareholder of the Company (Sistema PJSC, 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.</p> <p>Besides, at the website of Sistema PJSC there is the Corporate Governance Code published<sup>10</sup>.</p> <p>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 assistance to their comprehensive development for the purposes of their cost increase.</p> <p>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.</p> <p>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.</p> <p>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>11</sup>.</p>
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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, consistency and efficiency, as well as availability, validity, completeness and comparability of disclosed data.	complied with	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not 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.		
2. If securities of the Company circulate in the foreign organised markets, disclosure of substantial information in the Russian Federation and in such markets is done synchronously and equivalently during the reporting period.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> 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	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with	

<sup>10</sup> [http://www.sistema.ru/fileadmin/user\\_upload/corporate\\_documents/kodeks\\_korporativnogo\\_upravlenija.pdf](http://www.sistema.ru/fileadmin/user_upload/corporate_documents/kodeks_korporativnogo_upravlenija.pdf)

<sup>11</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			
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>The Company's information policy does not record the right of shareholders for access to information on legal entities that are controlled by the Company. The Company analyzed the recommendation of the Code and came to the conclusion that shareholders are provided with sufficient information to exercise their rights, and therefore, recording of the shareholders' right to access to information on legal entities controlled by the Company, is unreasonable. The Company and its activities 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. 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. In connection with it, shareholders' exercise of the right for access to documents and information of the Company in practice is not coupled with unjustified difficulties. At the same time, if information is provided to shareholders, the Company aspires to maintain 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. Such approach fully complies with the Code recommendations (clause 6.3.2). As a result of which, all requests for additional information, which is not accessible freely, shall be considered by the Company individually. The Company plans to adhere to the available practice and will not further aspire for complete formal compliance with this recommendation of the Code.</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.	complied with	<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>
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.			
7.1.1	Substantial corporate actions include reorganisation of the company, acquisition of 30 and over percents 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.	complied with	<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 realisation 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: reorganisation of the company, acquisition of 30 and more percents 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>
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.	complied with	<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>

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.	complied with	1. The charter of the Company with account of the features of its activities establishes lower minim criteria to refer the Company transactions to the substantial corporate actions compared to the law.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
			2. During the reporting period all substantial corporate actions were approved before their realisation.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
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			
7.2.1	Information on making substantial corporate actions is disclosed with explanation of reasons, conditions and effects of making such actions.	complied with	1. During the reporting period the Company timely and in detail disclosed information on substantial corporate actions of the Company, including grounds and timing for making such actions.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
7.2.2	Rules and procedures related to realisation of substantial corporate actions by the company are recorded in the internal documents of the Company.	Partially complied with	1. Internal documents of the Company provide for the procedure of employment of an independent appraiser to define the cost of property alienated or purchased within a major transaction or a transaction of interest.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
			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.	<input type="checkbox"/> complied with <input checked="" type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
			1, 2. Internal documents of the Company provide for the procedure of employment of an independent appraiser to define the cost of property alienated or purchased within a major transaction or a transaction of interest, and also for evaluation of the cost of Company's shares purchase and redemption. The Company employs an independent appraiser in all cases specified by the legislation. Besides, the Company charter defines that an independent appraiser shall be employed in the case of in-kind payment for the Company's shares to evaluate the market value of such property, unless otherwise stipulated by the legislation of the Russian Federation. We do not find it necessary to employ an independent appraiser in closing of all transactions, because such obligation will result in unjustified costs, both temporary (related also to the need of organization and conducting of tenders at the choice of the appraising organization), and financial ones. In practice the independent appraiser may be employed at the initiative of the Board of Directors or its members.	

Possible negative consequences, related to absence of the obligation of the external appraiser, shall be compensated by availability of clear and transparent procedures to close large transactions and transactions of interest, active participation of independent directors in preliminary discussion of transactions of interest, and also full compliance with the legislation of the Russian Federation, including during evaluation of the Company's shares purchase and redemption cost.

Currently the Company considers the issue of the need for formalization of the procedure of employment of an independent appraiser to define the cost of property alienated or purchased within a major transaction or a transaction of interest, and also for evaluation of the cost of Company's shares purchase and redemption, and recording of the relevant procedure in the internal documents. The amended Regulations on the MTS PJSC will be presented for the approval of the Annual General Meeting of Shareholders conducted in 2018. Changes proposed for introduction are aimed at compliance with the specified recommendations of the Code.

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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 recognised as interested in the Company transactions.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partially complied with <input type="checkbox"/> not complied with
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# Company's position in respect to environmental protection

## Management of environmental compliance

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

2017 in Russia was declared a Year of Ecology, therefore MTS Company paid special attention to implementation of internal and external events aimed at environmental improvement, increased environmental awareness of society and bringing up the environmentally responsible generation.

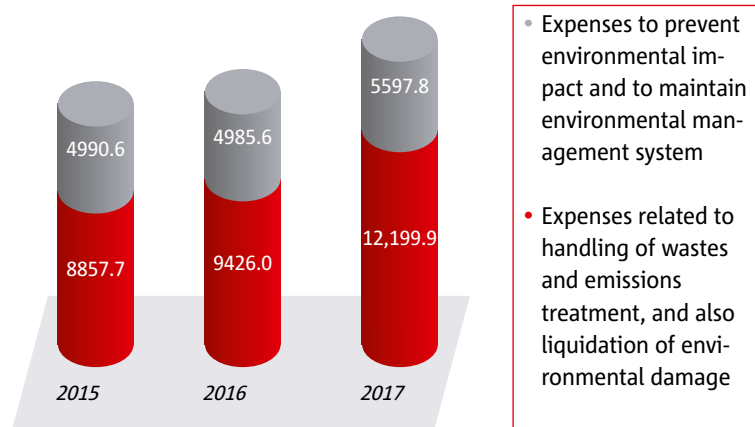
With the purpose to strengthen requirements of the nature conservation legislation and to ensure environmental safety at MTS facilities, in 2017 the Company developed the Policy of Environmental Safety and Protection, the fundamental principles of which were:

- 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 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 introduction of a unified environmental management system, to ensure compliance and performance

MTS PJSC expenses for environmental protection, K RUB.



Total expenses of MTS PJSC for environmental protection in 2017 increased by 23.5% and amounted to

**17.8** million RUB.

of the nature conservation legislation norms and requirements.

In accordance with the recommendations of the international standard ISO 26000, MTS implements a

complex of measures in the field of "Environment". The company strives to both attract employees' attention to the need for responsible treatment of nature and give the opportunity to help with real deeds.

## Environmental impact

MTS as a telecom provider, practically has no negative impact at environment from its business. Nevertheless, the Company considers environmental protection activities as an integral component of business and works in the area of environmental balance and stability maintenance.

### Energy

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

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.

We widely introduce new energy efficient equipment and implement energy efficiency programs, without

such actions, with account of network growth, power consumption would be considerably higher.

### Water

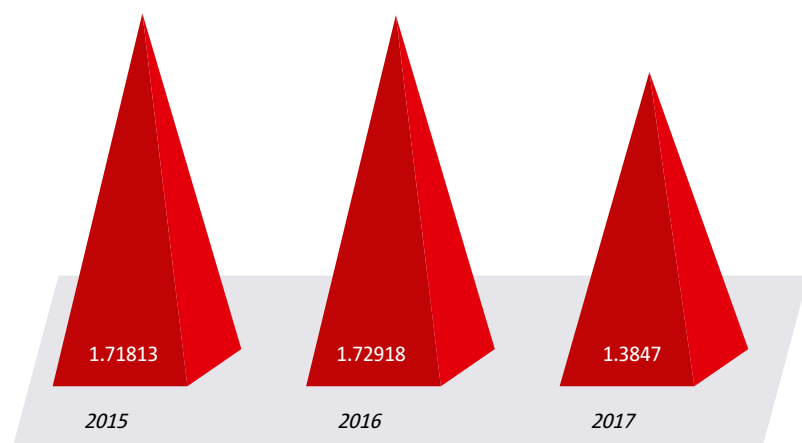
We strive to cut water consumption. In 2017 the water usage volume reduced by 100%.

The main source of water intake is a water services company. The largest part of used water is transferred for treatment to other organizations.

### Emissions

MTS PJSC does not have its own production facilities. However, for each unit of MTS PJSC with stationary sources of pollutant emissions (diesel generator plants, parking lots, 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.

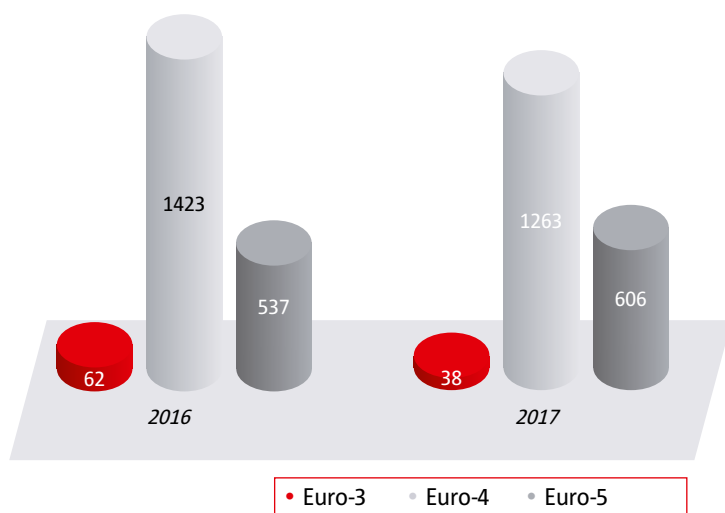
## Direct emissions of greenhouse gases of MTS PJSC, tons



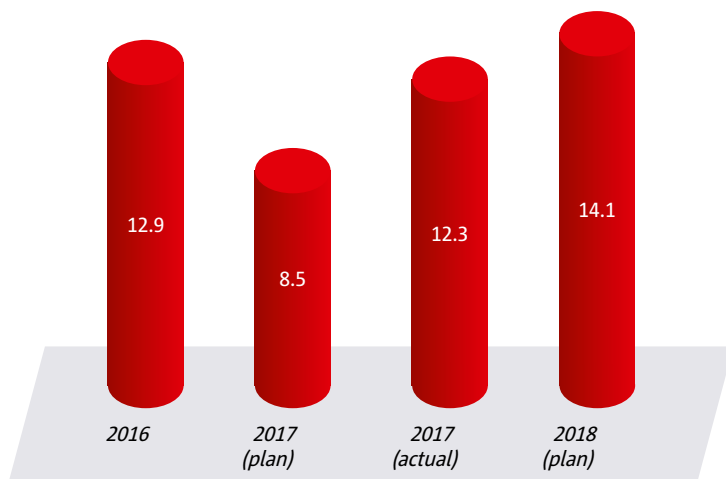
## Transport

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 2017 MTS PJSC used 1,907 vehicles (6% 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.

Environmental class of MTS PJSC vehicles as of December 31, 2017, pcs.



Quantity of sold SIM cards in environmental packaging, million 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 5,418.7 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.

Our main contractor — Ekoutilizatsiya LLC — has a relevant license for 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.

In 2017 9.95 t of IT equipment were recycled (PCs, monitors, notebooks, MFDs, etc.) with the contamination extent of ~70%, where 392,761.25 kg — ferrous metal scrap, 331,179.01 kg — non-ferrous metal scrap.

### Eco-packaging

Within implementation of the general strategy for development of environmentally safe business, in 2013 the decision was made to change to environmental packaging of SIM-cards. The first commercial supplies started in 2015, and since 2016 all MTS SIM-cards are sold only in environmental packaging. Starting from 2015, around 24 million SIM cards in environmental packaging have been sold.

## Key indicators of ecological impact of Company

Monetary value of sufficient fines and total number of non-financial sanctions imposed against MTS PJSC for non-compliance with environmental legislation and regulatory requirements

	2015	2016	2017
fines, thousand Rub.	100.0	20.0	100.00
Non-financial sanctions, pcs.	0.00	0.00	0.00

Size of energy consumption in MTS presence region, MIO kWh

	2015	2016	2017
Russia	937.0	1,052.5	1,140.7
Ukraine	255.4	264.5	!
Belarus	94.5	98.1	92.0
Armenia	33.8	34.4	34.7
Total MTS Group	1,349.8	1,477.0	

Information on volume of energy usage of MTS PJSC in 2017  
(in natural and monetary units)

Resource	Natural units	Unit of measure	Monetary units, Rub, exc VAT
	quantity		
Electricity	1,140,724,596.76	kWh	6,566,904,175.06
Thermal energy	48,985.57	Gcal	70,059,292.65
Water supply	223,772.16	Cu m	10,336,666.24
Gas supply	828,081.11	Cu m	4,902,834.49
Gasoline	3,904,983.90	Lts	128,746,328.70
Diesel oil	3,189,174.08	Lts	104,257,836.71

Water usage in MTS PJSC, thousand cu m

Water usage, thousand cu m	2015	2016	2017
Total:	349.984	272.707	2,286.496
Including:			
From natural sources	2.014	3.982	0.86
From water lines	447.97	268.725	1.222
Reuse water	0.00	0.00	2,254.95

### Used water disposal in MTS PJSC, thousand cu m

Total volume of used water disposal, thousand cu m	2015	2016	2017
Total:	345.812	267.88	2,287.933
Including:			
purified water	1.945	0.063	0.00
Transferred for purification to other companies (canalisation)	343.867	267.817	2,287.933

### Total mass of wastes distributed by ways of treatment, ton

	2015	2016	2017
Reuse	32.4	283.84	5.102
Multiple use	0.00	0.00	0
Composting	73.28	0.00	0
Wholesome components recovery, including energy recovery	0.412	0.00	21.753
Burning	15.1	13.15	28.592
Disposal on landfill site	6,417.954	6,129.8391	5,206.322
Storage on company area	0.00	7.00	0
Other ways	198.175	189.457	169.46

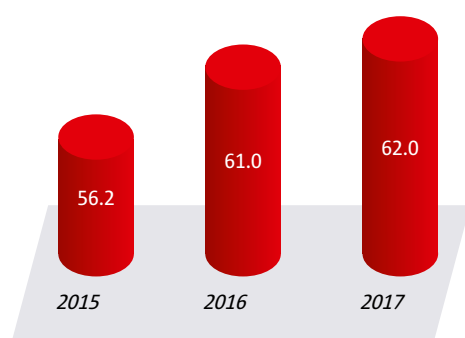
### Equipment salvage in MTS PJSC in 2017, kg

Region	Ferrous scrap	Non-ferrous scrap
Moscow region	28,719.9	3,527.2
Central region	231,678.0	111,242.0
Volga region	9,383.0	5,327.8
Far East	8,754.5	23,013.2
Siberia	48,188.1	89,211.0
South	39,447.0	11,868.5
Ural region	10,716.6	58,464.9
North-East	15,874.1	28,524.5
Total	392,761.3	331,179.0



# Key features of staff and indicators of human resources system

Total expenditures for MTS Group staff, bln RUB.

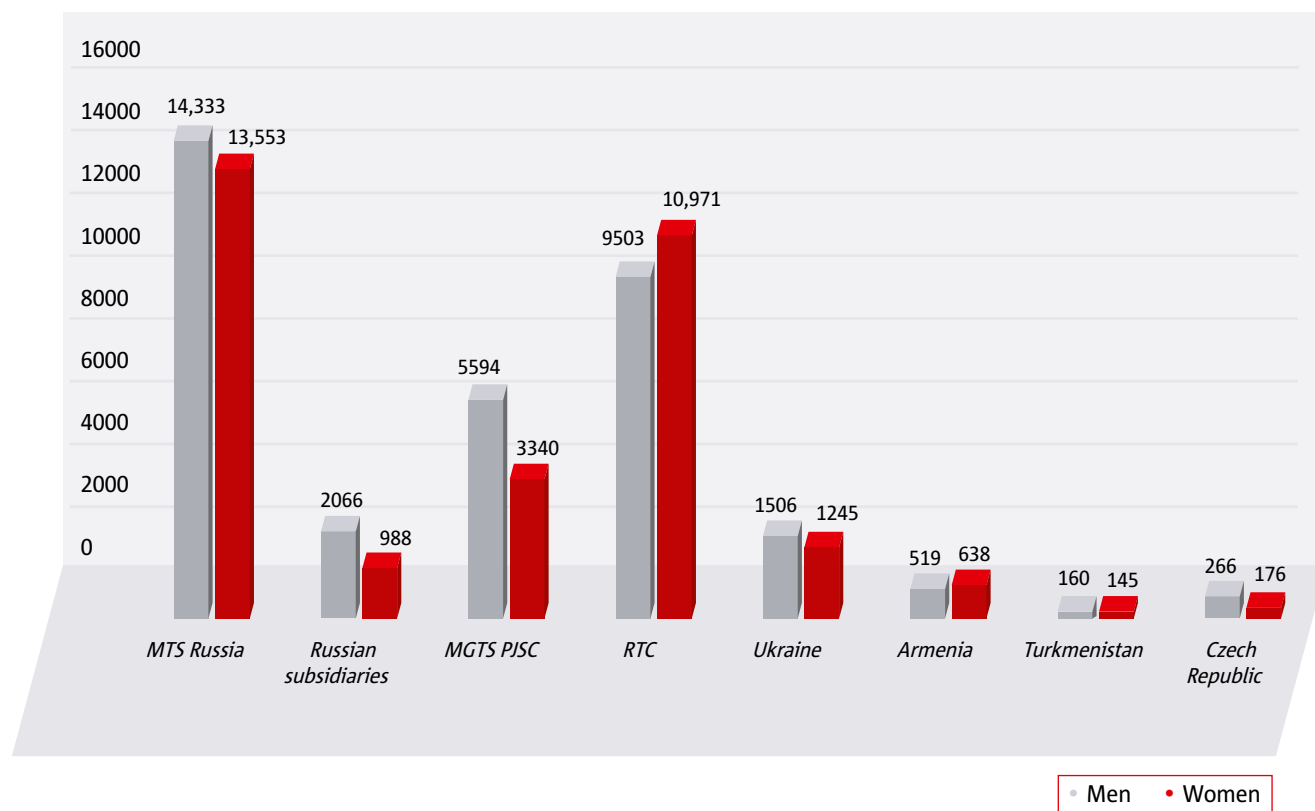


Total staff strength, person<sup>1</sup>

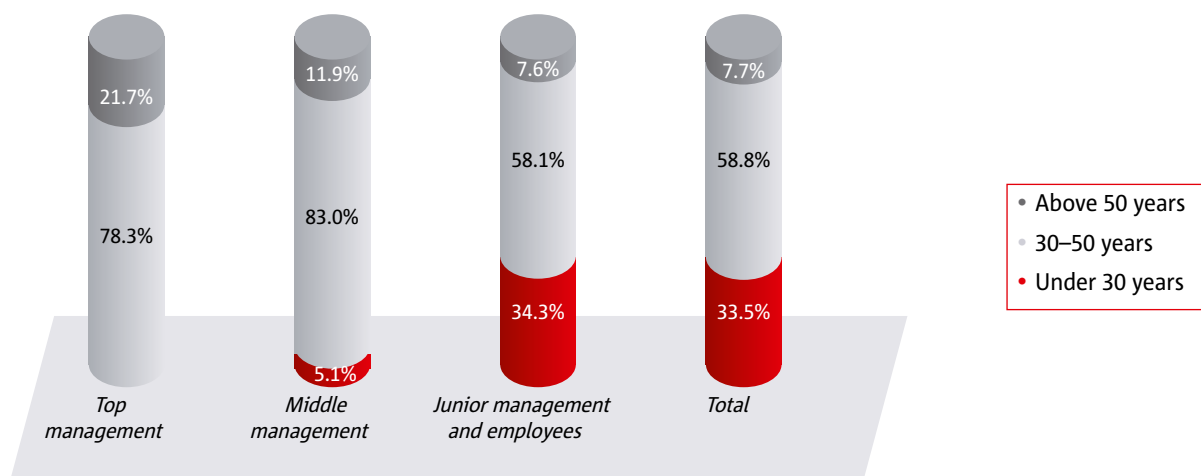
	2015	2016	2017
MTS Group	73,967	69,322	65,003
Including MTS PJSC	30,879	28,910	27,886

<sup>1</sup> Hereinafter, unless otherwise stated, number is provided without taking into account service agreement and outsourcing employees.

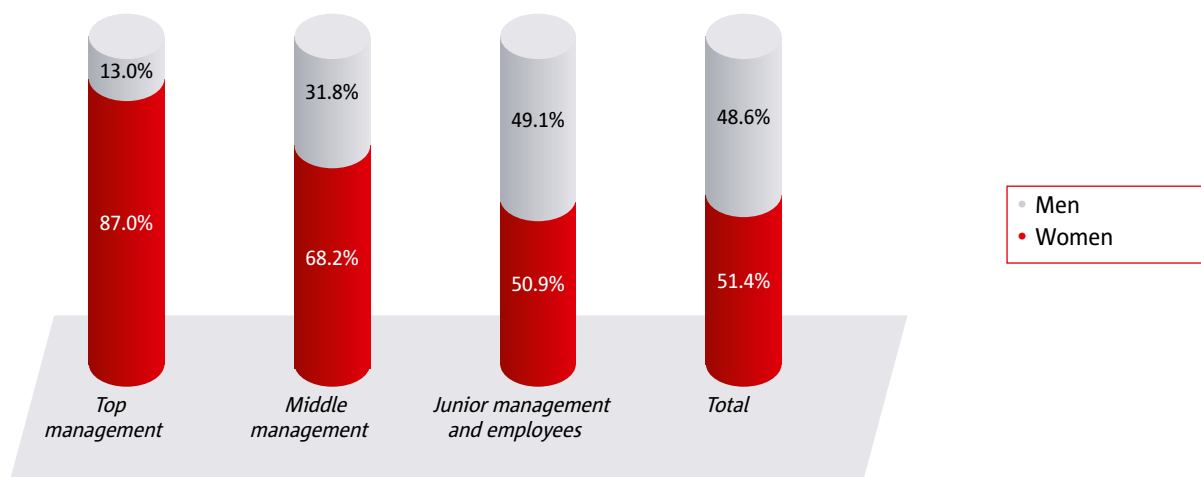
Number of MTS Group employees in 2017, person



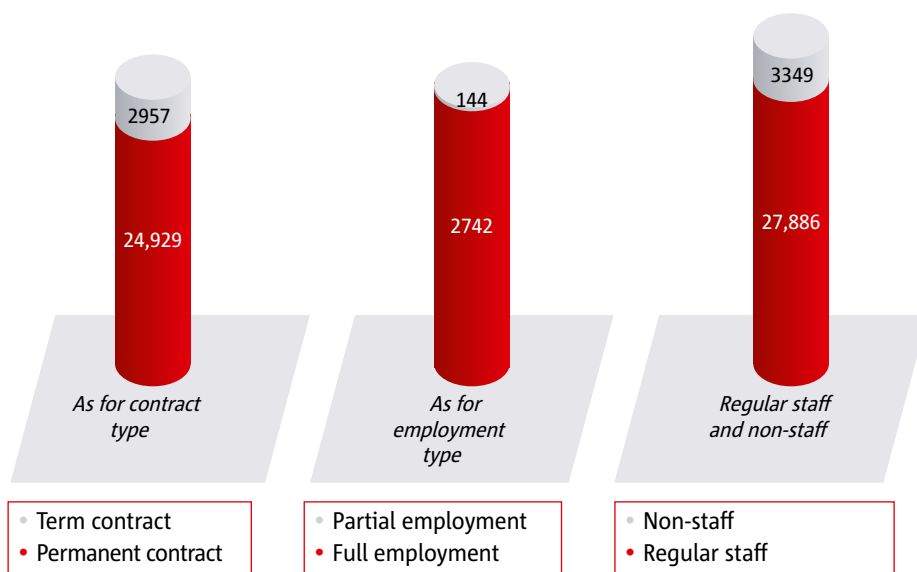
MTS PJSC staff age structure in 2017, %



MTS PJSC staff sex structure in 2017, %



MTS PJSC staff employment type structure in 2017, %



Number of employees recruited by MTS PGSC in 2017, person

Under 30 years		30-50 years		Above 50 years		Total	
M	F	M	F	M	F	M	F
1440	2142	806	1014	50	19	2296	3175

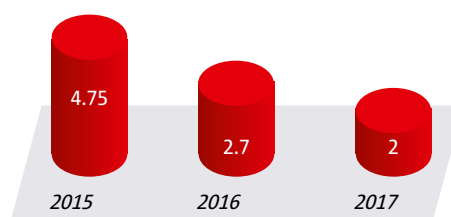
Turnover of MTS PJSC employees in 2017, %

Under 30 years		30-50 years		Above 50 years		Total	
M	F	M	F	M	F	M	F
39%	44%	12%	15%	5%	4%	20%	25%

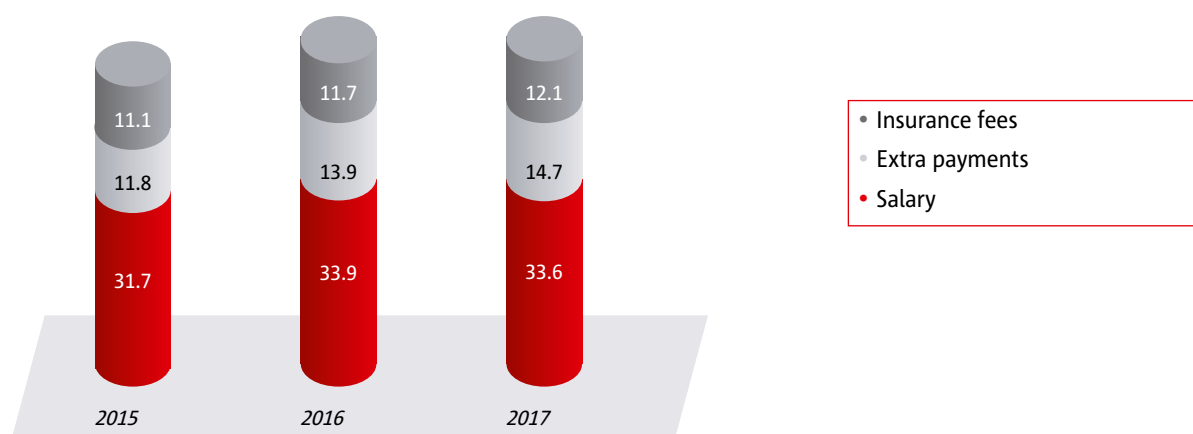
Number of trained MTS PJSC employees, persons/courses

Training type	2015	2016	2017
Internal (on-campus)	40,048	31,068	41,695
External (on-campus)	12,947	8,774	10,697
Distance training	155,924	168,408	187,912

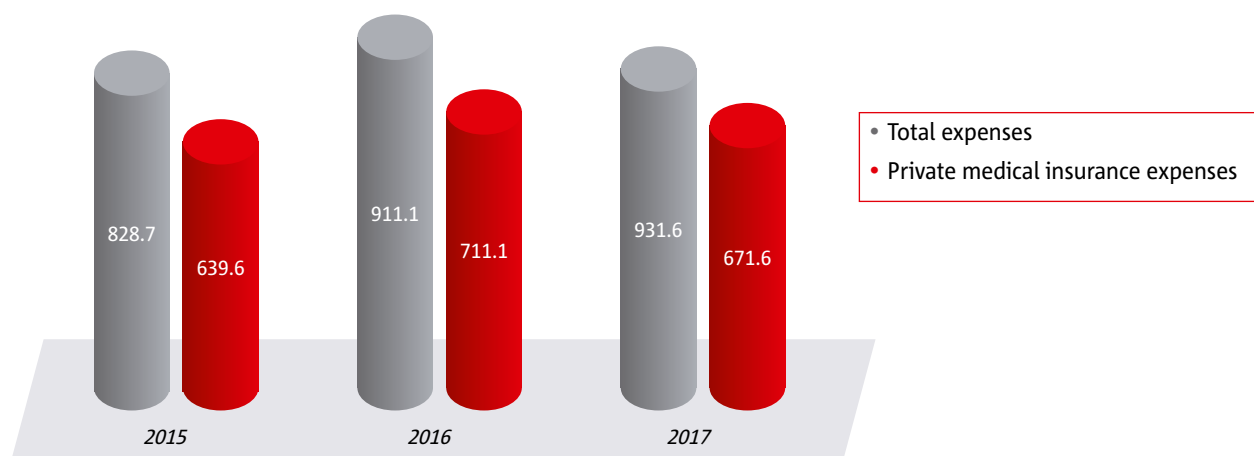
Number of training days per employee



MTS PJSC labor costs structure, mln RUB



Social security expenses for MTS PJSC staff, billion RUB



# 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 6599

**Correspondence address of MTS PJSC:** 5 Vorontsovskaya Str., Bld. 2, 109147, Moscow, Russian Federation

E-mail: [info@mts.ru](mailto:info@mts.ru)

Internet: [www.mtsgsm.com](http://www.mtsgsm.com)

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## Information on subdivision of shareholders and inves- tors 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 6552

Fax: +7 (495) 911 6551

E-mail: [shareholder@mts.ru](mailto:shareholder@mts.ru)

Investors service subdivision

Department for Corporate Finances and Investor Relations:

Joshua Tulgan (Director of the Department)

Phone: +7 (495) 223 2025

Fax: +7 (495) 911 6588

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

Address: 18 Stromynka Str., Bldg 5B, Moscow 107076

Phone: +7 (495) 926 8160

Fax: +7 (495) 926 8178

E-mail: [info@nrcreg.ru](mailto:info@nrcreg.ru)

Internet: <http://www.nrcreg.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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## 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.

