Annual Report

2016

MTS

PRE-APPROVED
by the resolution adopted by MTS PJSC Board of Directors
May 25, 2017, Minutes No.258

APPROVED
by Annual General Meeting of Shareholders of MTS PJSC
June 29, 2017, Minutes No.41

The path length of 24 years for MTS company was full of the most ambitious change. First and foremost, we ourselves are different now: a local mobile operator was transformed into multi-service. But now we are not resting on our laurels. The era of great events and achievements only starts!

Today MTS is focused on IT industry and digital environment. We have all the resources to continue to create digital products and services that impact society, culture and economy. We know how to change to a better tomorrow!

We turn changes into reality

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 their 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 their 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 opportunity.

You know you can!

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!

Sincerely,
Andrey Dubovskov,
MTS PJSC President

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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, 2016, unless other periods or dates are expressly indicated.

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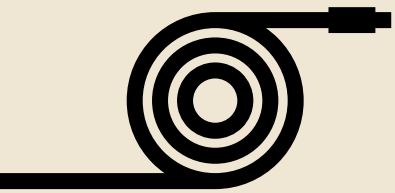
MTS Group Today

More than
139 thousand
base stations

Most advanced technologies:
2G 900/1800;
3G 900/1800/2100;
DC-HSDPA+;
LTE TDD&FDD 800, 1800, 2100, 2600, LTE+ CA.

More than
6 million
on-line orders per year

More than
6 thousand
retail stores of MTS

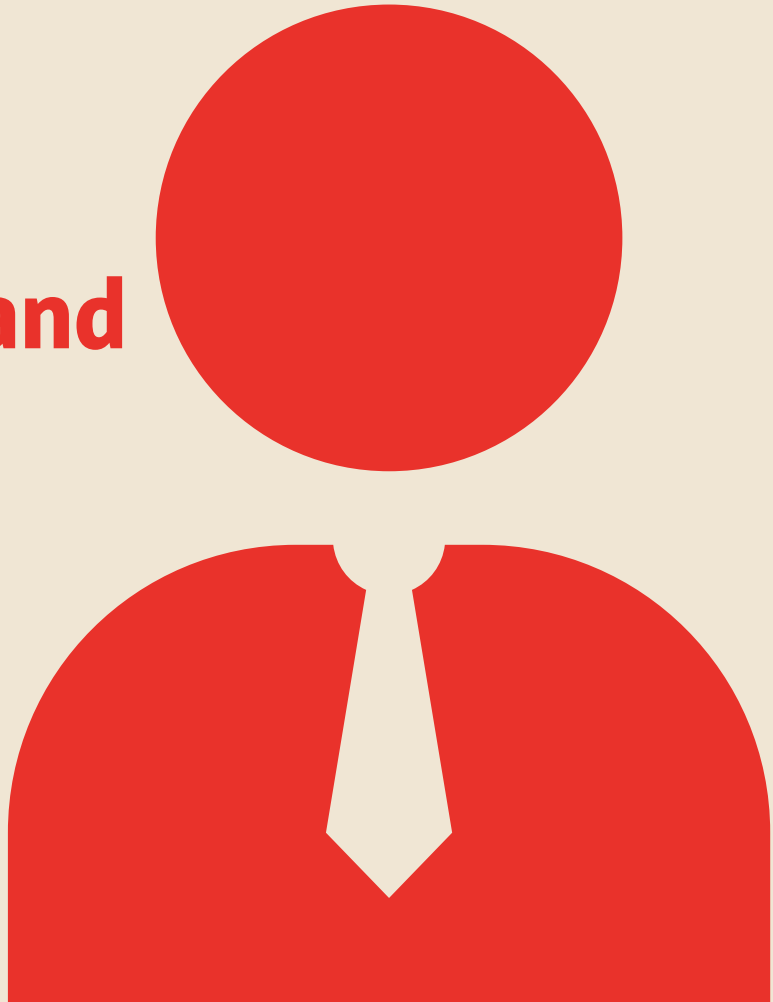


More than
213 thousand
km of fiber-optic lines

10 million
households in Russia covered
by fixed lines of MTS and
9 million
by broadband Internet

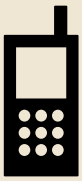
110
offices of MTS Bank
in Russia

70 thousand
employees



MTS

MTS business: the main and new digital directions



New activations
8.5 million quarterly

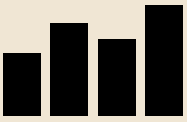
Fixed business
2.8 million Internet users.
2.7 million: Pay-TV services;

Satellite TV MTS
120 thousand users in 2016

Financial services
Penetration into the MTS base
more than 20%

More than

80,00

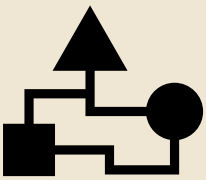


Big Data
536 million in 2016

OTT/Cloud
More than 7.3 million users of MTS apps

System integration
5.6 billion RUB in 2016

E-commerce
75 % in mobile e-commerce Big3
6.6 million Ozon customers



Internet of Things
~46% market share among Big3 operators

0,000

MTS subscribers in Russia

Main Outcomes for 2016

- Strong financial performance in 2016, despite the difficult macroeconomic situation and competition: in 2016 consolidated revenues of MTS Group grew by 2% over the year to 435.7 billion rubles;
- MTS, one of the largest tower infrastructure and antenna-mast structures operators in the Russian Federation has announced its entry into the tower infrastructure rental market. The Company has elaborated a strategy for development of its own telecommunications infrastructure, which also involves the creation of a new business for management of the existing tower infrastructure.
- MTS opened the Innovation Center, a unit that forms a new approach to research into promising areas of business development in the company and the subsequent launch of products and services. The work of the MTS Innovation Center includes iterative development of services, dynamic formation of requirements and their implementation by a team of experts of various profiles. Using this approach, the company expects to reduce the time to market of new products three to four times in the long term.
- MTS for the first time in the history of corporate governance in Russia launched online shareholder electronic voting service based on ComVoting.

Financial indicators

Consolidated income

435.7

billion RUB

OIBDA

169.3

billion RUB

OIBDA profitability

38.8%

Average net profit

48.5

billion RUB

Net income margin

11.1%

Operational indicators

Penetration of financial services into subscriber base

20%

A unique digital ecosystem has been created:
24 applications,
7.3 million monthly users

Cumulative effect from the use of Big data

536

million RUB

Revenues from system integration in 2016

5.6

billion RUB

Dividend payments in 2016
in the amount of 26.0 rubles per share
+ yeld of 0.4 rubles per share
as a part of redemption program

2016 Highlights

February 15, 2016

MTS, British Telecom, Deutsche Telekom, JIO Infocomm, Millicom, Orange, Rogers, TeliaSonera and TIM have created an alliance of operators to quickly and effectively promote products and services of innovative partner companies. The total potential client base of all alliance members covers about one billion people in more than 80 countries.

April 11, 2016

The Board of Directors of MTS approved new dividend policies. In accordance with the new dividend policy to apply in 2016–2018, the company set a target dividend yield of 25.0–26.0 rubles per one common share of MTS PJSC (50.0–52.0 rubles per ADR) during each calendar year. With that, the dividend policy assumes a minimum dividend payout of 20.0 rubles per share (40.0 rubles per one ADR) per year.

April 20, 2016

MTS and Samsung Electronics have started cooperation for the development of Samsung's branded retail stores in Russia. MTS will build and will manage a network of showrooms under the Samsung brand in several key regions of Russia.

June 3, 2016

MTS launched the Moscow's first fragment of the Fourth Generation network in Russia with LTE FDD1 frequency aggregation and LTE TDD2 in Moscow. Combination of these two standards in other regions of Russia will enable MTS to significantly improve LTE network coverage and increase the peak mobile Internet rates up to 187 Mbps.

June 15, 2016

MTS and Ericsson conducted the first successful testing of LTE-U (LTE-Unlicensed) mobile technology in Russia, demonstrating aggregation of two frequency bands — 10 MHz in the 1800 MHz bandwidth of the LTE standard and 20 MHz in the unlicensed 5 GHz bandwidth at Wi-Fi access points. During the tests data rate reached 200 Mbit/s.

June 15, 2016

MTS announced early redemption of outstanding Eurobonds issued for a total of $ 750 million with maturity in 2020, through its subsidiary company of Dega Retail Holding Limited. In June, MTS purchased its own Eurobonds with a par value of $ 267.44 million.

July 19, 2016

MTS paid the last seventh coupon and redeemed Series 05 ruble bonds. Thus MTS has completed repayment of seven-year bonds of Series 05 for the total amount of 15 billion rubles.

August 19, 2016

MTS announced reduction of the authorized capital to 199.84 million rubles (1,998,381,575 placed ordinary registered shares) from 206.64 million rubles (2,066,413,562 shares) according to the procedures for repayment of 3.29% of shares.

September 15, 2016

MTS and Nokia Corp. Successfully conducted testing of fifth generation (5G) mobile communication technology, and achieved a record for Russia's mobile data speed of 4.5 Gbit/s in 200 MHz band.

September 20, 2016

MTS acquired a 100% stake in the regional telecommunications operator JSC SMARTS-Yoshkar-Ola through its subsidiary Telecom Povolzhye LLC from the SMARTS Group for 41 million rubles, including the net debt of 27.7 million rubles.

October 31, 2016

In October and December 2016, the Board of Directors decided to hold modified two Dutch auctions for share buyback program for the total amount of up to 10 billion rubles. In October 2016 and January 2017, MTS repurchased 17,532,278 shares for the total amount of 5.0 billion rubles, and also acquired shares from its majority shareholder, JSFC Sistema, in proportion to its effective share of ownership, at the prices determined by the auction. In total, MTS spent 10 billion rubles on the acquisition of 35,121,665 shares.

November 3, 2016

MTS and Nokia Corp. announced successful completion of the Russia's first tests of the integrated Internet of Things (IoT) solution on MTS network.

November 22, 2016

MTS completed payment of dividends for the first half of 2016 in the amount of 24 billion rubles.

November 28, 2016

MTS and VimpelCom began sharing radio spectrum in 4G networks in the city of Cherepovets (Vologda region), increasing mobile data rates for their subscribers. This region was the first where for the first time in Russia two operators combined their frequency bands as a part of a large-scale project on joint construction and operation of LTE networks in more than 30 regions of the Russian Federation.

December 16, 2016

MTS began transition to the next, going right after 4G mobile communication standard — LTE-Advanced Pro (4.5G), launching the country's fastest fourth-generation sections on the existing network with peak data rates of up to 700 Mbps. High-speed commercial networks 4.5G from MTS have been already launched in Moscow, St. Petersburg, Ufa and Yakutsk.

Message of the Board Chairman

Dear shareholders,

First of all, I would like to note that the actual levels achieved by MTS in 2016 in terms of key performance indicators fully meet our expectations. I'll let the management of the Company to give details on this year's performance; for my part, I would like to highlight the fact that the goals that we faced last year were achieved in unfavorable macroeconomic context observed in the markets where we operate, which, however, was not something new and unexpected for us. The economic background that was perceived as a challenge three years ago has become a familiar environment for us, and we feel more than confident in it. Even in such difficult conditions, the Company successfully grows its revenues year after year, fulfills all tasks to achieve target profitability and meet all obligations to ensure profitability for shareholders, including, first of all, dividend payments.

Even in such difficult conditions, the Company successfully grows its revenues year after year, fulfills all tasks to achieve target profitability and meet all obligations to ensure profitability for shareholders, including, first of all, dividend payments.

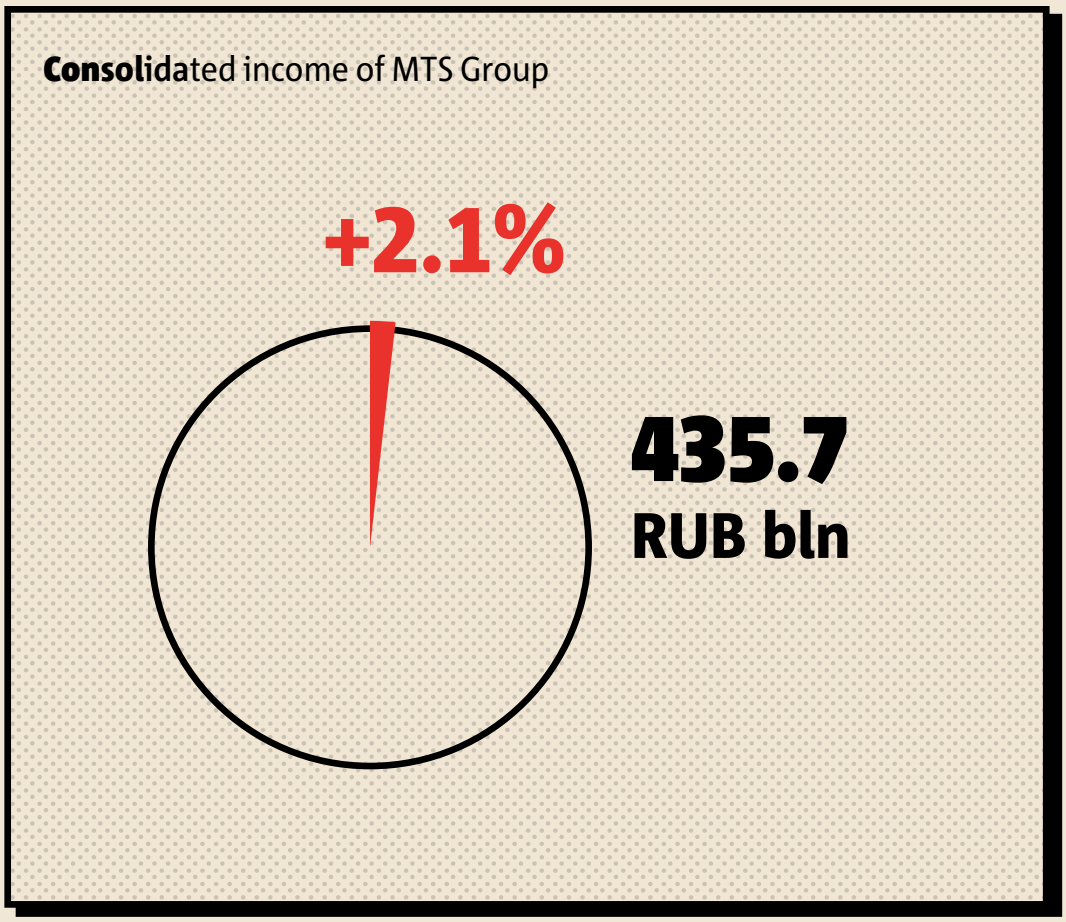
It should be noted that currently the telecommunications market in its traditional sense has practically no prospects for further growth. In the markets where we operate the fixed segment still has some potential for organic and inorganic growth, but here we are talking about the dynamics in couple of percents, which does not allow us to count on significant progress in the business where have operated for many years. That is why in 2014 one of the key strategic priorities for our company was Differentiation. Today we can say that all the tasks that we set ourselves in this area have been fulfilled, the goals have been achieved. MTS's competencies expanded into new areas such as financial services, Internet of Things, Big Data, system integration and a number of others. Over this period we have traveled from project teams to full-fledged divisions within our organizational structure, from pilot projects to robust products

which are used by millions of customers, from a near-zero commercial effect to billions in revenues. We are ready to build a new environment for our business on this foundation, and move further into the digital age.

In order to emphasize the desire not only to expand the scope of our activities, but also to change the general approach to the development of new products, solutions, to the very principles of work organization and company management, in 2016 the Board of Directors decided to transform the strategy "3D: Data. Differentiation. Dividends" into a new form: "3D: Data. Digital. Dividends". You will learn more about the elements of our new strategy in the section "Our Strategy". I also would like to mention that it is based on the aspiration to realize the potential of our company during Digital Transformation, which is a key task for us in the near future.

Another important decision made by the Board of Directors of MTS in 2016 was the approval of the dividend policy for 2016–2018. Without going too much into details that will be revealed below, I emphasize that we continue the good tradition laid down in the previous 3 years: namely, ensuring stable, guaranteed, high level of return on investment for our shareholders.

Before I give the floor to MTS President Andrey Dubovskov, I would like to thank all the members of the Board of Directors for their hard and fruitful work



during the year. The hours of joint discussion of key issues for the company, free and open exchange of opinions, high professionalism and experience of each Board member were embodied in the most important strategic and tactical decisions. Details on the activities of the Board of Directors will be discussed in the “Corporate Governance” section; I also note that this year the Board has traditionally demonstrated the high level of execution of its key functions: ensuring information openness and transparency, protecting shareholders’ rights, controlling management activities and collegial way of making major management decisions.

Chairman of the Board of Directors of MTS PJSC
Ron Sommer

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Message of the President

Dear shareholders,

We completed the year 2016 successfully, despite the crisis events in the economy and increased competition. MTS Group built modern communication networks, introduced innovative technologies and services, mastered new areas, and increased efficiency and attractiveness of business. Just as before, we are maintaining our leadership positions in Russia, working for the benefit of our customers, employees and shareholders, building harmonious relations with all stakeholders in the markets where we operate.

Last year MTS Group revenue grew by 2.1% to 435.7 billion rubles, outstripping the dynamics of key markets due to increased consumption of data services in the main regions where we operate and sales of mobile devices in Russia, and the adjusted OIBDA decreased slightly to 169.3 billion rubles, given the macroeconomic instability and tightening competition.

In 2016 MTS remained the leader in the mobile market in Russia, which is the key market for the Group and generates 90% of its income, both in terms of absolute revenue, OIBDA, OIBDA margin, subscriber number and subscriber growth, increasing its breakaway by revenue and OIBDA from other players in the market year to year.

In 2016 MTS remained the leader in the mobile market in Russia, which is the key market for the Group and generates 90% of its income, both in terms of absolute revenue (103.8 billion rubles), OIBDA (41.0 billion rubles), OIBDA margin (39.6%), subscriber number (80 million) and subscriber growth (+3.5%), increasing its breakaway by revenue and OIBDA from other players in the market year to year. In the fourth quarter of 2016, MTS turned out to be the only Big Three operator to demonstrate growth in total revenue (+1.2%) and the smallest OIBDA decrease (-0.2%) in annual terms.

In Ukraine, Belarus, Armenia and Turkmenistan, the business of MTS was complementary to market volatility, but the company's market positions in these countries remained stable in general.

As a result, at the end of 2016 MTS was the leader in terms of capitalization in all markets where the company operates.

This performance is an evidence of the successful completion of the first stage of "3D" Strategy during 2014–2016. Since 2017, the strategy "Data. Differentiation. Dividends" has been transformed into updated strategy: "Data. Digitalisation. Dividends" with a focus on active promotion of digital services.

As a result, at the end of 2016 MTS was the leader in terms of capitalization in all markets where the company operates.

Data

In 2016, the company continued data transformation, actively investing in the construction of mobile data networks in all 83 regions of Russia. The company increased penetration of smartphones and data services in the subscriber base, offering high-quality access to high-speed mobile Internet and attractive tariff bundles.

During the past year MTS commissioned about 10,000 base stations, including about 6,300 LTE stations, bringing the total number of base stations in Russia to 139,600. We started using the frequency resource LTE-TDD purchased at the auction, and were the first company in Russia to start shared operation of frequency spectrum with another telecom operator, and in some regions launched fragments of the country's fastest network of the next standard: LTE-Advanced Pro (4.5G).

Continuing to invest in the development of infrastructure, we see the possibility of gradual reduction of our capital costs while maintaining the quality of the services and increasing cash flow.

By the end of 2016, MTS completed the main stage of building its own transport fiber-optic network, expanding it to 213 thousand kilometers, and also completed expansion of its own retail network with over 6,000 points of sales.

Thanks to the development of data networks and own distribution channels, penetration of mobile Internet to the subscriber base at the end of 2016 was 49%, smartphone penetration was more than 54%, and LTE traffic in the total data traffic in our network grew to 26% in 2016 from 17% in 2015.

MTS continued to increase its growth rates in another important market — Ukraine, launching and expanding 3G networks in all major localities, providing 54% of the country's population with access to data services. As a result, we observe exponential growth in data consumption in Ukraine.

Continuing to invest in the development of infrastructure, we see the possibility of gradual reduction of our capital costs while maintaining the quality of the services and increasing cash flow. Completion of the main stage of network construction enabled us to reduce capital expenditures in 2016 by 13.1% to 83.6billion rubles.

From differentiation to digitalisation

Today, we understand differentiation not only as expanding our presence in other areas, but also business digitalization by actively implementing IT in products, services, and operations.

After acquisition of NVision Group, MTS's business in system integration market demonstrated promising results in 2016, opening prospects for turning MTS into a major integrated IT solutions and IoT-services supplier for the corporate segment. We managed to offer new IT-products, continue the development of Big Data projects, and strengthen our presence in the cloud and M2M-solutions market. Thus, in the fourth quarter of 2016, sales of NVision Group software grew by 17.7% quarter-on-quarter, and by the end of 2016 the revenue from system integration amounted to 5.6 billion rubles, which affected the dynamics of MTS's total revenue. We strengthened our leadership in the Russian IoT market: by the end of 2016 the company served 4.4 million SIM cards, which accounted for 46% of the M2M market[1].

Today, we understand differentiation not only as expanding our presence in other areas, but also business digitalization by actively implementing IT in products, services, and operations.

In addition to business development, acquisition of a system integrator enables us to accelerate introduction of digital technologies in our operations, including customer service, development of IT systems and innovative corporate culture. For example, just the effect from using Big Data in internal business processes amounted to more than 530 million rubles in 2016.

Strengthened expertise of MTS in the IT field expands OTT, IP and cloud services digital ecosystem: by the end of 2016, over 7.3 million subscribers were actively using 24 branded applications of MTS. We have made serious progress in implementing GSMA Network 2020 program, offering subscribers IP communications services: along with the further development of IP-messaging service and MTS Connect chat service we launched Wi-Fi Calling (Voice over Wi-Fi), which allows subscribers to use voice MTS communication services in any available Wi-Fi network.

In 2016, MTS realized the main internal synergies with MTS-Bank by upgrading its IT platform, which enabled us to make a quantum leap and to increase

[1] According to AC&M research agency.

penetration of financial services to the subscriber base to 20% or 14.8 million people, as well as launch “MTS Money Wallet” application, which will provide “one-click “access to the entire ecosystem of MTS digital financial services.

We strengthened our presence in the e-commerce market through the stake in OZON Holdings, as well as through improvement of sales through our own online store, shop.mts.ru, whose share in the total retail sales of MTS amounted to 10.4% or 4.4 billion rubles.

We entered the tower infrastructure rental market and created a new business for management of the existing infrastructure and further monetization of assets, offering at the first stage more than 5,500 towers and antenna support structures in various regions of Russia.

Last year, we tested the revolutionary 5G and IoT technologies with our key vendors, and also opened the Innovation Center, a unit engaged in development of a new approach to researching prospective business areas and subsequent launch of products and services.

Dividends

We continued our policy aimed at increasing the profitability for shareholders. The total amount of dividends paid per share in the 2016 calendar year was 26.0 rubles (52.0 rubles per ADR). In June 2016, MTS paid dividends in the amount of 14.01 rubles per one registered ordinary share of MTS (28.02 rubles per ADR) or a total of 28.0 billion rubles based on the financial performance in 2015. In the fourth quarter, MTS paid dividends for the first half of 2016 in the amount of 11.99 rubles per one ordinary registered share (23.98 rubles per ADR) or 23.96 billion rubles in total.

We continued our policy aimed at increasing the profitability for shareholders. **The total amount** of dividends paid per share in the 2016 calendar year was 26.0 rubles (52.0 rubles per ADR).

In April 2016, the Board of Directors approved a new dividend policy of the company, which will apply in 2016–2018. In line with the new policy, the company set a target dividend yield at the level of 25.0–26.0 rubles per ordinary share of MTS (50.0–52.0 rubles per ADR) for each calendar year. With that, the dividend policy provides for a minimum dividend payout of MTS of 20.0 rubles per share (40.0 rubles per one ADR) per year. Just as before, the dividends will be paid in two installments during the calendar year. At the same time, MTS is moving to more even distribution of dividend payments during the year.

To increase the return on earnings per share in April 2016, we announced that we will use up to 30 billion rubles for share buyback program within three years. For this purpose, MTS acquired 17.5 million of its own shares for a total of about 5.0 billion rubles at two auctions in the fourth quarter of 2016 and the first quarter of 2017. Simultaneously, MTS entered into a binding agreement with JSFC Sistema to acquire a stake in proportion to the share of the principal shareholder at arm's length prices. In total, MTS acquired 35.1 million shares worth 10.0 billion rubles.

Forecast for 2017 **and update of** the strategy

Taking into account the uncertain macroeconomic situation, volatility of exchange rates in the markets where we operate, increased competition in retail segment and in tariff policy, dynamics of revenue from services in Russia, and potential growth in the consumption of high-margin services, including roaming services, we prepared a fairly wide Group's revenue and adjusted OIBDA estimate — from –2% to +2%. We hope that the growth of MTS's revenue in Russia by 0.3% YoY in the fourth quarter of 2016 will continue as a sign of the economy's emerging recovery from the recession and revival of the demand.

Reduced capital expenditure of 80 billion rubles in 2017, as well as possibility of further reduction of CapEx in 2018–2019 due to completion of large-scale construction projects of optical networks, the main stage of aggressive deployment of LTE network in Russia and 3G networks in Ukraine, will have positive impact on cash flow. In the next two to three years, we will continue to optimize the costs of building and operating infrastructure. MTS employs shared use of infrastructure networks, and from this year starts projects on sharing the frequency spectrum in more than 30 regions of Russia.

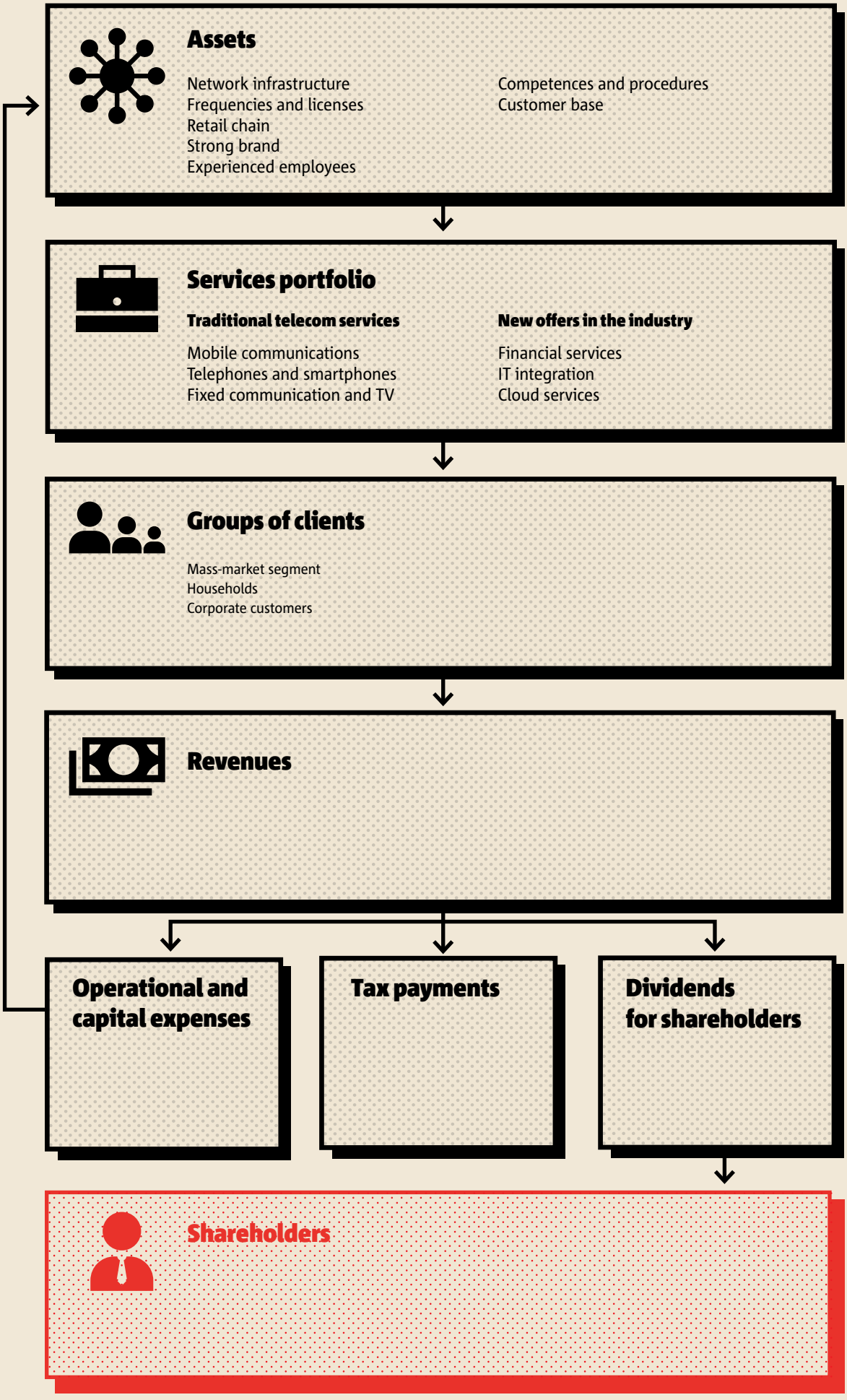
This does not mean that we stop there. After the aggressive construction of 4G networks the company has to invest in digitization of internal processes and the development of new digital products to meet the onset of the 5G era. Thus, we are betting on digitalisation and implementation of evolutionary 5G solutions in the Russian market.

In 2017 we changed one component in the updated "3D" strategy, to be adjusted annually, replacing "differentiation" with "digitalisation". In order not to turn the Company into a "pipe", we must fill this "pipe" with content, i.e. digital services developed independently or in cooperation with partners. In this way we'll be able to make a significant contribution to economic growth, introduction of innovations and improvement of the quality of life of more than 100 million subscribers in Russia and the countries where we operate.

President of MTS PJSC
A.A. Dubovskov

MTS Business Model: **the** Source **of** Your Dividends

MTS as a totality of interrelated assets creates and promotes both traditional telecom services and new offers in the industry to various groups of clients for a fee that combines into MTS revenues used for operational and capital expenses, tax payments and dividends for shareholders.


Assets
Network infrastructure
Frequencies and licenses
Retail chain
Strong brand
Experienced employees
Competences and procedures
Customer base
Services portfolio
Traditional telecom services
Mobile communications
Telephones and smartphones
Fixed communication and TV
New offers in the industry
Financial services
IT integration
Cloud services
Groups of clients
Mass-market segment
Households
Corporate customers
Revenues
Operational and capital expenses
Tax payments
Dividends for shareholders
Shareholders

Our Markets

MTS Group Key Markets

Mobile communications

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

Mobile Internet services

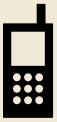
Best online store among Russian operators

Pay TV

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

Fixed-line communication

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



Telephones and smartphones

The largest retailer of non-food products

Financial services

The largest provider of financial services among Russian operators

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 (MTS Ukraine), the Republic of Armenia (K-Telecom CJSC), the Republic of Turkmenistan (MTS-Turkmenistan ES), 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 mobile communication market in Russia and the CIS countries was developing very rapidly driven by the steady decline in the price level both for the services of mobile operators and the subscriber equipment. In resulted in the increase in mobile communication penetration in the broadening population segments.

In Russia mobile communication services are rendered by four federal operators: MTS PJSC, MegaFon PJSC, VimpelCom PJSC 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: GSM, NMT 450 and CDMA–1x, UMTS (3G).

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.

The trend of slowing down the growth of the mobile operators' subscriber base first appeared in 2005 and continued in the following years. This can be attributed to the gradual market saturation and operators' focus on the quality of the subscriber base. Marketing 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. On December 1, 2013, the law on keeping a number when changing mobile communication operator (MNP) came into force. At the moment, introduction of the possibility to keep the number when switching to another operator has not had a significant impact on the market share of mobile operators in the Russian mobile communication market.

At year-end 2016, the level of mobile penetration exceeds 175% securing the position of Russia among the most advanced telecommunication markets in the world. Being one of the leading players in the telecommunication market of Russia and the CIS, MTS aspires to use the existing growth potential for all of the most dynamic industry segments.

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. MTS offers its customers tariff offers at fair prices, as well as informs them of any changes in connection terms and data plans regularly and timely. Data plan development at MTS is also carried out taking into account regional features, which allows launching offers adapted to each region in the market.

MTS 3G network operates in all federal districts of Russia, Armenia, Belarus, Turkmenistan and Ukraine. LTE networks were commercially launched in all regions of Russia (except for the Republic of Crimea). MTS Group was the first Russian communication operator to provide an opportunity to use LTE networks in international roaming.

Due to market saturation, the growth of data income in Russia has slowed. The number of regular data users at the end of the year amounted to 49% of the subscriber base, while the consumption of data traffic grew by 50% compared to 2015. LTE penetration among mobile Internet users doubled in comparison with 2015.

Ukraine

At year-end 2016, the number of subscribers in Ukraine (MTS Ukraine PrJSC) amounted to 20.9 million (including CDMA) or 37.3% of the market. Penetration of mobile services is 133,2%, according to our estimates. The main competitors include Kyivstar, a subsidiary of VimpelCom Ltd. and Lifecell, a subsidiary of Turkcell.

Launch of a 3G network and a partnership program with Vodafon gave a new impetus to the market development. Enhanced cooperation allows MTS

customers in Ukraine to access the best international and roaming tariffs, as well as provides additional benefits for the mass and corporate market.

According to CATI Research in Q4.2016, respondents noted MTS Ukraine PrJSC has the most favorable tariffs for calls abroad and while roaming. Besides, the operator is considered the best in terms of the ratio of the price and quality of the mobile Internet.

Other Markets

At year-end 2016, the number of subscribers of MTS subsidiaries and affiliates in the CIS countries amounted to: Turkmenistan (MTS-Turkmenistan ES) — 1.7 million, the Republic of Armenia (K-Telecom CJSC) — 2.1 million, the Republic of Belarus (MTS JLLC, not consolidated in the MTS Group financial statements) — 5.3 million subscribers.

Cellular communication market in these countries is characterised by high penetration of over 100%.

Looking into the Future

Global trends in the telecommunications sector

The telecommunications industry continues to search for new areas for development: the issues of revenue drop in most mature markets, as well as the outstripping growth of costs due to the growth of data traffic still have not been properly addressed globally.

On the one hand, operators are waiting for commercial launch of new technologies, such as special IoT-networks (NB-IoT and LTE-M) in the short term, and 5G in the medium-term. These innovations are believed to create a new wave of demand for mobile operators, in fact, without significant efforts on the part of operators (only financial expenditures will be required). Although operators apparently will not be able to get the entire "piece" of this new "pie" (some will traditionally go to network equipment vendors, some to faster companies from other business areas and just to start-ups who will promote the development and launch of new services based on these technologies), the increase in the number of activations (and respective activation fees) is virtually inevitable. This new wave of growth can include m/e-Health, various Smart City and Smart House apps, pilotless cars, VR \ AR, etc. In addition, introduction of various advanced technologies for access networks, such as SDN or NFV, may help ease the burden of operators' costs in the future when deploying networks of new standards.

On the other hand, a part of the industry (including operators) takes more active stance, intending to improve its performance and prospects by entering new adjacent markets, or even markets that do not seem to be adjacent but offering additional revenue, at least in the long run, synergies, increased customer loyalty, or any combination of those to eventually bring the company into a totally different level of growth dynamics. It can be done in different ways, either just by acquisition of an existing player (for example, a significant Internet company or content producer in the local market), or by upfront investments in start-ups (whether through a venture fund or directly), or by

trying to create something new inside the company itself. It seems likely that efforts of this kind will not only continue in the future, but will also intensify. Target areas considered for this kind of investments can include financial services, advertising market, mobile apps as well as all those areas listed above, implying that the telecom operator searching for a business to invest in does not want to be just an IoT or a 5G “pipe “, but will seek ways to earn on provision of integrated services in any new industry, possibly which has not been yet formed.

Thus, in summary, two key trends can be distinguished. The first, quite predictable in its success, is the preparation and subsequent commercial launch of networks of new standards, as well as the introduction of new network technologies. In this case the goal of the operators is the revenue growth through new activations and reduction in costs for the construction and maintenance of networks. The second trend, where its success for the industry, and even certainty of its goals are much less clear, lies in attempts by telecom companies to transform themselves into something new, to enter new markets or, ideally, even to create them. The ultimate goals may be different in this case, but in general they are implicitly connected by the desire of traditional players to regain the former glory of fast-growing and innovative companies.

Russia and Ukraine markets development forecast for 2017 and medium-term prospect

Russia

The overall macroeconomic situation in Russia, being our main market, remains moderately difficult. In 2016 there was a negative trend in a number of key indicators, such as GDP, real income of the population and retail trade turnover. Industrial production index showed negligible growth on the back of the raw materials industry. A slowdown in inflation to 5.4% was observed (according to the consumer price index for goods and services, data from the State Statistics Committee of the Russian Federation). Our expectations regarding the macroeconomic parameters for the next 2–3 years remain moderately conservative; we are ready to operate in a complex environment, pay special attention to control over expenses and carefully approach investments. It should be noted that despite the negative economic background, last year we managed to achieve revenue growth of 2.1% in aggregate for MTS Group.

We approach further development of our Company and telecommunications industry in general from the perspective of the global movement towards digital future. As already mentioned above, this trend is associated with a large number of uncertainties; however, we have formed a common strategic vision of how we will advance in this direction.

Currently, in our opinion, voice, messaging and data services are the basic good, the need for which is not just reduced, but even grows from year to year, both in the mass and in the corporate segment. Therefore, even negative macroeconomic trends will not have sharp negative impact on consumption (except for such areas as roaming and international communication). However, the service structure becomes more complex and goes beyond simple traffic generation to the level of final products and technological solutions that have particular value for individual consumers and corporate clients. Therefore, “voice + data” set is now perceived as a basic service. Despite the prospect of further multiple quantitative growth of this segment, its potential has actually been exhausted in terms of increasing revenue.

The area which is most likely to contain future growth points is represented by a vast complex of solutions based on the concept of deep penetration of digital products and devices into all spheres of human life, which are using data channels as a communication environment at the device and end user level. Our vision of prospects in this area, which we call Digital, is more fully reflected in the further sections dedicated to our strategy.

It should be noted that the efforts of client equipment vendors and operators to promote data-generating devices have led to their widespread distribution, so the task of their active bringing into market is not so pressing for operators. The focus shifts to the development, production and distribution of equipment from the “Internet of Things” universe, which, together with technology platforms and end-user apps will form a significant part of the client experience in the future. It is important to note that the market potential of such solutions in quantitative terms can exceed the potential of the traditional subscriber devices and applications market many times.

In connection with the above, we have identified a number of areas where efforts shall be applied, that will have paramount importance for further development of mobile operators in the near future:

- Formation of transmission medium and its continuous maintenance at competitive level: backbone channels, 3G and LTE networks (and more advanced technologies in the future), as well as fixed data networks and TV products
- Correct price positioning of the base service through Voice & Data tariffs
- Active development of own digital products and projects, both existing and promising ones
- Development of internal Digital-infrastructure to become the basis for implementing projects of partner companies

It is important to note that the fixed line market continues to be a significant source of revenue for us, and we continue to hold significant position on it. In addition, despite the gradual market saturation and adjustment of price levels, we expect that in the next year or two this segment will retain a small positive dynamics of several percent in the aggregate.

During 2016, we saw an increase in competitive pressure in the retail market. In order to achieve the target market share, we made efforts to increase our retail network, and already by the results of Q3 2016 it reached 6 thousand stores. In the future we plan to react flexibly to changes in market conditions and adjust our own presence in the sales market in such a way as to retain the target leading position.

Given the stagnation of the telecommunications market (in terms of basic services), difficult macroeconomic environment and the high level of uncertainty of the further development prospects, we also expect that competition in the future will shift from sales, price pressures and investment races to rivalry at the level of high-tech Digital solutions, which will have a positive impact on the industry in general.

Ukraine

The last three years were extremely difficult for the Ukrainian economy, being characterized by a significant deterioration of macroeconomic conditions, which adversely affected the purchasing power in the mass and corporate segments. Nevertheless, our efforts aimed at the speedy development of 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 2016 at above 11%.

Our expectations regarding the dynamics of the main macroeconomic indicators in Ukraine can be characterized as cautiously optimistic. In the short and medium term, we hope for gradual GDP growth, decline in inflation rate and depreciation of the national currency.

Among the sectoral factors that will have subsequent positive impact on the operators' income, the most important one is the further development of 3G networks, continued growth in penetration of smartphones and other data-generating devices and increased data services consumption. In our opinion, over the next 2–3 years the growth of the Ukrainian mobile communication market may exceed 20% in local currency, and we intend to actively participate in the development of this potential.

We are closely monitoring the situation regarding possible tenders for 4G licenses, as well as regulation of the use of frequency resources and approval of technological neutrality principle for LTE networks, but there is no full certainty on these issues. The launch of LTE networks is inevitable and is a matter of time; therefore, for our part we are doing all the necessary preparations 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.

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, preparation for LTE
- 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

During 2016, 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

Today we live in a world where a company with a dozen employees is quite capable of turning an established market upside down. So it was with Airbnb, Uber and Facebook already in the middle of 2000s. A little later, a startup wave came to Russia. Now there're virtually just a couple of industries that are able to continue to operate successfully not paying attention to this wave. The others understand: in order to stay afloat, we need to learn how to combine the advantages of a large established business with speed, flexibility, and willingness to change of a startup.

We also understand this. MTS is the leader in the telecommunications market. It may seem that this is just one of those industries that will stand against any storm, and certainly no startup can threaten our business. However, we have been working for a long time not only as a telecom operator. In particular, MTS is developing in IT market; we have more than 20 own mobile apps, we offer cloud services, IoT-solutions. IT market dictates much higher rate of adaptation to changes. And the competition here is quite different. To be the first in this market, we decided to take the best that we have, and supplement this with what can be considered as the main competitive advantages of startups. As a result, at the end of 2016, MTS announced the creation of its own Innovation Center. The team of the center is engaged in the search and development of the areas which seem to be most promising for the business of MTS.

Advantages of a big business

A big business has developed infrastructure, a large group of loyal customers, experience and expertise based on understanding the needs of customers. But these valuable assets always come with an increased level of responsibility, often quenching many daring ideas. We read about the MVP (minimum viable product), offered by startups to their customers, and think that this approach is not for us. Indeed, can we offer something minimally viable to hundreds of millions of customers ?! We know that small companies respond to every

customer feedback and quickly adjust the product. But how can we hear each of the hundred million customers? “No, it’s not for us either,” we could say. But we did not say so. We analyzed the roots of this opinion, and realized that this was a delusion.

Disadvantages of a big business?

BestProduct Concept – does it sound familiar? Approval with a dozen of coworkers and managers changes the project beyond recognition, and these adjustments and improvements take months and sometimes years. As a result, there are a lot of counterparts of the “best product” in the market when it’s finally launched, and it does not seem to be the best in the world for our clients, because their expectations have already changed significantly. As a result, many large companies lack: speed of decision-making, ability to take responsibility even if you are not a leader, and willingness to hear the customers and to create a product based on their wishes.

What if I find it?

Focus on innovations, customer orientation and speed of decision-making have always been and remain the key principles of the work of every MTS employee. Therefore, in order to become even more flexible and fast, we needed only a few small steps. The process of reducing vertical steps in the Company’s structure has been going on for a long time, and nobody here has to deal with a dozen of required approvals. But we have set ourselves an ambitious task: to reduce the number of approvals to just two, and the time for approval to an hour or two, even if it is the most sensitive issue: budget allocation. And now we managed to implement it in our own Innovation Center. The Center is engaged in the creation, launching and, importantly, further development of key projects. It’s not an R&D center, it’s something like a startup under the wing of a large company. So what steps have we taken?

Areas of activity of the Innovation Center

Entering new business areas

MTS entering new business areas.

Areas with significant growth potential.

Reach income level of 10 billion rubles per year in 4–5 years

Creating dedicated corporate teams

Small dedicated teams with team leader.

Startups within MTS with completely no bureaucracy.

100 % focus on one product

Launch of major in-house infrastructural digital products

Internal commands create innovative products using agile methods (for **3–4 months** on average), which after successful tests can be scaled to **federal** level

M&A of required elements

Purchase of necessary solution elements (for example, **100% purchase** of data centers for Clouds) or use of **hackathon** among startups for quick acquisition additional functionality.

No venture investments in start-ups

Translation of new areas into operating business

After the launch of the main products (**1.5–2 years**) a smooth transfer of the teams to the operational business of MTS is expected (or spin-out into an individual company)

The main result at the moment is that the Company was ready for such format of work that we are practicing at the Innovation Center. Our employees are willing to take on increased responsibility, they want and know how to listen to customer feedback and handle it, be really flexible and quickly adapt to current requests.

Director of MTS Innovation Center
Vladimir Khrenkov

Principles of work of the Innovation Center team

Maximum proximity to the work of start-up teams:

- Dedicated teams for 1 product. Dedicated leader (the best candidate is usually from the external market) and fulltime allocated main members of the team from MTS departments and subsidiaries.
- The only KPI for all team members is the creation of a new product and bringing it to the market.
- Fast and inexpensive development of the basic product (MVP *) and release to the market to get test customer testimonials and for subsequent product revision.
- Minimum of bureaucracy: money is provided in 1–2 hours (coordinated only by the supervising Vice President and the President of MTS); simplified procurement procedures.
- After the tests: refinement/scaling or closing of the project.
- Capturing leading positions in a new business area involving all MTS resources (sales channels, promotion channels, etc.).

It turned out that we have all the resources necessary to stay on top of the oncoming wave. It is important to see them and use them in the right way.

Whoever finds, will win

Who will find the most necessary resources and learn how to manage them in a bit new way, will be able to combine the best from a startup and a large company. What is the result, what goals can be set?

- Speed. The idea that appeared in the morning is implemented into a working solution already in the evening same day. Major new products go all the way from idea to launch within 3–4 months.
- Quality. The new product is better suited to the needs of customers, because we hear our customers and work with them after launching the product.
- Efficiency. We save employees time and money of the company by timely abandoning further development of products that were not successful at once, as well as through active implementation of services that have successfully passed the “pen test”.

The first agile teams of MTS are working on large-scale projects which are the priorities of the Company: development of cloud services and eHealth (electronic medicine). In general, based on our evaluation of the situation today, in 2017 the Innovation Center plans to launch about 10 major digital products in 4 business areas new to MTS. At the same time, we do not formalize this plan, but act step by step, ensuring real efficiency today.

Our Strategy

Key areas of development and goals

The most striking global trend of the modern world in our view is the process of digitalisation of all areas of human activity: high-tech and traditional industries, scientific activity and healthcare, art and everyday life of people. This trend creates a number field of new opportunities, promotes formation and development of new businesses and entire industries, stimulates creation of new companies, radically changes the investment landscape. Moving towards the digital future sets new challenges that are not limited to the need to apply new marketing methods or production activities, but it introduces new requirements to the principles of company positioning in the economic environment, management style and corporate culture.

Being a telecommunications company, we feel our special involvement in this global trend. Telecommunications are the basis for digitalisation processes, a prerequisite for their existence; on the one hand, it provides us with a lot of new opportunities, on the other hand it places high demands on the quality of our work and imposes a special responsibility for making right management decisions. In a rapidly changing environment, the key to success is the willingness to change and to constantly adjust the development path of our company, as well as courage to make decisions and clear vision of the prospects.

Following the ideas presented above, in 2016 we decided to transform the strategic concept “3D: Data. Differentiation. Dividends” into a new form: “3D: Data. Digital. Dividends”.

Data

Mobile data transfer and Voice & Data tariffs

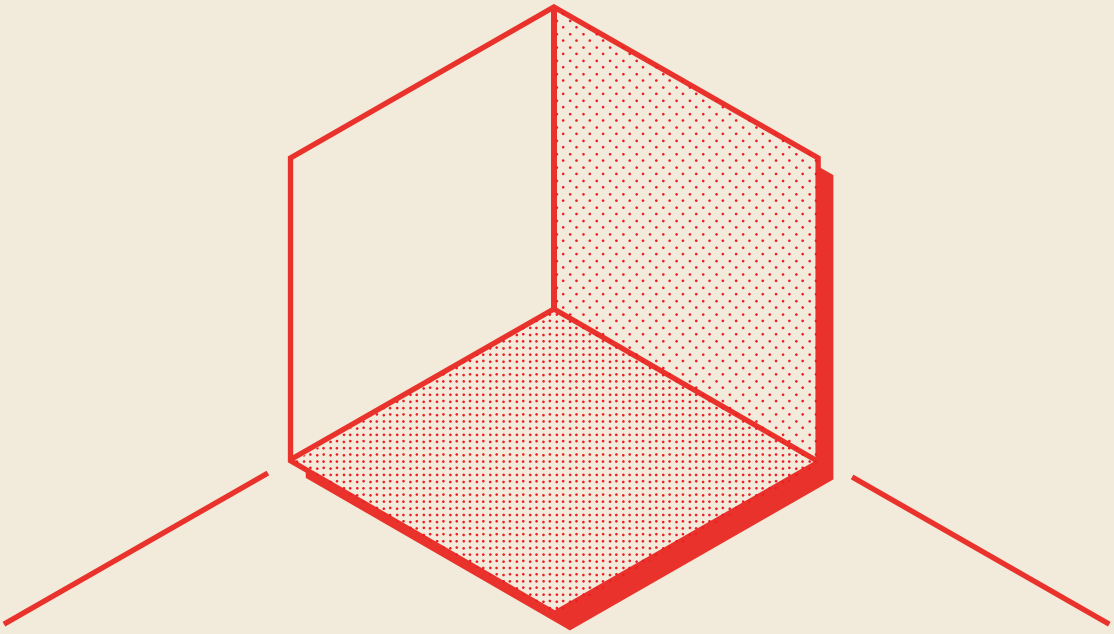
Competitive development of LTE networks and optimal use of frequencies

Development of fixed BBA and TV products

Digital

Development of the existing portfolio of digital products: financial services, Internet of Things, BigData, system integration, OTT, digital commerce

Introduction of digital technologies in the main business: changing customer interaction processes, IT environment of the generation, development of flexible and stimulating innovation of corporate culture



Dividends

High earnings for shareholders

Investment and operating efficiency

Optimal debt load and its cost

The whole world around us is rapidly changing, digitized, and we certainly can not stay behind, we need to adapt to these changes, to move away from archaic, obsolete models of existence to the area we call Digital. We should start to feel ourselves not as a traditional telecom, but as a company that sees its future in new industries.

President of MTS PJSC
Andrey Dubovskov

Data

The area “Data” is the basis of the updated version of our strategy, a foundation for implementation of the entire variety of current and future products, services and projects, as well as for successful transformation of MTS into a digital company. Data concept is multifaceted. On the one hand it is a physical environment, which includes components such as backbone channels, 2/3/4G and fixed networks, satellite components, IT systems. On the other hand, it is a basic data service, basic tariffs and generated data traffic, that is, it forms the bottom layer of the client experience. The key priorities in this area for us are the constant improvement of network performance, data speed, optimization of the use of the frequency resource, building up of the capabilities of our own IT platforms that form the toolkit for interaction with customers and partners.

Digital

“Digital” concept is central to our updated strategic paradigm. It goes through all the diversity of our activities related to the creation of client experience, development of partner projects, interaction with external environment, as well as implementation of changes within the company itself. In a more specific way Digital can be presented as the process of introducing digital technologies into operations, including building a new generation of IT environments, changing the principles and methods of interaction with customers and partners, developing a flexible, proactive, stimulating innovation of corporate culture.

Data area can be called a tool, while Digital includes the processes of implementing all the changes that required from us by the digital age. We understand that the global trend of digitalisation carries a large number of uncertainties, but it also provides a huge field of opportunity and we intend to be an active player in this field.

Currently, the key businesses in this part of our strategy include: financial services, Internet of Things, Big Data, Digital commerce, system integration, OTT. In addition, we see a number of other promising areas, closely monitor their dynamics and will add them to our portfolio of projects as they evolve to the level commercially viable given the scale of our business.

We will strive to hold a significant market position in all the above areas, but at the same time, we realize that for a number of reasons (primarily high level of risk or a small scale), the presence in a number of areas will be more reasonable if implemented through Partner programs. More active interaction with business partners who can implement their ideas using the resources of our Company is an important area for our efforts. We strive to be a strong, reliable and flexible partner in the digital environment. We are positive that our infrastructure, experience and knowledge will be a reliable support for a

number of new businesses and will become a guarantee of mutually beneficial cooperation.

It should be noted that the base for Digital was laid down due to successful implementation of the “Differentiation” area within “3D” Strategy. Today we can say that the goals of differentiation have been successfully achieved, the company has acquired unique competencies in the areas going beyond the traditional telecom. Our main goal now is the active development of these areas, which will generate value in the most promising markets, create a unique client experience to enrich people’s lives and provide them with new opportunities, which eventually will enable us to continue to occupy a leading market position.

Dividends

Area “Dividends” fully retains its content, which we described earlier as a part of the “3D” strategy. In this way we emphasize that neither the complicated macroeconomic landscape, twists and turns of competition, nor the new global trends affect our desire to create shareholder value and maintain stable return for shareholders. The key goal in this area remains constant and consistent increase of business efficiency; with that, we consider digitalisation as a new tool for reach this goal. For example, changing the balance between offline and online sales, as well as the use of new sales technologies has the potential to reduce costs of attracting subscribers.

In order to ensure stability and predictability of the cash flow and reduce currency risks, we pay special attention to maintaining the optimal level and structure of debt, as well as its cost.

The main strategic priorities of MTS in the short and medium term are:

- Leadership in revenues in the key mobile services market in Russia
- Active development of data networks to provide basic services (voice + data)
- Providing a full range of services in a fixed segment, ensuring high level of quality and competitive pricing
- Introducing digital tools into all company processes, building a new kind of IT environment
- Implementation of promising projects enabling to operate value-generating businesses (financial services, Internet of Things, Big Data, Digital commerce, system integration, OTT)
- Ensuring high return on investment for shareholders

At the end of 2016, MTS confirms its own positioning as the leader in our key mobile segment of the telecommunications industry. At the same time, we are enthusiastically looking at the prospects opened by the digital future and set ourselves a new strategic goal: to transform ourselves into a Digital company. We believe that the infrastructure created by us, our accumulated knowledge and experience, ability to respond to new challenges and willingness for change, including corporate culture, organizational structure and management style, will enable us to succeed in a number of new business areas and take a strong position in new markets. The purpose of this evolution is the acquisition of new competencies in a number of businesses that will enable us to create even more comprehensive and high-quality client experience and enrich our capabilities as a business partner, which will eventually enable us to successfully conduct business in the new digital world and achieve a high level of profitability for shareholders.

Implementation of the strategy **in 2016**

First of all, it should be noted that the company's performance in 2016 in terms of the main operating indicators are in line with our expectations.

Value (MTS Group[1])	Target	Actual
Revenue growth, %	+ 2-3%	2.1%
OIBDA Change, %	–4%	–4.4%
CapEx, RUB billion	≈ 85	86.1

[1] excluding Uzbekistan operations

A detailed analysis of the operating results will be given in the following sections; now we will focus on achieving our main strategic goals. It should be recalled that in 2014 the Board of Directors of MTS adopted the Strategy "3D: Data. Differentiation. Dividends". Last year, all the goals that we set for ourselves in "Differentiation" area were successfully achieved; thereby MTS reached a new level of competence in a number of areas that go beyond the traditional mobile market. In line with the previous strategic concepts and, at the same time, striving for further advance, we decided to transform our strategic concept into "3D: Data. Digital. Dividends".

From Differentiation to Digital

What do we mean by successful completion of "Differentiation"? First of all, this means that a number of our new businesses have evolved from the level of promising pilot projects to full-fledged functionality with business units in our company structure, product lines, IT infrastructure, budgets, clear development plans, operational indicators and their targets. Fixed services, wired and satellite TV, financial services, e-commerce, Big Data, Internet of Things, OTT and system integration have become an integral part of our business.

Without limiting ourselves to general words, we give some numerical data that enable us to have sound evaluation of our progress in a number of areas that are most promising in our view.

- E-commerce is not an innovative business, but it deserves special attention, given its rapid growth in the market and the degree of positive impact on overall sales profitability. At the moment, the symbiosis of retail chain and MTS online store enabled to unify the MTS product portfolio in both channels (including mobile communications, banking services,

TV and Internet), and to achieve a high level of logistics and operational efficiency. Our online store ranks first among Russian operators (E-commerce Index TOP-100, 2016) and provides more than 10% of retail revenue, amounting to 4.4 billion rubles in monetary terms.

- Big Data today is a product aimed primarily at the use within the Company for such purposes as geoanalytics, optimization of sales and service channels, targeting and advertising, network monitoring. Already by the end of 2016, the cumulative effect amounted to 536 million rubles, and in the future its scale will only increase. Subsequently, as the data volumes increase, data processing tools improve, competence in their use expand and a full-fledged market for Big Data products is inevitably formed, this area become one of the main growth drivers in the modern digital environment.
- MTS serves 4.4 million SIM-cards in the field of IoT (Internet of Things) services and, according to our data, is the unconditional leader in Russia with a share of about 46%. We understand that this market is at an early stage, and its potential is estimated at tens of millions of connected devices, and we intend to further increase the intensity of our efforts, striving to get most of the revenues in this area.
- In the field of OTT (Over The Top), we are developing a unique digital MTS ecosystem, aimed at enriching the client experience and intensifying the interaction between the company and users. As of the end of 2016, 24 MTS apps were launched, with 7.3 million of monthly users. At the same time, self-service application “My MTS” has 10 million downloads and 1.1 million users showing with daily activity.
- We entered System Integration market at the end of 2015 by acquiring a 100% stake in NVision Group, and by the end of 2016 revenue from system integration amounted to 5.6 billion rubles. It shall be noted that, in our opinion, some segments of the Russian IT services market (in particular, cloud services) can show 10–20% annual growth in monetary terms in the coming years.

Analyzing our experience in the field of differentiation, and comparing it with the general digitalisation trends in the telecommunications sector and other areas, we came to the following conclusions. First, the potential of new areas, given all the uncertainty existing at the moment, is measured by higher orders than the percentage of revenues of our business in its current format. Secondly, the achievement of success in these areas requires adjusting the approach to organizing our daily operations, changing the corporate culture and management style, applying new highly effective management methods and workflows.

These considerations, among other factors, have become quite weighty argument in favor of our decision to implement Digital Transformation in the company, the goal of which is ultimately to create an updated corporate

environment, characterized by a high level of process automation, high speed of implementation of ideas and projects, flexibility to form functional units and project teams, use of new teamwork methods. The implementation of such a large-scale program takes time, but even now we have some results of which we can inform:

- Several projects have been implemented in one of the most important areas: transformation of organizational culture. E-learning center "Virtual Academy" is being operated; remote work systems and new formats of interaction between employees in teamwork areas are being implemented.
- The company has created and operates "Innovation Center" – a unique department, the pioneer of the most advanced technologies, whose mission is to find the most promising points of efforts, launch pilot projects and further translate their functionality into operating units of the company.
- A new IT environment is being formed to meet the information needs of internal departments and external partners when applied to new, including perspective business objectives.
- IT departments actively use Agile approach in the project work.

Today, we are at the beginning of a long journey into the digital future. Not all steps on this path will lead to a result that can be expressed in direct cash equivalent, but we are sure that each of them will make a certain contribution to development of the new Digital appearance of MTS. And, of course, our main guideline, as before, is to achieve high results in terms of key operating indicators and to ensure traditional leading position in the market.

Data

We understand Data as a technology foundation for implementing Digital projects, products and programs, as well as a basic set of telecommunications services that are not tied to a particular Digital product. Our goal in this area is to ensure the highest level of quality and speed of voice and data transmission.

In 2016, we continued to blur the boundaries between traditional voice traffic and data traffic, actively promoting Voice & Data tariffs, which by the end of the year are already enjoyed by more than a third of our subscribers. To a large extent this was facilitated by implementation of data-oriented equipment selling program, carried out at our own retail stores. Currently, the share of such devices in our network exceeds 50% and continues to grow, thus expanding the base of potential users of our digital services. It should be noted that the spread of data-oriented user equipment is a general market

trend, so we gradually shift our focus in this area to devices from the world of Internet of Things.

Considering the results of 2016, we can say that the main phase of 3G network construction in Russia has been completed, and in the future the expansion will be targeted and localized. Our LTE network has been deployed in all regions of Russia, and its further construction will occur as the market needs increase in the traffic speed and volume. At the same time, part of the investment is made jointly with other telecom operators, which allows to reduce costs and increase the pace of construction. Today the program for the development of high-speed backbone channels is being successfully implemented, and we plan to complete it in 2018. Active construction of 3G network in Ukraine yielded good results as well: by the end of 2016, 3G services can be used by subscribers in all regions of the country, which, of course, significantly influenced the growth of revenue in this market.

Dividends

Guided by the desire to ensure high level of profitability for shareholders, and following the previously adopted dividend policy, in 2016, MTS made cumulative dividend payment of 26 rubles per ordinary share or 52 rubles per one ADR, which totaled 52 billion rubles. It should be noted that during the three-year period (2014–2016), the total volume of dividend payout amounted to 155.2 billion rubles; thus, the company completely fulfilled its obligations to shareholders in this area.

At the end of 2016, the Board of Directors decided to implement a program for repurchase of MTS shares through modified Dutch auctions. At the auctions held in October 2016 and in January 2017, MTS shares for the amount of 5 billion rubles were repurchased. Besides, MTS made a proportional buyout of JSFC Sistema shares to maintain the effective stake of the shareholder. The total amount of funds used for implementation of the program eventually reached 10 billion rubles.

In 2016, the 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 set at 20 rubles per one ordinary share (40 rubles per one ADR) per year. As before, payments will be made 2 times a year.

Following the results of 2016, MTS shares quotes demonstrated the highest growth dynamics as compared to the main competitors operating in the Russian telecommunications market, which, in our opinion, indicates positive evaluation of our strategic priorities and operating performance by the investment community.

Strategy in the Field of Mergers and Acquisitions

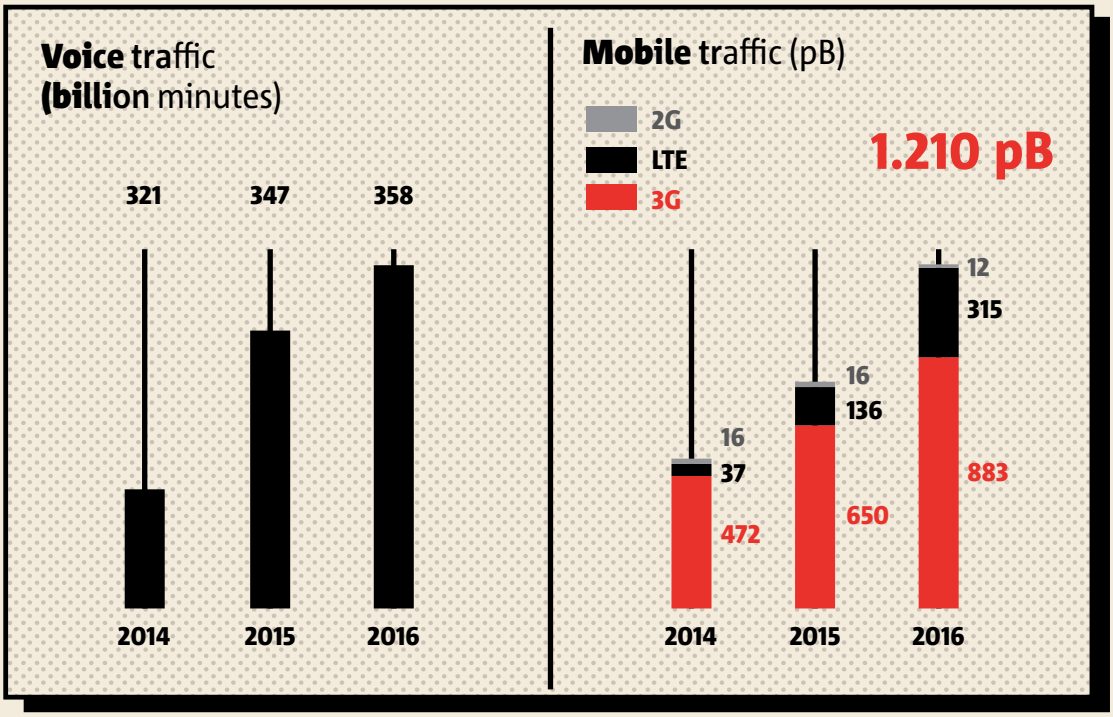
The company monitors the opportunities of inorganic growth both in the markets of its operation and beyond. MTS PJSC has sufficient experience in the integration of acquired companies that allows incorporating them into the business structure efficiently and getting a positive economic effect as quickly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

Business Overview

Mobile business

Russia

In order to increase the marketing strategy efficiency, the data plans proposed are targeted at different consumer segments. Voice & Data package offers are the core of our data plan range: data plans of the Smart range. These data plans are focused on the rapidly growing segment of smartphone users and aimed at ARPU stabilisation, consumption growth and increased customer loyalty. For a particular subscriber fee, a data plan includes packages of minutes, SMS and Internet traffic. In 2016, the main tariff management efforts were aimed at optimizing sales split. 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.



Every plan features free on-net calls, which led to a change in the subscriber profile and traffic patterns (more than 80% of traffic is now closed within the network), which also allowed to significantly improve the loyalty of our subscriber base.

A specific group of data plans are the rates targeted exclusively at the users of mobile Internet services. We offer rates for the users of modems and tablets within this group. The data plan for tablet users includes unlimited access to MTS Mobile TV, which is a significant differentiator for the subscribers. This service is used by more than 40% of the subscribers of this data plan.

Despite the reduction in the number of trips abroad, MTS continues to offer attractive rates for our customers to communicate in international roaming. Today, we offer our customers a variety of options to the basic data plan in order to significantly optimise the costs of voice roaming by free incoming calls. From 2015, a significant portion of the international roaming traffic accounts for the customers using the option “Zero without borders”. For mobile Internet users in most popular countries, we offer an updated option “BIT Abroad” with unlimited Internet access.

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.

The strong financial performance of MTS in 2016 was the result of the implementation of 3D Strategy: Data, Differentiation, Dividends. In 2017, we continue to implement our 3D strategy with a focus on digital, as we aim to use digital technologies for further data transformation of the company, offering our customers new financial services, branded applications, e-commerce, IoT, Big Data integration.

Vice President, Strategy & Marketing, Member of the Management Board
Vasyl Latsanych

Retail distribution

Sales channels

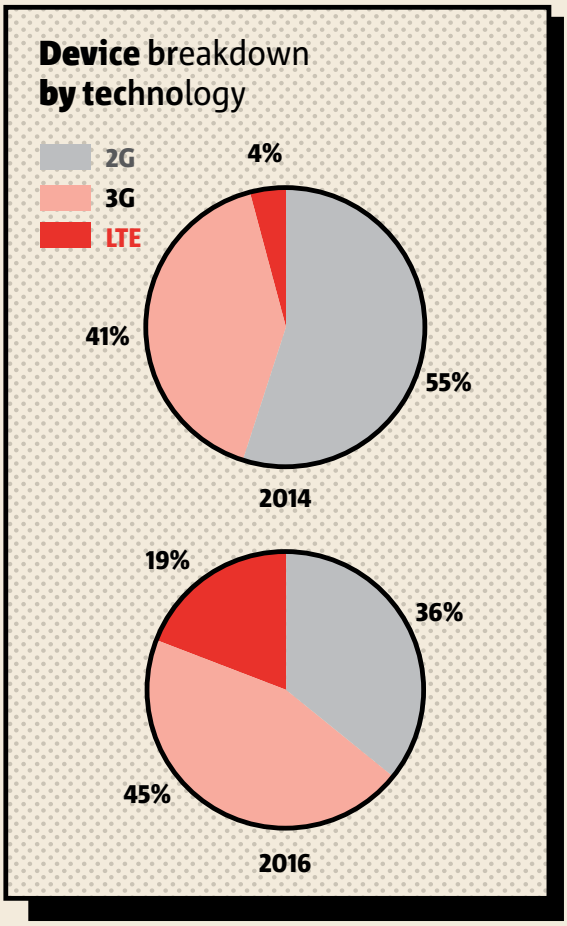
The main channel for acquiring MTS subscribers is the mono brand, which is used for more than 60% of sales. The development of MTS retail network in Russia peaked in 2009–2010; however, the suspension of cooperation with Svyaznoy retail chain in mid-2015 required an additional increase in the number of mono-brand stores to maintain the market share in terms of sales. At the end of 2016, after increase of more than 1,000 stores, MTS retained its status as the largest non-food retail chain in Russia. MTS operates more than monobrand 6.1 thousand stores. 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 2016 were as follows

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

Sales of Subscriber Equipment

- In the 4th quarter of 2016 the share of smartphones among all the phones sold in MTS retail was 76%
- Smartphone penetration increased from 48% to 54% in 2016.
- The distribution of user equipment by technologies clearly demonstrates the growing interest of subscribers to new services of the company which are supported by LTE standard



Business in Ukraine and **in Other Mark**ets of Our Operation

Ukraine

In Ukraine, the Company renders services in the standards GSM 900/1800, CDMA 450, IMT-2000 (UMTS).

In 2016, the 3G network was actively deployed, new tariffs and services were launched under the Vodafone brand:

- In August 2016, a unique offer was launched in the Ukrainian mobile market: “Year without Subscription Fee” service on Vodafone tariffs, which allows the subscriber to pay for services for a year ahead and save up to 25%, obtaining a monthly volume of services.
- The list of channels and content of Vodafone TV service has increased: mobile TV on any connected device (including the big-screen) is offered, along with Vodafone Music (allows to listen to favorite music at any time without paying for traffic), Vodafone Books (library in a smartphone or tablet).
- In the 4th quarter of 2016 new services were launched for calls, SMS and data while roaming in Poland: “In Poland at home for a day” and “In Poland at home for a month.” Besides, “Poland in touch” was launched for international calls to Poland.
- In November 2016, sales of smartphones under the Vodafone brand started.
- Campaign “Free Communication on all Networks” was launched, offering subscribers increased volumes of services.

At the end of 2016, the 3G network of PrJSC “MTS Ukraine” covers more than 54% of Ukraine’s population.

Armenia

Since September 2007, MTS owns a leading operator in the Armenian market being 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 2016 was 59%, according to our estimates.

The main priority of MTS in the Armenian market in 2016 was the launch of the Viva tariff line, which offers combined package of popular communication services for a fixed monthly payment.

Business performance 2016:

- Maintaining high market share in terms of subscribers and incomes,
- Increase in the number of mobile Internet users by 21% compared to last year,
- Growth in consumption, both voice and data services per user (by 3% and 30% respectively).

Turkmenistan

In 2012, the Company resumed operations in Turkmenistan, and in 2015 deployed 3G network.

The main priorities of MTS in 2016 were as follows:

- Increased voice revenue by stimulating the consumption of intra-network traffic;
- Expansion of V&D “Smart” data plans and increase in smartphones in the base;
- Development of maintenance services, VAS-services and content services.

Fixed-Line Communication

Development of Fixed-Line Networks

Broadband access growth rates are falling – in 2016 subscribers growth was 4%. The service is developed mainly due to the growth in the number of private users, but, considering the penetration of 56% at the end of 2016, the market is saturated not only in the large but also in the majority of medium-sized cities. In the context of intense competition and trends to bundle services (Internet + TV and Internet + TV + telephony), ARPU in 2016 decreased from 346 to 342 rubles per month; due to this fact, operators' revenues increased by only 3%. Penetration of services in the overwhelming majority of cities with a population of more than 50 thousand people exceeds 50%; with that, the competitive situation in these cities is generally quite tough – services are offered by at least three operators, both federal and local. 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 2016, MTS showed an increase in subscriber base by 9%, and an increase in revenues by 11%.

In the context of market saturation, the main trend in the fixed broadband market was the change in the development strategies of operators, from the growth of the subscriber base to subscriber retention through promotion of bundled offers, access speed, introduction of convergent services.

Fixed-Line Telephony Services

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

In 2016, MTS increased the attractiveness of the Basic Digital TV Package significantly by increasing the number of available channels, DTV penetration grew to 83%. Channels offer has grown by more than 30% (on average from 130 to 170), the number of HD channels has grown by more than 50% (from 26 to 40). The Basic package includes 130 channels, including 24 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.

Removal of blocks and expansion of broadband access network capacity allowed changing the service by increasing the average consumption rate of the existing broadband access subscribers by more than 40% from 36 to 51 Mbps, and from 58 to 62 Mbps for new activations.

2016 was marked by a serious decline in the prices of selling offers of federal broadband operators. In line with the market dynamics, MTS also reduced

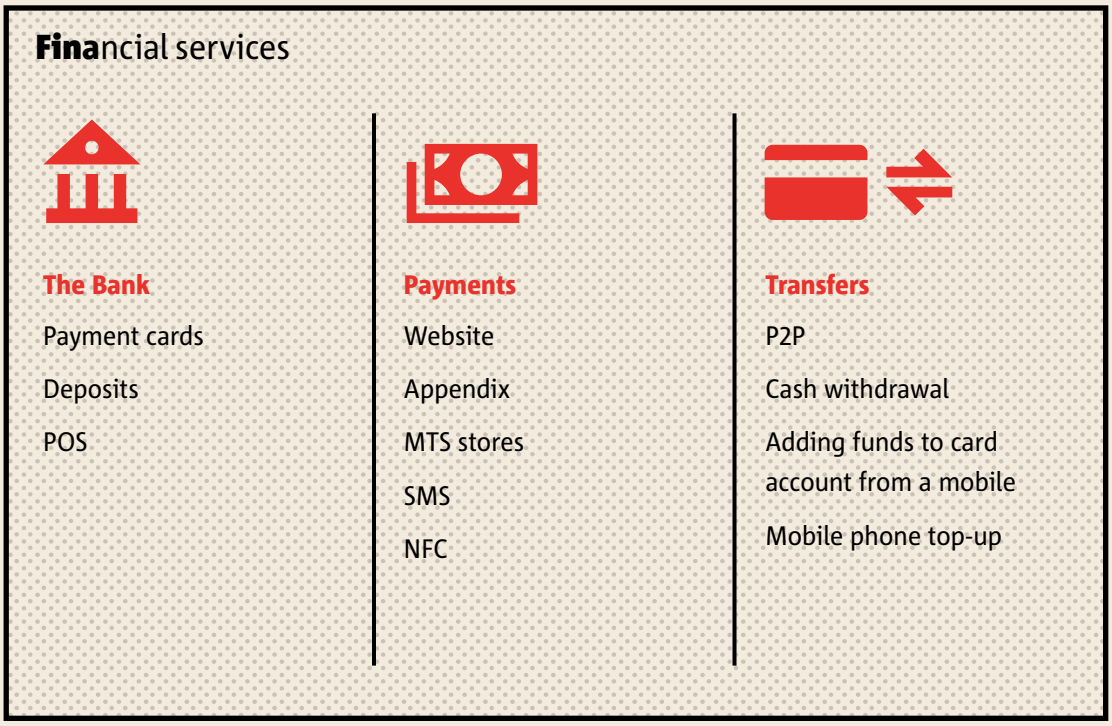
tariffs for selling broadband and packet offers (on average by 2016 by 6%). MTS stimulated additional sales of broadband access to the MTS TV base thanks to the said actions: the ratio of broadband access bases to TV was 72%.

In 2016, 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 will connect 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. The final project stage was the launch of the hybrid platform within the MTS TV mobile service and Stream OTT-portal.

The year ended with the launch of the federal campaign promoting new product: Interactive TV, a service using which a subscriber accesses a large number of channels, including HD quality, premium packages and advanced interactive services. Active promotion and connection are planned for 2017.

Financial services

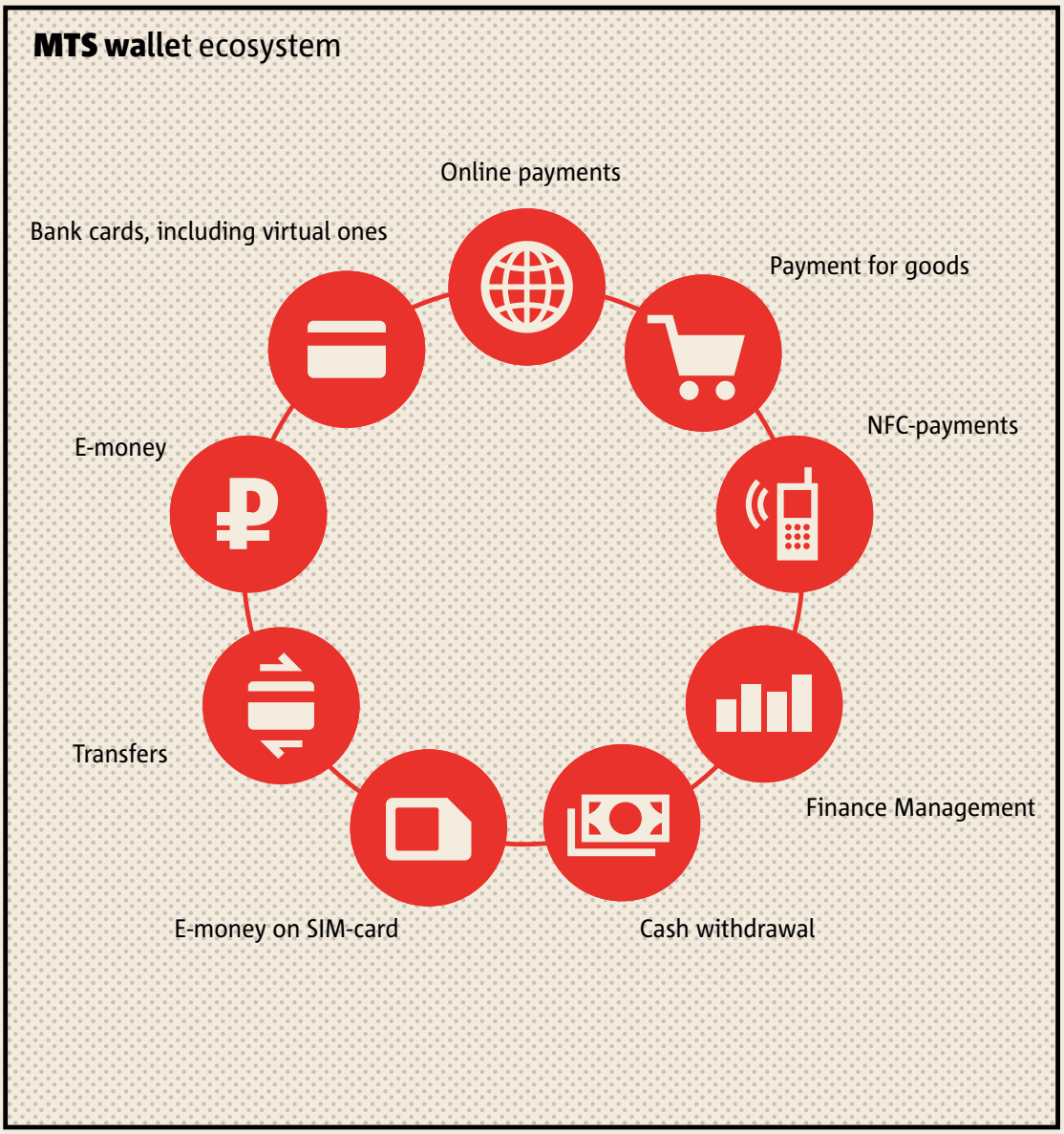
In 2016, integration of MTS and MTS Bank gained momentum, leading to optimization of existing services, as well as the emergence of financial products unique to the Russian market.



In June 2016, “MTS Smart Money” bank card was issued. The key option of the card is free calls for MTS subscribers which use Smart tariff plans or MTS Tablet tariff option, subject to terms of the agreement.

For effective and rapid implementation of the projects a single team of MTS, MTS Bank and MTS retail chain was formed. The key project of the team was the flagship financial product “MTS Money Wallet”. The project was developed in just 6 months and launched in late 2016.

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 as a single identifier is the main difference of the new service “MTS Money Wallet”. 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, smart-phone, tablet or computer. In the future, the subscriber of any mobile operator will be able to connect to the service.



Particular attention in the development of the financial services segment is paid to innovations. Projects supporting MTS Bank cards payments through Apple Pay/Samsung Pay and own cloud solution for contactless payments in MTS Money app were launched. In addition, MTS became the first company in Russia to offer possibility to make payments in traditional retail stores using mobile phone balance.

Main achievements:

- Penetration of financial services in the subscriber base increased by 5 percentage points and reached 20% at the end of 2016.
- The volume of POS-loans in retail stores of MTS increased by 45% compared with 2015.
- The number of stores integrated with MTS Bank has been doubled.
- POS-loan line of MTS Bank was updated.
- A new mobile commerce system was implemented with MTS Bank as a settlement center (including MTS Bank now provides acquiring services for payments and auto payments in MTS windows).
- Pilot project “Microcrediting” for mobile commerce services has been launched.
- Non-resident payment service with simplified identification implemented.
- Money transfer project where cash from MTS account balance can be received at RTC chain and MTS Bank’s ATMs was implemented.
- Connection of MTS Money Wallet to MTS Bonus program was implemented.
- Seamless authorization with MTS Bank was implemented for complete identification of the Wallet client.

Mobile commerce:

- Mobile commerce sales grew 25% vs the previous year.
- Growth in the number of unique customers in mobile commerce segment also amounted to 25%.

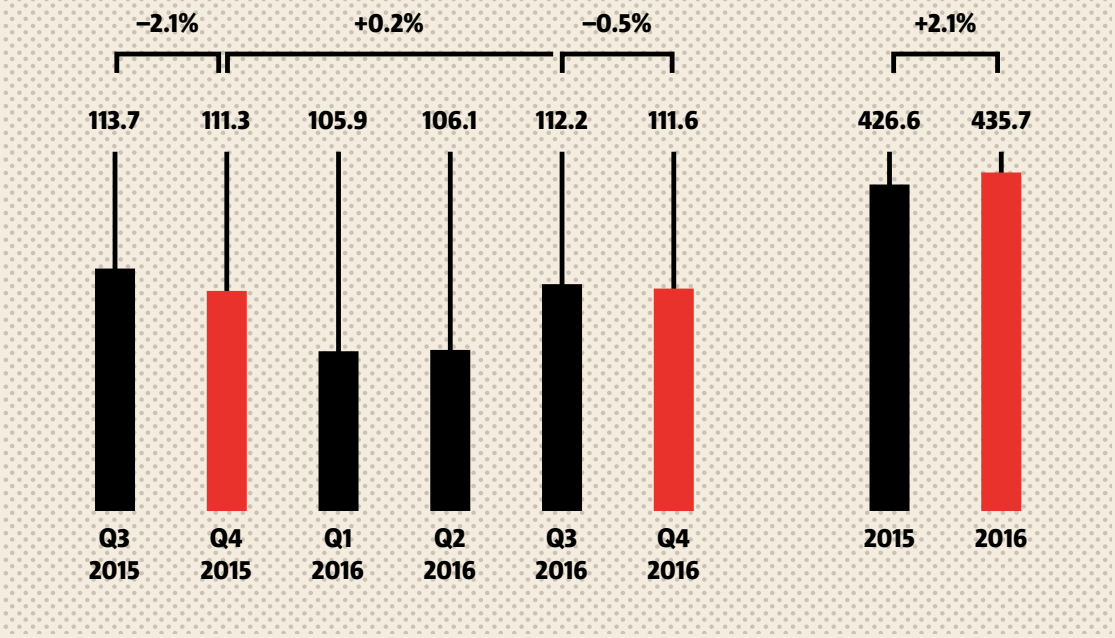
Key objectives (as of the end of 2017):

- Increase in the penetration of financial services into the MTS subscriber base to 25%.
- 10 million unique users of MTS Money Wallet.

Financial Overview[1]

Financial Indicators of the Group

Income of the Group [2]
(RUB bln)

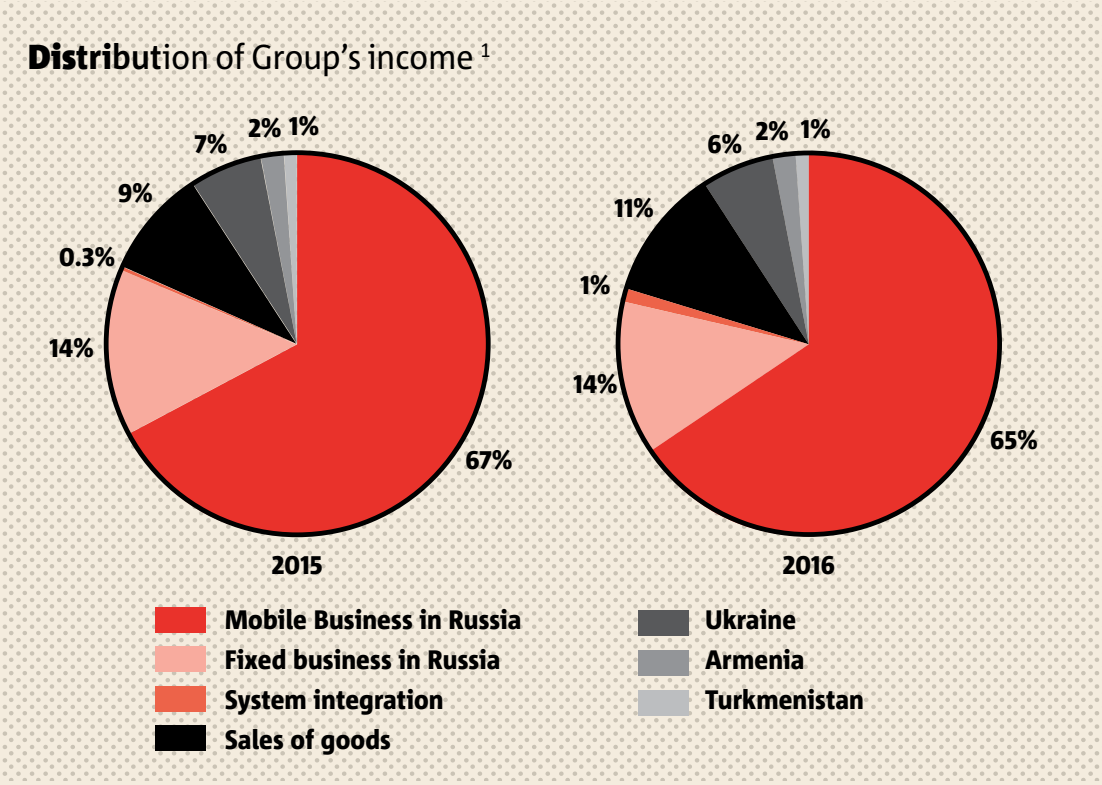


[1] Information on the consolidated financial and operating results of MTS Group in Q4 2016 and 2016 in general: www.company.mts.ru/comp/ir/report/2017-03-21-5771077/

[1] Excluding discontinued operations in Uzbekistan.

Continuing to implement our strategy, we demonstrated strong financial results in 2016 despite the difficult macroeconomic situation and competition. Financial volatility in certain markets was reflected in the performance of the Group, but in general, it meets our expectations. We believe that MTS will benefit as much as possible in case of improvement of macroeconomic conditions and business environment

MTS PJSC President
Andrey Dubovskov

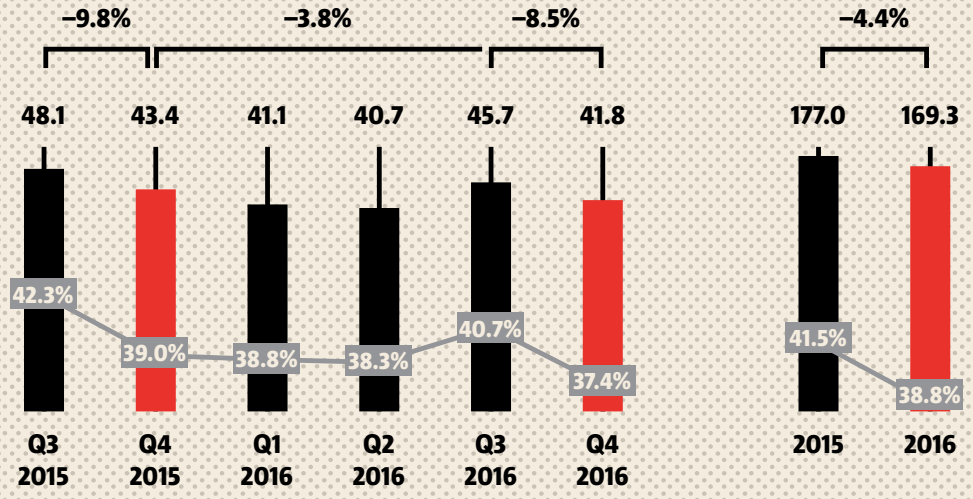


[1] Excluding internal group operations.
The total amount of percentages may differ from 100% due to rounding.

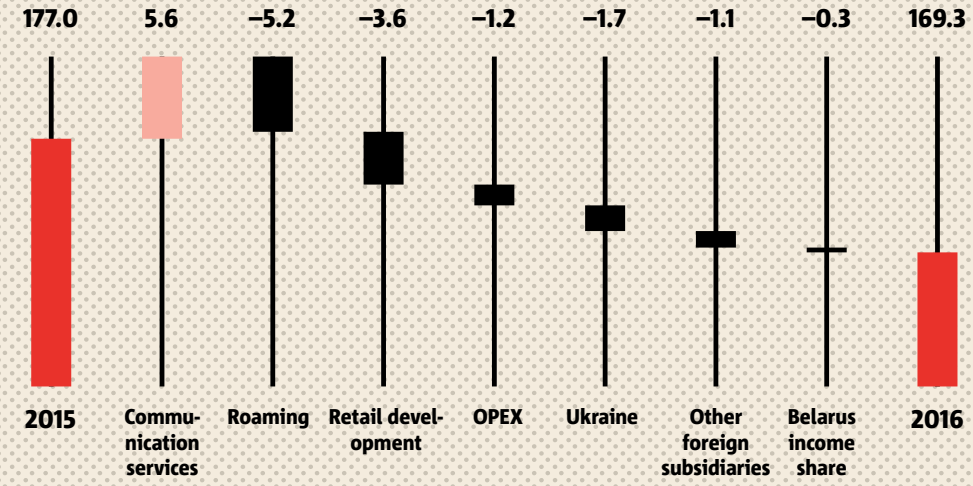
The Group's revenue increased by 2.1% in 2016 and amounted to 435.7 billion rubles. Sustained growth in the use of data services in key markets, coupled with the increase in mobile phone sales in Russia offset the negative impact of macroeconomic factors in such segments as services for corporate customers and roaming services, while the effect of ruble appreciation led to reduction in the contribution of revenues of foreign subsidiaries to overall performance. In general, the revenue dynamics outstripped the market in key regions of MTS'presence.

MTS PJSC President
Andrey Dubovskov

Adjusted Group OIBDA [1] and OIBDA margin **(RUB bln)**



Adjusted OIBDA margin: factor analysis **(RUB bln)**

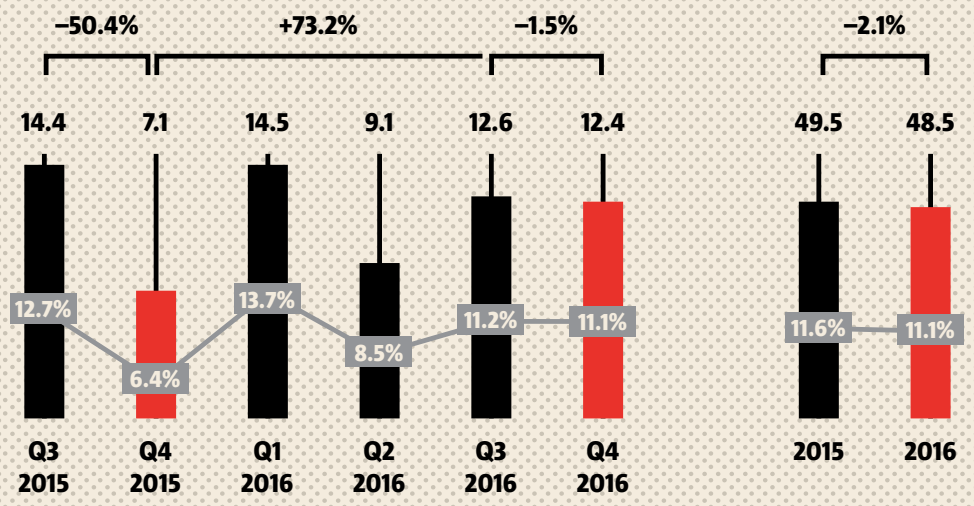


[1] Less provision for funds in Ukrainian banks subsequently recognized insolvent in the amount of 1.7 billion rubles for 9 months of 2015 and for the loss from impairment of goodwill in Armenia by 3.5 billion rubles in Q4 2015. Adjusted for the effect of the termination of operations in Uzbekistan.

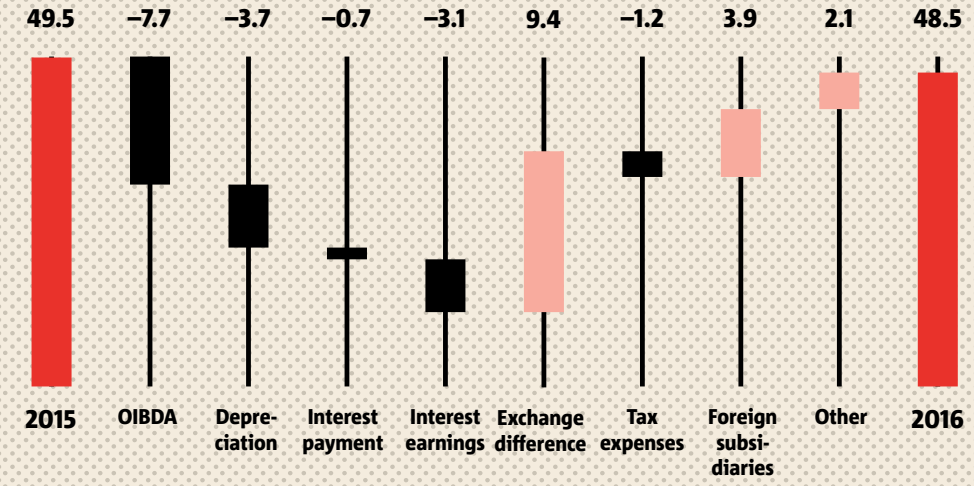
Despite the long-term macroeconomic instability and increased competition in key markets, adjusted OIBDA in 2016 declined slightly and amounted to 169.3 billion rubles. Additional costs for the development of the retail chain, as well as macroeconomic factors had a negative impact on profitability in Russia, while strengthening of the ruble limited contribution of foreign subsidiaries. Nevertheless, stabilization of the macroeconomic environment and strategic approach to improving efficiency contribute to positive impact the overall improvement of the situation in the Russian market on MTS business in genera.

MTS PJSC President
Andrey Dubovskov

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



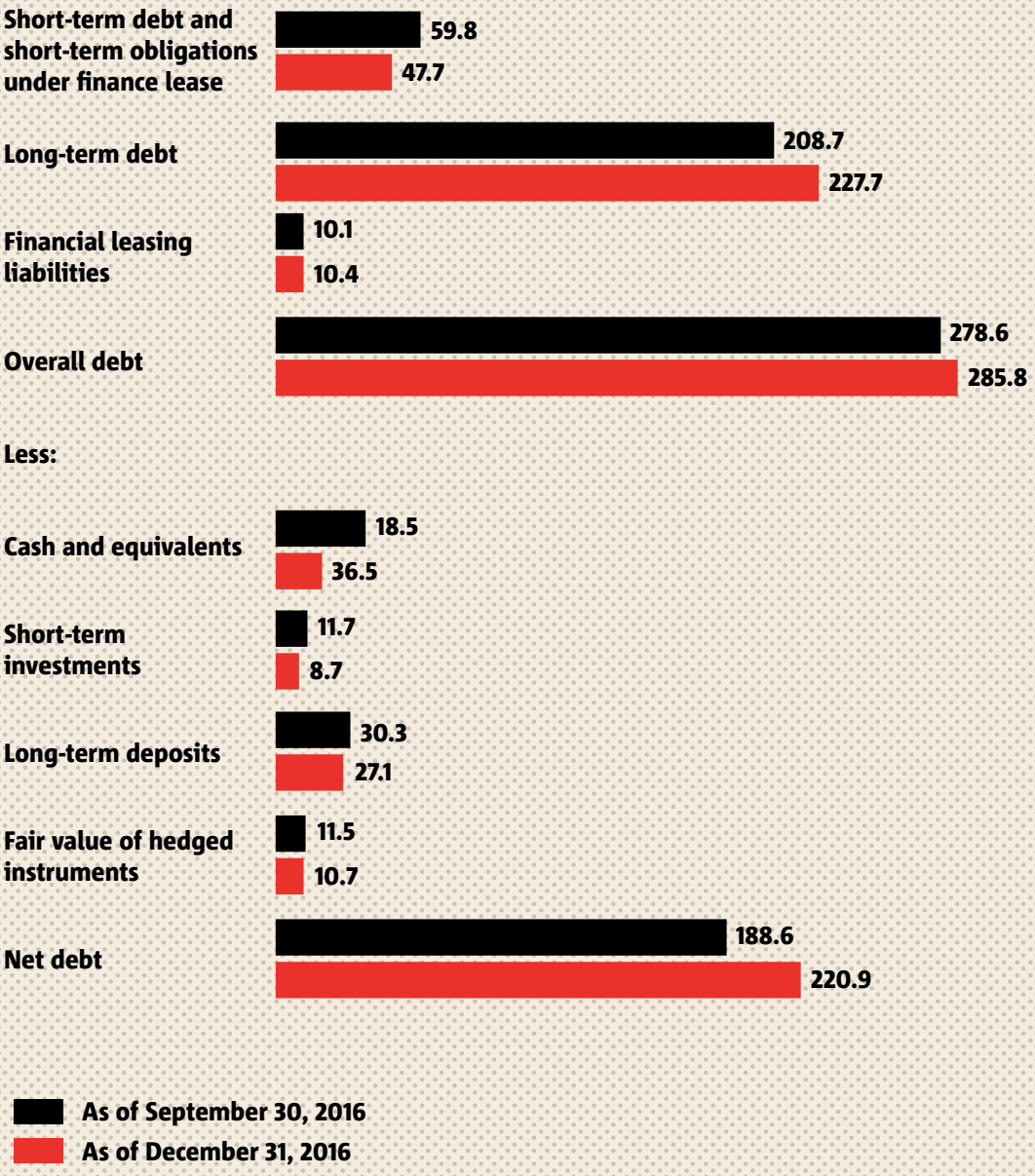
Factor analysis of net income **(RUB bln)**



The Group's net profit for the year slightly decreased to 48.5 billion rubles, on the whole following the OIBDA dynamics. Gradual strengthening of the ruble during the year, combined with improved financial results of subsidiaries and associates, including MTS Bank, offset one-off losses, including sale of UMS.

Vice-President for Finance and Investment, Mergers and Acquisitions, Member of the Management Board
Alexei Kornya

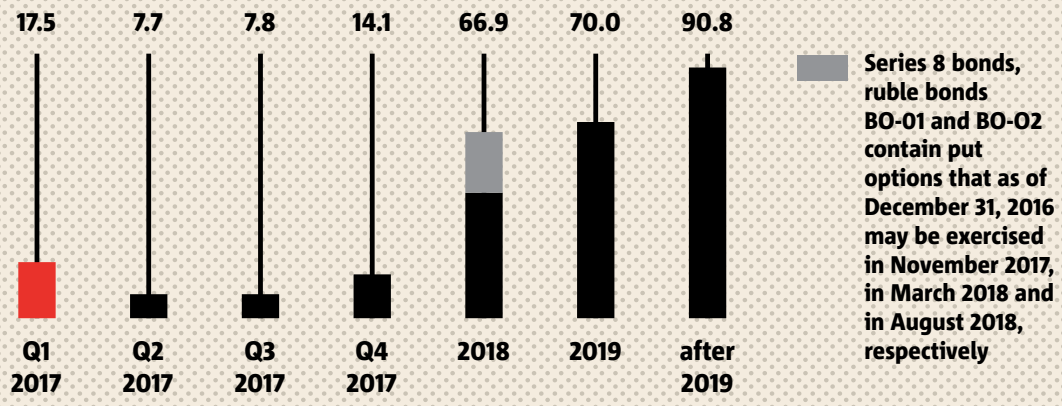
Liquidity and cash flow (RUB bln)



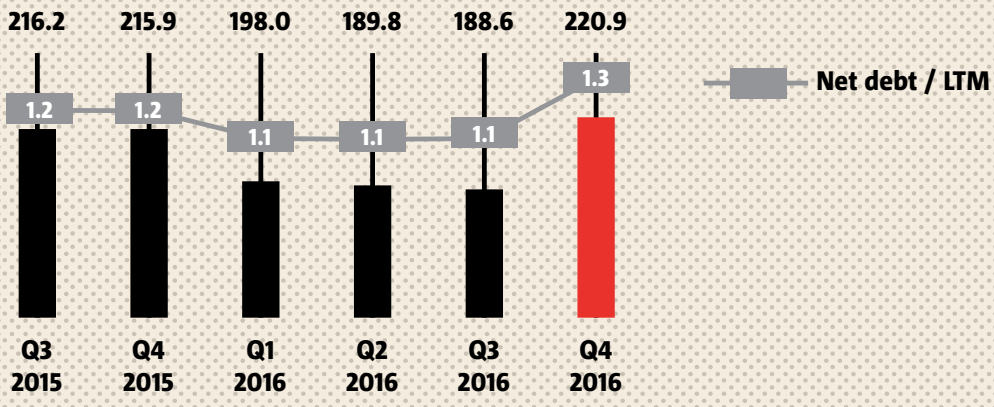
As of the end of the year, total debt was 274.8 billion rubles (less leasing costs and borrowing costs). This indicator is reduced due to stabilization of exchange rates, as well as the repayment of various debt instruments. In particular, in June, taking advantage of the favorable market situation and high liquidity of securities, MTS bought its own Eurobonds for USD 267 million, in order to hedge future currency risks and fluctuations in the book value of debt.

Vice-President for Finance and Investment, Mergers and Acquisitions, Member of the Management Board
Alexei Kornya

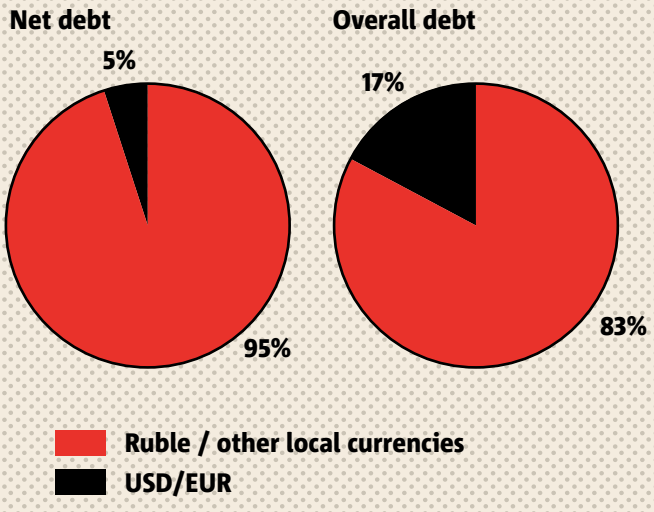
Debt payment schedule **(RUB bln)**



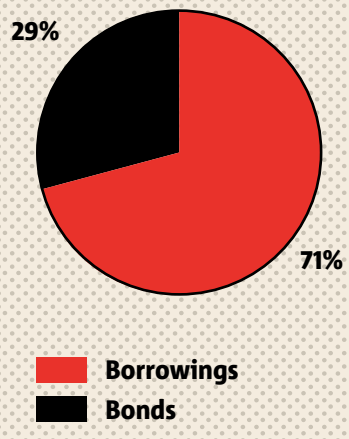
Net debt **(RUB bln)**



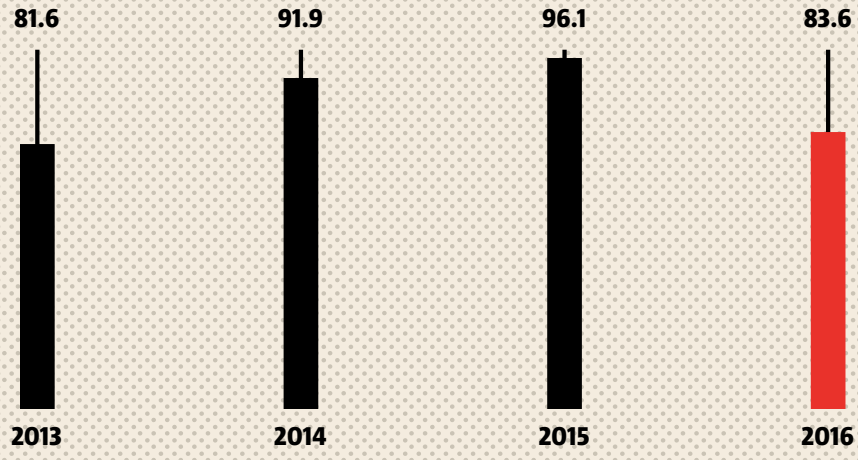
Debt structure by currencies



Debt structure **by type**



Capital expenditures (CAPEX) (RUB bln)



	2015		2016	
	CAPEX (RUB bln)	As % of income	CAPEX (RUB bln)	As % of income
Russia[1]	79.6	20.4%	73.8	18.4%
Ukraine[2]	12.4	44.1%	7.5	25.6%
Armenia	1.4	15.2%	1.0	11.8%
Turkmenistan	0.5	9.8%	0.4	9.0%
Group[3]	**96.1**	**22.5%**	**83.6**	**19.2%**

[1] Excluding expenses for acquisition of 4G licenses in amount of RUB 3.4 bln in 2015 and RUB 2.6 bln in 2016.

[2] Excluding expenses for acquisition of 3G licenses in Ukraine in amount of RUB 7.0 bln in 2015.

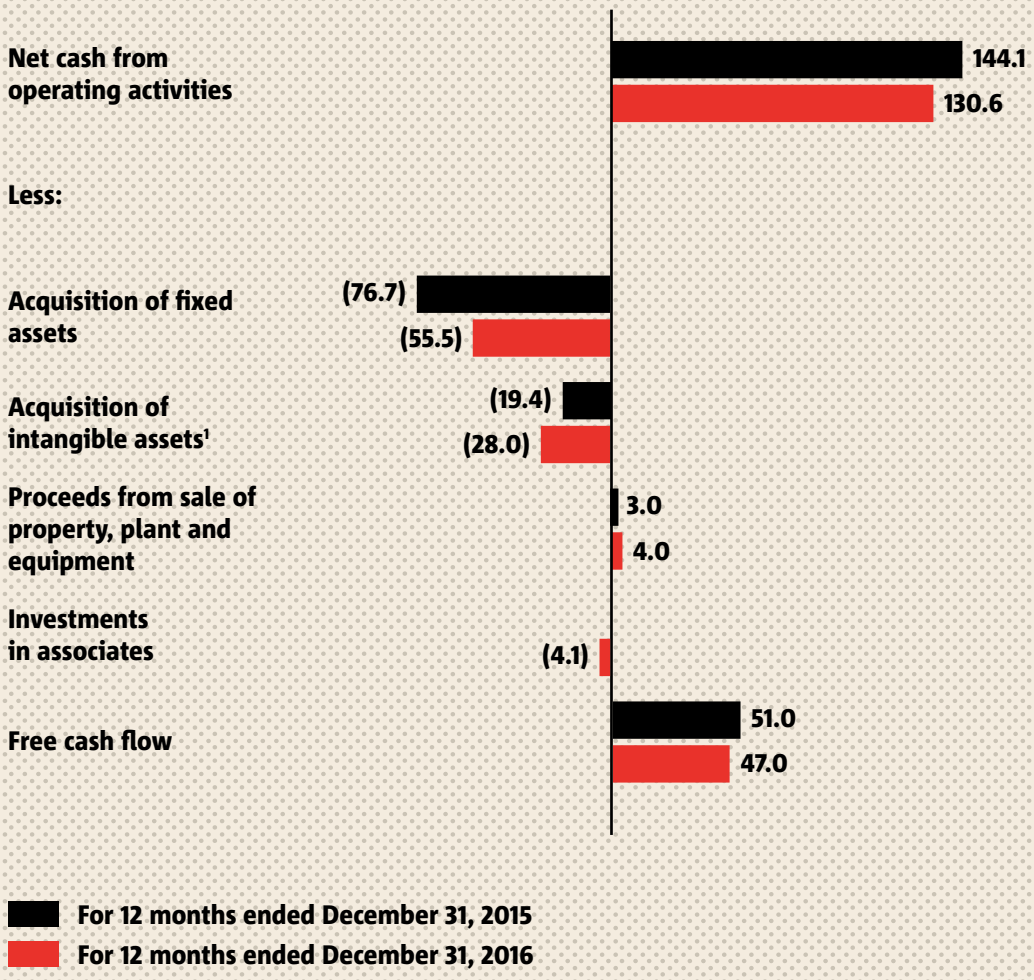
[3] Including capital expenditures in Uzbekistan, reflected in the cash flow from discontinued operations.

Capital expenditures of MTS in 2016 amounted to 83.6 billion rubles, which is 13.1% less than in 2015, and slightly lower than projected 85.0 billion rubles. At the end of 2016, MTS completed the fiber optic network development program and launched LTE-enabled networks in all regions of Russia where it operates.

In 2016 MTS additionally built 6,200 LTE base stations to expand high-quality mobile network for customers and maintain the leading position in the market. Continuing to invest in infrastructure development, the company sees the possibility of a gradual reduction of its capital expenditures while maintaining the quality of services provided and increasing cash flows.

Vice-President for Finance and Investment, Mergers and Acquisitions, Member of the Management Board
Alexei Kornya

Free cash flow (FCF = OCF – CAPEX)
(RUB bln)



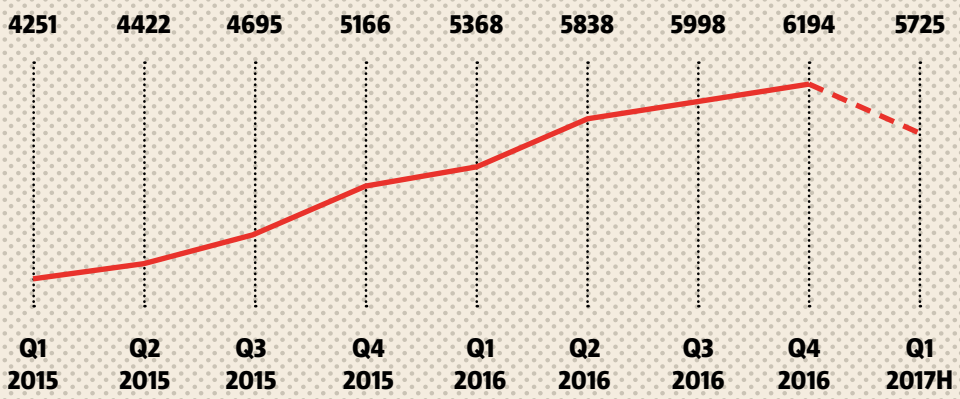
[1] Except for expenditures for acquisition of 3G licenses in Ukraine in the amount of RUB 7.0 bln in 2015 and 4G licenses in Russia in the amount of RUB 3.4 bln in 2015 and RUB 2.6 bln in 2016.

Free cash flow amounted to 47.0 billion rubles in 2016. There was a slight decrease compared to 2015, which is largely due to one-time transactions, such as investments in MTS Bank in the amount of 4.1 billion rubles and higher interest payments due to repurchase of MTS Eurobonds in June 2016 with a maturity in 2020. Besides, appreciation of the ruble increased the company's tax base.

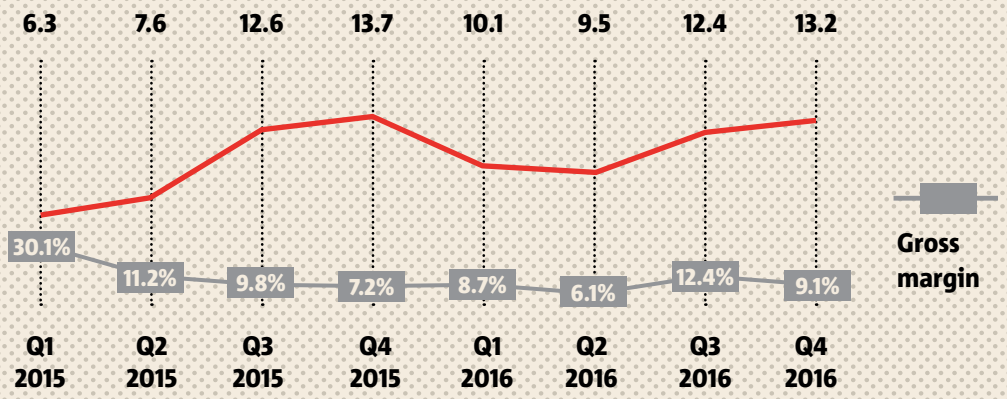
Vice-President for Finance and Investment, Mergers and Acquisitions, Member of the Management Board
Alexei Kornya

Retail development

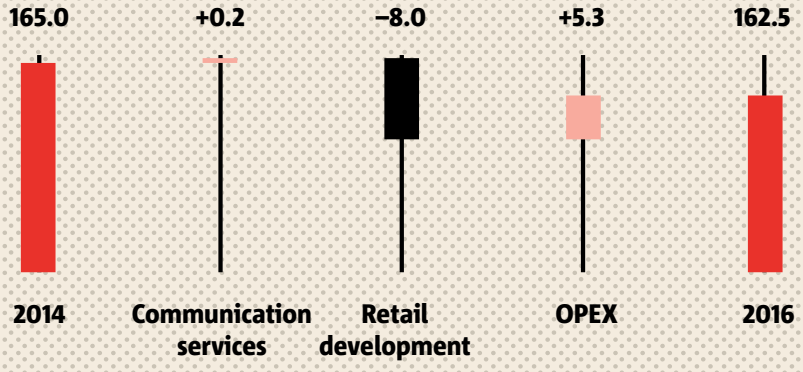
Number of stores



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

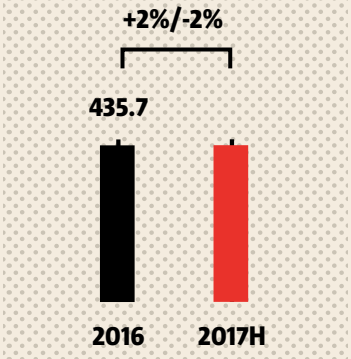


OIBDA impact (2014 and 2016) (RUB bln)



2017 ESTIMATE

Group income estimate (RUB bln)



Income of the Group:

MTS estimates change in the Group's income within +2 / –2% due to the following factors:

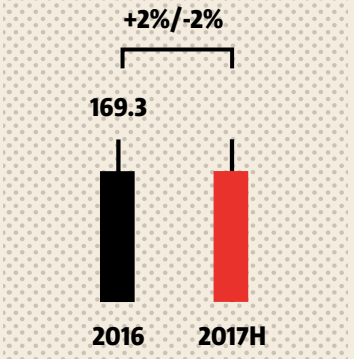
Competition in retail and tariff policy.

Planned volume of sales of phones and equipment, taking into account optimization of retail.

Dynamics of revenue from services in Russia.

Dynamics of revenue of foreign subsidiaries and volatility of currency exchange rates against Russian ruble.

Adjusted OIBDA estimate (RUB bln)



OIBDA of the Group:

MTS estimates change in the Group's OIBDA within +2 /–2% due to the following factors:

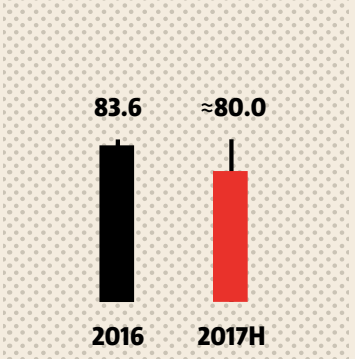
Competitive situation and planned optimization in retail.

Potential growth in the consumption of expensive services, including roaming services.

Business development in foreign subsidiaries.

Macroeconomic changes and volatility of exchange rates in the markets where the Company operates.

CAPEX estimate **(RUB bln)**



Group CAPEX:

MTS plans to reduce CAPEX to 80 billion rubles due to:

Launch of LTE networks in all regions of Russia by mid-2016.

Completion of large-scale construction of optical networks in key regions of Russia.

Continued development of LTE networks.

Implementation of projects on infrastructure and spectrum sharing with other operators.

Completion of the main construction of 3G network in Ukraine and further construction of LTE networks.

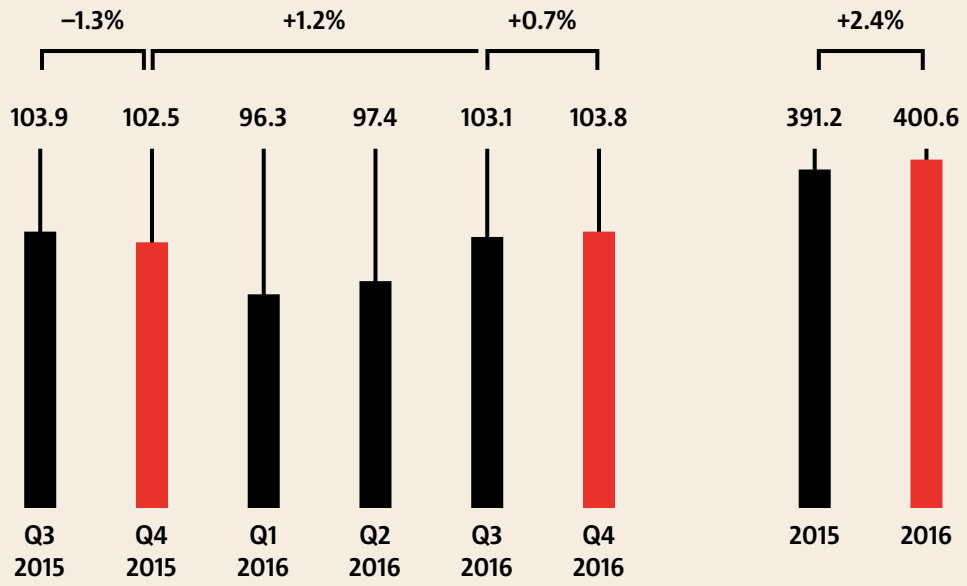
Implementation of evolutionary 5G solutions on the Russian market.

Continued investment in digital products.

Key Markets

Russia

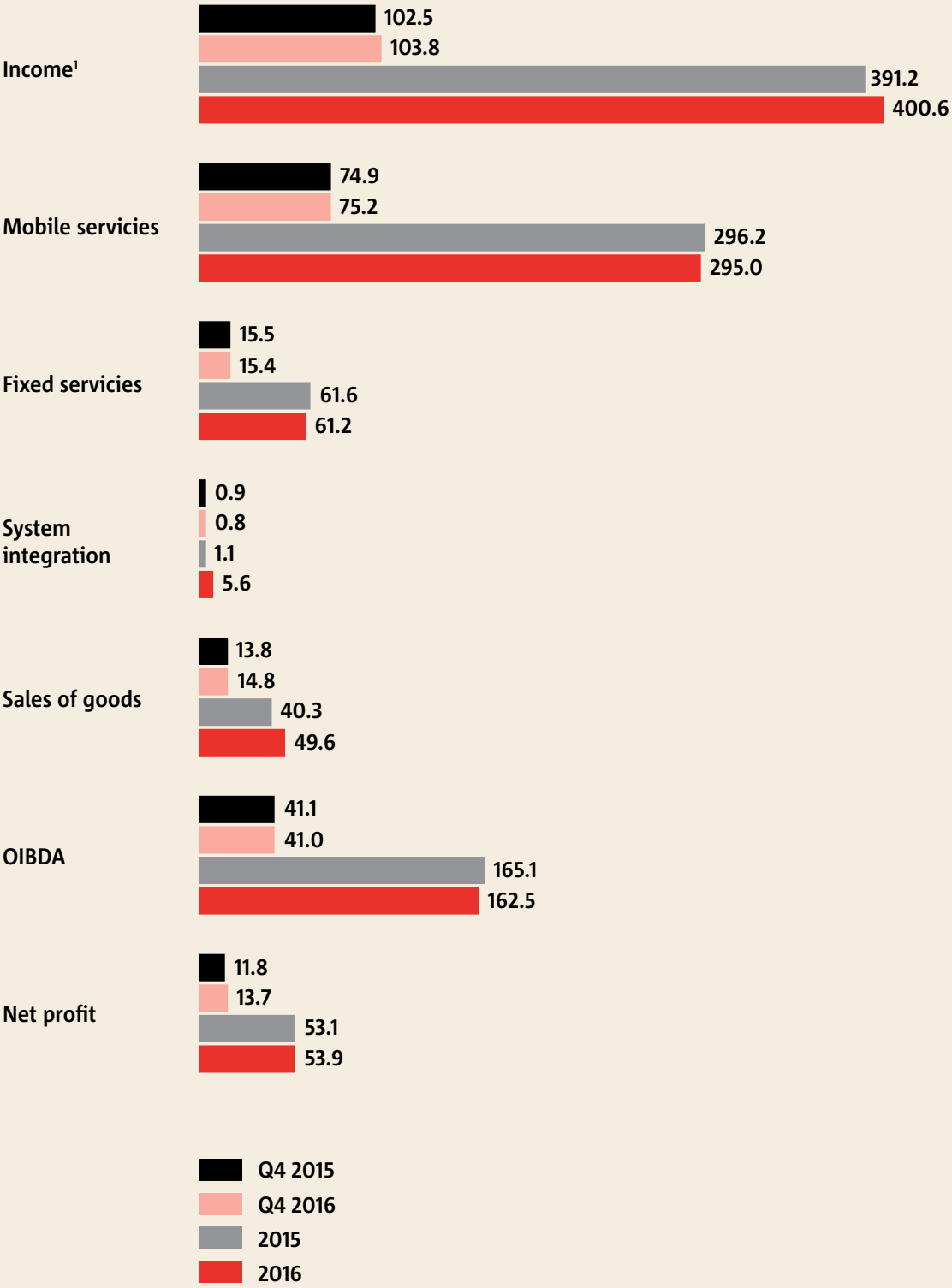
Income in Russia (RUB bln)



Slight decrease in revenues from mobile and fixed businesses of MTS in Russia is offset by annual increase in revenue from sales of goods by 23%. In addition, the fivefold increase in revenue from system integration services supported high performance of the company.

Vice President, Strategy & Marketing, Member of the Management Board
Vasyl Latsanych

Revenues by segment **(RUB bln)**



[1] Excluding intra-group transactions.

Income from fixed business **(RUB bln)**

	Q4 2016	Q4 2015	Change, %	2016	2015	Change, %
Итого	15.4	15.5	–0.5%	61.2	61.6	–0.7%
B2C	7.5	7.5	–0.2%	29.9	29.8	0.3%
B2B+B2G+B2O	7.9	8.0	–0.9%	31.3	31.8	–1.8%

[1] Gross profit from sales of phones and accessories for previous periods was recalculated due to change of the methodology used to calculate the cost of sales of phones and accessories.

In the mobile segment, revenue decreased by 0.4% to 295.0 billion rubles. Key factors, including a decrease in the volume of voice traffic in the business segment and the use of voice services while roaming in the mass segment are largely due to macroeconomic changes. With that, in Q4 2016 with respect to the same period in 2015 the company recorded a growth of 0.3%, reflecting the overall improvement of the business climate in Russia. In addition, MTS 'subscriber base in Russia increased by 3.5% over the year, reflecting loyalty to MTS brand, leadership in key segments such as business services and growing M2M market, and the overall impact of our strategy on a mono-brand retail network

MTS has achieved a 23% increase in revenue from sales of goods for the year and continues to maintain its market share amidst intense competition through aggressive pricing, partnership with key vendors, the attractiveness of MTS branded Internet devices and software sales.

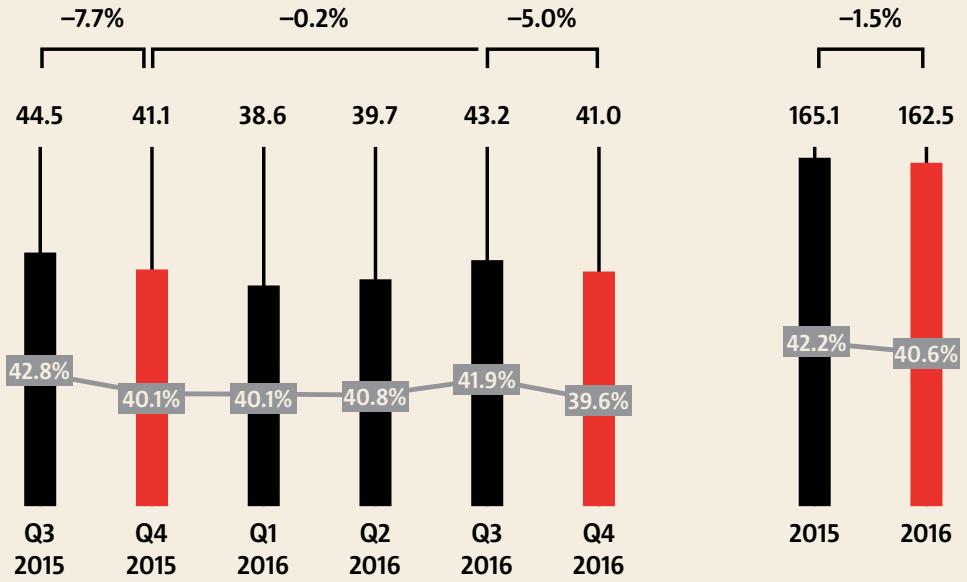
Penetration of mobile Internet has reached about 50%, which reflects the consumers' reaction to the attractiveness of the product line and the tariff policy of MTS. LTE traffic in the total data traffic in MTS network in Russia grew to 26% in 2016 compared to 17% in 2015 due to the active development of LTE network in each of the 83 regions of Russia.

In fixed business, MTS revenue decreased insignificantly by 0.7% to 61.2 billion rubles, due to a 3.7% decrease in the number of fixed telephony subscribers. At the same time, revenue from fixed broadband and pay TV services in the B2C segment continued to grow. Market share in Moscow grew both in the home broadband segment (by 3 pp to 33%) and in the paid TV segment (by 4.6 pp to 29.6%[1]), due to the effective use of GPON network capabilities by offering customers the highest possible data rates and the best quality of services. Over the year, stagnation in the B2B and B2G market was recorded, associated with the current macroeconomic situation.

[1] Only users of Digital TV platform are taken into account.

MTS business in the system integration market, where the company started to operate with the acquisition of NVision Group, demonstrated high performance indicators in 2016. In addition to revenue growth, MTS managed to increase the scale of system integration services, including to expand its presence in cloud solutions market, starting to work with large business segment, and continuing the development of Big Data projects and telematics solutions. Sales of NVision Group software grew by 17.7% QoQ which also affected the dynamics of MTS's total revenue.

OIBDA and OIBDA margin in Russia **(RUB bln)**

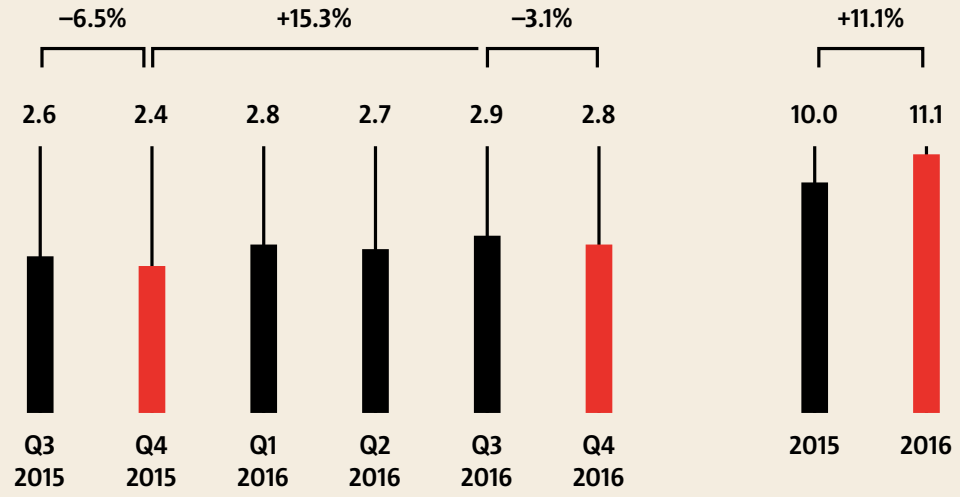


OIBDA in Russia decreased by 1.5% in 2016 to 162.5 billion rubles, which, given the overall situation in the Russian market shows MTS Group's focus on the effectiveness and success of strategic decisions, such as priority of single-brand distribution. Just as the general revenue dynamics in Q4, there was a slight decrease of 0.2%, in quarterly OIBDA in annual terms, which is due both to improvement of the macroeconomic situation and the fact that the retail chain is no longer expanded.

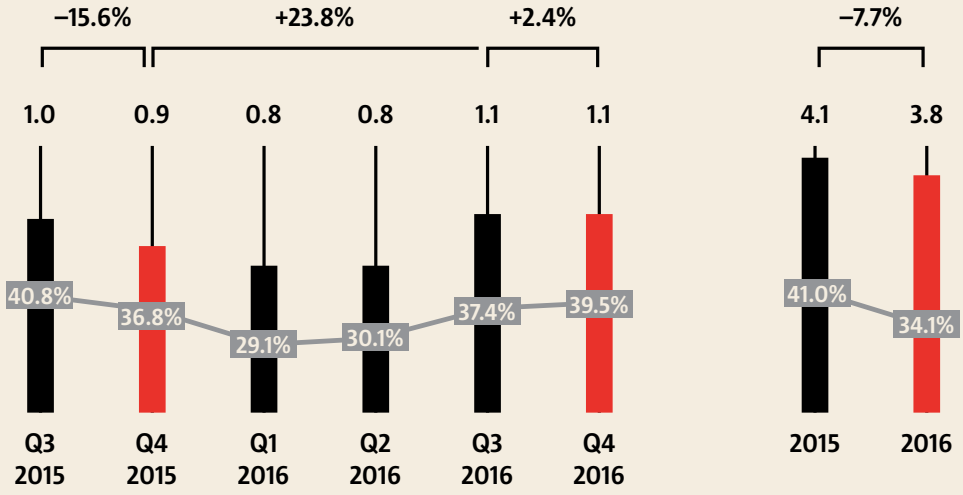
Vice-President for Finance and Investment, Mergers and Acquisitions, Member of the Management Board
Alexei Kornya

Ukraine

Income (UAH bln)



Adjusted OIBDA and OIBDA margin [1] (UAH bln)



[1] Less provision for funds in Ukrainian banks subsequently recognized insolvent..

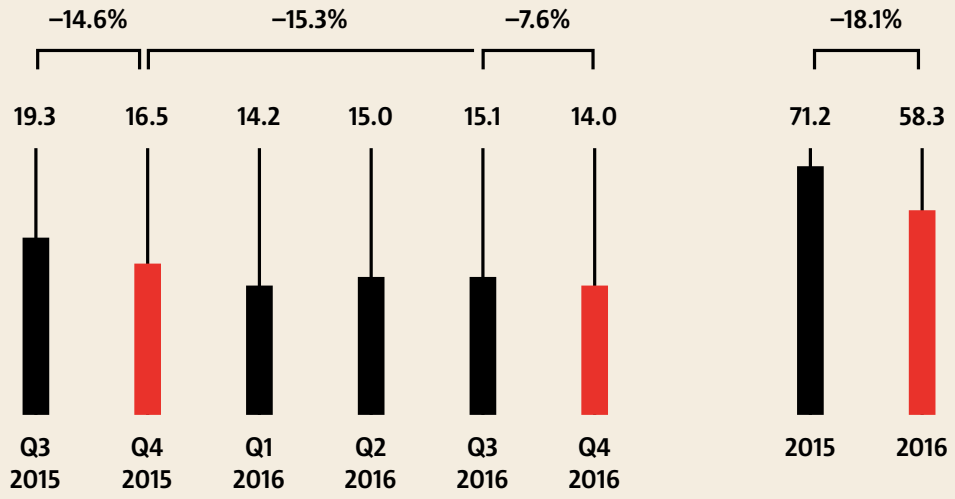
In Ukraine, the Group continues to increase growth rate in the market through the launch of 3G services. During the year the company started to provide data services in all major settlements.

While the adjusted OIBDA as a whole fell by 7.7% in comparison with 2015 to 3.8 billion hryvnia, in the second half of the year the company managed to achieve significant growth of this indicator. This was the result of the economy of scale when deploying 3G networks and launching Vodafone brand. Despite the fact that strengthening of the ruble against hryvnia adversely affected the Group's performance, the market demonstrates significant improvement, which opens up good prospects for the Company's activity in the Ukrainian market in the future.

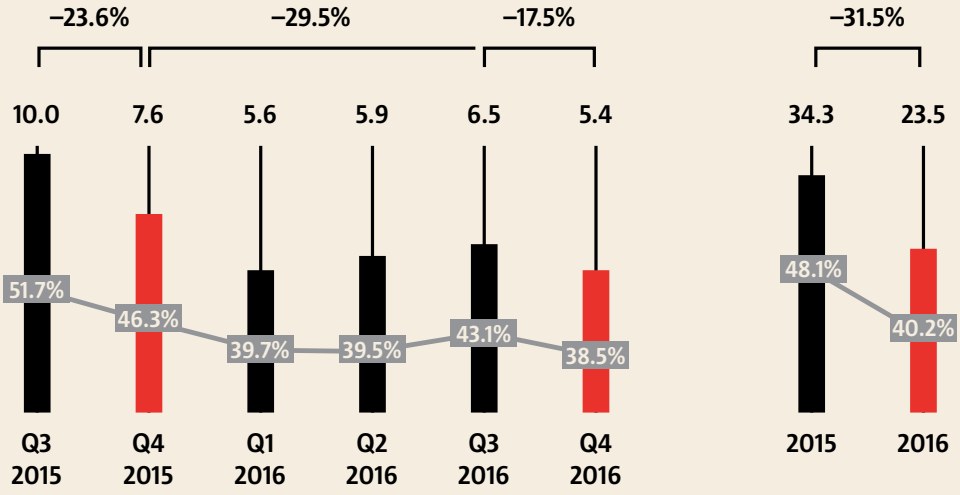
Vice-President for Finance and Investment, Mergers and Acquisitions, Member of the Management Board
ALEXEI KORNYA

Armenia

Income (AMD bkn)



Adjusted OIBDA and OIBDA margin (AMD bln)



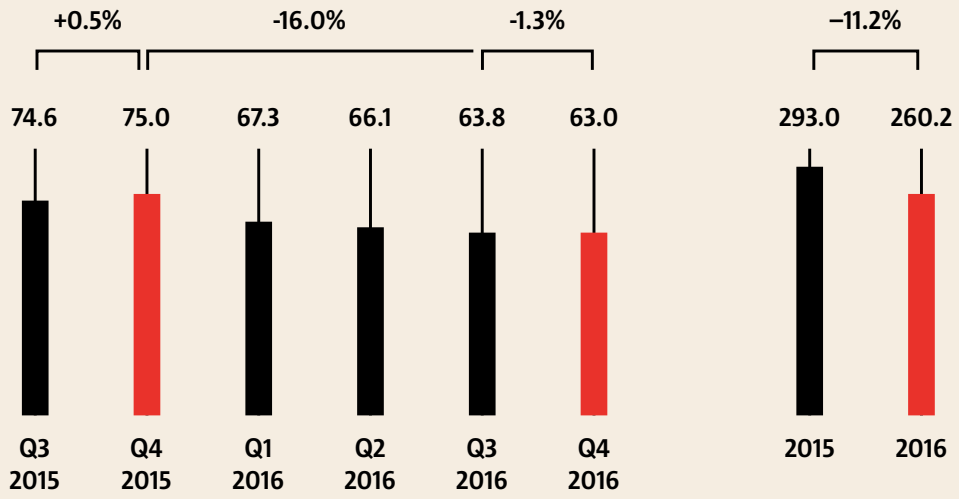
In Armenia, macroeconomic factors continue to negatively affect the use of such services as international calls and roaming, and there is a general weakening of the economy due to decrease in the volume of remittances from abroad.

The pressure of the above negative factors in the market led to increase in competition, which was one of reasons for 32% decrease in adjusted OIBDA compared to the same period last year. However, in general, adjusted OIBDA margin for the year remained at high level of 40.2%, since the company's main target is efficiency even in a complex operating environment.

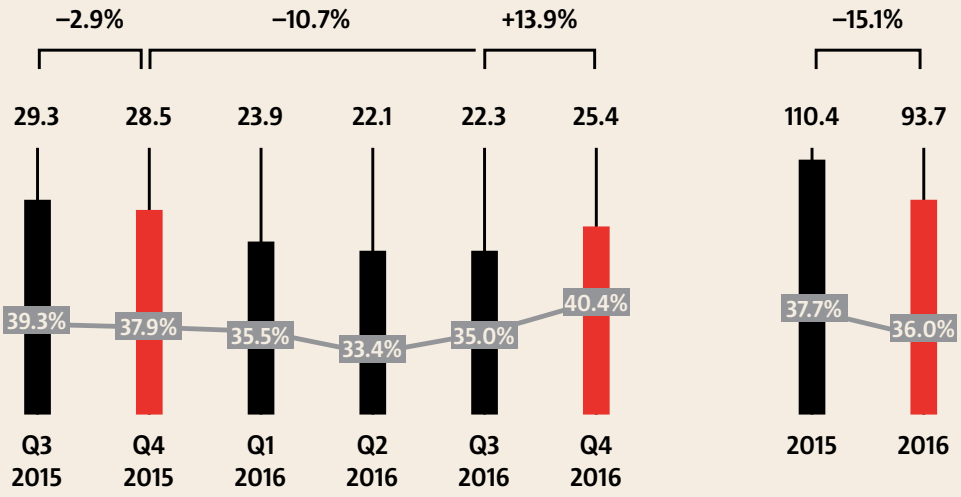
Vice President, Strategy & Marketing, Member of the Management Board
Vasyl Latsanych

Turkmenistan

Income (TMT mln)



OIBDA and OIBDA margin (TMT mln)

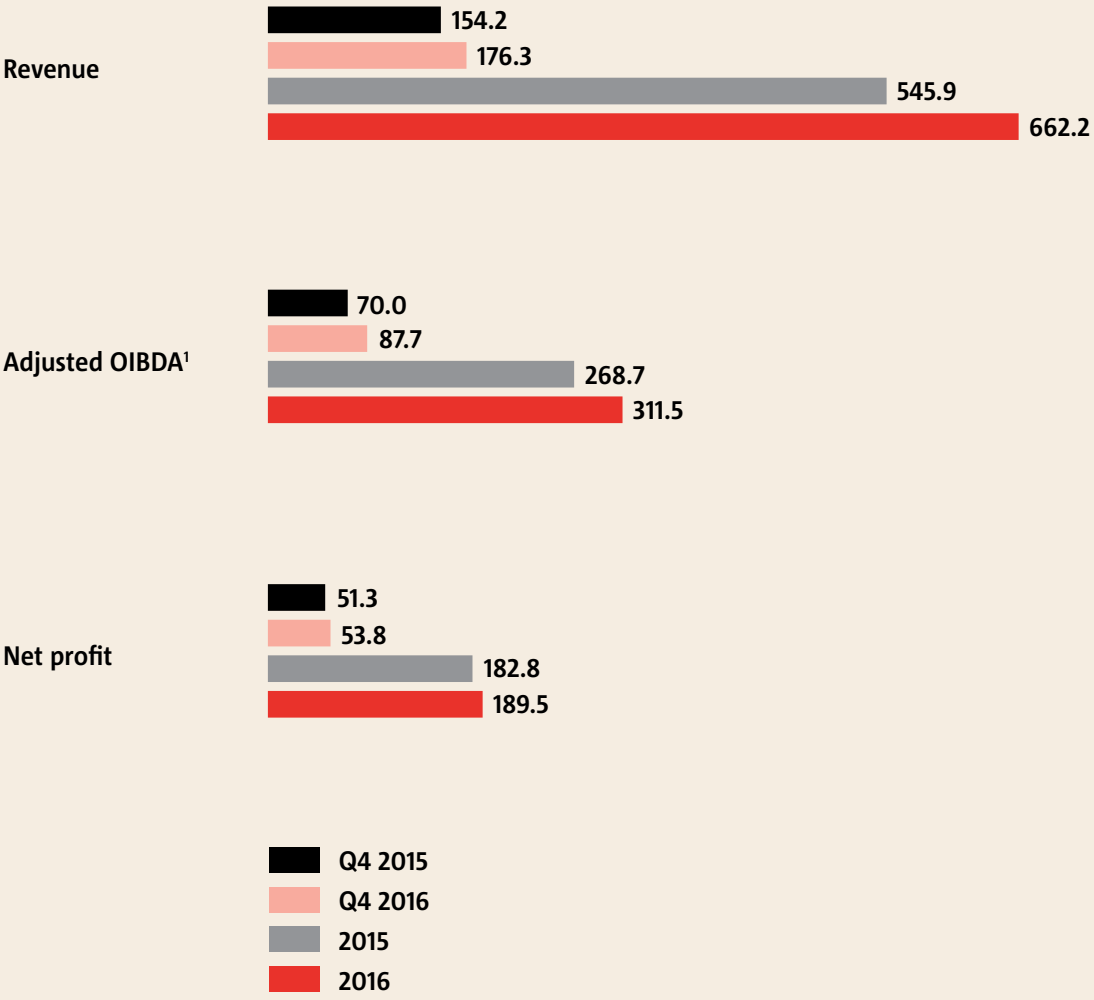


In Turkmenistan revenues in 2016 decreased by 11.2% to 260 million manat. Despite the growth in the subscriber base by 2.6% for the year, macroeconomic factors that negatively affected the overall level of use of voice and data services resulted in lower revenues. The negative impact of macroeconomic factors in Turkmenistan also led to 15.1% OIBDA decline year on year. The Company took measures to increase network capacity and the number of users, but competitive pressure still does not allow to fully benefit from the scale of operations.

Vice President, Strategy & Marketing, Member of the Management Board
VASYL LATSANYCH

Belarus

Income
(BYN mln)



[1] OIBDA – Adjusted by the value of reserves for funds with insolvent Delta Bank in the amount of BYN 6.97 mln in 2015.

In Belarus, the steady growth in the consumption of voice and data services in MTS network continues.

Adjusted OIBDA increased by almost 16% to 312 million Belarusian rubles, contributed by strengthening of the Belarusian ruble against the US dollar and the euro in the second half of the fourth quarter, when demand for roaming and international calls started to grow on the eve of the holidays. In general, adjusted OBIDA margin in Belarus remains high: 47.0%.

Vice President, Strategy & Marketing, Member of the Management Board
VASYL LATSANYCH

Significant Transactions of the Group

Key MTS partnership agreements

1. MTS and Samsung to jointly develop 5G

MTS and Samsung Electronics announced signing of a memorandum of intent to jointly develop next-generation telecom technologies. As part of the strategic partnership, the companies will develop innovations to implement LTE-Advanced Pro network, develop standards and deploy the 5G network in Russian regions.

Please see details at:
www.company.mts.ru/comp/press-centre/press_release/2016-09-26-5398927/

2. MTS and Samsung to develop a joint retail project in Russia

MTS and Samsung Electronics announced the beginning of cooperation in the development of Samsung's branded retail in Russia. MTS will build and will manage a network of showrooms under the Samsung brand in several key regions of Russia.

Please see details at:
www.company.mts.ru/comp/press-centre/press_release/2016-04-20-5137150/

3. MTS and Huawei have concluded a long-term agreement on the sale of smartphones and other devices

MTS and Huawei signed a partnership agreement in the field of supply of Huawei smartphones and other consumer electronics for MTS Retail Chain. The agreement provides for expansion of the product line. Several Huawei and Honor brand devices will be sold by MTS on an exclusive basis.

Please see details at:
www.company.mts.ru/comp/press-centre/press_release/2016-08-09-5316355/

Information on Significant Transactions **of Affiliates**

No such transactions were carried out in 2016.

Essential Affiliates of MTS PJSC [1]

Russian Telephone Company Closed Joint-Stock Company

Location: 5 Vorontsovskaya str., bld 2., Moscow 109147

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

Primary business: sales of MTS PJSC services.

MTS Ukraine Private Joint-Stock Company

Location: 15 Leypcigskaya str., Kiyv, Ukraine 01601

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: endering 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., bld 1, Moscow 119047

The share of MTS PJSC in the authorised capital of the affiliate: 94.1%

The share of the affiliate in the authorised capital of MTS PJSC: 0.42%

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

[1] As of December 31, 2016

MTS Issuer Credit Ratings[1]

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

Standard&Poor's	BB+, stable
Fitch	BB+, stable

Changes that occurred after the reporting date:

Standard&Poor's	BB+, positive
Fitch	None

[1] As of December 31, 2016

Risk Management

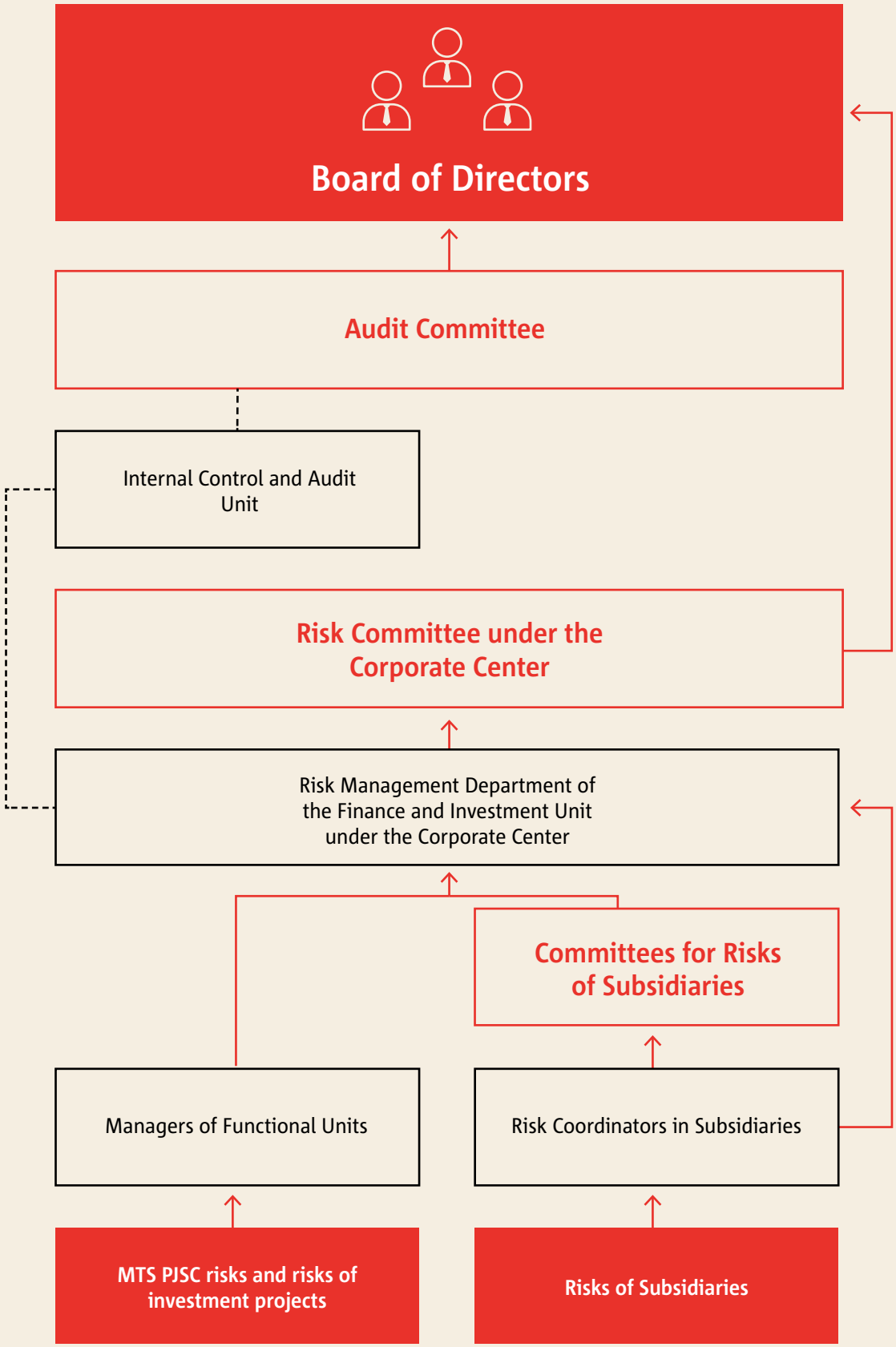
Risk Management System

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.

MTS Group approved Integrated Risk Management Policy. Integrated risk management is aimed to ensure in a reasonable way that the Company’s strategic goals will be achieved and to maintain the risk level of MTS Group within the limits acceptable for the Company’s management.

The main principles of the risk management process are:

- Integration principle. It provides for a systematic approach to managing all types of risks inherent in MTS ‘business, across the entire organizational structure and all markets where MTS Group operates. It supports cross-functional interaction and coordination of structural units to manage risks beyond their specialization, as well as analysis of the mutual impact of risks from different departments. A unified channel for informing the Company’s management on the entire range of risks is created to ensure the completeness, quality and comparability of the information provided for each of the decision-making levels.
- Continuity principle. Provides for implementation of a set of well-organized risk management procedures on a regular basis.
- Reasonableness principle. Involves analysis of the ratio between estimated risk mitigation costs and potential damage from risk realization.


Board of Directors
Audit Committee
Internal Control and Audit Unit
Risk Committee under the Corporate Center
Risk Management Department of the Finance and Investment Unit under the Corporate Center
Committees for Risks of Subsidiaries
Managers of Functional Units
Risk Coordinators in Subsidiaries
MTS PJSC risks and risks of investment projects
Risks of Subsidiaries
information flows
Control over effectiveness of risk management process

Integrated risk management objectives include the creation and maintenance on a quarterly basis of an efficient system for identification and systematic analysis of the Company's risks, mandatory consideration of significant risks when making management decisions, proper allocation of risk management responsibilities, development of additional measures and plans for responding to significant risks and monitoring their performance, monitoring of risks and risk management effectiveness, 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 President of MTS. The Committee includes members of the Management Board, Vice-Presidents and other senior managers. The competence and responsibility of the Committee includes analysis and approval of the following: development objectives of the integrated risk management process at MTS; risk management methodology; MTS risk portfolio and priorities of risk management measures, taking into account the reasonableness of their costs and available resources; MTS risk portfolio management strategies, 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.

2016 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 2017

In 2017, 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.

Risk Factors

Risk Description	Risk Mitigation Measures
Country and macroeconomic risks	
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.	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.
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.	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.
Financial 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 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.

Regulatory and legal risks

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 comes into force on July 26, 2017. According to the approved Requirements, a telecom operator must send on quarterly basis information to the FSB 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 3 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 3 years in the Russian Federation information on the facts of reception, transmission, delivery and/or processing of voice information and text messages, images, sounds, video or other communications by telecom service users, as well as the contents of all these communications and voice information for up to 6 months. The procedure, timing and volume of storage of the information is established by the Government. The effective date of this regulation with regard to storage of content of the communications is established at 01.07.2018.

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 optimisation of the regulatory framework in the communication industry.

Regulatory risks are given special attention within the framework of strategic planning.

On Decenber 23, 2016, the Ministry of Communications has prepared and submitted for public discussion a draft resolution of the Government of the Russian Federation “On the Procedure, Timing and Volume of Storage of Text Messages, Voice Information, Images, Sounds, Video and other Telecom Service User Communications by Telecom Operators “. As of April 1, 2017 this draft undergoes regulatory impact evaluation procedure and approval with state authorities.

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.

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 organisations: 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.

Technology risks

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.

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 render the communication services, the use of the reserve telecommunication equipment, network management systems, operating and maintenance systems is provided. Information security is provided by a complex system of engineering, technical and other information security measures.

Competitive environment

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 characterised 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.

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.

Operation risks

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.

Rate of growth of our subscriber base, market share and revenue depend, inter alia, on the ability to expand our retail chain, maintain relationships with regional distributors and on the independent dealers' market structure.

We work on the expansion and improvement of the home trade network, on maintenance and further development of the marketing network through national, regional and local dealers.

The most significant risk factors that potentially may affect the performance of MTS PJSC are represented below. More details about those and other risks can be found in "Item 3 – Key Information – D. Risk Factors" in the 20-F[1] Annual Report, as well as in quarterly reports of MTS PJSC[2].

[1] www.mtsgsm.com/resources/annual_reports/ .

[2] www.company.mts.ru/comp/ir/control/data/quarterly_reports/ .

Unified Compliance System of MTS PJSC

Taking a leading position in the industry, the Company is aware of its high responsibility for business transparency, ethics and lawfulness. For the purposes of maintaining and preserving its high business reputation to the state, shareholders, customers, partners, competitors and society in general, the Company for several years has been developing the corporate system of compliance with requirements of applicable legislation and business ethics ("compliance").

In order to implement a unified compliance strategy for the Company, to consolidate the principles of and unify approaches to the effective management of compliance risks, as well as in line with the world's best practices, in 2016 MTS adopted the Compliance Policy of MTS PJSC.

In addition, the Company has established the Compliance Committee under the President of MTS, which includes the President himself, the managers in his direct subordination; the Director of Compliance Department is the Chairman

Today it takes more than just seeking to improve investment attractiveness and operating efficiency to be a successful company. Public status and prominence of MTS obliges us to maintain reputation of the Company in a best possible way as a socially responsible organization for all stakeholders, including the state, our subscribers, shareholders, partners, employees and the public. Therefore, for several years we have been actively developing a uniform compliance system at MTS, which includes, among others, anti-corruption compliance, inside compliance, environmental compliance, antimonopoly compliance, etc.

We consistently work to create a high corporate compliance culture at the Company: regular thematic trainings for employees are held; since 2015, the Company has been celebrating the Day of Ethics and Compliance on an annual basis. In 2015, based on the results of independent evaluation of anti-corruption compliance performance MTS was recognized as an example of best Russian practices; in 2016, an independent study showed that we meet the best world practices in organization and development of anti-corruption compliance functions.

Director, Compliance Department, MTS PJSC
Yulia Romashkina

of the Committee. The Committee was established to make decisions on the issues of formation and implementation of compliance programs approved under the Uniform 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.

At the end of 2016, the Uniform Compliance System includes nine compliance programs:

- Anti-Corruption Compliance
- Confidential information protection
- 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)
- H&S 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.

The development of the Unified Compliance System will enable 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, as well as to obtain consolidated management reporting, which will positively affect the overall performance of the Company.

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.

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 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.

Anti-Corruption Compliance

The Company adheres to principles of compliance with requirements of applicable anti-corruption legislation (anti-corruption legislation of countries, on the territory of which the Company performs its activities, Foreign Corrupt Practices Act 1977, The Bribery Act 2010) and business ethics in all business relations and irrespective of a world country, in which the Company performs its business activities. The Company fixed the principle of non-acceptance of corruption in any forms and occurrences both in everyday activities and when implementing strategic projects.

Main documents governing anti-corruption compliance procedures inside MTS are the Code of Business Conduct and Ethics, Policy "Compliance with anti-corruption legislation", Policy "Conflict of interests management". Besides, procedures for assuring compliance with anti-corruption legislation are fixed in regulations of Company's business-processes.

The anti-corruption compliance system at MTS PJSC sets forth measures aimed at regulatory risk management, 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.

Basic principles and elements of the compliance system at MTS PJSC are:

- Company's management actively demonstrates its commitment to compliance principles as well as makes efforts for implementation and assurance of operation of the corporate compliance system (Tone from the top);
- the Company regularly conducts measures for discovery and subsequent updating of corruption risks paying special attention to risks specific for its activities, regions of operations as well as potentially vulnerable business-processes;
- the Company develops and implements anti-corruption procedures reasonably and proportionally meeting the level and nature of discovered risks;
- the Company implements and maintains the program of training of its 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. The Company by means of informing and training contributes to the increase of the level of corporate culture, awareness of anti-corruption and business ethics issues;
- The Company exercises monitoring of efficiency of implemented procedures for corruption prevention, monitors compliance and, if required, improves them;
- for the purposes of minimisation of the risk of Company's involvement in corrupt practices, the Company developed due diligence procedures

both in respect of contract parties – legal entities (including members of joint ventures, companies or associations) and in respect of individuals with whom the Company plans to enter into a labour contract or a civil law contract. The due diligence procedure is also applied if the Company acquires a stake in some legal entities;

- the Company annually conducts an assessment of corruption risks in the business processes of the Company, directly involving representatives of business units;
- the Company established the procedure for preliminary control as well as the reporting system and subsequent analysis of the most risky transactions in terms of compliance, including, but not limited to, in the area of granting, implementation of representation expenses, organisation of measures, corporate social responsibility, procurement, marketing, sales, M&A transactions, etc.;
- as part of internal control procedures the Company conducts 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;
- the Company operates a hot line enabling, inter alia, to anonymously send messages about compliance violations. Bona-fide claimants are provided by the Company with protection from any forms of persecution or discrimination.

In 2016, the Company implemented many projects and initiatives within the framework of the development of the corporate anti-corruption compliance program and strengthening of compliance culture:

- Corruption compliance risks were assessed for the Company's foreign subsidiaries, risk maps were made and actions for managing the identified risks were identified;
- The Company performed an in-depth study of the best international practices in the field of organization and creation of corporate anti-corruption compliance programs. Another objective of the project was to compare the status of the Company's compliance program with the leading international experience. Based on the results of the study, independent consultants concluded that the anti-corruption compliance program complies with the global best practices in terms of organization of the compliance function, its functional subordination within the company and coordination of compliance activities, as well as general compliance with the best international practices in terms of allocation of responsibilities between MTS compliance function and other structural units of the Company, and in terms of involvement of compliance function into compliance procedures of MTS. The study also highlighted a number of best practices implemented in anti-corruption compliance program of the Company.

- For the purposes of counterparties verification procedure, specialized databases of the leading news agency were involved, which made it possible to improve the effectiveness of the procedure;
- Compliance processes and procedures to be automated were identified and the search for a specialized IT solution started;
- Internal communications actively highlighted compliance subject. In particular, video messages of the Company's management about the importance of compliance were published, animated videos series on anti-corruption compliance and management of the conflict of interests was launched, interviews of compliance function representatives was broadcast on the corporate radio, animated screensavers on compliance were developed and posted on computers of the Company's staff.

In addition, in 2016 the development of the international standard ISO 37001 "Anti-Corruption Management Systems" was completed, where the Company took a direct part, being member of the project committee; besides, at the end of 2015, the head of MTS compliance function was awarded the prestigious International Association of Compliance Award for contribution to the promotion of compliance practices.

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. The Company also conducts annual testing of knowledge and certification of compliance with the Code of Business Conduct and Ethics for management and top management, the results of which are reviewed by the Audit Committee of the Board of Directors of MTS PJSC.

In 2016, a survey was conducted on the internal Unified Information Portal of MTS "Disclosure of information about the conflict of interests". among all employees of the Company willing to participate. During 2016, Compliance department audited 19 situations and provided expert opinion thereon in order to identify the presence of the conflict of interest. Two actual and eight potential conflicts of interest were resolved. No conflict of interest was detected in 9 situations.

Confidential information protection

Compliance program “Protection of confidential information” establishes requirements for organization of information security regime at the Company aimed at ensuring the protection of confidential information and commercial secrecy regime. For this purpose, the Company has implemented “Regulations on data security (confidentiality) regime of MTS PJSC”. The requirements set forth in the Regulation are mandatory for all employees of MTS. Each employee is personally responsible for complying with information security (confidentiality) regime of the Company.

The regulation is developed in accordance with the applicable law: Federal Law No. 149-FZ of July 27, 2006 “On Information, Information Technologies and Information Protection”, Federal Law of the Russian Federation No. 98-FZ of July 29, 2004 “On Trade Secrets”, taking into account the requirements of Federal Law of the Russian Federation No. 126-FZ of July 07, 2003 “On Communications”, Federal Law of the Russian Federation No. 152-FZ of July 27, 2006 “On Personal Data”.

An important element of the compliance program is regular training and informing the company’s employees about their duties, requirements and prohibitions related to handling of confidential information, as well as on confidential information protecting procedures existing at MTS.

No less important role is played by the subsequent monitoring in the form of checks of information security (confidentiality) regime status and organization of work with confidential documents. In 2016 such audits did not discover major breaches.

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.

With respect to transactions involving the use of insider information, the Company adheres to the following principles:

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 (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.

In order to ensure compliance with the requirements for “closed” periods, the system provides for quarterly reporting (2 times 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 was launched, 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.

.Pursuant to the Russian laws on preventing insider trading, the Company maintains a list of insiders. Thus, in addition, MTS pays close attention to monitoring of insiders, insider counterparties, and 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 2016, the Internal Audit Department conducted audit of the insider compliance system controls: there were no significant deviations.

Personal Data Processing **Orga**nization

The Company is a personal data operator and must comply with the requirements of applicable legislation in the field of personal data. The Company has dedicated units that implement compliance program in this field and take the necessary organizational measures to bring the personal data processing in compliance with the legislation.

The program includes the following basic organizational arrangements, which were implemented, including in 2016:

- receiving and processing requests from personal data subjects;
- registration of persons processing personal data of personal data subjects on behalf of MTS PJSC;
- checking status of information security (confidentiality) regime;
- consulting and raising awareness of MTS PTS employees regarding personal data processing.

The Company has developed and implemented an electronic course “Personal Data Processing at MTS PJSC, which is mandatory for all employees; other information channels are used as well for messages and appeals concerning organization of personal data processing; a special Hotline was opened.

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.

The Company has developed and implemented a set of relevant internal regulatory documents, regularly conducts training in this area; in 2016 it was attended by more than 3,200 MTS employees. Also in 2016, working meetings on current AML/CFT compliance issues were held with regulators: representatives of the Federal Financial Monitoring Service, the Federal Service for Supervision of Communications, Information Technology and Mass Communications, and telecom operators.

As part of the program's activities, 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."

System of antimonopoly risk prevention (antimonopoly compliance)

Developing the antimonopoly risk management system introduced in 2015, MTS continued training its employees on competition protection legislation and decided to start implementing the system in one of its subsidiaries.

The main elements of the antimonopoly risk prevention system are:

- Commitment to compliance with the requirements of the competition legislation (tone from the top);
- Responsibility of the antimonopoly compliance manager for maintaining and developing the antimonopoly risk prevention system;
- Annual activities to identify and reassess the existing antimonopoly risks in MTS operations, and updating the Risk Map;
- Support, performance monitoring and updating of internal procedures to ensure compliance with antimonopoly laws;
- Regular training of employees and management on the requirements of the antimonopoly legislation, as well as on compliance procedures effective in the Company;
- Communication aimed at increasing the level of compliance culture;
- Support for the Hotline intended to inform about potential threats.

In 2016, the Company continued to develop the system: it was decided to implement the system at PrJSC MTS Ukraine; staff training continued, including on specialized trainings aimed at preventing the most serious risks in the field of pricing; also internal audit of the system's control procedures in the field of marketing was conducted, which confirmed the effectiveness of controls.

H&S Management System

When building “Occupational Safety Management System” compliance program, the Company is guided by the applicable Russian and international legislation, as well as by local regulatory documents on labor protection. As a part of the program, measures are taken to identify and minimize risks, train employees and experts in the field of occupational safety, various activities and communications to promote safety issues, control procedures at various levels, and interact with regulators. (For details on the program please see p. 294).

Observance of human rights **at the workplace**

MTS is fully committed to the universally recognized global approach to human rights and ensures the rights of all its employees by complying with applicable laws.

Principles and approaches to the observance of human rights are enshrined in the company’s internal regulatory documents, the Code of Business Conduct and Ethics, MTS functional strategy in the field of corporate social responsibility, and the MTS Supplier Code.

If an employee believes that his rights are violated, he can post a message to the Company’s “Unified Hotline”.

Information on the work of UHL is published annually in the Sustainability Report.

Ecology

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.

Environmental issues are the responsibility of several divisions of the Company: Department of Corporate Social Responsibility, Administrative Unit, Purchasing Management Unit. A number of cross-functional initiatives are also implemented in this area jointly with the Marketing Unit and other functional divisions of MTS.

The Company constantly monitors compliance with all applicable environmental requirements, and annually reports to the Federal Service for Supervision of Nature Management and other specialized bodies. Information on the environmental performance of MTS is published annually in the Sustainability Report.

Before concluding contracts with counterparties MTS conducts assessment of the counterparties for compliance with environmental requirements. In 2016, MTS Supplier Code was supplemented by a section on corporate social responsibility.

Eco-Office Program is being realized for employees of the Company, involving implementation of the principles of rational use of electricity and consumables for office equipment, separate waste collection and environmentally friendly waste disposal, as well as programs to promote the attitude of care for the environment and healthy lifestyle.

In each branch of MTS PJSC, efforts are underway to compile permissive and normative-technical environmental documentation, and environmental protection activities are being performed.

Environmental corporate events involving volunteers, partners and other representatives of stakeholders are coordinated at the level of the Corporate Center of MTS by the Department of Corporate Social Responsibility, Department of Internal Communications, Administrative Unit.

For communications concerning all aspects of corporate social responsibility (including environmental issues) there is a dedicated e-mail CSR@mts.ru.

ИСКУССТВО ЖИТЬ В СОГЛАСИИ С ПРИРОДОЙ
ЭКОНОМЬ БУМАГУ—
СОХРАНИ ЖИЗНЬ ДЕРЕВЬЕВ
МТС

ИСКУССТВО ЖИТЬ РАЦИОНАЛЬНО
БЕРЕГИ ВОДУ, РАСХОДУЙ ЭКОНОМНО
МТС

ИСКУССТВО ЖИТЬ В КРАСОТЕ
ТЫ МОЖЕШЬ СДЕЛАТЬ МИР ЛУЧШЕ
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ИСКУССТВО ЖИТЬ РАЗУМНО
ЭКОНОМЬ ЭЛЕКТРОЭНЕРГИЮ—
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3

Report of the Board of Directors

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

During the past year, the work of the Board of Directors of MTS PJSC was quite an intense, and the achieved results, in our opinion, fully correspond to the spirit of confident leadership inherent in our company.

The high intensity of the work of the Board was determined by the current market conditions, namely: overall stagnation of the telecommunications market, being the main marked for MTS, persisting complex macroeconomic background in the countries where we operate, as well as strong competition. Global trend of digitalisation deserves special attention, which substantially adjusts the priorities of investors, contributing to the development of new companies and leading to radical changes in the approach to business of many companies and entire sectors of the economy.

All these factors together increased the price of decision making, which made it necessary to consider a large number of alternative scenarios with greater attention to details. The past year has required us to make bold and at the same time cautious decisions in the field of strategic positioning of the Company, having a significant impact on such important elements as organizational structure, directions of investment flows, operational management methods. These general words cover the hours of hard work of the entire Board of Directors, including the creation of a common vision for the Company's future way of development, regular active interaction with MTS management and shareholders' representatives, preparation of preliminary materials for meeting of the Committees, and the process of collegial decision- making during meetings of the Board.

The key issue that required the attention of the Board of Directors was the Company's strategy. In 2014, we adopted a general strategic formula represented as "3D: Data. Differentiation. Dividends ".Now we are pleased to state that the goals set in the framework of one of its key elements – "Differentiation", have been successfully implemented, as a result of which the Company gained new competencies and entered into a number of business areas adjacent to the traditional telecom. Thus, a reliable basis was created for the next evolutionary step associated with a focus on a new area called Digital, which became the central link of our updated strategy "3D: Data. Digital. Dividends".

In order to understand the scale of the work performed when formulating the updated strategy, it is important to get an impression of the versatility of the Digital concept, to realize all the changes that the Company had to undergo during Digital transformation. These changes affect all key aspects of the company's operation, including human resources, financial and investment flows, operational and corporate governance; that's why the development of such a program required involvement of all committees of the Board of Directors. As a result, this year a new vector was defined for the Company's further movement, and such an important decision is undoubtedly based on deep analytical efforts, detailed analysis of the world experience, and joint discussions that have built the confidence in the prospects of the way chosen and correctness of our decision.

The continuity of the new strategic form should be also emphasized, in which the foundation for Digital transformation were the existing assets of the company in the form of the network itself, competencies and experience of the personnel, the brand's power, customer loyalty, and the end result is the creation of shareholder value, and high return on investment.

Another important decision of the Board of Directors is the adoption of Dividend Policy for 2016–2018. The adopted policy is a simple and clear projection of the fact that the interests of investors are of paramount importance for us, and illustrates the diligence the Board of Directors exercises when fulfilling one of its most important functions: comprehensive care about shareholders' rights and interests.

Besides high-order decisions, an important part of the work of the Board is the constant monitoring of investment flows, the leading role here is played by the Budget Committee and Audit Committee. In the past year, the Company actively worked on a number of key areas of investment, namely:

- The final stage of 3G network construction was completed, in the future the construction will be localized, following the needs for local extensions or increased capacity
- The construction of LTE network was in the most active phase. In 2016, coverage of the main target territories in all regions of Russia was provided, so in the future we plan to reduce the intensity of construction in this area

- Through participation in frequency auctions and localized M&A investments, the Company expanded the available spectrum, ensuring the potential to increase network capacity in the future, in case of further increase in traffic consumption.
- A large-scale 3G network construction program was implemented in Ukraine, which enabled us to now demonstrate an increase in revenue in this market by more than 10% in 2016 and provided an opportunity to tap into further growth of the market, which we believe will be observed in the next 2–3 years
- IT infrastructure investments have been made, and this element is intended not only to meet the current needs of the company, but is also aimed at forming the technological environment necessary for the Digital Transformation

According to the results of 2016, the investment plans have been completed in line with the targets: the actual capital expenditures amounted to 86.1 billion rubles, as compared with the target of about 85 billion rubles.

In the future, we expect equally intense efforts for planning and controlling investments related to implementation of the company's Digital Transformation. First of all, these will be investments in the internal IT environment, intellectual assets and a number of projects that were confirmed as promising at the pilot stage. It should be noted that the intensity of our work in this area will increase due to the need for detailed analysis of promising projects, where the decision will be taken based on evaluation not only of the local effect, but also of the impact on the company's strategic position. Herewith, we proceed from the understanding that investment activity should be balanced in such a way as to unconditionally ensure guaranteed level of dividends to our shareholders.

In 2016, the work of the Board of Directors of MTS was aimed at achieving our main goals: ensuring the Company's sustainable development, high operating results, observing the rights and interests of shareholders and guaranteeing them high and stable profitability. The work of the Board of Directors as a whole was efficient, the Board played an active role in the Company's development, carried out strategic management of and control over its operations.

Roles of independent members of the Board of Directors

A high-quality corporate governance system and efficiently operating Board of Directors are the most important conditions for the 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, 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.

In 2016, we increased the number of independent Directors in the Budget Committee the Strategy Committee, Corporate Governance Committee, and the Remuneration and Nomination Committee. Regina von Flemming (independent director) who previously had not been a member of any committee of the Board of Directors became a member of certain committees.

Thus, we note significant expansion of the role of independent director in such matters as corporate strategy and strategy monitoring, improving the quality of corporate governance of the Company as a whole, assessing the situation in reorganizations, mergers and acquisitions.

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. With the methodological support of consultants, we conducted evaluation of performance of the Board of Directors using the new methodology (questionnaire method) and, based on its results, made important management decisions.

Development of the Corporate **Governance** System and plans **for 2017**

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

Our efforts in this area were aimed at further implementation of the Roadmap to introduce the Code's recommendations ("Roadmap") at MTS, and, according to our calculations, we achieved more than 85% fulfillment of the Code's recommendations. For details on fulfilment of the Code please see the section on observation of principles and recommendations of the Corporate Governance Code.

The past year was the year of completion of the first stage of listing upgrade at the Moscow Stock Exchange, when new requirements for corporate governance of issuers entered in force. Thus, our efforts were also aimed at full implementation of the Exchange Listing Rules. We were able to resolve the arising issues and achieved full compliance of the Company with the requirements.

Summing up the reporting year, I should note that we managed to achieve our goals. In the next year, we will continue to improve the corporate governance of the Company, taking into account the results of research in the field of Russian corporate governance[1].

New procedure for review of related party transactions **at MTS**: the main elements

Since January 1, 2017, the requirements of the legislation on review of related party transactions have changed.

Under the new rules, a related party transaction does not require mandatory consent/approval from the Board of Directors. Instead of approval, the company shall inform about the transaction members of the Board of Directors, members of the collegial executive body of the company, and in some cases also shareholders of the company[2]. In future, such persons have the right to request consent of the authorized body for the transaction, and if no such requests are made, the transaction can be completed. In addition, the law introduced a materiality threshold for related party transactions: related party transaction with a price of ≤ 0.1% of the book value of assets are excluded from the attention of the Board of Directors and may be concluded by the sole executive body independently. The threshold of materiality can be reviewed by decision of the Bank of Russia.

In accordance with the changed regulation, MTS introduced a new procedure for reviewing related party transactions:

1) Information on upcoming related party transactions with a price > 0.1% of the book value of MTS assets is sent to members of the Board of Directors and members of the Management Board 15 days before they are made.

3) Within 15 days, any member of the Board of Directors or a member of the Management Board may request the consent of the Board of Directors to approve the related party transaction.

4) If a request for approval of the transaction is not made, the transaction is completed. When a request for approval is received, the transaction is submitted for consideration by the Board of Directors and is made only upon the consent of the Board of Directors.

In 2016, in order to comply with applicable international auditing standards regarding the disclosure of transactions with related parties, MTS PJSC

[1] "Research in the field of Russian corporate governance" is understood as the study "Corporate Governance Index 2016" (prepared by the Association of Independent Directors together with the National Research University "Higher School of Economics") and the study "National Corporate Governance Index 2016" (conducted by the National Association Independent directors)

[2] Shareholders are notified of the transaction if all members of the board of directors (supervisory board) of the company are related to the transaction, or if its formation is not provided for by law or by charter of the company (para. 1.1 Art. 81 of the Law on Joint Stock Companies).

introduced a control procedure of the Audit Committee of the Board of Directors for transactions with companies of JSFC Sistema PJSC Group. All transactions between MTS PJSC and the companies of JSFC Sistema PJSC Group, regardless of the price, are reviewed by the Audit Committee for compliance with the interests of the company.

MTS shareholders' meetings are moving into virtual space

MTS introduces innovations in all areas, including in relations with shareholders.

In the fall of 2016, MTS together with "Independent Registrar Company" (NRC) JSC for the first time launched online e-voting service based on ComVoting, which enabled MTS shareholders to vote electronically at the extraordinary General Meeting of Shareholders on September 30, 2016.

ComVoting service allows the shareholders to remotely participate in voting through MTS website. Voting is available both to shareholders holding their shares directly in the register, as well as to shareholders holding their shares in depository, including on the accounts of the Central Depository.

In 2017, during the annual General Meeting of Shareholders of MTS PJSC, our shareholders in real time will be able not only to watch the meeting from the screens of their gadgets, but also monitor the voting online.

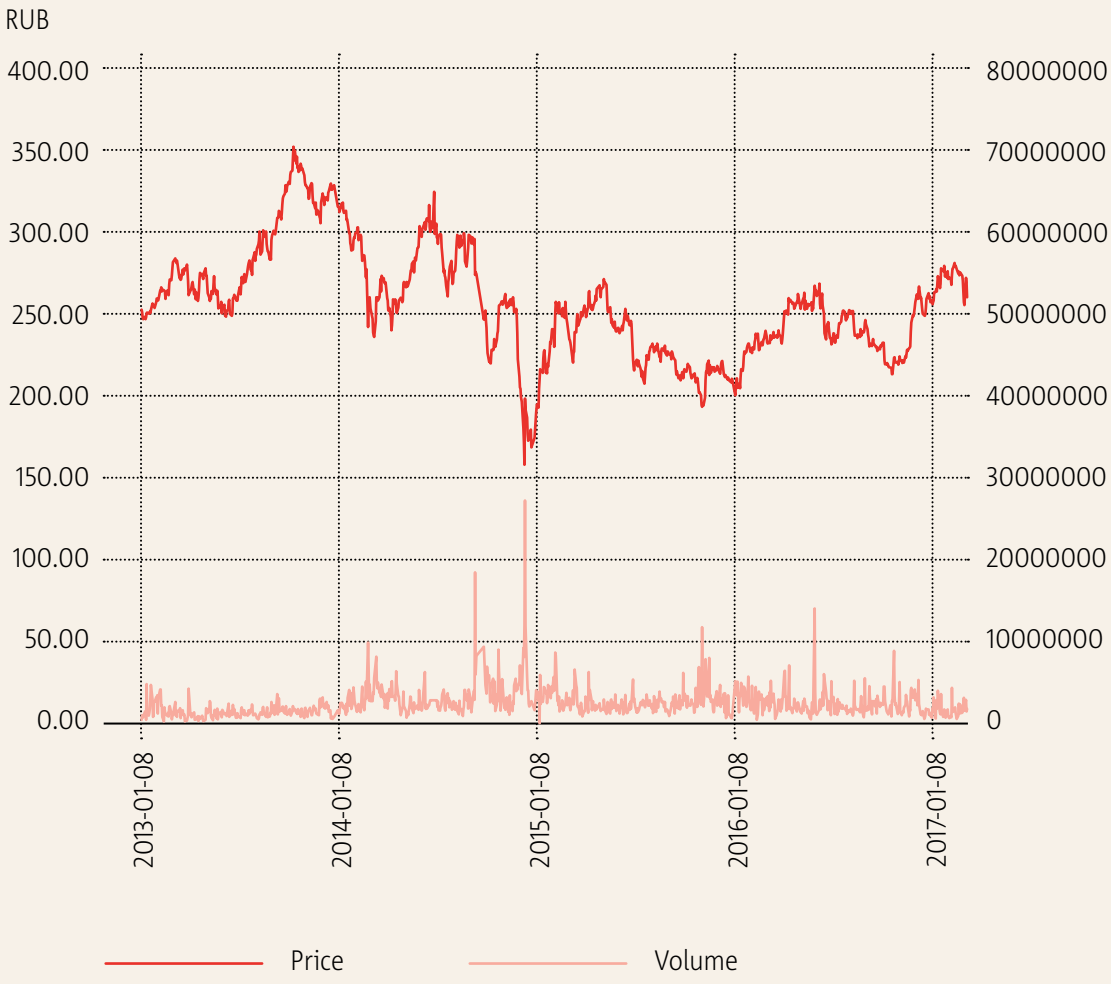
Chairman of MTS PJSC Board of Directors
Ron Sommer

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

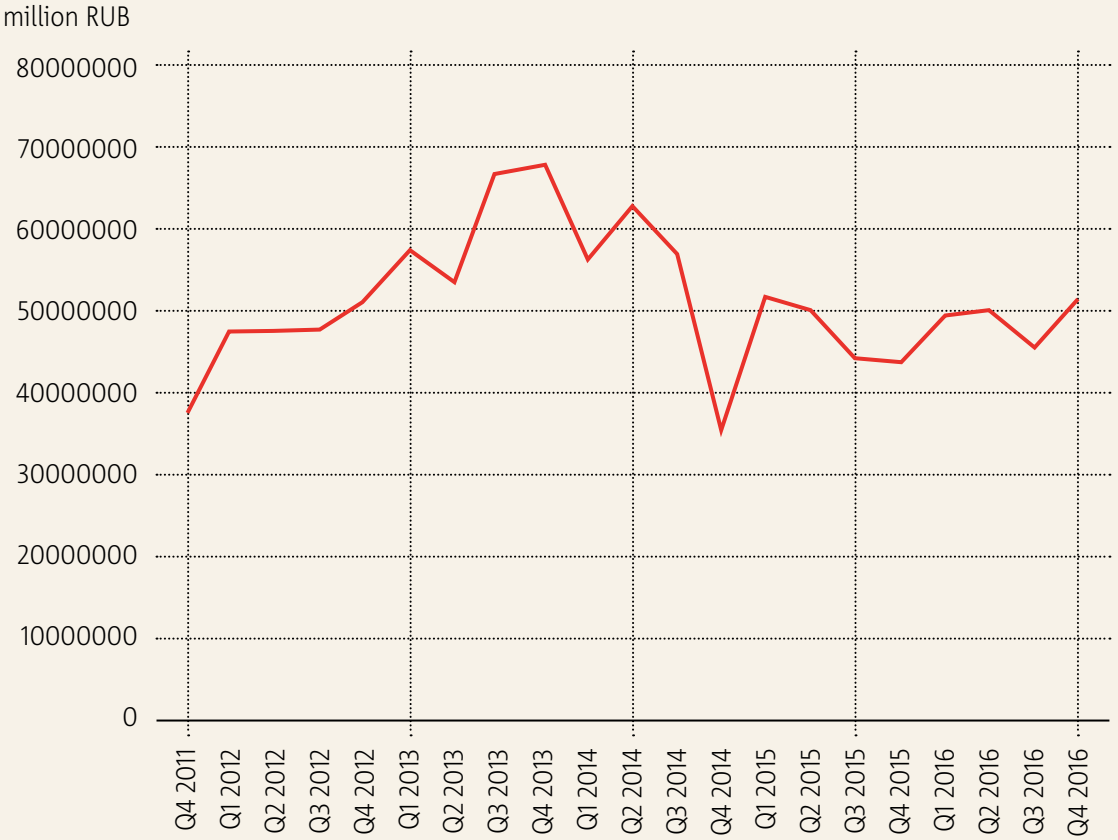


Dynamics of prices and volume of trading **in Ame**rican Depositary Receipts of MTS PJSC

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

Market capitalization of MTS PJSC

Trading platform: MOEX (Moscow), issuer code MTSS



Capitalization is calculated as a product of the total amount of MTS PJSC shares and weighted average price of one share, calculated according to prices at the moment of closing of trade in MTS PJSC shares at Moscow Exchange.

Dividends

Board of Directors and MTS executives understand that permanent stable dividends are the integral component of the investment appeal of MTS and profitability for the shareholders.

Being a leader among telecommunication companies that operates in rapidly developing and at the same time volatile markets, MTS primarily has a goal to maintain a sufficient volume of resources and level of flexibility in order to reach its operational and financial targets. Experience shows that MTS always looks for ways to create a value for the shareholders through both commercial and financial strategies which can include both organic or non-organic development and Company's practices in capital management.

During the year MTS complied with its dividend policy and paid shareholders RUB 52.0 bln in dividends through two semi-annual payments. In November, we completed the second payment, and as a result, the total amount of dividends for the year was RUB 26 per share.

In addition, the Board of Directors set a task for the Company's management to consider the expediency of share buyback program as an additional way of forming further shareholder value. This program would enable the Company to allocate up to RUB 30 bln for the repurchase of shares during the next three years.

Regulation "On Dividend Policies" is published at the official website of MTS PJSC[1].

Dividend history

[1] www.mtsgsm.com/information/dividends/.

[2] The amount of semi-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 23, 2016.

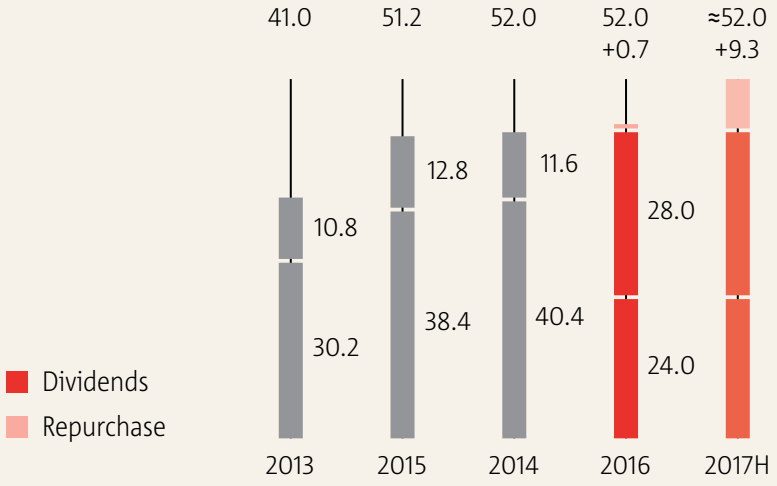
History of dividend payment in 2016

- In 2016, MTS paid out RUB 52.0 bln or RUB 26.0 per share in the form of dividends. In June, MTS made the first payment of RUB 28.0 bln (RUB 14.01 rubles per common share and 28.02 for ADRs) based on the results of the full year 2015. In the fourth quarter MTS paid additionally RUB 24.0 bln or RUB 11.09 per common share (RUB 23.98 per ADR) for the first half of 2016.

The Company has fully met its obligation to shareholders on payment of dividends.

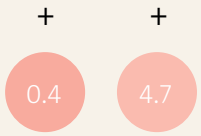
- In October and December 2016, the Board of Directors decided to hold modified Dutch auctions for share buyback program for the amount of up to RUB 10 bln. In two rounds in October 2016 and January 2017 MTS bought 21,888,117 shares for the amount of RUB 5 bln. MTS also bought the corresponding amount of JSFC Sistema shares to maintain an effective stake of the shareholder. In general, MTS used RUB 10 bln for the program, having bought 35,121,665 shares.

Dividend history and forecast (RUB bln)



Dividend per share (RUB)

Return on share under repurchase program (RUB)



Interaction with Shareholders **and Investors**

MTS always strives to comply with international legal provisions. First of all, this means that all internal processes, relations, both with counterparties and within the Company itself are clearly regulated and transparent. 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 information disclosure system is built taking into account requirements of listing rules of the Moscow and New York stock exchanges, is efficient and assures compliance with the transparency principle.

MTS PJSC tries its best to consider interests of investors and shareholders as well as to establish trustful relationships of MTS with partners through the improvement of transparency and openness of Company's activities.

In accordance with the public availability principle the Company publishes information on significant events at the website of US[1] Securities and Exchange Commission, of the Russian Information Agency (newsfeed)[2], and at the official website of MTS: for shareholders[3] and investors[4], as well as in iPad application[5].

Besides, MTS publishes at its official website other information. Sections "For investors and shareholders"[6] and "Corporate Governance"[7] 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[8].

Maintenance and development of the effective dialog with equity market participants require a constant involvement of Company's managers. MTS representatives regularly participate in international conferences, hold road shows and meetings with in investors, organize days of analysts.

1 www.sec.gov
2 www.disclosure.ru
3 www.mtsgsm.com
4 www.mtsgsm.com
5 itunes.apple.com/gb/app/mts-investor-relations/id928385820?mt
6 www.mtsgsm.com/information/stock
7 www.mtsgsm.com/about/corporate_governance/
8 itunes.apple.com/ru/app/godovaa-otcetnost-gruppy-mts/id919440557?mt=8

Publication of financial results according to quarterly statements is carried out with phone conferences involving MTS managers. Published financial statements are supported by presentation materials for better coverage of achieved results and presentation of the Company's strategy.

MTS strives to continuously improve interaction with investors and shareholders, using the experience of other companies and monitoring the latest legislation changes and advanced 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.

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

Corporate Governance Department of MTS PJSC:

Maxim Kalinin (Corporate Governance Director)

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

Matters of interest for investors

The main topic at the meetings with investors remained optimization of excess retail in Russia, in order to reduce market pressures from the point of view of competition and improve OIBDA dynamics by telecom operators. Interest in this topic was fueled by regular news in the media about operator's retail chains and statements by Megafon and VimpelCom representatives about plans to split Euroset, one of the main sales channels in multi-brand area. Against this background, investors were interested in the issue of reducing the retail chain of MTS, which is the largest monobrand network operator in Russia.

Also, investors were interested in competition in the telecommunications market, impact of Tele 2 in connection with the company's entry into the Moscow market and the possible rise in tariffs.

With the development of information technology and the desire of telecom companies to diversify sources of revenue, operators are actively looking for additional sources of revenue and are actively entering new markets. Classic telecom operators are gradually transformed into digital solution providers. In this regard, in addition to mobile business itself, investors were also interested in MTS activities in new areas: development of financial and banking products, system integration, Big Data, etc.

Investor's calendar for 2017[1]

January

January 18–20, 2017
dbAccess CEEMEA Conference, London

January 18–24, 2017
Goldman Sachs & VTB Capital Road Show, Washington DC – Miami – Tampa – Chicago – San Francisco – Nassau

February

February 27 – March 2, 2017
Mobile World Congress, Barcelona

March

March 21, 2017
Disclosure of financial and operational results for the 4th quarter of 2016

March 21–23, 2017
Citi's 17th Annual European & Emerging Markets Telecoms, London

Jule

August

August 17, 2017
Disclosure of financial and operational results for the 2nd quarter of 2017

September

September 4–6, 2017
HSBC 17th Annual EEMEA & LATAM Investor Forum, London

September 6–7, 2017
DB, 16th Annual Global Emerging Markets One-on-One Conference, New York

[1] Dates can be specified..

April

April 5–6, 2017
Moscow Exchange Forum 2017, The Ritz-Carlton, Moscow

April 18–20, 2017
UBS Road Show, New York – Boston

May

May 15–17, 2017
Morgan Stanley EEMEA Conference, London

May 17–18, 2017
GS DFM International Investor Roadshow, London

May 18, 2017
Disclosure of financial and operational results for the 1st quarter of 2017

May 22–24, 2017
JPM Global TMT Conference, Boston

May 22–23, 2017
Citi's CEEMEA Symposium, New York

June

June 1–3, 2017
SPIEF, St. Petersburg

June 5–6, 2017
HSBC GEMs Conference, New York

June 6–8, 2017
BAML 2017 CalGEMs Global Emerging Markets One-on-One Conference, Rancho Palos Verdes, CA

June 20–21, 2017
VTB Capital Russia Calling Conference, London

October

October 3–5, 2017
JPM Credit & Equity EM Conference, London

November

November 13–14, 2017
GS CEEMEA 1x1 Conference, London

November 15–17, 2017
Morgan Stanley TMT Conference, Barcelona

November 16, 2016
Disclosure of financial and operational results for the 3rd quarter of 2017

November 28–30, 2017
UBS Global Emerging Markets One-on-One Conference, New York

December

December 5–8, 2017
WOOD's EME Conference, Prague

Our achievements

XIX Annual contest of annual reports (organizers: Moscow Stock Exchange and RCB media group).

The Annual Report of MTS PJSC was the winner in the nomination" The Best Annual Report of the Telecommunications Sector".

Annual Competition of annual reports of RAEX rating agency (organizer: Expert RA rating agency). The Annual Report of MTS PJSC was the winner in the nomination "The Best Level of Information Disclosure on Corporate Governance Practice".

Chairman of the Board of Directors Ron Sommer ranked among the Top 25 Chairmen of the Board of Directors within the National Award "Director of the Year" 2016.

Independent Director Stanley Miller ranked among the Top 50 Independent Directors within the National Award "Director of the Year" 2016.

Yulia Romashkina, Director of the Compliance Department of MTS PJSC, won the Woman in Compliance Award 2017 (organizer: global analytical agency The C5 Group). Julia Romashkina is recognized as the best Chief Compliance Officer in Europe, Middle East and Africa.

The Company ranked among Top 10 companies having the best corporate governance practice, based on the 2016 results of studies “National Corporate Governance Index” conducted by the National Association of Corporate Directors with the support of the Moscow Exchange and RUIE

MTS PJSC ranked the second in the perception of the Company’s corporate governance by investors, analysts, and members of governance bodies of other issuers, based on the 2016 results of studies “Corporate Governance Index” conducted by the Association of Independent Directors jointly with the National Research University “Higher School of Economics”

MTS Corporate University was awarded the international prize Global CCUAwards 2017 in the Best Innovative Corporate University nomination.

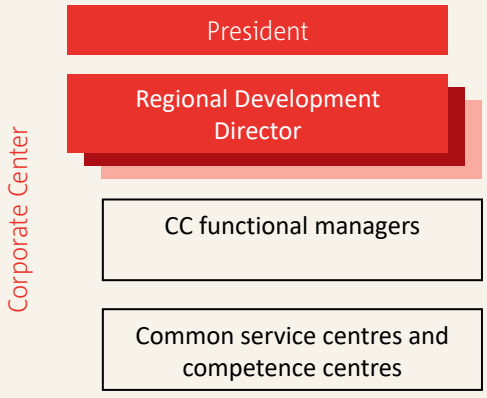
MTS Group **Governance** System

Targeted organisational model

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 complementing the main segment of Company's activities.
- 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.



Regional Development Director performs strategic management of Cluster Branches

Branches exercise a day-to-day management of activities in the Region.

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

The governance model is.designed not only to generate value in the promising markets, but also to diversify the service portfolio, thus enabling to mitigate the industry risks and strengthen the competitive position of MTS due to the use of synergy effect. We take 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. 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.

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, organisational 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 a key channel of customer involvement 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. Home retail chain of MTS, having combined the capabilities of telecommunication and banking technologies, is a key integration tool 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.

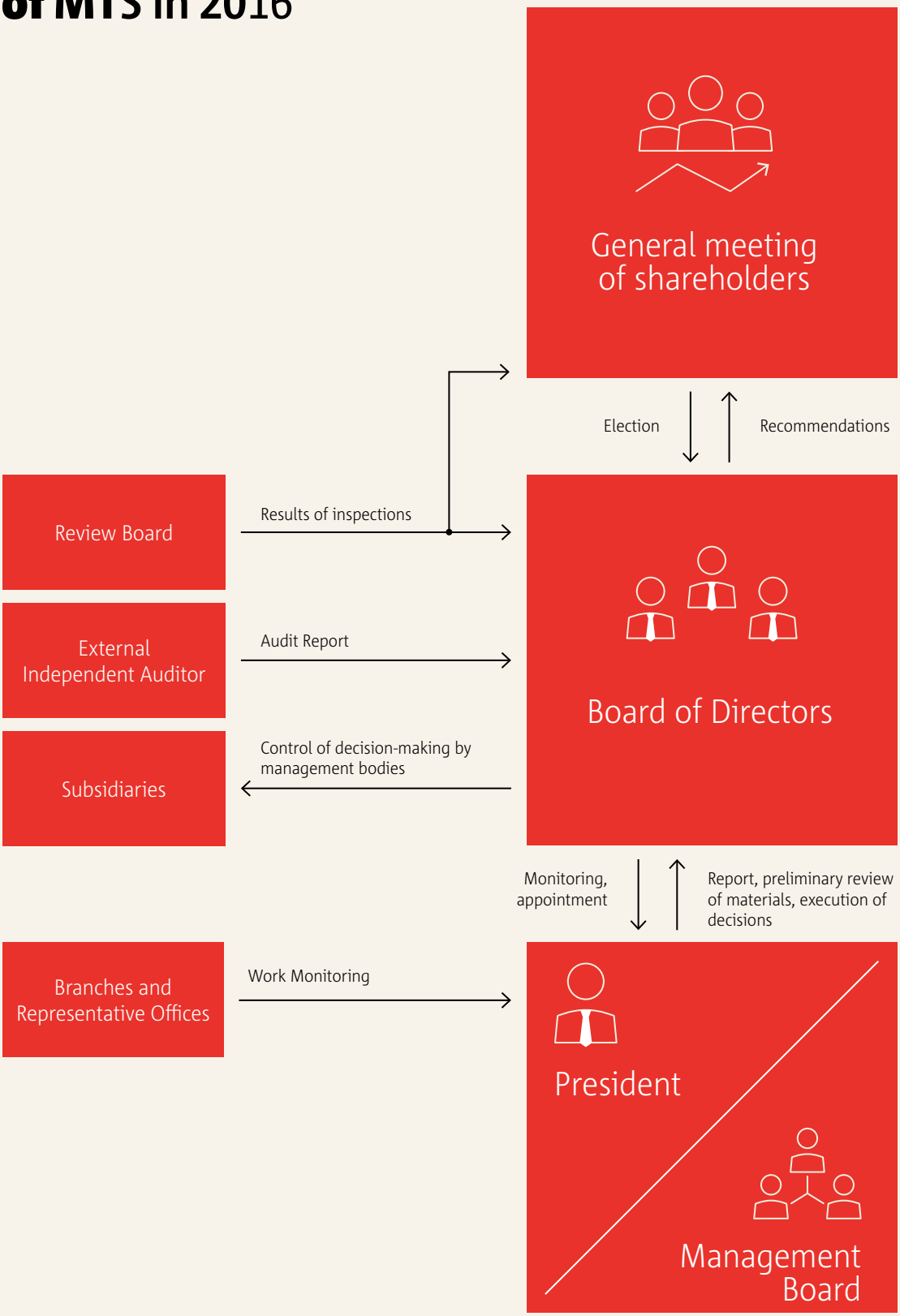
System integration
Thanks to NVision Group, the operator is able to offer its customers comprehensive IT, communications and system integration services. Given that the IT market is growing faster than traditional telecommunications services for corporate clients, this should positively affect the entire MTS business.

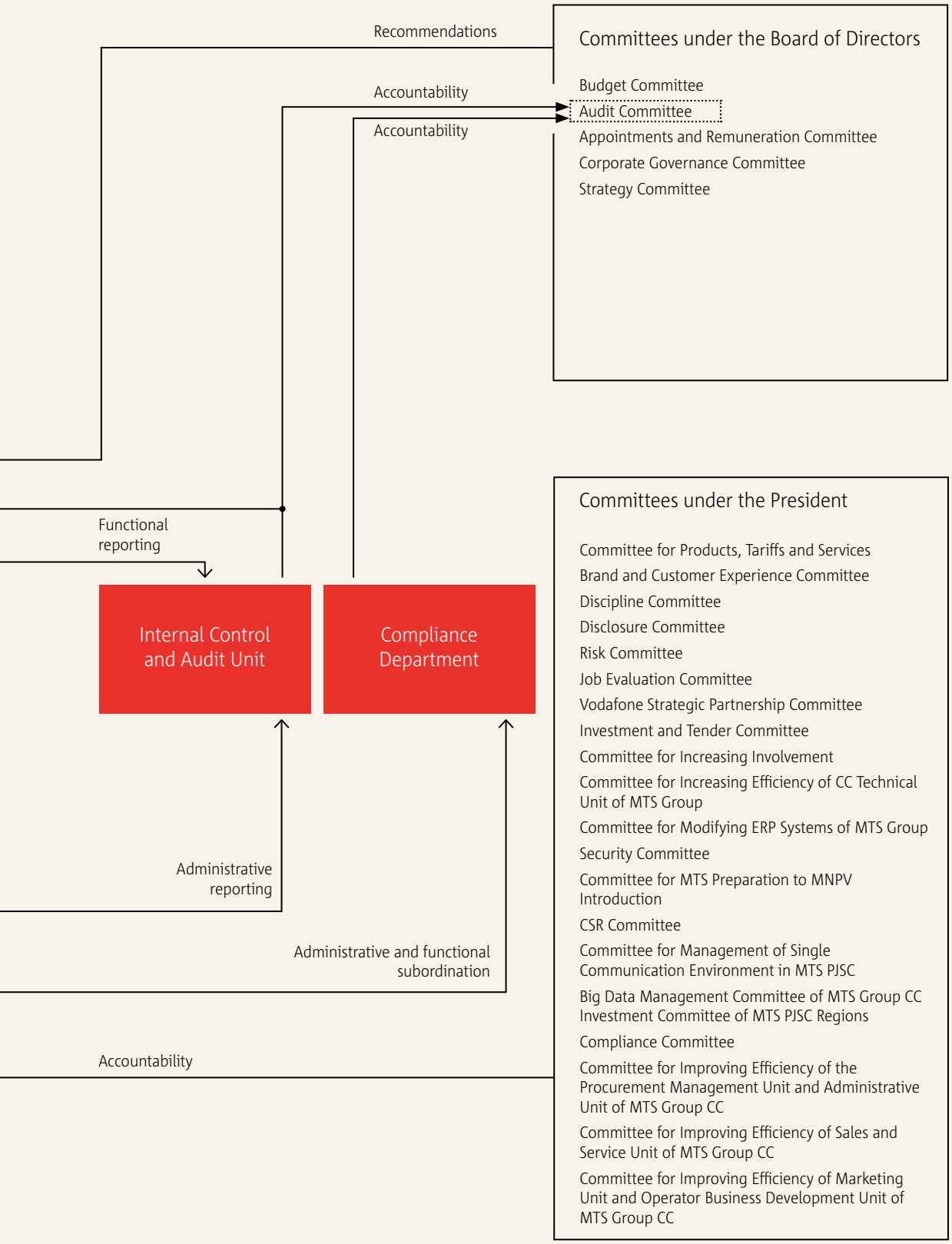
Design and development of billing platform (MTS-IT)
MTS receives full control over its billing. This step will help create a single structure involved in the development of the billing system, simplify and accelerate software testing and optimize internal IT costs.

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 of MTS in 2016




Recommendations
Accountability
Accountability
Committees under the Board of Directors
Budget Committee
Audit Committee
Appointments and Remuneration Committee
Corporate Governance Committee
Strategy Committee
Functional reporting
Committees under the President
Committee for Products, Tariffs and Services
Brand and Customer Experience Committee
Discipline Committee
Disclosure Committee
Risk Committee
Job Evaluation Committee
Vodafone Strategic Partnership Committee
Investment and Tender Committee
Committee for Increasing Involvement
Committee for Increasing Efficiency of CC Technical Unit of MTS Group
Committee for Modifying ERP Systems of MTS Group
Security Committee
Committee for MTS Preparation to MNPV Introduction
CSR Committee
Committee for Management of Single Communication Environment in MTS PJSC
Big Data Management Committee of MTS Group CC Investment Committee of MTS PJSC Regions
Compliance Committee
Committee for Improving Efficiency of the Procurement Management Unit and Administrative Unit of MTS Group CC
Committee for Improving Efficiency of Sales and Service Unit of MTS Group CC
Committee for Improving Efficiency of Marketing Unit and Operator Business Development Unit of MTS Group CC
Internal Control and Audit Unit
Compliance Department
Administrative reporting
Administrative and functional subordination
Accountability

Structure of management and control bodies

Governance bodies

General Meeting of Shareholders	Higher Governance Body of MTS PJSC. 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. 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[1].
Board of Directors	Board of Directors exercises a general management of MTS PJSC activities. It is a key element of the corporate governance system of the Company, representing interests of shareholders through the effective management organization. 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[2].
Management Board	Collective executive body of MTS PJSC. 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. 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. Management Board follows the Charter and the Regulation on Management Board of MTS PJSC in its activities[3].
President	Sole executive body of MTS PJSC who exercises a day-to-day management of current activities of the Company. 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. Andrey Anatolyevich Dubovskov has been the President of MTS PJSC from March 5, 2011. On 22 February 2017, the Board of Directors of MTS PJSC extended the powers of President of the Company Andrey Dubovskov for 3 (three) years, starting March 5, 2017. The President governs the Company's activities in accordance with the Charter and the Regulation on President of MTS PJSC[4].

1 www.mtsgsm.com/upload/contents/294/MTS_GSM_Regulations_2016-eng.pdf

2 www.mtsgsm.com/upload/contents/294/MTS_BoD_Regulations_2016-eng.pdf

3 www.mtsgsm.com/upload/contents/294/MTS_Management_Board_Regulations_2015_eng.pdf

4 www.mtsgsm.com/upload/contents/294/MTS_CEO_Regulations_2015_eng.pdf

Internal Control System

Audit Committee under the Board of Directors	The Audit Committee is a collegial advisory body of the Board of Directors that reviews issues related to 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.
Auditing Commission	Auditing Commission is a permanent elective body of the Company, exercising periodic control over the financial and economic activities of the Company, activities of its management bodies and officers. Its activities are regulated by the Charter and the Regulation on Auditing Commission of MTS PJSC[1].
Internal Control and Audit Unit	The Internal Control and Audit Unit is an independent structural subdivision of MTS PJSC and consists of the Internal Audit Department, Control Department, administrative control department and 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. Its activities are regulated by the Regulation on Internal Control and Audit Unit.
Department of Internal Control Systems	The Department of Internal Control Systems is an independent structural subdivision and consists of the development and support department, certification and testing department, IT-process control department, as well as internal control system groups in 6 regions of Russia. 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, Investments, Mergers and Acquisitions of MTS PJSC and is accountable to the Audit Committee under the Board of Directors of PJSC MTS. Its activities are regulated by the Regulation on Internal Control System Department.
Compliance Department	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. The activities of the department are regulated by the Regulations on Compliance Department.
Auditor	Independent assessment of reliability of accounting (financial) statements of the Company. In order to audit and approve the annual financial statements of the Company, the General Meeting of Shareholders shall annually approve the Auditor.

[1] www.mtsgsm.com/upload/contents/294/MTS_Auditing_Commission_Regulations_2015_eng.pdf

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[1], and the requirements of legislation of the Russian Federation.

Company's shareholders take part in governance over the Company through decisions taken at the General Meeting of Shareholders. Shareholders may exercise a significant influence on business through the voting. 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) 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

[1] www.mtsgsm.com/upload/contents/294/MTS_GSM_Regulations_2016-eng.pdf

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.

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

Over the last two years (2015–2016), 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 social projects of the Company were arranged during the registration of shareholders.

MTS tomorrow is a smart company with a focus on IT and digital environment. Already now we are creating digital products and services, including those intended for our shareholders. And if we are talking about innovations related to holding general meetings of shareholders, it should be noted that

MTS shareholders' meetings began moving into virtual space.

MTS introduces innovations in all areas, including in relations with shareholders.

In the fall of 2016, MTS together with "Independent Registrar Company" (NRC) JSC for the first time launched online e-voting service based on ComVoting, which enabled MTS shareholders to vote electronically at the extraordinary General Meeting of Shareholders on September 30, 2016.

Unlike sending paper ballots by mail, shareholders get the opportunity to instantly vote using minimal resources and time.

It was a productive experience of e-voting for us. For the convenience of our shareholders, redirection to the shareholder's personal area was also arranged at MTS website. We will continue the practice of e-voting and will do everything possible so that our shareholders can participate in the meeting and vote in the most convenient way: now the shareholders have the opportunity to remotely participate in an attendee meeting.

MTS Corporate Governance Director
MAXIM KALININ

ComVoting service allows the shareholders to remotely participate in voting through MTS website. Voting is available both to shareholders holding their shares directly in the register, as well as to shareholders holding their shares in depository, including on the accounts of the Central Depository.

All material things are being transformed **into d**igital counterparts

Digitalisation becomes the main idea behind the business strategy of our Company. Now it is not only the data transfer, but complex IT solutions. Taking into account this approach, in the coming year if 2017 we plan further improvement of shareholder relations and offer them a convenient online service: the Shareholder's Member Area.

The member area will provide shareholders with round-the-clock access to information about the number and value of their shares, accrued and paid dividends, contacts and useful links, will enable to take part in general meetings of shareholders online, including to review materials of the meeting, view online broadcasting of shareholder meetings held in person, send questions to the Presidium of the meeting directly during the meeting, as well as provide an opportunity to pre-fill document forms to perform operations in the register of securities and receive notifications on receipt of documents on the shareholder's account.

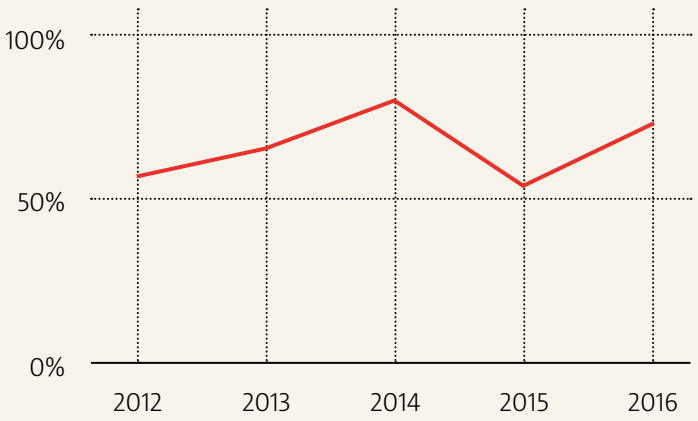
During the annual general meeting of MTS shareholders in June 2017, our shareholders in real time will be able to observe not only the meeting process from the screens of their gadgets, but also monitor voting online from the shareholder's Member Area.

General Shareholders' Meetings in 2016

Three General Shareholders' Meetings were conducted in 2016:

Extraordinary General Meeting of MTS PJSC shareholders 29 February, 2016 In the form of absentee voting (record No. 38 dated March 1, 2016)	The decision to reorganize MTS PJSC in the form of the merger of Sistema-Inventor Joint-Stock Company and to amend the Charter of MTS PJSC was made at the extraordinary General Meeting of Shareholders.
Annual General Meeting of MTS PJSC shareholders June 23, 2016 In the form of joint attendance (record No. 39 dated June 23, 2016)	The Annual General Shareholders' Meeting approved the Annual Report for 2015 and annual accounting statements for 2015. A decision on the profit distribution was taken, and the dividends according to the results for the reporting year 2015 were announced. New compositions of the Company's Board of Directors and Auditing Commission were elected. Company's auditor was appointed Reduction of the charter capital was made. New revision of the Charter, Regulations on the General Meeting of Shareholders, Regulations on the Board of Directors were approved. 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 30, 2016 In the form of absentee voting (record No. 40 dated October 10, 2016)	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, as well as made decision on participation of MTS PJSC in non-profit organizations: Regional Association of Employers of Moscow, a City of Federal Importance 'Moscow Confederation of Manufacturers and Entrepreneurs (Employers)'; Union 'Russian-German Chamber of Commerce'.

Quorum of annual General meetings of shareholders of MTS PJSC for 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.

The role of the Board of Directors increases dramatically at companies aimed at long-term successful development, because the obligation to act bona fide and reasonably for the benefit of the company and its shareholders is imposed on the members of the Board of Directors.

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[1], 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.

[1] www.mtsgsm.com/upload/contents/294/MTS_BoD_Regulations_2016-eng.pdf

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 shell be held with personal attendance, on the day of the General Shareholders' Meeting which decided on election of the Board of Directors.

To hold the meeting in the headquarters it is necessary to plan and approve the schedule of activities for two days: meetings of committees under the Board of Directors, briefing with BoD members (PreBoard), the meeting of the Board of Directors, and to make all practical arrangements: on provision of simultaneous translation, services on hotel booking, transfers, catering, etc.

Chairman of the Board of Directors holds monthly meetings/consultations in the form of audio conferencing with representatives of shareholders and/or 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: **"Porta**l 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. The portal's functionality is updated (modernized) annually; in the reporting year, the following improvements were implemented:

1. Independent director's member area:

- Confirmation of the status of an independent director;
- Notification of the meeting of the collegial body;
- Handling requests of independent directors.

2. Share transactions timing information screen: the system informs about the timing of transactions with shares of the Company after the disclosure of insider information.

3. System user questionnaire (including the mode for creating and editing the questionnaire): the questionnaire allows to fill in the necessary data online (via WEB/iPad) and manage questioning of members of collegial bodies.

4. Implementation of application login via iPad (Touch ID technology): increase the ease of use of the application.

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.

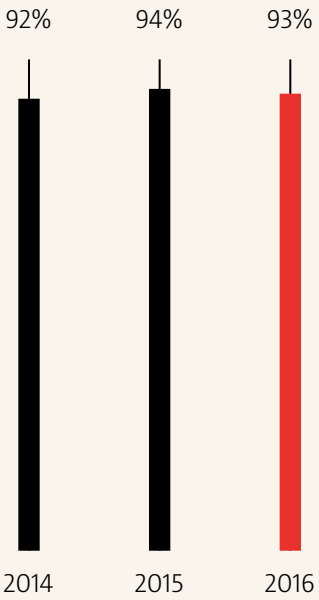
Further, as part of implementation of our Digital Strategy and the Company's transition to automation of all business processes, we plan to introduce smart software packages that will enable to formulate the agenda of meetings of collegial management bodies of the Company in a new way, taking into account the analysis of internal and external data, which will undoubtedly contribute to the increase of business value for MTS shareholders. These smart packages will be a key tool for creating an effective business of the Company and an important, integral part of the best corporate governance practices.

2016 saw 11 meetings of the Board of Directors, including 6 in-person meetings and 5 meetings by correspondence.

Participation of the directors in meetings of the Board of Directors in 2016

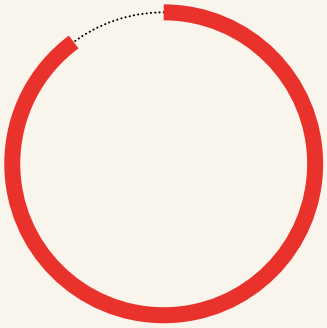
Director	In-praesentia meeting	In-absentia meeting
Ron Sommer	6	5
Aleksandr Gorbunov	6	5
Andrey Dubovskov	5	5
Michel Combes Independent Director not a member of MTS PJSC executive management	5	5
Stanley Miller Independent Director not a member of MTS PJSC executive management	6	5
Vsevolod Rozanov	6	5
Regina von Flemming Independent Director not a member of MTS PJSC executive management	6	5
Thomas Holtrop Independent Director not a member of MTS PJSC executive management	6	5
Mikhail Shamolin	1	5

Average percentage of participation **the Bo**ard of Directors members in the meetings



over 90%

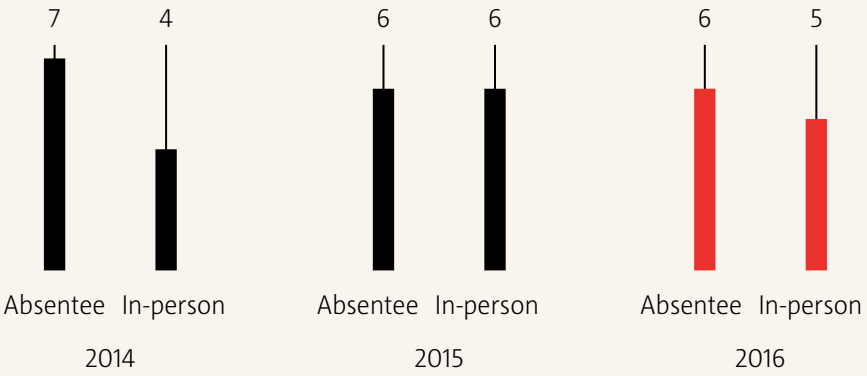
meetings of the Company's Board of Directors were held with 100% participation of the Board of Directors members



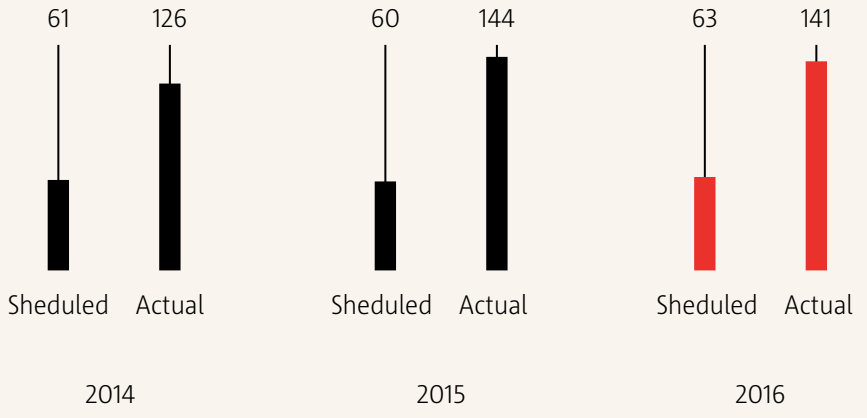
Duration of meetings of the Board of Directors and committees in 2016

Meetings (in presence)	Qty	Average duration (h)
Board of Directors	6	2.7
Audit Committee	11	1.5
Remuneration and Nomination Committee	7	1.5
Corporate Governance Committee	4	2
Strategy Committee	3	2.3
Budget Committee	4	2

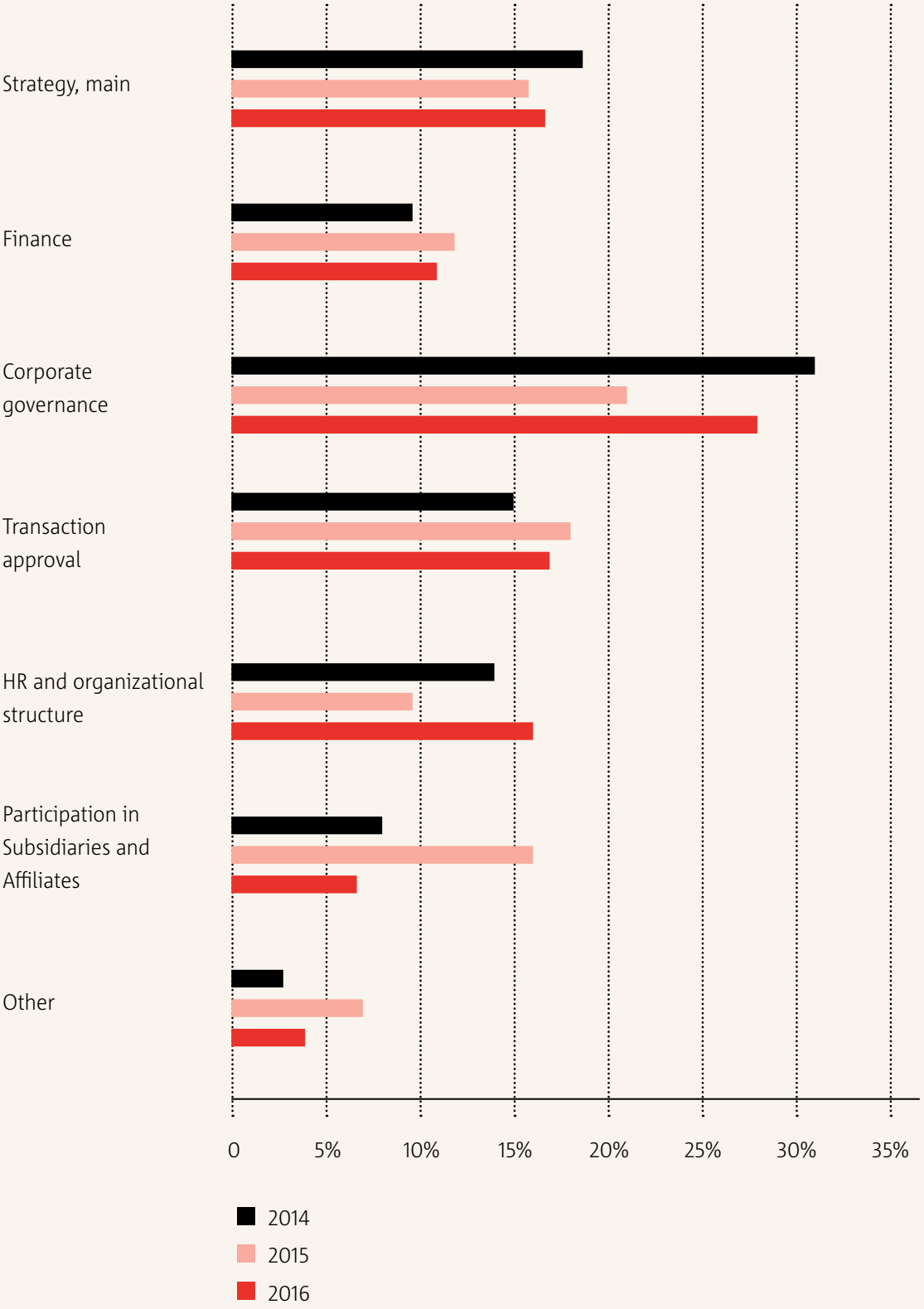
Numbers of meetings held by the Board of Directors



Numbers of issues considered at meetings of the Boad of Directors



Structure of issues reviewed at the meetings **of the** Board of Directors in 2016



Agenda items of the meetings of the Board of Directors **of MTS** PJSC in 2016, decisions on which had significant **import**ance for the Company:

1. MTS Group Strategy 2017–2019, development strategy of MTS retail chain.

2. Review of the results of MTS Group budget fulfilment for 2015, on MTS Group budget adoption for 2017.

3. Approval of dividend policy.

4. Registration of program of exchange traded bonds of MTS PJSC.

5. Development of the compliance system of MTS Group.

6. Recommendations of the Board of Directors on a payment of dividends for 2015 and first half of 2016.

7. Acquisition of subsidiaries, participation of MTS PJSC in other organizations.

8. Approval of major transaction: signing Addendum No. 39 to the Framework Agreement No. FCP 101 8128 (D0900610) dated December 31, 2008, between MTS PJSC and Ericsson AB on the supply of equipment and software products for mobile network, with cost amounting to 25 to 50 percent of the book value of the Company's assets.

9. Approval of the Addendum to Depository Agreement concluded between MTS PJSC and JP Morgan Chase Bank, NA.

10. Review of reports:

- on risk management;
- on evaluation of completion of individual tasks of the President and Management Board members;
- on the results of the self-assessment of the Board of Directors;
- on operation of the units of internal audit, control and compliance, including the report on risk management system efficiency;
- on implementation of data protection system;
- on KSO program implementation.

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

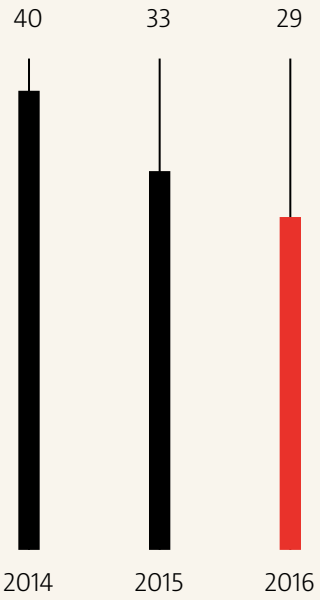
In 2016 the Board of Directors gave 29 instructions to managers of the Company.

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.

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's Charter, the number of members of the Board of Directors is determined by the decision of the General Meeting of Shareholders and can not be less than 7 (seven) members. The number is constant, the Board of Directors was elected at the annual General Meeting of Shareholders of MTS PJSC on June 23, 2016 and throughout the year 2016 the Board of Directors consisted of 9 (nine) members. This number of members of the Board of Directors enables to create a Board of Directors which is balanced in terms of professional qualifications, experience and business skills of its members, to ensure high efficiency of its work and fully meets the needs of the Company and the interests of shareholders. Issues related to the needs of the Board of Directors in the field of professional qualifications, experience and business skills of the Board members, as well as the number of members were considered as a part of performance evaluation of the Board of Directors (details see in section " Evaluation of Board of Directors' performance").

We acknowledge that the Board of Directors needs to include independent directors in order to efficiently discharge their functions, take deliberate substantiated decisions and carry out supervision over the management in the interest 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 1/3.

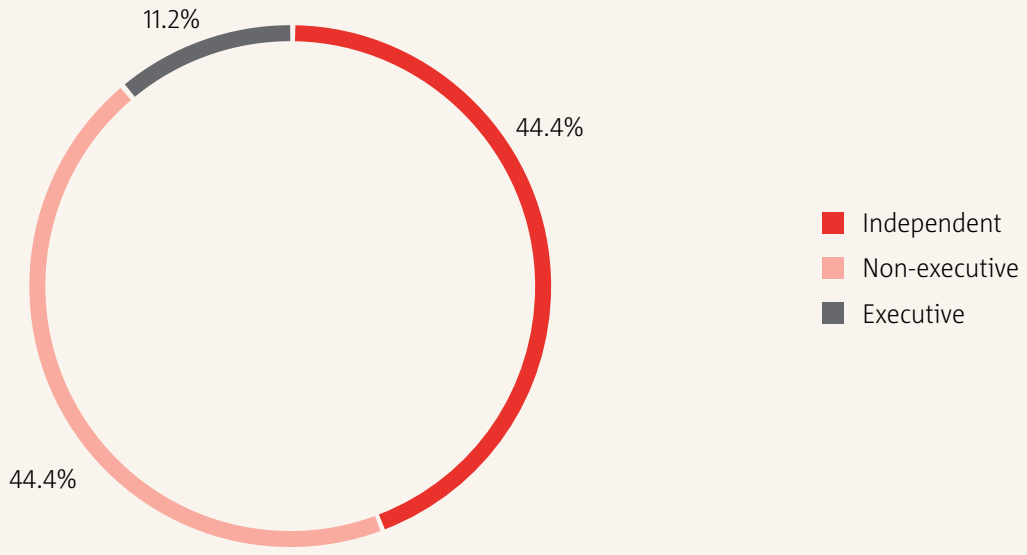
In June 2015, we increased the number of independent directors in the Board of Directors to four. The increase of the independent directors' number allows the independent standpoint within the Board of Directors to exercise greater influence on the business decisions taken, on the Company's corporate 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[1] 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.

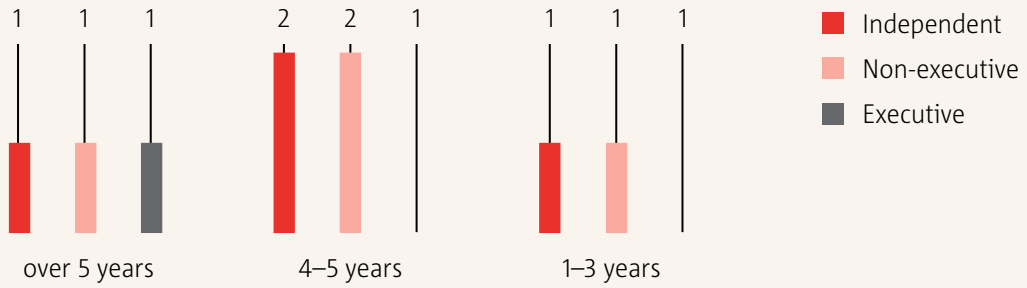
NYSE listing also adds additional obligations for us related to the composition of the Board of Directors: we are required to have at least one member of the Board of Directors (in the Audit Committee) with expertise in accounting or relevant financial management experience (financial expert). The Audit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

[1] www.company.mts.ru/comp/ir/control/regulations/board_of_directors_new/ .

Composition of the Board of Directors **as of** December 31, 2016



Duration of work in the Board of Directors



Information on members of the Board of Directors as of December 31, 2016

Ron Sommer

Non-executive Director
Chairman of the Board of Directors
Chairman of the Strategy Committee under the Board of Directors

In 2016 entered the rankings of “25 best representatives of the Board of Directors” during the ceremony of “Director of the year 2016” National Awards

He was born in 1949, in Haifa town.

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

Professional experience:

In 1980 he took the position 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 Motorolla Inc. Board of Directors (USA)

2004–2012: member of the International Advisory Board of Blackstone Group

2005–2012: independent director of the Board of Directors of JSFC Sistema OJSC, 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 MTS Ukraine PrJSC.

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 31.12.2016, he owned ordinary registered shares of MTS PJSC in the amount of 101,352 shares.

Andrey Dubovskov

President
Chairman of the Board
Executive Director
Member of the Corporate Governance Committee under the Board of Directors
Member of the Strategy Committee under the Board of Directors

He was born in 1966, in Alma-Ata.

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 to present: President, Management Board Chairman of MTS 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 MTS 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 31.12.2016, he owned ordinary registered shares of MTS PJSC in the amount of 350,718 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

He was born in 1967, in Moscow.

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

In 1999 he earned MBA from Harward 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 Sistema JSFC

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 Sistema JSFC

2012–2015: Executive Vice President (Investment Portfolio) of Sistema JSFC

2015 to present: Vice President, manager of telecommunication assets of Sistema PJSFC

Chairman of the Board of Directors of SHYAM TELESERVICES Limited.

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 31.12.2016, 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

He was born in 1962, in Bologna.

He graduated from Ecole Politechnique 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: Chief Executive Officer of Altice NV

Non-executive Director in HDL Development, Member of the Board of Directors and Chief Executive Officer of Altice NV, Chief Executive Officer and Chairman of the Board of Directors of SFR Group, Member of the Board of CVC 2 BV and CVC 3 BV.

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 31.12.2016, 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 2016 entered the rankings of "50 best independent directors" during the ceremony of "Director of the year 2016" 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 Leaderman – SA Luxembourg

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

1998–1999: Chief Executive Officer of KPN Orange

1998–2010: Chief Executive Officer of Royal KPN NV

1999–2001: Chief Executive Officer of KPN Mobile NL & Benelux

1999–2001: non-executive director of IP Global Net NV

2000–2001 President of KPN Mobile NV The Netherlands

2000–2001: non-executive director of Hutchinson 3G UK

2001–2010: Chairman and CEO of BASE NV Belgium; President of KPN Mobile International

2002 to the present day: Chief Executive Officer and owner of ULS BVBA Belgium

2004–2010: Chairman, Executive Member of the Board of Directors of E-Plus Germany

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 AINMT (AB) Sweden, 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 31.12.2016, 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

He was 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 PJSFC

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 CJSC, Lider Invest JSC, Segezha Group MC, SISTEMA FINANCE S.A., Mikron PJSC, Insitel, 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 31.12.2016, 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

She was born in 1965, in Lubeck.

In 1992 she graduated from Free University of Berlin with specialty in Political Science, and from Institute for Policy Studies (Paris).

In 1993 she graduated from INSEAD Business School (Paris), and finished postgraduate studies in the German Institute of Development Trade (Germany).

Professional experience:

1996–1999: CEO of Krone Russia

1999–2000: CEO of Ehrmann AG

2000–2003: Vice President of the American-Russian Investment Fund “Delta Capital”

2003–2009: founder and owner of the consulting company Flemming & Partner GmbH Berlin

2005–2015: CEO of Axel Springer Russia Publishing House

Member of the Board of Directors Rotary Club Alexander von Humboldt, 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 Russian-German Foreign Trade Chamber, Member of the Management Board of the Jewish Museum donation fund in Moscow.

Citizenship: Germany.

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

As of 31.12.2016, he 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

He was 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 31.12.2016, he didn't own shares of MTS PJSC (directly/indirectly).

Mikhail Shamolin

Non-executive Director

He was born in 1970, in Moscow

In 1992 he graduated from Moscow Institute of Road Traffic. In 1993 he obtained a second graduate degree in the Russian Academy of State Service under the President of the Russian Federation.

In 1996–1997 he underwent a preparation program for top managers in Finance and Management in Wharton Business School.

Professional experience:

1998–2004: various positions in the international consulting company McKinsey&Co S7 80

2004–2005: Managing Director for ferroalloy business in Interpipe Corporation (Ukraine)

2005–2006: Vice President for Sales and User Maintenance

2006–2008: Vice President, Director of MTS Russia Business Unit

2008–2011: President, Management Board Chairman of MTS PJSC

2011 to present: President, Management Board Chairman of Sistema JSFC

Member of the Strategy Committee, Investor Relations and Dividend Policy Committee under the Board of Directors of JSFC Sistema PJSC; member of the Guardianship Board of Sistema Charity Fund.

Chairman of the Board of Directors of SISTEMA FINANCE S.A., member of the Board of Directors of Russkaya Zemlya LLC, RZ Agro JSC, Kronstadt Group LLC, Moskapstroy JSC.

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 25, 2015.

As of 31.12.2016, he didn't own shares of MTS PJSC (directly/indirectly).

No changes in the composition of the Board of Directors during 2016

Key competences of the Board of Directors members

Member of the Board of Directors	Duration: 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 (from June 2009)	■	■	■	■	■	■	■	■
Andrey Dubovskov	5 years (from June 2011)	■	■	■	■	■	■	■	■
Aleksandr Gorbunov	3 years (from February 2013)	■	■	■	■	■	■	■	■
Michel Combes	3 years (from February 2013)	■	■	■		■	■	■	■
Stanley Miller	6 years (from June 2010)	■	■	■	■	■	■	■	■
Vsevolod Rozanov	4 years (from June 2012)	■	■	■	■	■	■	■	■
Regina von Flemming	2 years (from June 2015)	■	■		■	■			■
Thomas Holtrop	3 years (from February 2013)	■	■	■	■	■	■	■	
Mikhail Shamolin	2 years (from June 2015)	■	■	■	■	■	■	■	■

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 2016.

Events after the reporting date

In April 2017, the share of the Chairman of the Board of Directors in the Company's authorized capital was changed – Ron Sommer became the owner of 0.00649% of common shares of MTS PJSC. The share of Ron Sommer in the Company's authorized capital has changed as a result of implementation of the second tranche of long-term material incentive program for top managers of MTS PJSC, based on common shares of MTS PJSC, approved by the Board of Directors of MTS PJSC in 2013.

Role of the Board of Directors Chairman and independent **direct**ors 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 the first place acts as the "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.

Since 2009, Mr. Ron Sommer - a non-executive director- has been the Chairman of the Board of Directors of MTS PJSC. Mr. Ron Sommer's vast work experience in governance bodies of the largest Russian and foreign companies, including in telecom industry, along with high qualification significantly contribute to the efficient arrangement of the operations 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:

- Alexandr 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 helps 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 have become 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.

Growing role of the Board of Directors in Digital Transformation of MTS

Management of a leading company in a highly dynamic market with a strong competitive environment is a series of various challenges. Macroeconomic instability, changes in the regulatory environment, twists and turns of the competitive struggle with time become an ordinary common environment, though restless, turbulent, and rigid. But the Digital era changes the established order of things, brings companies and markets out of the comfort zone, and poses fundamentally new challenges. And today of the main challenges, in our opinion, is rethinking of the very essence of our business, the mechanisms of the company's work, business processes, organizational structure, corporate culture, methods of organizing interaction between employees and units.

We are facing global challenges, namely: How to give flexibility to a large company, which is a well-established system for solving a number of business problems? In which areas we shall advance independently, and where we shall just monitor the market and be ready to seize the initiative at the right time through M&A? How to change the organizational structure in order to acquire new competencies without losing the intellectual capital that has been accumulated for years? These and many other questions should be answered by top management and, first of all, the Board of Directors, as a body whose task is to ensure sustainable long-term business development.

Many areas of Digital are new industries that have not yet been formed, even in general terms. We are entering a field of uncertainty and high risks, and this requires us to understand and even foresee when determining which markets

have potential and what are our chances to succeed. We need not only determination to move simultaneously in various directions, but also the courage to recognize them ineffective, if necessary. We must achieve success wherever possible, but be able to get benefit for the company even from failures.

Of course, such conditions significantly increase the requirements for the level of competence of the management and the Board of Directors. To match them, one must simultaneously be a brilliant industry expert and a universal top manager, visionary and practitioner, be able to form a strategic vision and be ready to take a tactical solution in a narrow functional area.

The above qualities, in our conviction, are inherent in all members of the Board of Directors of our Company, but even a team of professionals of the highest level needs a leader who will direct its efforts based on an understanding of even higher order materials such as:

- Vision of global trends in the evolution of human society;
- Awareness of the potential and prospects of new markets;
- Understanding the company's development trajectory, its competencies and status at each point in time;
- A sense of balance between the interests of employees and customers, management and shareholders.

Undoubtedly, such a leader is the Chairman of the Board of Directors, who, basing on the collective experience, wisdom and personal qualities of each of his colleagues, assumes responsibility for making correct management decisions, the ultimate goal of which is the company's prosperity and high profitability for shareholders.

MTS shareholders may rest assured that the Company is managed by one of the best teams in business with a deep understanding of both telecommunications sector and Russian market.

Corporate secretary[1]

The MTS PJSC Corporate Secretary functions are performed by a special structural subdivision: Corporate Governance Department; its main functions, powers and duties are defined in the Regulation on the Corporate Governance Department[2].

The Corporate Secretary shall ensure effective day-to-day interaction with shareholders, coordinate the company's activities to protect the rights and interests of shareholders, support the effective operation of the Board of Directors.

The functions of the Corporate Governance Department of MTS PJSC include:

- Participation in improvement of the corporate governance system and practices of the Company
- Participation in organization and holding of General Meetings of Shareholders of the Company
- Support of the work of the Board of Directors and committees of the Board of Directors of the Company
- Participation in implementation of the Company's disclosure policy, as well as ensuring storage of corporate documents of the Company
- Support for interaction between the Company and its shareholders and participation in the prevention of corporate conflicts
- Ensuring implementation of procedures established by the legislation and internal documents of the Company to ensure the exercise of the rights and legitimate interests of shareholders and monitoring of their implementation
- Support for interaction of the company with regulatory bodies, trade organizers, registrar, other professional participants of the securities market within the authorities provided to the corporate secretary
- Immediate informing of the Board of Directors about all revealed violations of the legislation and provisions of the Company's internal regulations, compliance with which is included in the functions of the Corporate Governance Department

The Corporate Governance Department is headed by the Director for Corporate Governance, an official of the Company who is accountable to the Board of Directors of the Company.

The functions of the Director for Corporate Governance include, among others:

- preparation and holding of meetings of shareholders of MTS PJSC;
- management of subsidiaries of MTS Group;

[1] www.company.mts.ru/comp/ir/control/department_management/

[2] static.mts.ru/uploadmsk/contents/1655/Regulations_on_MTS_CG_Department-rus.pdf

- ensuring timely disclosure of information in accordance with the legislation on securities market;
- comprehensive management of intangible assets;
- other functions.

The Board of Directors approves the nominated Director for Corporate Governance as the manager of the unit serving as the Corporate Secretary.

The head of the Corporate Governance Department in the reporting period was Maxim Kalinin, Director for Corporate Governance of MTS PJSC.

Maxim Kalinin

Director for Corporate Governance

He was born in 1972, in Moscow

In 1997 he graduated from Lomonosov Moscow State University with the specialty in Law.

Prior to joining our Company, he worked in private business with foreign participation: he was responsible for legal support in the corporate governance, real estate and contract work.

In June 2001, he joined MTS. He worked in the Investment and Securities Department being responsible for merger and acquisition projects within the Russian Federation and CIS, supported reorganization of MTS Group subsidiaries, was responsible for corporate governance in MTS and its subsidiaries. He rose through the ranks from legal counsel to the deputy head of department.

From 2005 to the present day exercises the powers of BoD Secretary of MTS PJSC.

In 2010 became the winner of "Director of the year" National Awards V in the category «Corporate Governance Director and Corporate Secretary».

During the last three years he regularly entered 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 share 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;

Ensure 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.

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 Secretary of the Board of Directors since 2005 has been Maxim Kalinin, Director for Corporate Governance of MTS PJSC.

Committees of the Board of Directors

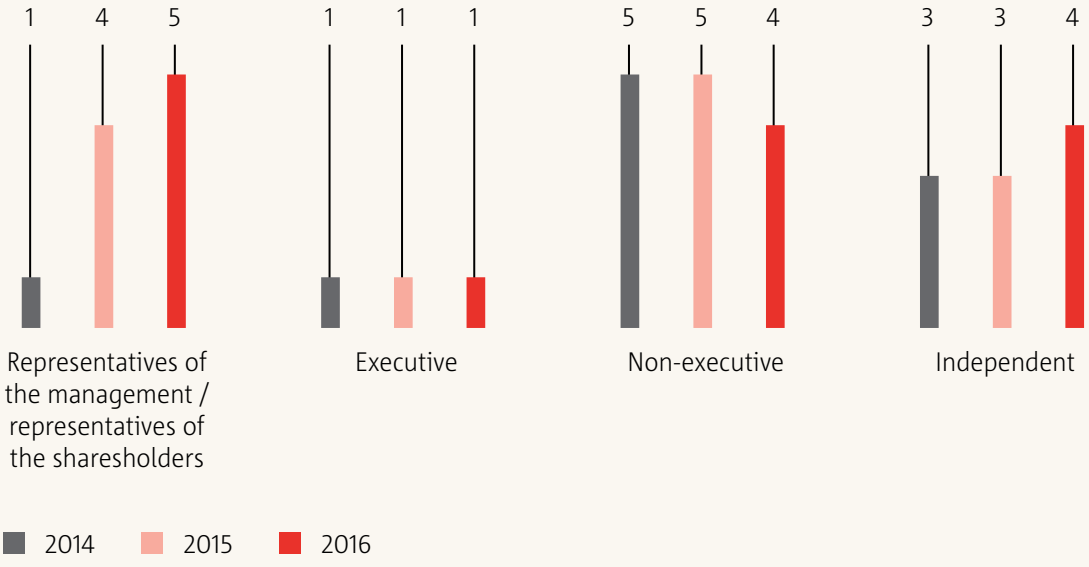
Committees of the Board of Directors serve as a tool for preliminary in-depth study of issues before they are submitted to the meeting of the Board of Directors. This enables the members of the committee to more deeply understand the essence of the problem and offer the members of the Board of Directors complete alternative options, thereby enabling them to get involved in the discussion of the issue more quickly.

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 2016: Budget Committee, Audit Committee, Remuneration and Appointments 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.

Members of Committees of the Board of Directors



Attendance of Committee meetings in 2016

Committee Member	Remuneration and Nomination Committe	Audit Committee	Budget Committee	Strategy Committee	Corporate Governance Committee
	(7 in-person meetings)	(12 meetings including 11 in-person meetings and 1 meeting in the form of absentee voting)	(4 in-person meetings)	(3 in-person meetings)	(5 meetings including 4 in-person meetings and 1 meeting in the form of absentee voting)
Ron Sommer[1]			1/4	3/3	
Andrey Babin [2]				2/3	
Vladimir Vinogradov [3]				2/3	
Andrey Dubovskov				1/3	2/5
Aleksandr Gorbunov			4/4	3/3	
Artem Zasursky [4]				2/3	
Ruslan Ibragimov					5/5
Aleksey Kornya			4/4		
Michel Combes [5] Independent Director not a member of MTS PJSC executive management	5/7	10/12		1/3	
Vasily Latsanich [6]				2/3	
Stanley Miller [7, 8] Independent Director not a member of MTS PJSC executive management	7/7	12/12	1/4	3/3	1/5
Vsevolod Rozanov [9]			4/4	0/3	3/5
Regina Von Flemming[10, 11] Independent Director not a member of MTS PJSC executive management	4/7		3/4		1/5
Thomas Holtrop[12, 13] Independent Director not a member of MTS PJSC executive management	7/7	12/12	3/4		4/5
Sergey Shishkin [14]					0/5

1 powers of the Budget Committee member terminated on June 23, 2016.
2 powers of the Strategy Committee member terminated on June 23, 2016.
3 powers of the Strategy Committee member terminated on June 23, 2016.
4 elected as Strategy Committee member since June 23, 2016.
5 elected as Strategy Committee member since June 23, 2016.
6 elected as Strategy Committee member since June 23, 2016.
7 powers of the Budget Committee member terminated on June 23, 2016.
8 elected as member of the Corporate Governance Committee since June 23, 2016.
9 elected as member of the Strategy Committee since June 23, 2016.
10 elected as member of the Budget Committee and Remuneration and Nomination Committee since June 23, 2016.
11 elected as member of the Corporate Governance Committee since June 23, 2016.
12 elected as member of the Budget Committee since June 23, 2016.
13 powers of member of the Corporate Governance Committee terminated since June 23, 2016.
14 elected as member of the Corporate Governance Committee since June 23, 2016.

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

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 23, 2016:

Committee Member	From June 25, 2015	From June 23, 2016
Vsevolod Rozanov, Chairman, Non-executive Director	■	■
Ron Sommer, Non-executive Director	■	–
Aleksandr Gorbunov, Non-executive Director	■	■
Stanley Miller, Independent Director	■	–
Regina von Flemming, Independent Director[1]	–	■
Thomas Holtrop, Independent Director[1]	–	■
Aleksey Kornya, Member of the Management Board – Vice President for Finance and Investment, Mergers and Acquisitions of MTS PJSC	■	■

■ person was/is a Committee member
– person wasn't/isn't a Committee member

[1] became the Committee member on June 23, 2016.

Meetings

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

Participation of Committee members in the meetings:

Committee Member	April 8 (in-person)	September 15 (in-person)	October 26 (in-person)	November 23 (in-person)
Vsevolod Rozanov	■	■	■	■
Ron Sommer	■	□	□	□
Aleksandr Gorbunov	■	■	■	■
Stanley Miller	■	□	□	□
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

- MTS Receivables Management Report 2015;
- Report on MTS Group Budget and CAPEX Program Execution in 2015 and Current Forecast of Execution in 2016;
- MTS debt and liquidity management outcomes 2015;
- MTS Group budget for 2017;
- Receivables management at MTS Group, Report 1H 2016;
- and others.

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

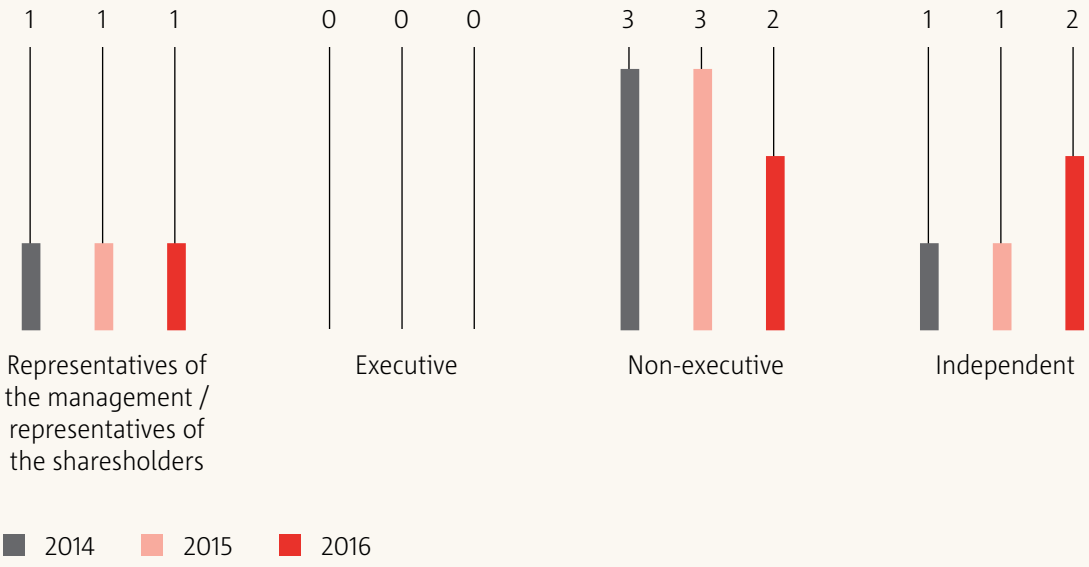
- Take note of the report on MTS Group Budget and CAPEX Program Execution in 2015 and Current Forecast of Execution in 2016.
- Take note of the preliminary MTS Group budget for 2017 and performance improvement program.
- Submit draft budget 2017 for consideration of the Board of Directors of MTS PJSC.

Work results in 2016

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



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.

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.

Number and identities of the members

Number of the Committee members within the reporting year didn't change (3 members including the Chairman).

Composition of the Committee was approved at the meeting of the Board of Directors dated June 23, 2016:

Committee Member	From June 25, 2015	From June 23, 2016
Thomas Holtrop, Chairman, Independent Director	■	■
Michel Combes, Independent Director	■	■
Stanley Miller, Independent Director	■	■

■ person was/is a Committee member
– person wasn't/isn't a Committee member

Meetings

Committee activities were based on the approved action plan according to main functions assigned to the Committee. Reporting year saw 12 (twelve) meetings of the Committee: 11 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 17 (in-person)	March 16 (in-person)	April 7 (in-person)	May 18 (in-person)	June 22 (in-person)	June 23 (in-person)
Thomas Holtrop	■	■	■	■	■	■
Michel Combes	■	■	■	□	■	■
Stanley Miller	■	■	■	■	■	■

Committee Member	July 25 (by correspondence)	August 16 (in-person)	September 13 (in-person)	October 26 (in-person)	November 15 (in-person)	December 19 (in-person)
Thomas Holtrop	■	■	■	■	■	■
Michel Combes	■	■	■	■	□	■
Stanley Miller	■	■	■	■	■	■

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

Key areas of the Audit Committee activities in 2016 were as follows:

In the sphere of risk management and internal control system

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

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 2016; also they analyzed consolidated financial statements of the Group for the year, prepared in accordance with International Financial Reporting Standards (IFRS). Annual Report of MTS PJSC for 2016 by the form 20-F was discussed and approved. Reports on financial and operational results of MTS Group for the 1st, 2nd, 3rd and 4th quarters and for 2016 were reviewed and approved.

During 2016 the Committee was conducting a preliminary review of related-party transactions before their presentation for approval of MTS PJSC Board of Directors. With respect to transactions involving shareholder-related parties, the results the analysis of economic feasibility and compliance with regulatory documents during the transactions, conducted by Internal Control and Audit Unit were reviewed and taken into account.

In the field of compliance system management

The Committee reviewed strategic areas of compliance activities for 2016 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 2016, and the results of the year. The Committee positively assessed the compliance function and considers it to be effective. The Committee took note of the report on international study of compliance function and proposals for further development of compliance at MTS Group. In December 2016, the Committee approved the functional strategy of MTS Group in the field of compliance for 2017.

In the reporting year, we maintained the focus on the effectiveness of internal control system, risk management and compliance, and control over internal and external audit. Consistent efforts undertaken together with management in relation to the quality and reliability of the systems and processes implemented in the Company enabled us to obtain results that, in our opinion, fully correspond to the spirit of confident leadership inherent in our Company.

Audit Committee Chairman
THOMAS HOLTROP

In the area of internal control and audit management

During 2016 the Committee reviewed information about current operation of the Internal Control and Audit Unit. In October 2016, the Committee reviewed and preliminarily approved new version of the Policy "Internal Control and Audit of MTS PJSC". The Chairman of the Audit Committee held regular meetings with the Director for Internal Control and Audit. The committee reviewed and approved results of the Internal Control and Audit Unit's operation for the first six months and in general for 2016, and performed evaluation of KPI implementation for 2016. The Audit Committee positively evaluated operations of the Internal Control and Audit Unit, and believes it is efficient.

In December 2016, the Committee reviewed and preliminary approved the strategy, KPIs, work plan and budget of the Internal Control and Audit Unit for 2017.

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 23, 2016 According to the recommendation of the Audit Committee, on July 25, 2016 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 in the amount of 121,580 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 2016 and the annual audit, including comments in the area of internal control. Based on 2016 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 2016 prepared in accordance with Russian accounting standards, and consolidated financial statements of MTS PJSC and its subsidiaries for 2016 prepared in accordance with IFRS.

The Committee exercised supervision over compliance of the auditors with independence principles. During 2016 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 2016, 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 Unit The reports of the Discipline Committee for 2016 were considered and taken into account.

Issues and recommendations of the Audit Committee reviewed at the meetings in 2016:

- Approval of reports on financial and operational results of MTS Group for 2015, and for the 1st, 2nd and 3rd quarters of 2016;
- Review and approval of reports of CJSC Deloitte and Touche CIS on the results of annual audit for 2015, and quarterly reviews of financial information for the 1st, 2nd and 3rd quarters of 2016, annual audit plan for 2016, 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 RUB 121,580 thous. (VAT and overhead expenses excluded).
- Discussion and approval of the Annual Report of MTS PJSC by the form 20-F;
- review of Risk Management Report 2016 of MTS PJSC 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 2015 and the first half of 2015;
- Review, preliminary approval and recommendation to the Board of Directors on approval of the strategy, KPI and work plan 2017 of Internal Control and Audit Unit;
- Review of the plan for 2016 and operation results of the Department for Internal Control Systems for 2015 and the first half of 2016;
- Review of MTS Group functional strategy in the compliance area for 2016, review and approval of the report on implementation of MTS Group compliance strategy 2015 and report on the status of implementation of compliance strategy at MTS PJSC and its subsidiaries in the first half of 2016;
- Review and approval of MTS Group functional strategy in the compliance area for 2017;

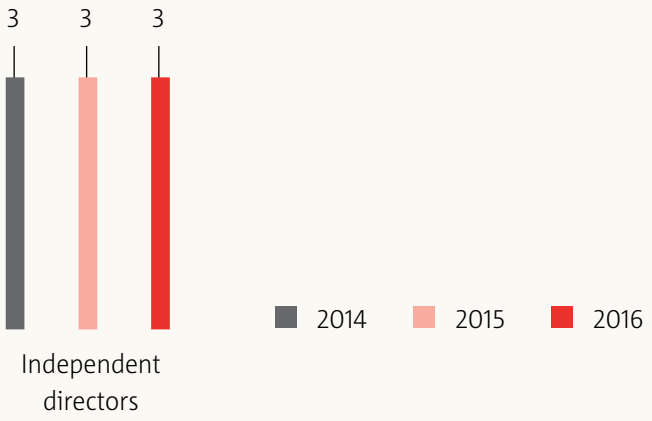
- Review and recommendation to the Board of Directors to take note of the report on international study of compliance function and proposals for further development of compliance at MTS Group;
- Review of work results of the Single Hotline of MTS Group of Companies for 2016;
- Preliminary review of related-party transactions before their presentation for approval of the Board of Directors.
- Approval of the Committee work plan 2017.

Work results in 2016

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



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.

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;

In the reporting year the Remuneration and Nomination Committee continued to work on important aspects of personnel management for the company. Leveraging the international experience in corporate governance and best professional practices, the Committee advises the Board of Directors on these matters.

We strive to ensure that MTS policies in the field of compensation and benefits are recognized as the best practices in the labor market; the Company employs the best managers, and the work of employees is evaluated using clear understandable indicators set by the Company's management body. The Committee summarizes the results of achievement of annual KPIs and provides recommendations to the Board of Directors on short-term and long-term incentives, based on analysis of the local and international market environment.

All the Committee members are positive that by attracting the best personnel, investing in their training, retention and fair market-level remuneration, creating opportunities for their development in a competitive but honest environment, the Company ensures its success for many years to come.

Chairman, Remuneration and Nomination Committee
Stanley Miller

— The Committee preliminarily addresses the issues reviewed at meetings of the Company's Board of Directors in the sphere of appointment and remuneration of top managers of the Company.

Number and identities of the members

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 23, 2016:

Committee Member	From June 25, 2015	From June 23, 2016
Stanley Miller, Chairman, Independent Director	■	■
Michel Combes, Independent Director	■	■
Thomas Holtrop, Independent Director	■	■
Regina von Flemming, Independent Director[1]	–	■

■ person was/is a Committee member
– person wasn't/isn't a Committee member

[1] became the Committee member on June 23, 2016.

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 17 (in-person)	April 7 (in-person)	June 22 (in-person 1)	June 22 (in-person 2)	September 14 (in-person)	October 26 (in-person)	December 19 (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 2016:

— **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 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 2015.
- Setting goals for 2016, 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 2015 and setting goals for 2016.
- Drawing up lists of participants of the long-term awarding programs according to the program's regulations.

The Committee monitors implementation of strategic development initiatives of the Company. An important goal is on the one hand to make sure that outstanding results are rewarded in a fair manner, and on the other hand, not to ignore lack of efforts. Together with the Audit Committee, close attention is paid to compliance with corporate governance rules, regulatory requirements and prevention of financial crimes. In line with the recommendation of the Remuneration and Nomination Committee, KPIs of the Company's management were supplemented by objectives related to corporate governance and adherence to compliance principles.

The Committee is responsible for reviewing external and internal candidates for key management positions of the Company, as well as evaluating independent candidates for the Board of Directors. The Committee has recently summed up the work of the President and top management of the Company in 2016, as well as approved resolutions on such key personnel management issues as a successor program and the development of corporate culture.

Remuneration and Nomination Committee
Stanley Miller

- Appointments and employment termination of the Management Board members and top managers; it was recommended to rotate Management Board of the Company
- Changes in the Company's organizational structure in general and with respect to direct subordinates of the President of the Company;
- Composition and readiness of successors to top managers of the Company
- Evaluation of top managers' remuneration level against the market level and their contribution to Company's results.
- Standards of material and technical support of the Company's top managers have been updated;
- Assessment of compliance of candidate members of MTS PJSC Board of Directors with the independence criteria
- Development of the company's organizational structure.

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

On all the issues discussed, the Committee provided recommendations for proper decisions in accordance with the best world practices, the current business environment and the company's development strategy.

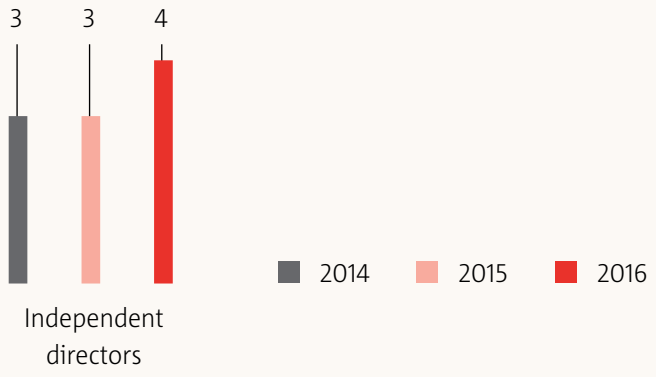
Work results in 2016

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.

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

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

Composition of Remuneration and Nomination Committee



Corporate Governance Committee

The committee was created in order to develop and improve the system and practices of corporate governance in the Company. The Committee within the terms of its reference preliminarily reviews the most important issues and prepares recommendations for the Board of Directors to take relevant decisions

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.

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 23, 2016:

Committee Member	From June 25, 2015	From June 23, 2016
Vsevolod Rozanov, Chairman, Non-executive Director	■	■
Thomas Holtrop, Independent Director	■	–
Andrey Dubovskov, President, Chairman of MTS PJSC 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 PJSFC	–	■

■ person was/is a Committee member
– person wasn't/isn't a Committee member

Meetings

Reporting year saw 5 meetings of the Committee: 4 in person form, 1 in the form of absentee voting.

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

Committee Member	February 17 (in-person)	April 8 (in-person)	May 19 (by correspondence)	June 22 (in-person)	September 14 (in-person)
Vsevolod Rozanov	■	■	■	☐	☐
Thomas Holtrop	■	■	■	■	–
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
– person wasn't a Committee member at the moment of the meeting

Issues and recommendations reviewed

16 issues were reviewed in total during the reporting year.

Besides organizational issues, the Committee within its terms of reference considered the following issues:

- Preliminary review of the Charter and internal documents of the Company, including those regulating the activities of management bodies;
- preliminary review the Annual Report of the Company for 2015;
- control over enforcement of the action plan on implementation of recommendations of the Corporate Governance Code in the Company's practices;
- Consideration of proposals on improvement of corporate governance practices of the Company;
- Preliminary review of the methodology for self-assessment of the Board of Directors and report on the results of such self-assessment;
- review of the Progress Report on Insider Trading Regulatory Compliance for 2015;
- Approval of liability insurance agreement of directors, officials and companies of MTS Group;
- Review of the new procedure of approval of related party transactions;
- and others.

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

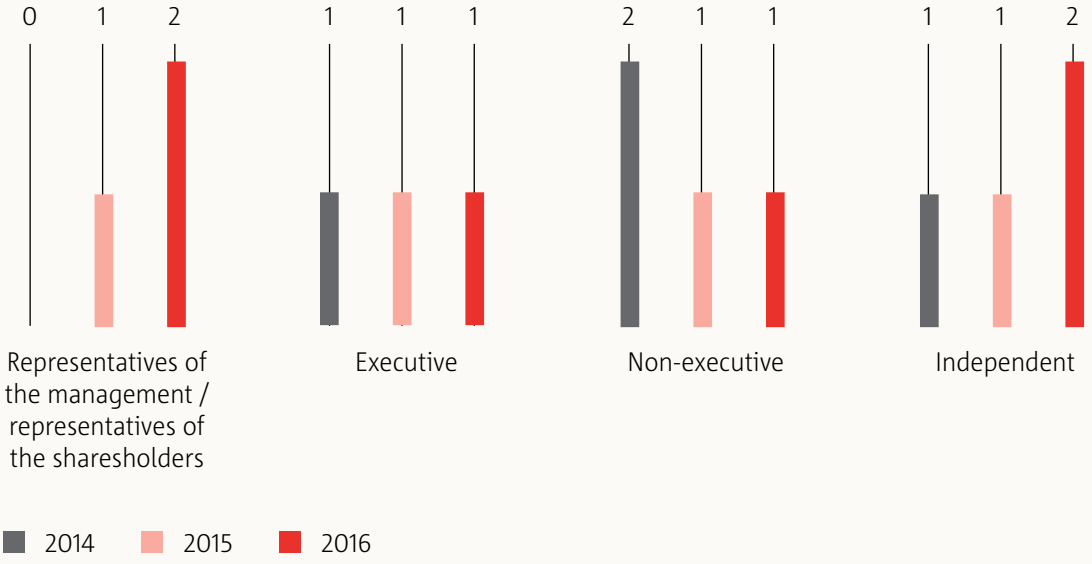
- to recommend to the Annual General Shareholders' Meeting members to approve new revisions of the Charter, Regulation on the Annual General Shareholders' Meeting, Regulation on the Board of Directors, Regulation on the Remunerations and Nominations Committee and Regulation on the Corporate Governance Department;
- Approve the methodology for self-assessment of the Board of Directors;
- Preliminarily approve the Annual Report of the Company for 2015;
- Define the Corporate Governance Department as a unit acting as the Corporate Secretary; approve the head of the unit acting as the Corporate Secretary – Corporate Governance Director M.A. Kalinin, the existing conditions for remuneration and principles of bonus payment to the Corporate Governance Director on a post of the Head of the Department acting as the Corporate Secretary shall be reaffirmed;

- Approve of liability insurance agreement of directors, officials and companies of MTS Group;
- Approve consideration of the Report on operation of the system of compliance with requirements of the law on the insider information periodically: if any substantial information appears.

Work results in 2016

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.

Composition of the Corporate Governance Committee



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 23, 2016:

Committee Member	Since December 17, 2015	From June 23, 2016
Ron Sommer, Chairman, Non-executive Director	■	■
Aleksandr Gorbunov, Non-executive Director	■	■
Andrey Dubovskov, President, Chairman of MTS PJSC Board, Executive Director	■	■
Stanley Miller, Independent Director	■	■
Michel Combes, Independent Director[1]	–	■
Vsevolod Rozanov, Non-executive Director[1]	–	■
Vasily Latsanych, Management Board Member, Vice President for Strategy and Marketing, MTS PJSC [1]	–	■
Artem Zasursky, Vice President, Head of the Strategy Complex, JSFC Sistema PJSC	–	■
Andrey Babin, Joint-stock Strategy Department of MTS PJSC	■	–
Nikolay Vasilkov, Strategy Complex Manager JSFC Sistema PJSC	■	–
Vladimir Vinogradov, Mergers and Acquisitions Department Director of MTS PJSC	■	–

■ person was/is a Committee member
– person wasn't/isn't a Committee member

[1] became the Committee member on June 23, 2016.

Meetings

Reporting year saw 3 (three) in-person meetings of the Committee.

Participation of Committee members in the meetings:

Committee Member	February 17 (in-person)	June 22 (in-person)	December 19 (in-person)
Ron Sommer	■	■	■
Aleksandr Gorbunov	■	■	■
Andrey Dubovskov	□	■	□
Stanley Miller	■	■	■
Michel Combes	–	–	□
Vsevolod Rozanov	–	–	□
Vasily Latsanych	–	–	■
Artem Zasursky	–	–	■
Andrey Babin	■	■	–
Nikolay Vasilkov	□	□	–
Vladimir Vinogradov	■	■	–

■ Committee member participated in the meeting
□ Committee member didn't participate in the meeting
– person wasn't a Committee member at the moment of the meeting

Issues reviewed by the Committee in 2016

- MTS Group IT Strategy for 2016–2018
- Implementation status of MTS business transformation projects
- Management structure in strategic differentiation areas
- Development Strategy for MTS TV Services
- MTS Retail Network Development Strategy
- Situation with intranet and international roaming of MTS Russia
- MGTS Development Strategy for 2017-2019
- Development Strategy for MTS Financial Services and MTS Bank
- Marketing strategy of MTS Group for 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 marketing, TV services, retail, financial services. 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.

Chairman of the Strategy Committee
Ron Sommer

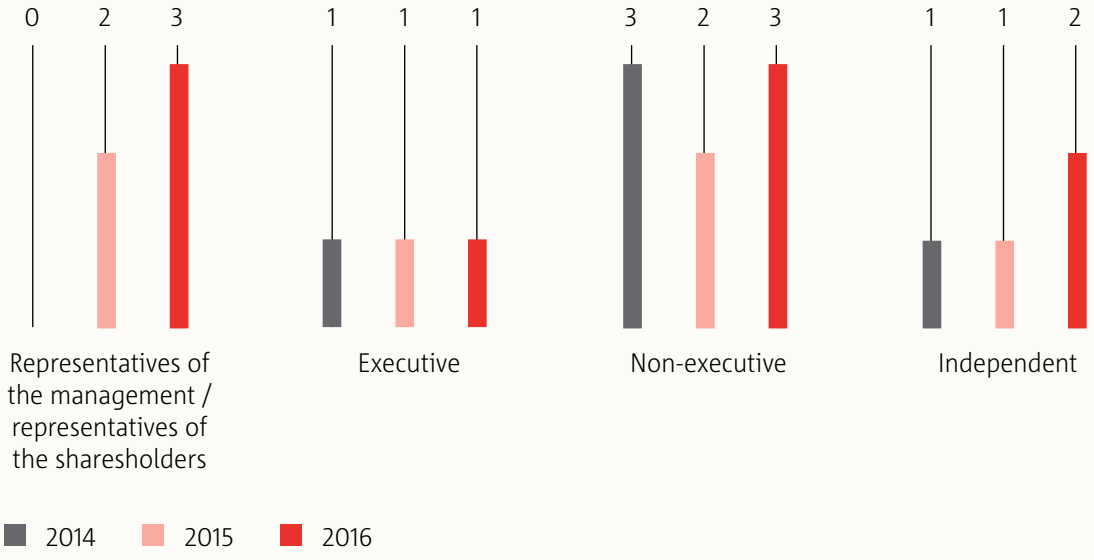
The Committee has provided the following recommendations to the Company's Board of Directors and Management of MTS Group:

- In the area of IT strategy, MTS management should use more objective, business-oriented KPIs
- The Group's management should develop special set of KPIs for regional teams linked with the level of digitalisation of business and operations
- Recommend MTS management to consider hiring top- level highly qualified experts to manage a number of strategic differentiation areas
- Recommend MTS management to analyze the attractiveness of the MTS brand in the youth segment
- MGTS management shall submit financial KPIs for the development of new MGTS services as a part of the strategic planning cycle of 2017, as well as the analysis of the ability of these new areas to support the growth of MGTS revenue and OIBDA in the long term

Work results in 2016

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 business. 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



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[1].

Remuneration for the fulfilment of obligations of MTS PJSC BoD 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 BoD member.

There are three forms of remuneration for BoD members

Basic remuneration

Basic remuneration shall be paid for the fulfilment of obligations of a Company's BoD member during the corporative 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 BoD 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 by US GAAP standards.

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 doesn't 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.

[1] www.mtsgsm.com/upload/contents/328/Statute_on_remunerations_final__eng.pdf

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.

BoD members also get compensations for miscellaneous expenses in amount not more than USD 200 thousand per year.

Directors who are not Russian citizens receive compensations in US dollars.

Remuneration paid to members of the Board of Directors in 2016

Item description	Total, RUB
Remuneration for participation in operations of the management body	87,627,828.04
Cost compensations	5,521,882.77
Total	**93,149,710.81**

Evaluation of Board of Directors' **pe**rformance

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. The 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:

- International and Russian practice context, which addresses the Evaluation issue;
- Evaluation objects and subjects (participants);
- Evaluation methods and tools;
- Principles, procedures and main areas of the Evaluation;
- Evaluation procedure;
- Approach to the analysis and use of the Evaluation results;
- Approach to risk management during Evaluation.

The principles of the Evaluation are:

- Regularity;
- Relevance;
- Practical orientation;
- Objectivity of the results;
- Comparability of the 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 evaluating the activities of the Board of Directors is to maximize the contribution of the Board of Directors to successful development and growth of the company's value by addressing such tasks as:

- Determining the balance of the Board of Directors in terms of professional experience, knowledge, skills and personal qualities of its members;
- Analysis of the effectiveness of approaches and procedures employed by the Board of Directors and committees in their work;
- Monitoring the presence of motivation of the members of the Boards of Directors and its level;
- Verification of the adequacy of controls of the Board of Directors over the activities of the Company and determining the quality of the relationship between the Board of Directors and management;
- Determining the contribution of the Board of Directors to the development of corporate governance system of MTS and ensuring effective interaction of its subjects.

The main purpose of evaluation of performance activities of the committees of the Board of Directors is to determine their efficiency in preliminary study of issues and assistance to the Board of Directors during decision-making. This goal can be achieved by solving tasks such as:

- Clarification of the role, functions and tasks of the committee;
- Verification of the balance of the committee in terms of the number of its members, their knowledge, professional experience and competencies;
- Analysis of the quality and effectiveness of the committee's interaction with the Board of Directors and management.

Individual evaluation of the members of the Board of Directors is aimed at maximizing their input to the work of the Board of Directors and committees, as well as identifying the needs of directors in raising their qualifications or developing certain skills that would contribute to more efficient work of the Board of Directors and its committees.

The evaluation is carried out on a regular basis (annually) and can be conducted both independently (using questionnaire method) and with involvement of an independent consultant.

First performance evaluation of the Board of Directors using the new methodology was carried out in 2016 in the form of self-assessment using questionnaire method. A 4-point scale was used in the evaluation.

During the evaluation, a wide range of issues was analysed: the balance of power in the Board of Directors, the role of the Board of Directors in the development and implementation of the company's strategy, analysis of the number of members and membership of the Board of Directors and its committees, qualifications and experience of the members of the Board of Directors, the role of independent directors, Board of Directors and committees, performance evaluation of the Chairman, the Secretary and each of the committees of the Board of Directors.

As a part of the self-assessment, the Board of Directors analysed issues aimed at identifying shortcomings in the field of professional qualifications, experience, business skills of members of the Board of Directors, as well as making sure that the number of members of the Board of Directors meets the needs of the Company. The results of the self-assessment showed that the composition of the Board of Directors is balanced; the set of professional competencies, knowledge and experience of the members of the Board of Directors reflects the needs of the Company and allows to effectively perform the tasks and functions of the Board of Directors.

The results of the Evaluation were analysed at a 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 held in presence.

In general, the Evaluation showed both strengths and areas for development.

Efficiency of the Board of Directors, its optimal composition, high professional skills of the Corporate Secretary[1], effective organization of the Board of Directors' work by the Chairman were highlighted.

The average score for all Evaluation components was 3.85. At the same time the average score was no less than 3.5 points for all Evaluation components.

[1] The Corporate Secretary is understood as the head of the unit that acts as the Corporate Secretary

Based on the results of the Evaluation, recommendations were made to improve performance of the Board of Directors and a plan of measures for 2016–2017 was developed.

In particular, even now we have changed certain procedures in the work of the Board of Directors in order to reduce the time that members of the Board of Directors spend on “technical” issues. We reviewed the composition of committees of the Board of Directors. For example, the number of independent directors in the Strategy Committee was increased. Based on the results of the Evaluation, additional tools were introduced to improve the involvement of independent directors in management motivation and succession maters.

We praise the results and see the effect of the Evaluation; therefore we plan to conduct it annually in the future, and also consider involving an independent consultant in the Evaluation (in accordance with the recommendation of the Code).

Informing newly elected members **of the Board** of Directors about **Company's op**eration

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.

In 2016, introduction course was not conducted due to the absence of changes in the composition of the Board of Directors.

Role of the Board of Directors in organisation of the efficient risk management and internal control system[1]

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.

[1] A more detailed information is presented in the section "Risk Management and Internal Control System".

Officials and MTS Group Companies Liability Insurance

Insurance sum (limit of liability) during the last 5 (five) years remains unchanged and is USD 250 mln (under each insurance contract signed each year).

D&O Insurance

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).

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[1] PJSC, Regulation on President of MTS[2] PJSC and Regulation on the Management Board of MTS PJSC.

Executive bodies:

- shall organise 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 2016 (from March 5, 2011) Andrey Dubovskov performed functions of the President of MTS PJSC.

On February 22, 2017, the Board of Directors of MTS PJSC extended the powers of President of the Company Andrey Dubovskov for 3 (three) years from March 5, 2017.

[1] www.mtsgsm.com/upload/contents/294/MTS_CEO_Regulations_2015_eng.pdf

[2] www.mtsgsm.com/upload/contents/294/MTS_Management_Board_Regulations_2015_eng.pdf

Events after a reporting date

On February 22, 2017, the Board of Directors of MTS PJSC decided to appoint Mr. Andrey Dubovskov as the President of MTS PJSC for a period of 3 (three) years from March 5, 2017, and confirmed the powers of the current members of the Management Board:

1) Andrey Dubovskov – Chairman of the Management Board of MTS PJSC

2) Mikhail Arkhipov

3) Kirill Dmitriev

4) Igor Egorov

5) Ruslan Ibragimov

6) Aleksey Kornya

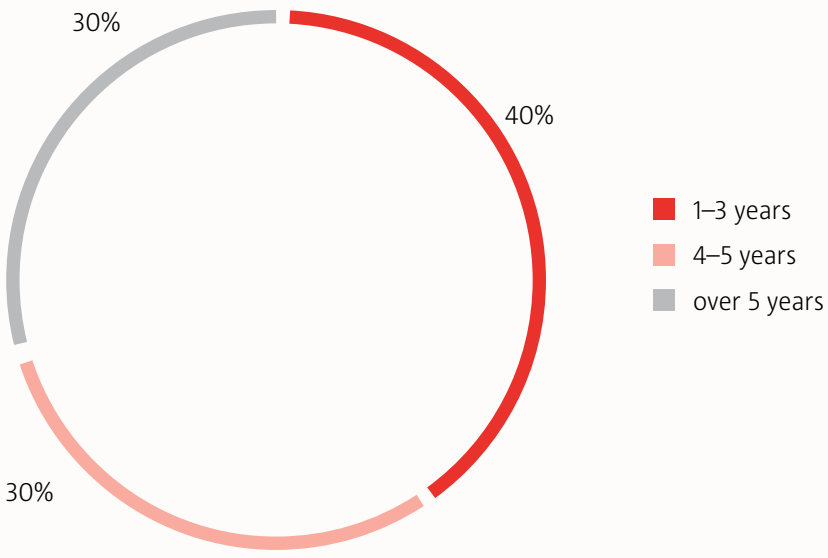
7) Vasily Latsanich

8) Andrey Smelkov

9) Andrey Ushatskiy

10) Valery Shorzhin

Duration work in the Management Board



Information about the President and members of the Management Board as of December 31, 2016

Andrey Dubovskov

President, Management Board Chairman[1]

He was born in 1966, in Alma-Ata.

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 to present: President, Management Board Chairman of MTS 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 MTS 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 31.12.2016, he owned ordinary registered shares of MTS PJSC in the amount of 350,718 shares.

[1] Deputy Chairman of the Management Board was not elected.

Mikhail Arkhipov

Member of the Management Board — Vice President, Human Resources.

He was born in 1982, in Murmansk.

In 2004 he graduated from the faculty of sociology of Moscow State University named after M.V. Lomonosov.

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 to present: MTS PJSC, member of the Management Board — Vice President, Human Resources

Member of the Board of Directors of SHYAM TELESERVICES Limited.

As part of the Management Board of MTS PJSC since 2013.

As of 31.12.2016, he owned ordinary registered shares of MTS PJSC in the amount of 50,043 shares.

Kirill Dmitriev

Member of the Management Board, Vice President for Sales and Maintenance.

He was born in 1978 in the town of Kingisepp.

In 2000 he graduate 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: PrJSC 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 maintenance

Member of the Supervisory Board of MTS Ukraine PrJSC, 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.

As part of the Management Board of MTS PJSC since 2014.

As of 31.12.2016, he owned ordinary registered shares of MTS PJSC in the amount of 29,135 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 Moscow State University named after M.V. Lomonosov.

In 1992 he completed postgraduate studies of Peoples' Friendship University of Russia named after P. Lumumba. PhD in law.

Professional experience:

1992–1996: he 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: he worked as a lawyer in various bar associations

2004–2006: Moscow bar association "Ibgragimov, 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, Management Board Member, Vice President, Corporate and Legal Issues

Management Board Member, Vice President of the Non-Profit Partnership "Association of Corporate Lawyers", member of the Non-Profit partnership "Assistance to Competition Development in CIS countries", member of the All-Russian Public Organisation "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, independent director of OJSC "Publishing House "Higher School", member of the Board of Directors of LLC "Doctor nearby", PJSC NIS, member of the Corporate Governance Committee at the Board of Directors of MTS PJSC.

As part of the Management Board of MTS PJSC since 2007.

As of 31.12.2016, he owned ordinary registered shares of MTS PJSC in the amount of 72,383 shares.

Aleksey Kornya

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

He was 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 Urals macroregion; in October 2007 — director of the Financial Planning and Analysis Department of the Financial Unit of MTS Group

2007–2008: MTS PJSC, controlling director of the Finance and Investment Unit

2008–2009: MTS PJSC, deputy 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 to present: MTS PJSC, Member of the Management Board — Vice President for Finance and Investment, Mergers and Acquisitions

Chairman of the Board of Directors of Management Company Sistema Capital, member of the Board of Directors of JLLC Mobile TeleSystems, member of the supervisory board of PrJSC MTS Ukraine, member of the Board of Directors of PJSC MTS-Bank, RTC JSC, member of the Budget Committee at the Board of Directors of MTS PJSC.

As part of the Management Board of MTS PJSC since 2008.

As of 31.12.2016, he owned ordinary registered shares of MTS PJSC in the amount of 86,525 shares.

Vasily Latsanich

Management Board Member, Vice President for Strategy and Marketing

He was born in 1972 in Veliky Berezniy village (Ukraine).

In 1995 he graduated from the Higher State Institute named after N.Lysenko (Ukraine, Lvov).

Professional experience:

1996–2001: Coca-Cola Ukraine Ltd, Coca-Cola Bottlers Siberia, he took a number of marketing and general management offices

2001–2011: PrJSC MTS Ukraine, head of the marketing department, in October 2001 he was appointed to the post of the marketing director of PrJSC MTS Ukraine

2011–2011: PrJSC MTS Ukraine, CEO

2011–2013: MTS PJSC — Vice President for Marketing

2013–2016: MTS PJSC, Management Board Member, Vice President for Marketing.

2016 to present: MTS PJSC, Management Board Member, Vice President for Strategy and Marketing

Chairman of the Board of Directors of PJSC NIS, JSC Medsi Group, Stream LLC, member of the Supervisory Board of MTS Ukraine PrJSC, member of the Board of Directors of RTC JSC, member of the Board of Directors, Chairman of the Strategy Committee of the Board of Directors of MGTS PJSC, member of the Board of Directors of MTS Bank PJSC, Segmento LLC, member of the Advisory Committee of Ozon Holdings Ltd.

As part of the Management Board of MTS PJSC since 2011.

As of 31.12.2016, he owned ordinary registered shares of MTS PJSC in the amount of 2 shares.

Igor Egorov

Member of the Management Board — Director of Moscow Macro-Region

He was born in 1968, in Irkutsk town.

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 31.12.2016, he owned ordinary registered shares of MTS PJSC in the amount of 29,135 shares.

Andrey Smelkov

Member of the Management Board — Vice President, Director of MTS Foreign Companies Business Unit

He was born in 1976, in Novgorod city.

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 safety 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 Vympelcom, head of the branch in Nizhniy Novgorod

2006–2008: PJSC Vympelcom (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 OJSC, Member of the Management Board — Vice President, MTS Foreign Companies Business Unit

Chairman of the Board of Directors of HC MTS-Turkmenistan and CJSC K-Telecom, member of the Board of Directors of JLLC Mobile TeleSystems, Sistema Shyam Teleservices Limited.

As part of the Management Board of MTS PJSC since 2013.

As of 31.12.2016, he didn't own shares of MTS PJSC (directly/indirectly).

Andrey Ushatskiy

Member of the Management Board — Vice President, Engineering and IT

He was born in 1974, in Moscow

In 1997 he graduate from the Moscow Energy Institute.

In 2002–2004 he educated 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 supervisory board of PrJSC MTS Ukraine, member of the Board of Directors of HC MTS-Turkmenistan, JSC Intellect Telecom and JSC Envision Group, member of the Board of Directors, member of the Strategy Committee of PJSC MGTS.

As part of the Management Board of MTS PJSC since 2009.

As of 31.12.2016, he owned ordinary registered shares of MTS PJSC in the amount of 65,256 shares.

Valeriy Shorzhin

Management Board Member — Vice President, Procurement and Administration

He was born in 1963, in Ulyanovsk town.

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 Supervisory Board of PrJSC MTS Ukraine, member of the Board of Directors of MGTS PJSC and JSC Envision Group.

He was elected for the first time in the Management Board of MTS PJSC; he was reelected in the Management Board in 2009.

As of 31.12.2016, he owned ordinary registered shares of MTS PJSC in the amount of 47,624 shares.

Activities of Management Board

For the previous 2016 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 2016

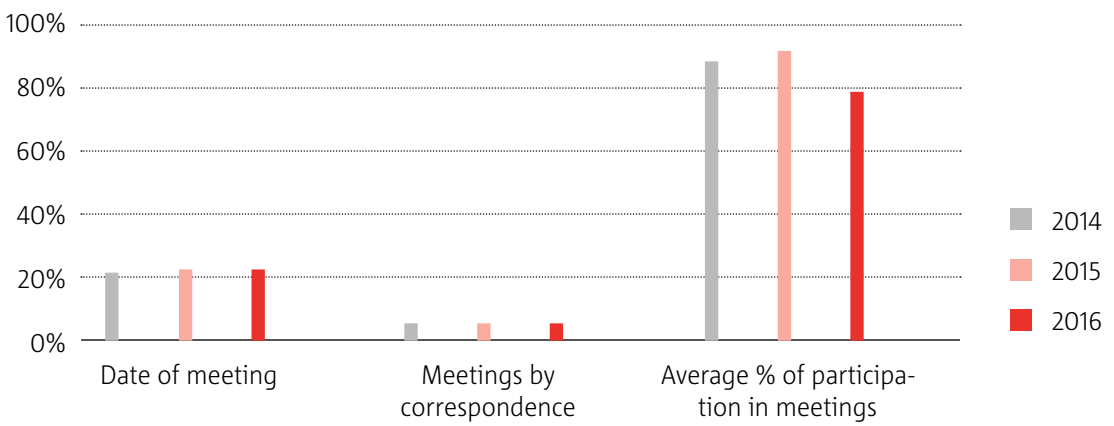
Management Board Member	In-person Meetings	Meetings by correspondence
Andrey Dubovskov	20	6
Mikhail Arkhipov	22	5
Kirill Dmitriev	18	6
Igor Egorov[1]	14	3
Ruslan Ibragimov	20	6
Aleksey Kornya	17	6
Vasily Latsanich	14	6
Vadim Savchenko[2]	2	1
Andrey Smelkov	14	6
Andrey Ushatskiy	19	6
Valeriy Shorzhin	19	6

[1] elected member of the Management Board since May 17, 2016.
[2] powers of the Board member terminated from May 16, 2016.

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 2016.

Statistics of the Management Board performance for 2014–2016



Significant issues considered at the meetings of the Management Board of MTS PJSC in 2016

1. Status of intellectual property and intangible assets management.

2. Approval of the principles of the KPI system of MTS PJSC for 2016.

3. Preliminary consideration of materials for the meeting of the Board of Directors of MTS PJSC.

4. Reports on implementation of functional strategies for 2016, incl. approval of the following strategies 2017:

- MTS Group marketing strategy,
- MTS Group sales and service strategy,
- MTS Group technology strategy, etc.
- MTS Group IT strategy,
- MTS Group procurement strategy,
- MTS Group security strategy,
- MTS Group PR strategy,
- MTS Group compliance strategy.

5. Performance in the field of mobile data in 2015, 1H 2016.

6. Performance in the field of fixed communication in the mass market in 2015, 1H 2016.

7. Controlling reports on MTS Group for the fourth quarter of 2015 and 2015, I-III quarters of 2016.

8. Performance of MTS Group for 2015, 1H 2016.

9. Transformation of regional management system of MTS PJSC.

10. Development plan of recognition and intangible motivation programs in 2016.

11. Amendment of regional legislation in order to simplify the construction of communication facilities.

12. Development of MTS: from data to digital transformation.

13. Business plan of MTS Group for 2017–2019.

14. Corporate MBA program for MTS Group managers.

Key competences of the Management Board Members

Management Board Member	Duration of work as Management Board Member	Key competences								
		Strategy	Finance and Audit	Industry Specialization (Telecom)	Marketing	Legal Matters and Corporate Governance	Personnel Management	Risk Management	M&A	GR/IR
Andrey Dubovskov	5 years (from June 2011)	■	■	■	■		■	■	■	■
Mikhail Arkhipov	4 years (from April 2013)	■		■			■	■		■
Kirill Dmitriev	3 years (from February 2014)	■	■	■	■		■	■	■	■
Ruslan Ibragimov	10 years (from April 2007)	■		■		■	■	■	■	■
Aleksey Kornya	8 years (from September 2008)	■	■	■	■		■	■	■	■
Vasily Latsanich	5 years (from September 2011)	■		■	■		■	■	■	■
Igor Egorov	1 year (from April 2016)	■	■	■	■		■	■	■	
Andrey Smelkov	3 years (from October 2013)	■	■	■			■	■	■	■
Andrey Ushatskiy	8 years (from April 2009)	■		■	■		■	■		
Valeriy Shorzhin	3 years (from March 2014)	■		■	■		■	■		

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.

The system of remuneration to senior officials includes elements of base remuneration and variable premium part:

- Base remuneration – monthly official salary;
- 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.

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 2016 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 2016 results

Remuneration paid to members of the Management Board in 2016

Item description	Total, RUB
Salary	153,121,068.67
Premiums	475,732,038.00
Cost compensations	123,589,040.82
Other remuneration types	11,103,395.83
Total	763,545,543.32

Remuneration paid to senior officials in 2016 [1]

Item description	Total, RUB.
Salary	251,944,113
Premiums	473,572,184
Cost compensations	156,734,652
Other remuneration types	2,420,613
Total	884,671,562

[1] Includes information about remuneration of 21 top executive of the Company (including Management Board members).

Structure of remuneration of top management in 2016.

The structure of income of Company's chief executives varies depending on the post level.

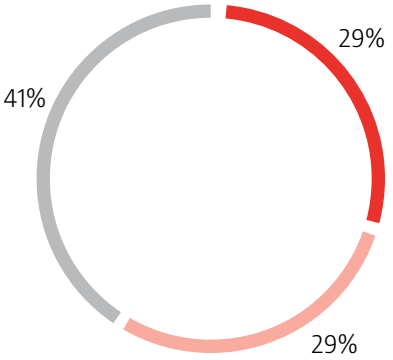
The higher is the post in the internal hierarchy of the Company, the larger share is the variable remuneration part.

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.

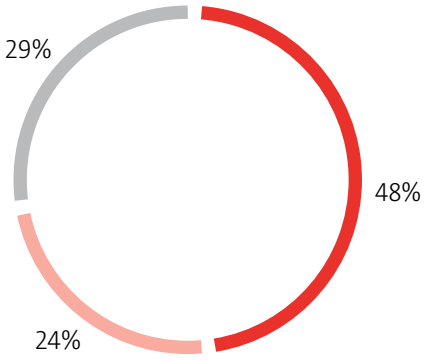
Typical element ratio is presented in the following options:

Typical remuneration structure ratio

Management Board members



Department Directors



- Basic remuneration
- Short-term bonuses
- Long-term bonuses

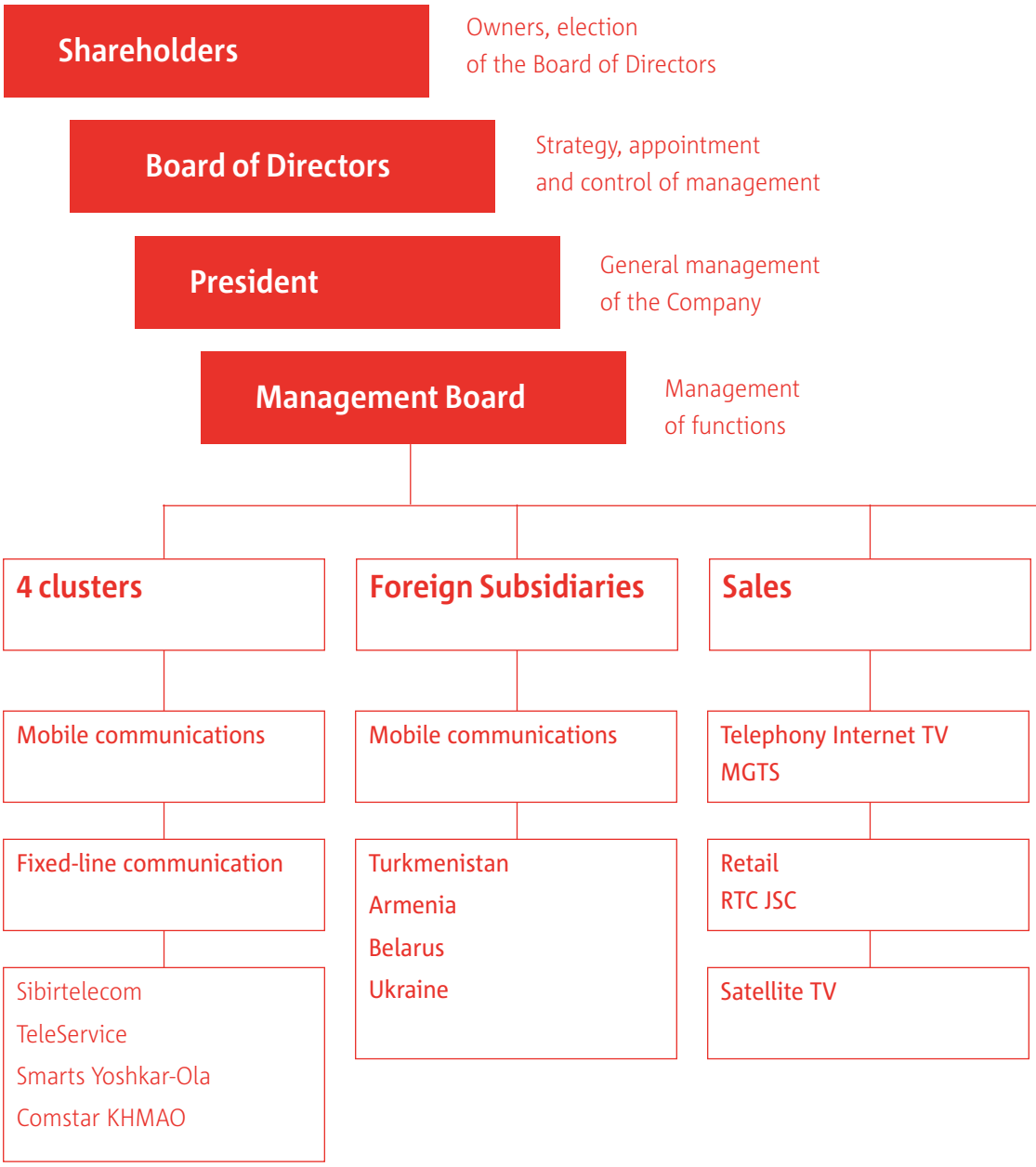
Events after the reporting date

In April 2017, the share of members of the Management Board in the authorized capital of MTS PJSC changed as a result of the second tranche of the long-term material incentive program for top managers of MTS PJSC, based on common shares of MTS PJSC, approved by the Board of Directors of MTS PJSC in 2013.

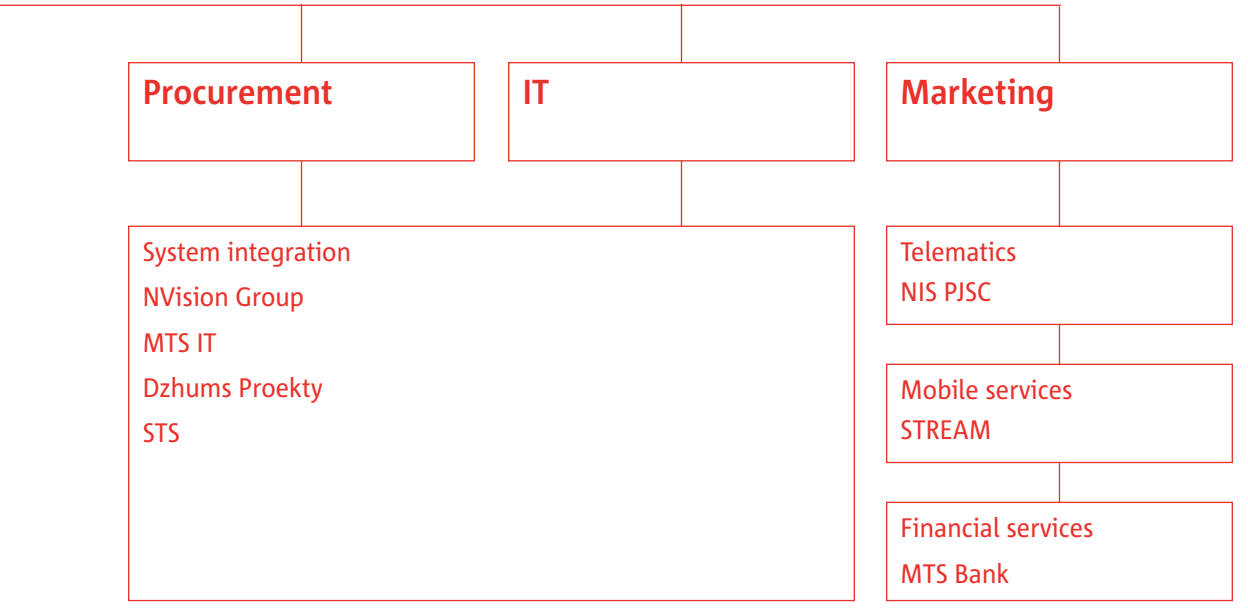
Board member	Share in the authorized capital of MTS PJSC before the second tranche of the Program of long-term material incentives for top managers	Share in the authorized capital of MTS PJSC after the transaction	Date when the share in the authorized capital of MTS PJSC was changed
Mikhail Arkhipov, Member of the Management Board, Vice President, Human Resources	0.00250%	0.00394%	25.04.2017
Kirill Dmitriev, Member of the Management Board, Vice President for Sales and Maintenance	0.00146%	0.00292%	25.04.2017
Andrey Dubovskov, President, Management Board Chairman	0.01755%	0.02341%	25.04.2017
Igor Egorov, Member of the Management Board, Director of Moscow Region	0.00146%	0.0026%	25.04.2017
Ruslan Ibragimov, Member of the Management Board, Vice President, Corporate and Legal Issues	0.00362%	0.0057%	25.04.2017
Aleksey Kornya, Member of the Management Board, Vice President for Finance and Investment, Mergers and Acquisitions	0.00433%	0.00744%	25.04.2017
Vasily Latsanich, Management Board Member, Vice President for Strategy and Marketing	0.0000001%	0.00277%	25.04.2017
Andrey Smelkov, Member of the Management Board, Vice President for foreign companies	акциями не владел	0.00173%	25.04.2017

Andrey Ushatskiy, Member of the Management Board, Vice President, Engineering and IT	0.00327%	0.00557%;	25.04.2017
Valeriy Shorzhin, Management Board Member, Vice President, Procurement and Administration	0.00238%;	0.00449%;	25.04.2017

Management of subsidiaries of MTS Group



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

>50%

Strategic management through representatives in the BoD

Core with a strong brand

Non-core with minority shareholders

Functional management through functions of HR, IT, HR units

Non-core companies for integration

Operational management through management company

Core companies for integration

Control

Company profile

Strong brand

Publicity

Minority shareholders

Integration

Jurisdiction

<50%

Charter

Companies with more than 25% stake

Agreement on investment protection

Core foreign companies

Corporate agreement

Guarantee of rights and authorities

Note

SC: Subsidiary BoD: Board of Directors RB: Auditing Commission

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

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

Defining the position of representatives in BoDs of subsidiaries

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 (1) vote either according to the position defined by MTS BoD, or being guided by their own opinion, taking into account the recommendation

6

Corporate Secretary agrees minutes with members of the Board of Directors

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 is aimed at assuring reasonable confidence in achievement of objectives faced by the Company and enable to assure proper control over financial and economic activities of the Company as well as its efficiency.

The internal control system of MTS PJSC represents a combination of interrelated components, the structure of which meets the general accepted methodology COSO Internal Control – Integrated Framework 2013. In accordance with COSO model a control environment is established, the risk assessment system is applied, control procedures are implemented and their performance monitored, changes in organizational structure and business processes are monitored.

Under the internal control system a range of anti-corruption measures mitigating reputational risks and risks of application of sanctions for officials' bribery against MTS PJSC. For the purposes of counteraction to abuses, 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 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).

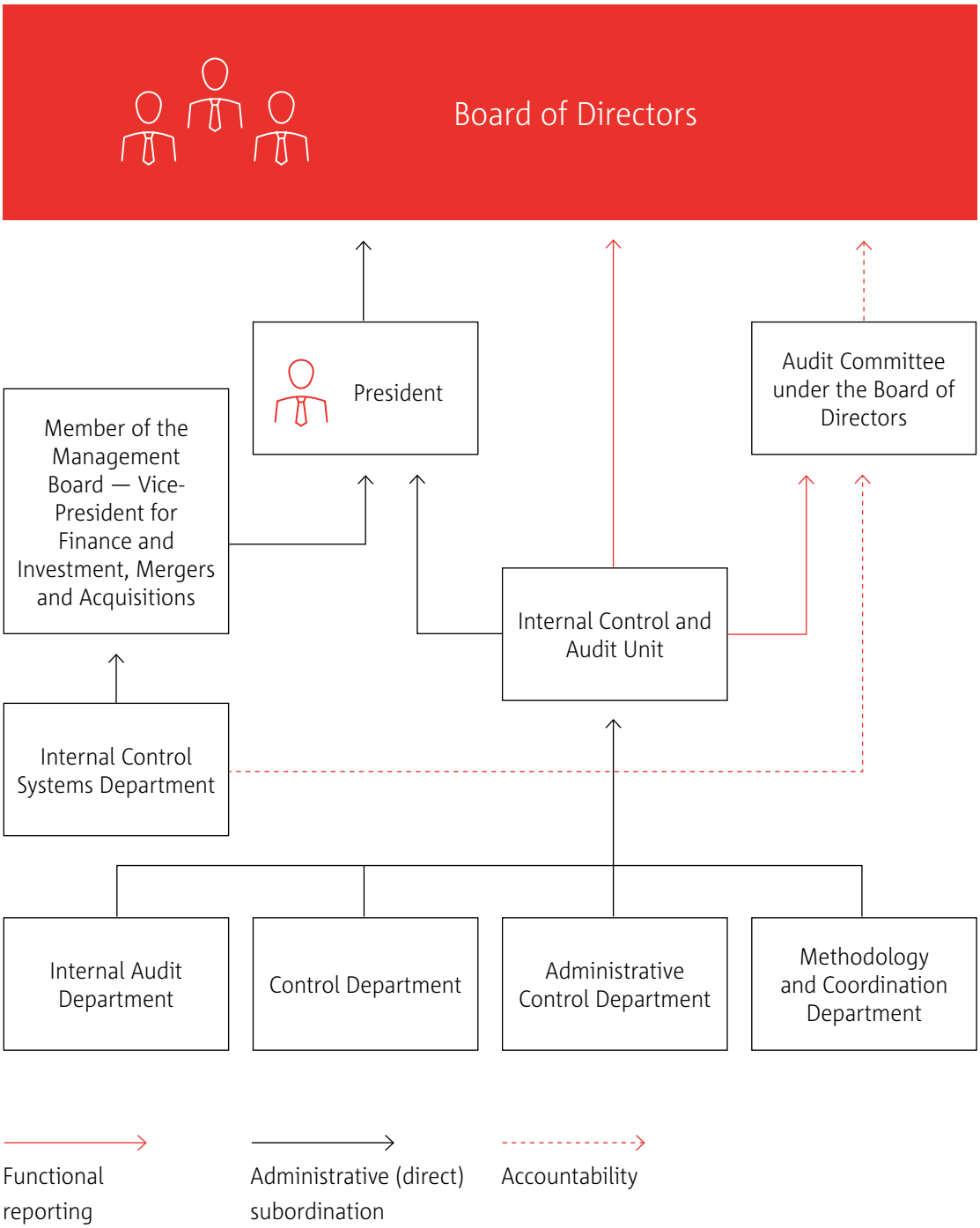
For systematic independent evaluation of reliability and efficiency of the risk management and internal control system and corporate management practice performance of the internal audit by the Internal Control and Audit Unit of MTS PJSC was organised in MTS PJSC. The internal control and audit unit 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 of internal audit departments, Internal Control Systems Department, compliance and risk management departments. The audit committee positively evaluated the work of the Internal Control and Audit Unit 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 2016.

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 Audit Commission is annually attached to materials of the annual General Shareholder Meeting of MTS PJSC.


Board of Directors
President
Audit Committee under the Board of Directors
Member of the Management Board — Vice-President for Finance and Investment, Mergers and Acquisitions
Internal Control and Audit Unit
Internal Control Systems Department
Internal Audit Department
Control Department
Administrative Control Department
Methodology and Coordination Department
Functional reporting
Administrative (direct) subordination
Accountability

Audit Committee at the Board of Directors

The Audit Committee is a collegial deliberative body of 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 23, 2016 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 JSFC Sistema OJSC.

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 JSFC Sistema OJSC.

The Auditing Commission acting in accordance with the articles of association of MTS PJSC as well as the Regulation on the Auditing Commission of MTS PJSC is a permanently operating elected body of the Company and exercises periodic control over financial and economic activities of the Company, activities of its management bodies and officials (including its separate subdivisions, services, branches and representative offices) by means of documentary and actual audits.

The Auditing Commission is independent from officials of the Company's management bodies and is accountable only to the General Shareholder Meeting of the Company.

Report on operation of the Auditing Commission

In April 2016, 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 2015 and the Annual report on Company's activities for 2015, in terms of Company's financial statements, are authentic.

In April 2017 the Auditing Commission held the audit of financial and economic activities of the Company for 2016. The opinion report of the Auditing Commission will be submitted for approval of the Annual General Shareholder Meeting of MTS in June 2017.

Internal Control and Audit Unit

The Internal Control and Audit Unit is an independent structural subdivision and consists of the Internal Audit Department, Control Department, administrative control department and methodology and coordination department. Head of the Unit 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 Unit 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 Unit submitted 4 reports at meetings of the Auditing Commission. All reports were approved by the Auditing Commission.

Report on operation of the Internal Control and Audit Unit

During 2016, the Internal Control and Audit Unit carried out its activities in accordance with the functions assigned to it, including:

- In October 2016, a new version of the Internal Control and Audit Policy was developed and approved by the Board of Directors, which complies with the Corporate Governance Code of the Central Bank of Russia and the Regulation on Admission of Securities to Organized Trading.

Department of Internal Control Systems

The Department of Internal Control Systems is an independent structural subdivision and consists of the development and support department, certification and testing department, IT-process control department, as well as internal control system groups in 6 regions of Russia.

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, Investments, Mergers and Acquisitions of MTS PJSC and is accountable to the Audit Committee under the Board of Directors of PJSC MTS.

Its activities are regulated by the Regulation on Internal Control System Department.

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.
- 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 and investments and is accountable to the Auditing Commission at the Board of Directors of MTS PJSC.

Report on operation of the Department of Internal Control Systems

In 2016, the internal control system of MTS PJSC Group was developed, 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 2015, changes in the organizational structure and business processes.

Based on the results of internal evaluation and external audit the internal control system of MTS Group as of December 31, 2016 was found efficient having no material deficiencies.

External Audit

Auditor

On June 23, 2016 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 Non-commercial partnership "Audit Chamber of Russia" dated May 20, 2009 No. 3026 was approved as the auditor of the Company.

Deloitte CIS 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, leveraging expertise of over 3,400 employees in 9 CIS countries, as well as Georgia and Ukraine. Deloitte CIS, is a member of the international association Deloitte Touche Tohmatsu Limited, one of the world's leading providers of professional services, with more than 244,400 employees in more than 150 countries.

Deloitte received international recognition and was repeatedly rewarded for the high quality of services and unique corporate culture.

In the reporting year the Auditor performed:

- the audit of annual financial statements of MTS PJSC for 2016 prepared in accordance with RAS;
- review engagement of IFRS (international financial reporting standards) abbreviated consolidated financial statements of MTS PJSC and its subsidiaries as of March 31, June 30 and September 30, 2016;
- integrated audit of consolidated financial statements of MTS PJSC and its subsidiaries and audit of efficiency of the system of internal control over preparation of financial statements for 2016.

In March 2017 the Auditing Commission approved results of the integrated audit of consolidated financial statements and audit of efficiency of the system of internal control over preparation of financial statements for 2016 performed by the external auditor.

Based on the results of the audits performed the Auditor of MTS PJSC expressed its opinion on authenticity of financial statements of MTS PJSC prepared in accordance with RAS as well as expressed its opinion on authenticity of consolidated financial statements 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 Auditing Commission at the Board of Directors of MTS PJSC.

In the event that the auditor candidacy is approved by the Auditing Commission, 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 amount of auditor's remuneration for audit of statements of MTS Group of Companies for 2016 approved by the Board of Directors of MTS PJSC made up 121,580 thousand RUB, excluding VAT (including works for audit of compliance with requirements of the Sarbanes-Oxley Act).

In 2016, Deloitte also provided advisory services to MTS PJSC on certain taxation issues and other associated services, including those related to investigation into the activities of the former subsidiary of MTS PJSC Uzdunrobita in Uzbekistan. The total value of such services in 2016 was 6 025 thous. RUB.

Capital and Securities

Shareholder capital structure

Authorised capital of MTS PJSC as of December 31, 2016 amounted to RUB 199,838,157.50

Placed and declared shares of MTS PJSC as of December 31, 2016

Shares' categories (types)	Quantity (pcs.)	Nominal value of one share (RUB)
Placed shares		
Ordinary shares	1,998,381,575	0.1
Voting shares	1,998,381,575	0.1
Preferred shares	0	0
Declared shares		
Ordinary shares	100,000,000	0.1
Preferred shares	0	0

Shareholder capital structure of MTS PJSC as of December 31, 2016[1]

Information about persons owning shares disposing of votes by shares being beneficiaries by shares of MTS PJSC

	Number of ordinary shares	Interest of authorised capital
Sistema PJSFC [2, 3]	993,961,917	49.74%[3]
MGTS PJSC [4]	8,421,463	0.42%
Stream Digital LLC [5]	3,060,409	0.15%
Shares in free circulation [6]	992,937,786	49.69%
Total	1,998,381,575	100.00%

[1] 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.

[2] 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. (6.95% of shares of MTS PJSC).

[3] Vladimir Petrovitch Evtushenkov is a controlling person of JSFC Sistema PJSC.

[4] The stake of JSFC Sistema PJSC MTS PJSC, including indirect ownership through controlled entities (MGTS PJSC and Stream Digital LLC) is 50.31%, while an effective share is 50.03%.

[5] MGTS PJSC and Stream Digital LLC are subsidiaries of MTS PJSC.

[6] Includes 10.5% of shares of MTS PJSC and ADR for 39.19% 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 4-th quarter of 2016: 875.

Total number of persons included in the list of persons compiled by the latter (as of September 5, 2016) 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: 17,153.

For updated information about the shareholder capital structure visit the Company's web-site – www.company.mts.ru/comp/ir/shareholders/.

Events after the reporting date

1. Launch of Share Buyback Program

The Board of Directors of MTS approved share buyback program to create additional returns for shareholders. Under the program MTS can use up to RUB 30 bln to repurchase shares over the next three years.

In October and December 2016, the Board of Directors decided to hold modified two Dutch auctions for share buyback program for the total amount of up to RUB 10 bln. In October 2016 and January 2017, MTS repurchased 17,532,278 shares for the total amount of RUB 5.0 bln, and also acquired shares from its majority shareholder, JSFC Sistema, in proportion to its effective share of ownership, at the prices determined by the auction. In total, MTS spent 10 billion rubles on the acquisition of 35,121,665 shares.

More details on the Buyback Program can be found at www.company.mts.ru/comp/press-centre/press_release/2017-03-07-5739186/

2. Redemption of Eurobonds

In June, MTS purchased its own Eurobonds with a par value of $267.44 mln, issued in June 2010 for $750 mln with a yield of 8.625% per annum and maturity in 2020.

More details on the results of Eurobonds repurchase can be found at www.company.mts.ru/comp/press-centre/press_release/2016-06-24-5229467/

The management of MTS PJSC has no information about existing share ownership interests exceeding 5% of authorised capital of MTS PJSC apart from the above-mentioned.[1]

[1] 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 1-st 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 fixes 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:

www.moex.com

www.nyse.com

American Depositary Receipts

On June 30, 2000 MTS was successfully allowed to issue american depositary receipts (ADR) of the 3-rd level at the New York stock exchange (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, 2016 the total number of ADRs for ordinary registered share amounted to 398 248 937 ADR, which makes up 796 497 874 ordinary registered shares or 39.86% of company's authorised 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.

MOSCOW EXCHANGE

Price and volume of shares of MTS PJSC (RUB), 2016

MICEX	Price (RUB)
Minimum share price	200.55
Maximum share price	268.3
Average daily trade volume (pcs.)	2,462,041
Price as of 31.12.2016	259.0

NYSE EURONEXT

Price and volume of american depositary receipts of MTS PJSC (USD), 2016

NYSE	Price (USD)
Minimum share price	5.22
Maximum share price	9.64
Average daily trade volume (pcs.)	3,028,646
Price as of 31.12.2016	9.11

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 RUB 10 bln took place in June 2008. In October 2008, MTS PJSC placed two more bond issues worth RUB 10 bln. In May 2009, a ruble bond issue rook place for the amount of RUB 15 bln, in July 2009 – another issue worth RUB 15 billion rubles. On November 16, 2010, MTS PJSC placed two bond issues for the amount of RUB 10 bln and RUB 15 bln. The funds obtained from the placement of bonds were used for corporate purposes to optimize the company's debt portfolio and implement investment program.

In April 2011 three issues of A, B, C series bonds were placed for the total amount of RUB 35 990 400 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 USD400 mln.

On April 3, 2013, the first issue of exchange-traded bonds in rubles of MTS PJSC was performed for RUB 10 bln with the circulation period of 10 years and offer within 5 years.

On May 30, 2013 dollar Eurobonds for USD 500 mln with repayment within 10 years were placed.

On October 17, 2013 bonds of 01 series for RUB 10 bln were repaid in full.

On May 13, 2014 bonds of 04 series for RUB 15 bln were repaid in full.

On October 20, 2015 bonds of 02 series for RUB 10 bln were repaid in full.

On November 30, 2015 bonds of A series for RUB 11 991 600 were repaid in full.

On July 19, 2016 bonds of 05 series for RUB 15 bln were repaid in full.

On September 2, 2016, the first issue of exchange-traded bonds in rubles of MTS PJSC was performed for RUB 10 bln with the circulation period of 15 years and offer within 2 years.

On August 21, 2016 bonds of B series for RUB 11 998 800 were repaid in full.

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	1–4 coupon – 8.7%, 5–10 coupons – 8% p.a., 11 coupon – 7% p.a., 12–13 coupons – 7.5% p.a., 14–15 coupons – 12% p.a., 16–20 coupons – 10% p.a.
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 07 series
Coupon	1–14 coupons– 8.7% p.a.
Placement price	100%
Issue currency	Ruble
Issue amount	10,000,000,000
Placement date	November 16, 2010
Repayment date	November 07, 2017
ISIN Reg No.	RU000A0JR4H6
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	1–10 coupons – 8.15% p.a., 11–12 coupons –10.75% p.a., 13–14 coupons –9.25% p.a.
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 03, 2016

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% p.a., 11–20 coupons – 8.25% p.a.
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% p.a.
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	01.04.2011
Repayment date	28.06.2022
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	US dollar
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	5.00% fixed, payment once in six months
Placement price	100%
Issue currency	US dollar
Issue amount	500,000,000
Repayment date	May 30, 2023

Corporate Governance Development

Key MTS corporate governance principles are:

- comprehensive p**ro**tection of shareholder rights and interests;
- information ope**nn**ess and transparency;
- single corporat**e** policy in respect of subsidiaries;
- independence of **t**he Board of Directors in definition of the Company's strategy, approval of business plans, other important decisions;
- control over ma**na**gement activities;
- observance of b**us**iness ethics when doing business;
- doing socially **re**sponsible business aimed at assuring sustainable development of the Company, its welfare growth.

Digitalisation is the strongest global trend of the modern world. Being a telecommunications company, we feel our special involvement in this process.

Digital transformation poses new challenges for us, not limited to the need to apply new methods in marketing or production activities, but also poses new requirements to the corporate governance quality.

Confirming our adherence to the principles of information openness and transparency, strict observance of business ethics, socially responsible business and maintaining a balance of interests of management and shareholders, our Company demonstrates compliance with corporate governance standards at the highest level.

Corporate Governance Director of MTS PJSC
MAXIM KALININ

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 lawfullness, 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 2016 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 2016 no conflict of interests of members of the Board of Directors of MTS PJSC was found.

Development of the Corporate Governance System and Plans for 2017

In 2016 we continued the work on development of our corporate governance system.

In 2015, we conducted an independent audit of the corporate governance system for compliance with the provisions of the Code and, based on its results, developed a plan of measures to implement the Code recommendations at MTS with a 2-year implementation period (the Roadmap). The Roadmap involved over 300 activities in various corporate governance areas.

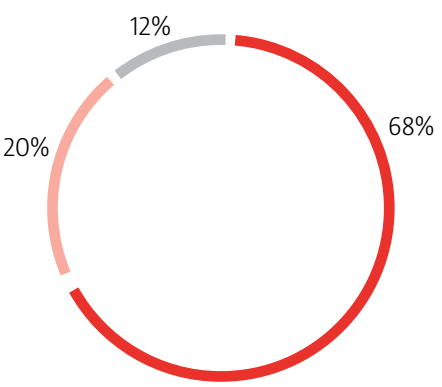
In the reporting year, the intermediate results of implementation of the Roadmap were summed up: 59% of the planned activities were implemented.

In the coming year of 2017, we summed up the final results of the Roadmap implementation: 95% of the planned activities were implemented; a number of activities was abandoned due to irrelevance of several Code practices for our corporate governance model.

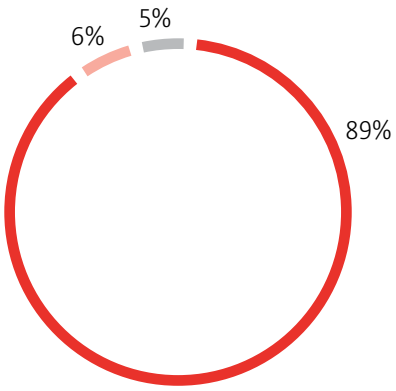
For us it is important that at the beginning of 2017 MTS fully implemented 89% of the recommendations of the Code, 6% were implemented partially, and 5% not implemented, while in 2015, when the Roadmap was adopted, MTS

Implementation of the Code

At the beginning 2015



At the beginning 2017



Fully implemented

Partially implemented

Not implemented

completely fulfilled only 68% of the recommendations of the Code, 20% were implemented partially, and 12% not implemented.

During implementation of the Roadmap, we managed to provide simple and convenient procedures for preparation and participation of shareholders in the meeting, introduced a procedure for regular evaluation of the Board of Directors, ensured sufficient independence of the Corporate Secretary[1], assigned new functions to the Remuneration and Nomination Committee, improved our level of transparency and carried out a number of other activities aimed at raising the overall corporate governance level.

Key activities implemented as a part of the Roadmap:

No.	Code Section	Implemented event	Implementation Date
1.	General Meeting of Shareholders	Broadcasting the General Meeting of Shareholders online	2015
		Electronic voting at the General Meeting of Shareholders	2016
		Other meeting procedures For example, now a shareholder may ask questions about the company's activities both before the meeting and directly during the meeting	2015
2.	Corporate Secretary	Ensuring sufficient independence of the Corporate Secretary from the management. The Corporate Governance Department was defined as a unit that acts as a Corporate Secretary (the department is headed by the Director for Corporate Governance), and the following functions were assigned to the Board of Directors: approval of the nominated Director for Corporate Governance and termination of his powers; determining the terms, amount and payment procedure of remuneration, as well as the principles of paying bonuses to the Director of Corporate Governance; approval of the Regulation on the Department of Corporate Governance; performance evaluation of work and approval of the performance report of the Director for Corporate Governance.	2016

[1] The Corporate Secretary is understood as the head of the unit that acts as the Corporate Secretary

3.	Board of Directors	More detailed regulation of the processes associated with the conflict of interests of directors	2015
		Alignment of independence criteria	2015
		Expansion of the list of issues decision on which can be made only at the physical meetings of the Board of Directors	2015
		Adoption of a new methodology for performance evaluation of the Board of Directors and resumption of the regular evaluation process	2016
4.	Remuneration and Nomination Committee	Updating the functions of the Remuneration and Nomination Committee The role of the committee in approving evaluation methodology and carrying out evaluation of the Board of Directors, in appointing the Director for Corporate Governance (as a head of the unit acting as the Corporate Secretary), in forming and overseeing training and development program for members of the Board of Directors was formalized.	2016
5.	Information Disclosure	Improved disclosure in the Annual Report and on the website We started to include in the Annual Report detailed information on the work of the Board of Directors and committees, improved as far as currently possible our disclosure about remuneration and motivation system, we began to disclose detailed information on the structure of share capital on the website, improved disclosure in the field of Internal Control and Risk Management System, and from this year began to disclose information on the Board of Directors evaluation methodology and procedure.	2015–2016

The 1st stage of the Moscow Stock Exchange listing upgrade was completed in the reporting year. Our Company started preparing in advance for possible changes in the listing rules and, in our opinion, in general, met the new requirements before they came into force. However, we needed some update of our internal documents and procedures to fulfill the wishes of the Moscow Stock Exchange, which were not essential for our corporate governance system. All these activities were carried out as a part of implementation of the Roadmap.

In 2017, the Law introducing a new procedure for making related party transactions entered into force. Part of the non-substantial transactions was removed from the attention of the Board of Directors, and transaction approval procedure was replaced with informing the Board of Directors on the transactions, which

required us to update our internal procedures. For more details about the changes that we have made please see Section “New Procedure of Related party Transactions at MTS”.

Corporate governance index

In late 2016, the issuers were presented with the results of the research of Russian corporate governance practices, including in terms of compliance with the Code. In our opinion, this was a significant event, because after the GAMMA evaluation of Russian corporate governance was completed, the market lacked such studies.

The study “Corporate Governance Index 2016”, conducted by the Association of Independent Directors together with the National Research University “Higher School of Economics”, shows us the level of Russian corporate governance from two different views. The first approach assesses corporate governance only by formal indicators, the second one takes into account only the opinion of the investment community, directors, experts, corporate secretaries, regulators.

MTS did not rank among the TOP-10 by formal indicators. And, in our opinion, this is largely due to the use of disclosure tools that do not always allow to access the necessary information in a short time. For example, a company can comply with a specific recommendation of the Code, but at the same time it may lack information disclosure quality, which may lead to a conclusion about non-compliance with the recommendation as a whole. We have made certain conclusions and work on a more comfortable disclosure for the market.

At the same time, it should be noted that according to the perception of the investment community, directors, experts, corporate secretaries, representatives of regulators, MTS ranks the second.

The second study, which was conducted in the end of the reporting year, was “National Corporate Governance Index 2016”. The index was assigned by the National Association of Corporate Directors. The evaluation criteria were developed taking into account the national listing rules, Code provisions, the best Russian and foreign corporate governance practices. Open sources of information (annual and quarterly reports, information from corporate websites, news feeds) were used for the evaluation. Information on specific positions held by the issuers according to the results of study were not disclosed, but it should be noted that MTS ranked among the TOP-10.

The abovementioned results, in our opinion, show the quality of our recent efforts in the field of corporate governance.

In 2017, we will continue to monitor regularly the recommendations of the Code that are not implemented by MTS, assess the changing practice and analyse the possibility of introducing non-implemented recommendations. An individual task will be to identify the weaknesses of MTS in the field of corporate

governance (based on the above study results) and identify further areas for the development of the system.

Further, as part of the implementation of our Digital Strategy and the Company's moving to automation of all business processes, we plan to introduce smart software packages that allow us to formulate the agenda of meetings of collegial management bodies of the Company in a new way, taking into account the analysis of internal and external data, which will unconditionally help increase the business value for MTS shareholders. These smart packages will be a key tool for creating an effective business of the Company and an important, integral part of the best corporate governance practices.

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4

Our Approach to Sustainable Development/Social Responsibility

Last year, the Company approved the first Corporate Social Responsibility Strategy[1].

When developing the Strategy, we took into account the accumulated experience of our Company in the field of corporate social responsibility and examples from the best world practice. Realizing our responsibility to our stakeholders and taking into account global social and environmental problems, we took into account the main areas addressed by strategic documents of the Russian Federation and the countries where we operate, as well as the UN Sustainable Development Goals 2030 as a part of implementation of our strategy.

Our main goal is to improve the quality of life and safety of people and society by developing innovations and providing a wide range of services to our clients.

The 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 continuously 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). As part of implementation and realization of the CSR strategy, we plan to revise and, if necessary, establish new key performance indicators in the field of CSR annually.

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.

[1] www.mtsgsm.com/csr/principles_strategy/

Our CSR activity covers the social, economic and environmental spheres and involves work in nine main 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 the creation of common values
- responsible business management
- development of services increasing environmental sustainability
- environmental protection measures

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.

Every year MTS strives to improve practices in the field of corporate social responsibility and sustainable development.

In 2016, we first prepared and approved the MTS Corporate Social Responsibility Strategy until 2020.

Being a major employer, we understand our responsibility to the staff and members of their families. We strive to provide opportunities not only for professional development of employees, but also opportunities for social self-realization. We are proud of our volunteer movement and plan to continue the development of our social projects.

Member of the Management Board, Vice President for Human Resources
Mikhail Arkhipov

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
- Development and implementation of innovative technologies
- Ethical conduct
- Respect for human rights
- Transparency
- Improvement of corporate governance system
- Accountability
- Zero toleration 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.

Since 2014, the company has a Corporate and Social Responsibility Committee (CSR Committee). It is an advisory body under the President, whose members consider, discuss and approve various CSR projects related to initiation of partner programs, translation of the CSR Policy into the external and internal environment, creation of CSR environment within and around the Company, consolidation and efficient use of MTS resources in integrated CSR-projects, preparation of Sustainability Report, approval of work plans of the Corporate Center and Clusters of MTS.

One of the strategic goals and objectives within the framework of the HR strategy 2016 was 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 2016, top management took part in key federal CSR projects: "Children on the Internet", "Networks for all Ages", "Telecom Idea" and International Volunteer Day.

In 2017, we plan to continue to involve top management representatives in implementation of key projects by raising their awareness.

Our official website[1] contain 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.

Plans for 2017:

- Improve the quality of life of subscribers by popularization of and promoting the use of mobile Internet in the community;
- Move to a more modern and qualitative level 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;
- Continue to involve the regions in implementation of key regional CSR projects and countries where MTS operates: "Children on the Internet", "Networks for All Ages", "Mobile Academy of MTS", "Telecom Idea", volunteerism and creative project "Mobile Theater of MTS Tales";
- Continue the 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 young people with disabilities in society;
- Continue work in "Eco-Telecom" area: popularization of environmentally responsible way of life and attitude to natural resources, support of federal and international eco-activities;
- Continue work on application of the provisions of the international standard ISO 26000: 2010 "Social Responsibility Guidelines" with functional units of MTS.

[1] www.mtsgsm.com/csr/

Our Employees

The economically active number of employees of MTS PJSC as of December 31, 2016 amounted to 28,910 people

Today the Company operates a competitive payroll system consisting of fixed and variable parts. The compensations' and benefits' package is provided to Company's employees, which meets practices existing on the labour market.

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 labour market analysis in the region of operations and Company's Positioning Policy in respect of the labour 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 indicators and the competence development level. Managers during the evaluation process provide an extended feedback based on annual work results, besides, following the evaluation results a plan of developing measures is generated for employees.

Thanks to a qualitatively built personnel development system, four out of five manager's vacancies in the company are closed by means of in-house candidates. Implementation of new advanced remote training platforms in 2016 will enable in future to provide opportunities for employee's development with high quality and availability.

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.

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.

In 2016, three national HR awards recognized HR training and development system of MTS as the best one in Russia.

- Digital technologies used in the training of MTS personnel were awarded the "Crystal Pyramid" Prize in the category "Technological Solution of the Year". This victory supports the innovative approach of MTS in the field of HR management and adherence to modern global trends in the field of Internetization.
- The Corporate University team won the Trainings-2016 award, becoming the best division in the field of personnel development and investment in human capital. Since 2001, the award has been given to companies that have demonstrated high achievements in HR, personnel training and development.
- MTS won the "Efficient Business Education" award in the "Best Personnel Development System" nomination, which supports effective integrated approach of MTS to employee training, development of professional qualities and personal business skills and the Company's attention to investment in human capital.

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;
- create a tool for development of Candidates Pool and Successors to key positions;
- assure succession of expert/unique knowledge and experience;

— create a self-training environment in the Company where every manager and every employee is interested in development and involved in processes of creation, maintenance and multiplication of knowledge and skills in the Company.

Personnel training and advanced training is performed by means of the following forms and methods

— **Integration training.** The Company holds uniform 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.

In addition, by the end of 2016, the following programs have been implemented in the Company:

- In September 2016, the new cycle of the "Talent Management" comprehensive development program was launched for successors for leadership positions, high-potential employees (Hi-Po), specialists with unique expertise (Hi-Pro). The program cycle will operate from 2016 to 2018. For each of the talent groups, targeted training programs have been developed, including the development of an individual development plan, feedback evaluation 360 and Hogan, internal training, external training, competitions, coaching, mentoring and self-education.

Traditionally, the program covers 4% of the total number of Company/Unit/Region personnel, of which the successors are 15%, Hi-Po – 65%, Hi-Pro – 20%.

In 2016, 190 talents took new positions.

- In January 2016, Corporate University launched the Virtual Academy, a new platform for individual development of each employee. Virtual academy is a learning environment where all training formats are combined: on-site and remote, internal and external. Now every employee will be able to find a complete program for professional and personal growth, register in one click for training activities he is interested in, and recommend the courses he liked to his colleagues.
- 60 new video courses and more than 1,100 records of webinars, workshops and other useful training videos were added to online catalogue of the Virtual Academy courses in 2016.
- Each employee has completed more than five courses at the Virtual Academy; in total, the staff passed 168,408 person-courses.
- Among the projects launched in the Virtual Academy in 2016 were:
  - Global Dictation of MTS. Attended by 3,600 employees.
  - Marathons of webinars – a new format of online events that include a series of webinars, united by a single theme: "Simple Values" (6 webinars), 2,190 participants; "Parents and Children" on the Child Protection Day (5 webinars), 1,298 participants; "Technical Unit Conference" (5 webinars), 1,399 participants; "Conference of Information Technologies Unit " (8 webinars), 3,472 participants.
  - Webinars on popular scientific topics to expand horizons with dedicated experts on the following topics: space, ecology, genetics, brain and willpower.
  - Webinars of company's units and videotape of the President's address.
  - Online program "Speed Reading League", with 1,200 employees as participants.
  - "Share Knowledge" project. Employees conduct webinars on their expert subjects and train other employees.

- Corporate e-library has been updated and supplemented; now, in addition to e-books, audiobooks for personal and professional development are also offered. In total, the library has more than 500 books. The library offers articles from Grebennikov ID and Harvard Business Review.
- In support of the Company's strategy, targeted training programs "System Thinking as a New Approach to Self-Development", "Team Nature: How to Create an Environment for its Evolution", "Secrets of Communicating with the Boss" were developed and conducted.
- The English teaching program implementation continued in full-time club format. Moderators are guest lecturers (Russian-speaking and native speakers of English). In 2016, the project "English for All" was launched: more than 5,500 employees had the opportunity to learn the language using modern e-Learning Advance platform from any device at any time they like.
- Total coverage of employees trained on remote and full-time basis was 209,000 man-courses.
- Non-conventional employee development formats gained popularity: Management Battle Tournament, Oratorical Club for the development of presentation skills, "Woman in Business" program.

In line with the Company's HR strategy, functional academies were launched and developed:

- Customer Care Academy for the employees engaged in customer service.
- Academy of Business Sales 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 2.0" for 2012–2015 development program graduates. The key objectives of the Academy include development of managerial and communication skills of high-potential professionals.
- HR Academy for employees of the HR unit.
- iMBA for employees in remote regions.
- "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 OSH 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;
- Organisation of preventive and periodic medical examinations of employees;
- Timely provision of employees with special clothing, footwear and other personal protective equipment;
- Organisation 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 total, MTS PJSC spent RUB 79.6 mln on labor protection measures in 2016

In January 2017, the analysis of the implementation of the planned activities on labor protection in the past year was performed. In total, MTS PJSC spent RUB 79.6 mln on labor protection measures in 2016 (in 2015 – RUB 74.1 mln), which amounted to an average amount of 2,562 RUB (in 2015 – RUB 2,324) per employee.

In 2016 19,872 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 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. To increase efficiency of practical training, robots-simulators “Gosha” are purchased in the Company.

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, 2016, 23,576 workplaces (94% of the total quantity of workplaces) have been evaluated in MTS Corporate Center and MTS PJSC Branches, in 2017, special assessment of working conditions will continue.

Personal protective equipment (PPE) plays an important role in the prevention of employee’s 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 2110 and 10,729 employees, respectively. As a result of periodic medical examinations, 28 employees needed to transfer to another job, and health resort treatment was recommended to 110 employees.

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 organisational and

technical measures have been implemented for accidents prevention. Rate of injury, which is characterised by a frequency factor of accidents (Ff), was 0.16 (in 2015 – 0.21), for comparison, in "Communication" business – 1.4.

Annually MTS PJSC cooperates with the Social Insurance Fund of the Russian Federation 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 2016 the total amount received from this work made RUB 9.1 mln (in 2014 – RUB 9.6 mln). Using the funds of the Social Insurance Fund of the Russian Federation, medical examinations were performed; overalls, safety shoes and other PPE were purchased; special assessment of labour conditions was made; health resort treatment was organised for MTS employees.

OSH management system in MTS PJSC has been recognised at the regional, district and federal levels. In 2016, a number of MTS branches became winners of city and regional contests for labor protection.

A lot of attention was paid in 2016 to promotion of labor protection issues, various forms of operation were 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. Last year the representatives of MTS and subsidiaries participated in the work of the first All-Russian Labor Protection Week in Sochi.

In 2016, MTS PJSC Moscow received Health and Safety Management System Compliance Certificate GOST R 54934-2012 (OHSAS 18001: 2007).

Two branches of MTS PJSC got the "Employer's Trust Certificate".

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.

Social investments

Social projects and charity

MTS Corporate Volunteer Movement «Just Give Good»

The corporate volunteer movement “JUST Give Good!” has been operating at MTS for more than six 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 more than 6,000 MTS employees who are constantly participating in the company’s volunteer promotions.

The company’s volunteers support children from children’s social institutions being 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.

MTS pays particular attention to socially unprotected children. Our employees together with partners of the company organize federal volunteer activities for children with disabilities, pupils of sponsored orphanages, boarding schools, children from disadvantaged and low-income families, as well as young patients of hospitals and medical rehabilitation centers. 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.

For 2016, MTS volunteers conducted more than 500 shares.

Mobile Theater **of** Fairy Tales

In 2012, the most creative volunteers created a puppet show “Mobile Theater of Fairy Tales”. Over the years, the theater’s repertoire included New Year’s musical tales Morozko, Magic Mirror, Snegurushka and Fox, an educational musical fairy tale “Children on the Internet”, environmental plays “Saving the Planet Earth” and “The Story of a Prince”.

These performances are created by MTS volunteers for children from sponsored children’s institutions, hospitals, rehabilitation centers, children of employees and partners.

In 2016, the theater received the title of Laureate of the International Open Contest “Cultural Capital” in St. Petersburg; in the same year the theater participated in the International Festival of Arts in Yerevan “High Fest” for the second time.

In 2016, the theater received the “Champions of Good Deeds” Award in the category “Corporate Volunteering”, established by the National Council for Corporate Volunteerism and the Association of Managers of Russia.

Over four years, theater performances were seen by more than 25,000 spectators.

Corporate Volunteer Puppet Theater MTS 2016: the repertoire includes 12 performances, the troupe is 50 people, 52 events were performed, the audience of 2016 was about 4,000 children.

Plans for 2017

- Development of practice of creative volunteership.
- Support of regional theatres: Krasnodar, St. Petersburg, Irkutsk, Nizhny Novgorod.
- Tours within the framework of federal CSR projects (Kazan, Voronezh, Novosibirsk).

Theater website: www.puppet-mts.ru

Children on the Internet

The federal educational project of MTS “Children on the Internet” is a series of interactive events that combines lessons on Internet safety for junior students “Useful and Secure Internet”, special interactive exhibition and master classes and webinars for teachers and parents.

To protect young users, MTS together with the Internet Development Fund in 2011 developed a lesson of “Useful and Secure Internet”, which became the basis of MTS’s federal educational project “Children on the Internet.”

Over 5 years, more than 340,000 students in more than 30 regions of the Russian Federation have completed training in this program, and during this time it has established itself as a reliable and effective means of increasing the digital competence of primary school students.

In 2016 the project actively developed. Exhibitions and lessons were held in eight cities of Russia: Krasnoyarsk, Saratov, Kemerovo, Omsk, Orenburg, Orsk, Kurgan and Izhevsk. 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 more than 2,000 junior schoolchildren became participants in the Children on the Internet project.

The number of visits to the project website has been increasing steadily in 2016: 232,000 visits, 2,726 times downloads of the lesson method (detionline.com/).

Work on the project “Children on the Internet” is constantly improving. Already in 2017 MTS will present a new format of the project with updated lesson and an

exhibition where there will be even more interactivity and new modern forms of communication with children and adults.

Plans for 2017:

- Project modernization: new interactive communication tools, new design, update of the lesson.
- Organizing and holding educational interactive exhibition “Children on the Internet”, holding open lessons on useful and safe Internet for children in Kazan, Voronezh, Perm, Irkutsk, Chita and Balakovo (Saratov region).
- Conducting master classes and lectures for teachers and webinars for educators and the parent community.
- Development of scientific and methodological base and support of the project’s Internet resource.

Networks for all Ages

Mobile Academy of MTS

The development of information technologies and their rapid integration into the everyday life of people made the issue of digital “gap” between different generations especially pressing. In order to increase Internet literacy among older people, in 2012 MTS Group launched social and educational project “Networks for All Ages” for those who have not yet had time to learn to take full advantage of the Internet. To date, more than 17,000 people have been trained.

In 2016, 4 sites for training pensioners on mobile Internet were launched in Moscow, including those based on MGTS.

MTS and the Union of Pensioners of Russia opened Mobile Academies in 10 regions of the Russian Federation.

MTS and the Union of Pensioners of Russia organized special classes for training mobile Internet “Mobile Academy of MTS” for retirement age citizens in 10 regions of the Russian Federation on the basis of Third Age Universities at local educational institutions.

MTS has developed a special educational course for the project “Mobile Academy”, targeting users of smartphones and tablets older than 50 years, and provided modern gadgets to the classes. Students learn in practice how to use popular online services that improve the quality of life: remotely pay communication and housing and communal services, buy goods, products and medicines, remotely communicate with loved ones, and use government service portals.

In 2016–2017 academic year, “Mobile Academy” courses will be held for about 1,000 pensioners in Moscow, Orel, Kurgan, Novosibirsk, Amur, Saratov regions, Krasnodar and Altai regions, the Republics of Adygea and Dagestan.

VI All-**R**ussian Computer Championship among Pensioners

Novosibirsk Akademgorodok became the computer capital of Russia for three days, gathering if not the most advanced, then certainly the most enthusiastic and active users of modern IT technologies among the older generation from the entire country. This year more than 130 pensioners from 61 regions of Russia took part in the competitions, from Kaliningrad region to Sakhalin: two participants from each subject who won first at the municipal and then at the regional Computer Championship. The Championship was also attended by compatriots from Israel, Belarus, Belgium, Poland, Slovenia and Finland.

The championship was held in the capital of Siberia on June 15–17, 2016. At the initiative of MTS, this year the official program of the competition included the stage “Using the Mobile Internet from a Tablet” for the first time in the history of the Championship.

To conduct a new stage of the competition, in 2017 MTS provided 130 tablets; after the Championship they will be granted to the regional offices of the Union of Pensioners of Russia (UPR) to hold training courses on mobile Internet.

Telecom Idea

"Telecom Idea 2016" Competition was attended by students, young scientists, research teams and young entrepreneurs. This year the competition expanded its borders: events were held in 18 cities of the Russian Federation, more than 500 projects were collected, 96 of which passed to the semifinal and 42 reached the final.

The expert council of the contest included representatives of MTS, MGTS, MTS Retail Group, MEDSI Group, Stream, MTS Bank, NVision Group, JSFC Sistema, key partners of the contest, leading experts in telecommunications, innovation and venture market.

The top 15 projects were awarded at the awarding ceremony.

In addition, the best solution to MTS task of developing offline payments market in Russia was awarded at the ceremony, which took place within the framework of Changellenge case studies. The winners of case "Wallet in the Phone" were students of Novosibirsk State University from the team High Flights. They managed to impress the jury and work around 2,000 other students from 4 regions of the country (from St. Petersburg to Novosibirsk).

The main award for the winners of the contest was an invitation to an innovative educational tour to the Republic of Korea, as well as the opportunity to present their projects for consideration by MTS experts and partners. As a result of the contest, the authors of the ideas most responsive to MTS's business tasks were able to participate in a unique accelerated program jointly with the company's employees in order to finalize the projects for further implementation.

Information Protection and Security

Information security

Global trends of threats in the sphere of information security

There is a high level of legislative initiative in terms of strengthening information security requirements (hereinafter IS). The trend is a global one, 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.

In the near future, the adoption of the Federal Law “On the Security of the Critical Information Infrastructure of the Russian Federation” is forecasted, where communication networks will be directly defined as objects of regulation. Therefore, a new stage of strengthening state requirements for information security is possible, with an emphasis on communication networks. The draft law proposes to classify information on the security of CII facilities as state secret and to criminalize failure to comply with the IS requirements for CII facilities if a damage is caused.

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.).

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 3rd 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 2016

- A single Center for Operational Monitoring and Response to Information Security Incidents of MTS PJSC was created. The mechanisms of protection from unauthorized location of subscribers from international and national networks – Home Routing (service SMS routing on home network) were implemented.
- Cryptographic information protection algorithm A5/3 was implemented on the entire GSM mobile network of MTS PJSC, which provided enhanced protection of the voice data of the company's subscribers.
- The process of signaling network monitoring was implemented, including introduction of restrictions for external nodes generating abnormal traffic to the MTS PJSC communication network.
- A commercial service to identify infected mobile devices of subscribers was launched.
- There are no comments from Roskomnadzor, FSTEC or the FSB of Russia regarding restriction of access to certain websites and ensuring the safety of personal data when processing in information systems.
- Information and communication infrastructure of MTS PJSC and the information processed therein is protected against unlawful actions and infliction of financial damage to the company through such actions.

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 2–3 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 PD establishes the requirement to use PD 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 5 years (usually 3 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 PD 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).

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.

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:

- 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 after 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.

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5

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 Altimo, 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

Report
on compliance with 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 25, 2017, the meeting minutes No. 2548.

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 2016, 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.[1]

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. 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.

[1] 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.

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 Roadmap). Information on the results of implementation of the Roadmap were reviewed by the Corporate Governance Committee of the Board of Directors in 2017. Information on the planned measures to improve the model and practice of corporate governance is provided in the section "Development of the Corporate Governance System and Plans for 2017"

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 Representation.

Annex to the Representation 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[1] of compliance with the corporate governance principle	Explanations[2] 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.	complied with		
		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.	■ complied with ☐ partially complied with ☐ not complied with	
		2. The Company provides an 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.	■ complied with ☐ partially complied with ☐ not complied with	
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.	complied with		
		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.	■ complied with ☐ partially complied with ☐ not complied with	
		2. The message on holding a general meeting specifies the venue of the meeting and documents required to be admitted into the venue.	■ complied with ☐ partially complied with ☐ not complied with	
		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.	■ complied with ☐ partially complied with ☐ not complied with	
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.	complied with		
		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.	■ complied with ☐ partially complied with ☐ not complied with	
		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.	■ complied with ☐ partially complied with ☐ not complied with	
		3. The Company provided access to entitled shareholders to the list of persons authorised 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	■ complied with ☐ partially complied with ☐ not complied with	

[1] 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.

[2] 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.

1.1.4	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		
		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.	■ complied with ☐ partially complied with ☐ not complied with	
		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.	■ complied with ☐ partially complied with ☐ not complied with	
1.1.5	Each shareholder was able to freely implement their voting right by most simple and convenient for them ways.	complied with		
		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.	■ complied with ☐ partially complied with ☐ not complied with	
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		
		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.	■ complied with ☐ partially complied with ☐ not complied with	
		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	■ complied with ☐ partially complied with ☐ not complied with	
		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.	■ complied with ☐ partially complied with ☐ not complied with	
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		
		1. The dividend policy in the Company was developed, approved by the Board of Directors and disclosed.	■ complied with ☐ partially complied with ☐ not complied with	
		2. If the dividend policy of the Company uses the Company reporting indicators for determination of the dividend amount, then the appropriate provisions of the dividend policy shall take into account the consolidated indicators of the financial statements.	■ complied with ☐ partially complied with ☐ not complied with	
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.	complied with		
		1. The dividend policy of the Company includes clear references to financial/economic circumstances, when the Company should not pay dividends.	☐ complied with ■ partially complied with ☐ not complied with	1. The dividend policy of the Company[3] does not contain references to specific circumstances, under which the Company does not pay dividends, but includes a provision stating that the Company cannot declare or pay the declared dividends in cases stipulated by the legislation of the Russian Federation. Following the historical practice, MTS regularly pays dividends for more than 10 years in a row. The Company uses regular payment of dividends as an element of the policy aimed at increasing the shareholder value of the Company. In 2014, the new "3D" Strategy of MTS was introduced, according to which the payment of dividends is one of its key elements.

[1] www.mtsgsm.com/upload/contents/328/Statute_on_MTS_Dividends_Policy.pdf

				We do not abandon the use of the mechanism when dividends are paid out of retained earnings of previous years, and therefore we do not consider it possible to formalize, for example, a prohibition on decisions to pay dividends in the event that the net profit for the reporting year is below the amount of dividends recommended for payment for the reporting year. In accordance with the Dividend Policy, the Board of Directors of the Company, when determining the recommended amount of dividends, takes into account the financial performance of the Company. When determining the amount of dividends, the Board of Directors takes into account a number of additional factors, including revenue growth prospects, capital expenditure requirements, receipts from core activities, potential acquisition opportunities, and the status of the Company's debt obligations. The Company does not take a decision to pay dividends, if such a decision is economically unjustified and may lead to false representations about the Company's activities. The existing dividend payment practices and considerable attention paid to this issue by the Board of Directors provide a balanced approach and mitigate the risks associated with incomplete implementation of the recommendation. The Company does not plan to change its dividend policy, at least during 2017-2018
1.2.3	The Company does not allow for deterioration of the dividend rights of the existing shareholders.	complied with		
		1. In the reporting period the Company did not commit actions resulting in deterioration of dividend rights of existing shareholders.	■ complied with ☐ partially complied with ☐ 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		
		1. In order to exclude other methods of gaining profit (income) by the shareholders at the expense of the Company, apart from dividends and liquidation value, the internal documents of the Company establish controls, which provide for timely detection and procedure of approval of transactions with persons affiliated (related) with major shareholders (persons entitled to dispose of voting rights of voting shares), in those cases, when the law formally does not recognise such transactions as related party transactions.	■ complied with ☐ partially complied with ☐ not complied with	
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.	complied with		
		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.	■ complied with ☐ partially complied with ☐ not complied with	

1.3.2	The Company does not undertake actions that result or may result in artificial redistribution of corporate control.	complied with	
		1. Quasi-treasury shares are absent or did not participate in voting during the reporting period.	■ complied with ☐ partially complied with ☐ not complied with
1.4	Shareholders are provided with reliable and effective methods to register rights for shares, as well as the opportunity of free and unhindered alienation of shares they own.		
1.4	Shareholders are provided with reliable and effective methods to register rights for shares, as well as the opportunity of free and unhindered alienation of shares they own.	complied with	
		1. Quality and reliability of activities executed by the Company registrar to keep the register of securities' owners comply with the needs of the Company and its shareholders.	■ complied with ☐ partially complied with ☐ not complied with
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.	complied with	
		1. The Board of Directors has powers registered in the charter for appointment, dismissal and determination of the agreement terms in respect to the members of the executive bodies.	■ complied with ☐ partially complied with ☐ not complied with
		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.	■ complied with ☐ partially complied with ☐ not complied with
2.1.2	The Board of Directors establishes the main reference points for the Company's business in the long term, assesses and approves the key indicators of business and main business objectives of the Company, assesses and approves the strategy and business plans on the main types of the Company's business.	complied with	
		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.	■ complied with ☐ partially complied with ☐ not complied with
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.	■ complied with ☐ partially complied with ☐ not complied with
		2. The Board of Directors assessed the risk management and internal control system in the Company during the reporting period	■ complied with ☐ partially complied with ☐ 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.	■ complied with ☐ partially complied with ☐ 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.	■ complied with ☐ partially complied with ☐ 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.	■ complied with ☐ partially complied with ☐ 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	■ complied with ☐ partially complied with ☐ 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.	■ complied with ☐ partially complied with ☐ not complied with
		2. There are persons defined in the Company as responsible for implementation of the information policy.	■ complied with ☐ partially complied with ☐ 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.	■ complied with ☐ partially complied with ☐ 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.	■ complied with ☐ partially complied with ☐ 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.	■ complied with ☐ partially complied with ☐ not complied with
2.2.2	The chairman of the Board of Directors is available for communication with the Company shareholders.	complied with	
		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.	■ complied with ☐ partially complied with ☐ 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.	complied with	
		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.	■ complied with ☐ partially complied with ☐ 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.	■ complied with ☐ partially complied with ☐ 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.	complied with		
		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.	■ complied with ☐ partially complied with ☐ 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.	complied with		
		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.	■ complied with ☐ partially complied with ☐ 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.	■ complied with ☐ partially complied with ☐ 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 recognised independent by the decision of the Board of Directors.	■ complied with ☐ partially complied with ☐ not complied with	
2.4.2	Assessment of compliance of the candidates to the members of the Board of Directors with the independence criteria is performed, and regular analysis is carried out for compliance of independent members of the Board of Directors with the independence criteria. During performance of such assessment the content shall prevail over the form.	complied with		
		1. In the reporting period the Board of Directors (or the nomination committee of the Board of Directors) produced the opinion on independence of each candidate to the Board of Directors and provided the appropriate report to the shareholders.	■ complied with ☐ partially complied with ☐ not complied with	
		2. During the reporting period, the Board of Directors (or the nomination committee of the Board of Directors) at least once considered independence of the existing members of the Board of Directors, which are specified by the Company in the annual report as the independent directors.	■ complied with ☐ partially complied with ☐ not complied with	

		3. The Company developed procedures that determine the necessary actions of the member of the Board of Directors, if he or she stops being independent, including obligations on timely notification of the Board of Directors, accordingly.	■ complied with ☐ partially complied with ☐ not complied with	
2.4.3	Independent directors make at least one third of the elected composition of the Board of Directors.	complied with		
		1. Independent directors make at least one third of the composition of the Board of Directors.	■ complied with ☐ partially complied with ☐ not complied with	
2.4.4	Independent directors play a key role in prevention of internal conflicts in the Company and making substantial corporate actions by the Company.	complied with		
		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.	■ complied with ☐ partially complied with ☐ 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.	partially complied with		
		1. The chairman of the Board of Directors is an independent director, or a senior independent director is defined among independent directors[1].	☐ complied with ☐ partially complied with ■ not complied with	1. The Chairman of the Board of Directors is not an independent director; no senior independent director has been defined. The chairman of the Board of Directors of MTS PJSC since 2009 has been non-executive director, Mr. Ron Sommer. Large experience of R. Sommer in management bodies of Russian and largest foreign companies in combination with high qualification, also in the telecommunications industry, make a substantial contribution into the effective organisation of the work of the Board of Directors of MTS PJSC. The work of R. Sommer is praised by independent experts[2]. Therefore, the Company believes that appointment of the independent Chairman of the Board of Directors will not have additional substantial effect/influence at organisation of work of the Board of Directors and quality of decisions it makes.of Directors or appointing a Senior Independent Director. The company's Board of Directors composition is well-balanced both in terms of their number and the members' experience and qualification. Independent directors actively participate in the work of the Board of Directors and may directly communicate with the Chairman of the Board of Directors. In addition, the Company has formed Committees consisting exclusively of independent directors, and headed by independent directors. The Committees regularly hold their meetings. The work of the independent directors in the Company is arranged efficiently therefore introduction of an additional position of Senior Independent Director will not result in any improvements in the Company's corporate governance system.

[1] Specify which of two alternative approaches permitted by the principle is introduced in the company, and explain the reasons for the chosen approach.

[2] In 2016 R. Sommer was ranked among the "Tope 25 Chairmen of the Board of Directors" as a part of the "Director of the Year" National Award.

				In view of the above, the absence of the status of an independent director for the Chairman of the Board of Directors, as well as the appointed Senior Independent Director, does not result in any additional risks for the Company and its stakeholders. The Corporate Governance Committee and the Board of Directors decided not to elect an independent Chairman of the Board of Directors or appoint a Senior Independent Director. However, the Company does not restrict the right of independent directors to initiate the institution of the Senior Independent Director or the right of members of the Board of Directors to elect an independent director as the Chairman, if required. Thus, in the future, the Company does not rule out a possibility of electing an independent Chairman of the Board
		2. The role, rights and obligations of the chairman of the Board of Directors (and, if applicable, the senior independent director) are properly defined in the internal documents of the Company.	■ complied with ☐ partially complied with ☐ not complied with	
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.	■ complied with ☐ partially complied with ☐ 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.	■ complied with ☐ partially complied with ☐ not complied with	
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.	complied with		
		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.	■ complied with ☐ partially complied with ☐ not complied with	
		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.	■ complied with ☐ partially complied with ☐ not complied with	
		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.	■ complied with ☐ partially complied with ☐ not complied with	
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.	complied with		
		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.	■ complied with ☐ partially complied with ☐ not complied with	

2.6.3	Members of the Board of Directors have sufficient time to perform their obligations.	complied with		
		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.	■ complied with ☐ partially complied with ☐ not complied with	
		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 organisations (apart from subsidiaries and affiliates of the Company), as well as on the fact of such appointment.	■ complied with ☐ partially complied with ☐ not complied with	
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.	complied with		
		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.	■ complied with ☐ partially complied with ☐ not complied with	
		2. In the Company there is a formalised program of introductory events for newly elected members of the Board of Directors.	■ complied with ☐ partially complied with ☐ not complied with	
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.	complied with		
		1. The Board of Directors held at least six meetings for the reporting period.	■ complied with ☐ partially complied with ☐ not complied with	
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.	complied with		
		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.	■ complied with ☐ partially complied with ☐ not complied with	
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.	complied with		
		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.	■ complied with ☐ partially complied with ☐ not complied with	
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.	partially complied with		
		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.	☐ complied with ■ partially complied with ☐ not complied with	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. In accordance with the Charter, decisions on most issues within the competence of the Board of Directors are made by a simple majority (more than ½ (one half)) of the votes of the members of the Board of Directors taking part in the meeting).

				A minor part of the issues requires unanimous decision of all members of the Board of Directors, without taking into account the retired members of the Board of Directors. In practice, this recommendation of the Code is fulfilled: over the past years more than 90% of the Board of Directors meetings are held with 100% participation of members of the Board of Directors. Accordingly, in most cases, the simple majority of votes of the members of the Board of Directors participating in the meeting is comparable to the majority of votes of all elected members of the Board of Directors. After approval of the Code, the issue on implementation of the recommendation was considered by members of the Corporate Governance Committee of the Board of Directors with involvement of other members of the Board of Directors and management. The Committee concluded that more rigorous procedures for decision-making by the Board of Directors were unjustified, including due to the fact that their implementation could negatively affect the promptness of decision-making. The risks associated with incomplete implementation of recommendations are offset by traditionally high attendance by members of the Board of Directors of the meetings, as well as the 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 preliminary developed by independent members of the Board of Directors during the work of committees. No amendments to the Company's Charter regarding the terms for decision- making at the meetings of the Board of Directors are currently planned.
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.	complied with		
		1. The Board of Directors established the Audit Committee made exclusively of independent directors.	■ complied with ☐ partially complied with ☐ not complied with	
		2. The internal documents of the company define the objectives of the Audit Committee, including objectives contained in the recommendation 172 of the Code.	■ complied with ☐ partially complied with ☐ not complied with	
		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.	■ complied with ☐ partially complied with ☐ not complied with	
		4. Meetings of the Audit Committee were held at least once per quarter during the reporting period.	■ complied with ☐ partially complied with ☐ not complied with	

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.	complied with		
		1. The Board of Directors established the Remuneration Committee, which comprises only independent directors.	■ complied with ☐ partially complied with ☐ not complied with	
		2. The chairman of the Remuneration Committee is an independent director, who is not the chairman of the Board of Directors.	■ complied with ☐ partially complied with ☐ not complied with	
		3. The internal documents of the company define the objectives of the Remuneration Committee, including objectives contained in the recommendation 180 of the Code.	■ complied with ☐ partially complied with ☐ not complied with	
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.	complied with		
		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[1]), the majority of the members of which are independent directors.	■ complied with ☐ partially complied with ☐ not complied with	1. The tasks indicated in Recommendation 186 of the Code are assigned to the Remuneration and Nomination Committee.
		2. Internal documents of the Company define the objectives of the Nomination Committee (or the appropriate committee with the combined functionality), including the objectives contained in the recommendation 186 of the Code.	☐ complied with ■ partially complied with ☐ not complied with	2. The activity of the Committee on Remuneration and Appointments is carried out under the Regulations on the Committee. In accordance with the Regulations, the functions of the committee include, among other things, all the tasks listed in Recommendation 186 of the Code, with the exception of sub-clause 8. The task of describing individual duties of the directors and the Chairman of the Board of Directors was not included in the list of functions of the Remuneration and Nomination Committee for two main reasons: — the main duties of members of the Board of Directors (including the Chairman of the Board of Directors) are clearly defined in the Regulations on the Board of Directors; — the composition of the Board of Directors is quite stable: seven out of nine directors were appointed to their office before 2014, when the Code entered into force. Thus, the scope of individual duties of each director has been already formed, and the Company believes that additional description of the duties of directors by the Remuneration and Appointments Committee will be purely formal and will not become a catalyst for improving performance of the Board of Directors. Risks associated with partial failure to comply with this recommendation are offset by introducing an Introductory Course for the newly elected members of the Board of Directors, including description of the duties of the directors and the Chairman of the Board of Directors. In connection with the above, the Committee for Corporate Governance decided that it was inadvisable to include in the functions of the Remuneration and Nomination Committee the task specified in sub-clause 8 of Recommendation 186 of the Code. The Company does not plan to add this task to the functions of the Remuneration and Nomination Committee.

[1] If objectives of the Nomination Committee are implemented within a different committee, specify its name.

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		
		1. In the reporting period the Board of Directors of the company considered the issue of compliance of the composition of its committees with the objectives of the Board of Directors and objectives of the Company's business. Additional committees were either formed or were not recognised necessary.	■ complied with ☐ partially complied with ☐ not complied with	[1] 1. As of 01.01.2016, the following committees of the Board of Directors were formed: — Audit Committee; — Remuneration and Nomination Committee; — Strategy Committee; — Budget Committee; — Committee for Corporate Governance; — Special Committee. At its meeting on June 23, 2016, the Board of Directors reviewed the issue of compliance of the composition of the Board committees with its tasks and objectives of the Company. The Special Committee was recognized to be unnecessary and, therefore, was not formed. The remaining committees continued their activities. The need to create 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		
		1. Committees of the Board of Directors are headed by independent directors.	■ complied with ☐ partially complied with ☐ not complied with	
		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.	■ complied with ☐ partially complied with ☐ not complied with	
2.8.6	Chairmen of the committees regularly inform the Board of Directors and its chairman on the work of its committees.	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.	■ complied with ☐ partially complied with ☐ not complied with	
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.	■ complied with ☐ partially complied with ☐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.	■ complied with ☐ partially complied with ☐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).	☐ complied with ■ partially complied with ☐ not complied with	1. During the last three reporting periods, the external consultant was not involved in independent evaluation of performance of the Board of Directors. With that, in the reporting period the Company conducted self-assessment of the quality of the work of the Board of Directors with methodological support of an external consultant.

[1] Specify the list of the established additional committees

				The evaluation methodology, which was applied at MTS earlier, was developed before the adoption of the Code and only partially complied with the recommendations of the Code. In this regard, in 2016, the Company revised the methodology for the evaluation of the Board of Directors. The new methodology was developed with involvement of external consultant and fully takes into account the recommendations of the Code, as well as the best international practice in the field of organization of the Board of Directors' work. In the reporting year, evaluation of the Board of Directors using the new methodology was carried out for the first time and in the form of self-assessment using questionnaire method. The results of the evaluation were considered at the in-person meeting of the Board of Directors. In 2017, MTS plans to conduct another self-assessment of the Board of Directors using the questionnaire method, and in 2018 to consider evaluation of the Board of Directors with involvement of an external consultant Due to the fact that the three-year period when an external consultant has to be involved for evaluation started in 2016, in accordance with the provisions of the Code the Company should engage the External Consultant no later than 2018.Thus, there are no additional risks associated with failure to involve of an 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.	■ complied with ☐ partially complied with ☐ 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.	■ complied with ☐ partially complied with ☐ 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.	■ complied with ☐ partially complied with ☐ 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	complied with		
		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.	■ complied with ☐ partially complied with ☐ not complied with	

	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.			
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.	complied with		
		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.	■ complied with ☐ partially complied with ☐ not complied with	
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.	complied with		
		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.	■ complied with ☐ partially complied with ☐ not complied with	
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.	complied with		
		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.	■ complied with ☐ partially complied with ☐ not complied with	
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		
		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.	☐ complied with ☐ partially complied with ■ not complied with	1. Fixed annual remuneration was not 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. The amount and procedure for payment of remunerations and compensations to members of the Board of Directors are regulated by the Regulations on Remuneration and Compensations Payable to Members of the Board of Directors.

				In accordance with the Regulations, members of the Board of Directors receive remuneration in the following forms: — basic remuneration; — remuneration for additional duties (in committees); — bonus based on annual performance. Regulation on Remuneration and Compensations was developed with involvement of an external consultant and approved in 2009, before the Code was brought into force. Its provisions corresponded to the market practices in effect at that time and were designed to ensure that the applicable forms of remuneration complied with the Company's objectives. Thus, the use of variable part in the compensation structure based on the market value of the Company's shares is aimed to motivate members of the Board of Directors to increase shareholder value of the Company in the interests of shareholders and investors. The current remuneration procedure is absolutely transparent, and minimizes the possible risks of non-compliance with the Code' recommendations. The recommendation of the Code on abandoning short-term forms of motivation was considered at the meeting of the Remuneration and Nomination Committee in 2016. Management representatives were instructed to carry out a comprehensive assessment of this issue and provide relevant information for consideration by the Remuneration and Nomination Committee in 2017. Thus, in 2017 we are planning to consider feasibility of implementing this practice.
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		
		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.	■ complied with ☐ partially complied with ☐ not complied with	
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		
		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.	■ complied with ☐ partially complied with ☐ not complied with	

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.	complied with	
		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.	■ complied with ☐ partially complied with ☐ not complied with
		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.	■ complied with ☐ partially complied with ☐ not complied with
		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.	■ complied with ☐ partially complied with ☐ not complied with
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).	complied with	
		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).	■ complied with ☐ partially complied with ☐ not complied with
		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.	■ complied with ☐ partially complied with ☐ not complied with
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.	complied with	
		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.	■ complied with ☐ partially complied with ☐ not complied with
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.	complied with	
		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.	■ complied with ☐ partially complied with ☐ not complied with
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.	complied with	
		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.	■ complied with ☐ partially complied with ☐ not complied with

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.	complied with	
		1. In the Company there is an approved anti-corruption policy.	■ complied with ☐ partially complied with ☐ not complied with
		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.	■ complied with ☐ partially complied with ☐ not complied with
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.	complied with	
		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.	■ complied with ☐ partially complied with ☐ not complied with
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.	complied with	
		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.	■ complied with ☐ partially complied with ☐ not complied with
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.	complied wit	
		1. During the reporting period within performance of the internal audit, the efficiency of the internal control and risk management system is assessed.	■ complied with ☐ partially complied with ☐ not complied with
		2. The Company applies generally accepted approaches to internal control and risk management.	■ complied with ☐ partially complied with ☐ not complied with
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.	complied with	
		1. The Board of Directors of the company approved the information policy of the Company developed with account of the Code recommendations.	■ complied with ☐ partially complied with ☐ not complied with
		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.	■ complied with ☐ partially complied with ☐ not complied with
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.	partially complied with	
		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.	■ complied with ☐ partially complied with ☐ not complied with

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).	■ complied with ☐ partially complied with ☐ not complied with	
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.	☐ complied with ■ partially complied with ☐ not complied with	The Company has not published a memorandum of the controlling person regarding its plans with respect to the Company due to the fact that no memorandum was adopted by the controlling person. The controlling shareholder of the Company (JSFC Sistema PJSC, hereinafter also the Corporation") timely provides public access to information regarding all its plans with respect to the Company through various disclosure channels (annual report, statements of material facts, press releases, etc.), being guided by the principles of protecting confidential information and the rights of shareholders of the Company. In addition, the Corporate Governance Code is posted on the website of JSFC Sistema PJSC[1]. The Corporate Governance Code of JSFC Sistema PJSC states that the Corporations strives to ensure compliance with the provisions and requirements of the current legislation, as well as the best corporate governance standards in the practice of its subsidiaries and affiliates. In addition, the Code contains information on the principles of building relations within JSFC Sistema PJSC Group. In accordance with the Code, the Corporation's main task with respect to subsidiaries and affiliates (portfolio companies) is to promote their comprehensive development in order to increase their value. At the same time, the Corporation takes into account the interests of all shareholders, investors, key consumers of products of subsidiaries, as well as other stakeholders, including state authorities and employees of portfolio companies when making managerial decisions. In connection with the foregoing, the use of an additional disclosure tool (memorandum of controlling person) to disclose public information is inadvisable. The risks of failure to comply with the recommendation are offset by the timely and qualitative disclosure of all essential information by the Corporation. MTS is not aware of the plans of JSFC Sistema PJSC regarding adoption of such memorandum. If the controlling person adopts the memorandum recommended by the Code, it will be published by the Company.

[1] www.sistema.ru/fileadmin/user_upload/corporate_documents/kodeks_korporativnogo_upravlenija.pdf

6.2	The Company timely discloses full, relevant and valid information about the Company to ensure the possibility to make justified decisions by the Company shareholders and investors.			
6.2.1	The Company discloses information in compliance with the principles of regularity, consistence and efficiency, as well as availability, validity, completeness and comparability of disclosed data.	complied with		
		1. The information policy of the Company determines approaches and criteria for definition of information capable of significantly influencing the assessment of the Company and cost of its securities and procedures providing for timely disclosure of such information.	■ complied with ☐ partially complied with ☐ not complied with	
		2. If securities of the Company circulate in the foreign organised markets, disclosure of substantial information in the Russian Federation and in such markets is done synchronously and equivalently during the reporting period.	■ complied with ☐ partially complied with ☐ not complied with	
		3. If foreign shareholders own a substantial quantity of Company shares, then during the reporting year disclosure of information was done not only in Russian, but also in one of the most popular foreign languages	■ complied with ☐ partially complied with ☐ not complied with	
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.	■ complied with ☐ partially complied with ☐ 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.	■ complied with ☐ partially complied with ☐ 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.	■ complied with ☐ partially complied with ☐ not complied with	
		2. The annual report of the Company contains information on environmental and social aspects of the company's business.	■ complied with ☐ partially complied with ☐ 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.	☐ complied with ■ partially complied with ☐ not complied with	The information policy of the Company does not specify the right of shareholders to access information on entities controlled by the Company. The Company analysed the recommendation of the Code and concluded that the information provided to shareholders is sufficient to exercise their rights, and therefore, specifying the right of shareholders to access information on entities controlled by the Company is inadvisable. The Company and its activities are fully transparent for shareholders, investors and other stakeholders. All information required for disclosure is regularly published on the Company's website. In addition, MTS provides public access to certain types of information recommended for disclosure by the Code.

				In addition, the information policy provides for various methods and forms of information disclosure (including e-conferences, meetings, telephone conversations and other contacts with professional market participants and shareholders, a possibility of visiting the offices of the Company). Thus, the Company provides significant amount of information about itself and its activities in accordance with the principles of fairness and ease. In this regard, the exercise by shareholders of their right to access to the Company's documents and information in practice is not associated with unjustified difficulties. At the same time, when providing information to shareholders, the Company seeks to maintain a reasonable balance between the interests of specific shareholders and the interests of the company itself, which is interested in maintaining confidentiality of important commercial information that can have a significant impact on its competitiveness. This approach fully complies with the recommendations of the Code (Clause 6.3.2). As a consequence, the Company considers all requests for additional information that is not freely available on an individual basis. The company plans to follow the established practice in the future.
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		
		1. During the reporting period the Company did not reject requests of shareholders for provision of information, or such rejections were justified.	■ complied with ☐ partially complied with ☐ not complied with	
		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.	■ complied with ☐ partially complied with ☐ not complied with	
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.	partially complied with		
		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.	☐ complied with ■ partially complied with ☐ not complied with	1, 2. During the reporting period, the Charter of the Company did not define a separate category of substantial corporate actions or the criteria for their definition fixed. With that, the recommendation of the Code was fulfilled in fact. All substantial corporate actions provided for by the Code, as well as other actions qualified by the Company as substantial, are subject to consideration by the Board of Directors of the Company. In accordance with the provisions of the Charter of the Company (Articles 27.1, 32.2) and the practices of the Board of Directors in respect of these actions, the Board of Directors either makes a decision or develops a recommendation for the General Meeting of Shareholders.
		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.	☐ complied with ■ partially complied with ☐ not complied with	

				The participation of the Board of Directors is not formalized in the Charter only with respect to the following substantial corporate actions: — Making decisions on the reduction of the Company's authorized capital through acquisition by the Company of a number of shares with a view to reducing their total number, as well as by redeeming shares purchased by the Company; — Making decisions on request for delisting the Company's shares and (or) equity securities convertible into shares of the Company. At the same time, materials on these issues are subject to consideration by the Board of Directors during preparation for the General Meeting of Shareholders. The involvement of the Board of Directors in substantial corporate actions in the above-mentioned scope indicates that there are no additional risks due to the absence of definition for category "substantial corporate actions". The new version of the MTS Charter will be submitted for approval of the Annual General Meeting of Shareholders in 2017. The proposed amendments are aimed at implementing the specified recommendations of the Code.
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		
		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.	■ complied with ☐ partially complied with ☐ not complied with	
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.	■ complied with ☐ partially complied with ☐ not complied with	
		2. During the reporting period all substantial corporate actions were approved before their realisation.	■ complied with ☐ partially complied with ☐ 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.	■ complied with ☐ partially complied with ☐ 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.	■ complied with ☐ partially complied with ☐ not complied with	1, 2. Internal documents of the Company do not provide for the procedure for employing an independent appraiser to define the cost of property alienated or purchased within a major transaction or related-party transaction, as well as to assess the cost of purchase and redemption of the Company's shares. The Company involves an independent appraiser in all cases provided for by law. Also, the Company's Charter specifies that an independent appraiser should be involved when the Company shares are paid with non-monetary means, in order to determine the market value of such assets, unless otherwise specified by the law of the Russian Federation. We do not consider it necessary to involve an independent appraiser in all transactions, since such an obligation will entail unjustified time costs (related, inter alia, with the need to arrange and hold tenders for the selection of the appraisal organization), and financial expenses. In practice, an independent appraiser may be involved on the initiative of the Board of Directors or its members. Possible negative consequences associated with the lack of an obligation to involve an external appraiser is offset by the existence of clear and transparent procedures for the implementation of major transactions and related-party transactions, active involvement of independent directors in preliminary discussions of related-party transactions, and full compliance with the Russian legislation, including when assessing the cost of purchase and redemption of the Company's shares. Currently, the Company is considering the need to formalize the procedure for involving an independent appraiser to determine the value of property alienated or purchased within a major transaction or related-party transaction, as well as to assess the cost of purchase and redemption of the Company's shares and establishing the relevant procedure in internal regulations.
		2. Internal documents of the Company provide for the procedure of employing an independent appraiser to assess the cost of purchase and redemption of the Company shares.	☐ complied with ■ partially complied with ☐ not complied with	
		3. Internal documents of the Company provide for the extended list of grounds, under which the members of the Board of Directors of the Company and other persons specified by law are recognised as interested in the Company transactions.	■ complied with ☐ partially complied with ☐ not complied with	

List of major transactions and related party transactions closed by MTS PJSC in 2016

— In 2016 MTS PJSC did not approve (close) transactions, which are recognised in accordance with the Federal Law "Concerning Joint-Stock Companies" as major transactions, and also other transactions, closing of which is covered by the procedure of major transactions approval according to the Charter of the Company

— The list of transactions closed by MTS PJSC in 2016 and recognised in accordance with the Federal Law "Concerning Joint-Stock Companies" as related party transactions, the need to approve which by the authorised management body of the joint stock company is specified by the chapter XI of the Federal Law "Concerning Joint-Stock Companies"

Information is available at the corporate website of MTS PJSC at: www.company.mts.ru/comp/ir/control/data/annual_reports/66/.

Annual consolidated financial reporting of MTS PJSC and subsidiaries for 2016

Information is available at the corporate website of MTS PJSC at: www.company.mts.ru/comp/ir/control/data/annual_reports/66/

Consumption of power resources

Information on consumption of power resources by MTS PJSC in 2016 (in kind and monetary terms)

Resource	In kind		In monetary terms, RUB, ex-VAT
	Resource quantity	Measurement unit	
Power	1,052,982.30	kW/h	5,673,499,351.25
Thermal power	54,730.10	Gcal	70,054,782.08
Water supply	297,470.69	cubic meters	10,517,847.16
Gas supply	932,260.12	cubic meters	5,988,396.73
Petrol	3,574,533.83	l	98,318,783.74
Diesel fuel	4,094,035.58	l	115,328,778.35

Glossary

3G	3rd Generation
3GPP (3rd Generation Partnership Project}	an international consortium developing mobile telephony specifications
4G	4th Generation
ADR	American Depositary Receipts
AR (Augmented Reality, Changed Reality, Augmented Reality)	human-perceived combination of the real world and virtual elements created by computer tools
ARPU	Average Revenue Per User
Bank of Russia	Central Bank of the Russian Federation
BBA	Broadband Access
CAPEX	CAPital EXpenditure
CDMA	Code Division Multiple Access
CSR	Corporate Social Responsibility
E-Health (Electronic Health, eHealth):	implementation of public health functions using information and telecommunication technologies
FDD	Frequency Division Duplex
FOCL	Fibre Optic Communication Line
GPON	Gigabit Passive Optical Network
GSM	Global System for Mobile Communications
HSPA+	High Speed Packet Access Plus
IFRS	International Financial Reporting Standards
IOT network (Internet of Things Networks)	a number of autonomous physical devices connected to a single network via digital communication channels
LTE-M (Long Term Evolution for Machines)	one of the IoT standards developed by 3GPP consortium.

M2M	Machine-To-Machine
M-Health (Mobile Health, mHealth)	performing health functions using mobile devices (smart-phones, tablets, etc.)
Moscow Stock Exchange	the largest stock exchange holding in Russia and Eastern Europe
MOU	Minutes of Usage
MVNO	Mobile Virtual Network Operator
NB-IoT (NarrowBand Internet of Things)	is one of the IoT standards developed by 3GPP consortium.
NFV (Network Function Virtualization)	network architecture concept that involves the use of virtual machines without reference to specialized equipment
NYSE	New York Stock Exchange, USA
OIBDA	Operating Income Before Depreciation And Amortization
RAS	Russian Accounting Standards
SaaS	Software as a Service
SDN (Software-Defined Network)	data network where network management functions are implemented at the software level and are independent of the hardware solution
SEC	The United States Securities and Exchange Commission, USA
TDD	Time Division Duplex
UMTS	Universal Mobile Telecommunications System
VAS	Value Added Services
VR (Virtual Reality, Virtual Reality)	a realistic simulation of the environment created using information technologies and imitating the immersion of the user into it
Wi-Fi	Wireless Fidelity

Additional Information about the Company

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: Russian Federation 109147, Moscow, Marksistskaya St., 4 tel.: (495) 911 6555 Fax: (495) 911 6599 Correspondence address of MTS PJSC: Russian Federation, 109147, Moscow, Vorontsovskaya Str., 5, bldg. 2 E-mail: info@mts.ru Internet: www.mtsgsm.com.
Information on subdivision of shareholders and investors relations	Location of subdivision of shareholders and investors relations: 5 Vorontsovskaya Str., bldg. 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 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
Auditor	Closed Joint-Stock Company Deloitte and Touche CIS Address: 5 Lesnaya ulitsa, Moscow, 125047, Russian Federation Phone:(495) 787 0600 Fax:(495) 787 0601 Internet: www.deloitte.com

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 Internet: www.nrcreg.ru
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 Internet: www.nsd.ru

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.

Dear shareholders!

2016 in many ways was groundbreaking for determination of the Group development strategy, and this year may be easily called the year of changes.

Today, we are glad to present the shareholder's account offering a wide range of functions and opportunities previously available in format of voting in person and personal attendance only.

This is an important step towards our shareholders. We hope that it will become easier, more convenient and efficient to be an MTS shareholder!

Andrey Dubovskov.

MTS. Implementing changes