

**To the Mobile TeleSystems  
Public Joint Stock Company  
Shareholders Meeting**

**OPINION ON THE MOBILE TELESYSTEMS PUBLIC JOINT STOCK COMPANY'S  
BUSINESS AND FINANCIAL ACTIVITY BASED ON THE 2017 AUDIT RESULTS**

Date and place of drawing-up the Opinion: May 4, 2018, Moscow

**1. INTRODUCTION**

1.1. Pursuant to Federal Law On Joint-Stock Companies No. 208-FZ dated December 26, 1995, the Auditing Commission of the Mobile TeleSystems PJSC (hereinafter referred to as “the Company”) audited the Company’s business and financial activities in 2017.

1.2. Composition of the Auditing Commission: Irina R. Borisenkova, Maxim A. Mamonov, Anatoliy G. Panarin.

1.3. Audit terms: the audit was held on April 5 – 27, 2018.

1.4. Audit purpose: the main purpose of the audit was to make sure that:

- a) the key financial results of the Company as included into the annual report, the annual financial statements and other financial documents of the Company are true to fact;
- b) the Company’s interests were observed in the course of the business and financial activities of the Company in accordance with the requirements of the legislation of the Russian Federation;
- c) decisions and orders of the Company’s collective management bodies were implemented, and essential business processes were carried out in compliance with all the applicable basic regulatory requirements;
- d) report on transactions of interest made by the Company in 2017 contains true data;
- e) internal control of substantial risks was developed and applied with adequate efficiency.

1.5. In order to audit and draw-up the present Opinion of the Auditing Commission, the Company provided the following documents:

- Charter of the Company;
- 2017 Annual Report;
- Balance sheet of the Company as of December 31, 2017;
- Income statement for 2017;
- Appendices to Balance sheet and Income statement
  - Statement of changes in equity for 2017;
  - Cashflow statement for 2017;

- Other annexes to balance sheet and income statement – explanations (in table and (or) text form) of the Company for 2017;
- Primary accounting documents, ledgers, other documents for 2017;
- Auditor’s report on Company’s Financial (Accounting) statements for 2017.

1.6. The Company’s management is responsible for the preparation of authentic data and reports, ensuring the compliance with the applicable regulations and orders of the Company’s management, observance of the Company’s and its shareholders’ interests in the course of the business and financial activities, and creation and effective operation of the Company’s internal control system.

1.7. The obligation of the Auditing Commission was to conduct the audit to get reasonably assured that the main objectives of the audit were achieved and the audit conclusions were based on the most objective and adequate analysis of the information, data and documents that were submitted for this purpose.

1.8. The Auditing Commission has concluded that the information, data and documents submitted are a sufficient basis for preparing the audit conclusions and Opinion.

## **2. ANALYTICAL PART**

2.1. The audit, assessments and conclusions on the authenticity of the accounting statements of the Company were based on the requirements of the relevant accounting principles and standards of the Russian Federation used in reporting.

2.2. The assessment and analysis of the business and financial activities and conclusions about their compliance with the requirements were based on the provisions of the applicable legislation and internal regulatory and administrative documents of the Company.

2.3. The assessment of the effectiveness of creating and carrying out internal control measures was based on the requirements of the applicable legislation, internal regulatory and administrative documents of the Company in terms of risk management and internal control and on job descriptions of the Company’s employees.

2.4. The audit procedures were created considering the legal form of the Company and the requirements of the legislation of the Russian Federation.

2.5. The audit method was based on carrying out sample inspection of business transactions, sample inspection of documents by material events in the audited period, interviews with employees of the Company and on the analysis of financial and economic indicators of the Company performance in 2017.

2.6. The authorized capital of the Company amounts to 199.8 million roubles.

2.7. The Shareholders of the Company are:

- Non-banking credit organization National Settlement Depository CJSC (nominee holder) – 51.59% (including 1.8% of shares owned by Sistema Finance S.A. being under nominal holding);
- JSFC Sistema PJSC – 31.76%;
- Sistema Telecom Assets LLC – 11.03%;
- Sistema Finance S.A. – 3.48%;
- Other shareholders – 2.14%.

2.8. In the audited period, the President of the Company was Mr. A.A. Dubovskov. The Chief Accountant, Mr. A.V. Dvoretiskikh, was responsible for the Company's accounting. In March 2018, Mr. A.V. Kornya was appointed the President of the Company.

2.9. The main activity of the Company in the audited period is the provision of telecommunications services in the areas specified in the licenses granted to the Company by the authorized state power body; the provision of access to the Internet information and telecommunications network; the creation and operation of communication networks and communication facilities.

2.10. Capitalization for 2017 increased compared to 2016 by 2.3 billion USD (1.2 times increase) and amounted to 11.7 billion USD.

### **3. RESULTS OF BUSINESS AND FINANCIAL OPERATIONS**

3.1. The result of the Company's business and financial operations in 2017, based on accounting data, was the net income amounting to RUB 127,250 million, which was 2.5 times higher than the 2016 profit (by RUB 76,591 million). The net income growth was due to the increase of revenue from operating activities, generation of income from revaluation of securities at the current market value, recovery of provision for impairment of financial investment and income from participation in other organizations. In particular, the income from participation in other organizations increased by 18% or RUB 29,084 million in 2017, inter alia, dividends were received from MGTS PJSC in the amount of RUB 21,012 million.

3.2. The sales revenue was received from provision of the following services: cellular communication services, fixed-line services, lease of communication channels, and telematic services. In 2017, the revenue increased year-over-year by RUB 9,468 million (3%) and amounted to RUB 323,793 million. The revenue growth was mainly influenced by the increase of consumption of Mobile Internet services, and also the maintenance of the level of operating expenses.

3.3. The profit before tax increased in 2017, as compared to 2016, by RUB 78,653 million (2.3 times) and amounted to RUB 140.638 million.

3.4. The Company's net assets of as of December 31, 2017 amounted to RUB 112,131 million and exceed the equity capital significantly. Such ratio characterizes positively the financial standing and fully complies with statutory requirements for the amount of the Company's net assets. Herewith, it is necessary to note the increase of net assets by RUB 77,094 million (3.2 times) for the year.

3.5. Borrowed funds increased by RUB 9,945 million (2.7% increase vs. 2016) and amounted to RUB 379,294 million, including long-term liabilities due after more than one year constitute 77% or RUB 290,584 million in the total amount of borrowed funds. At the same time, it should be noted that within the year, long-term liabilities over 1 year decreased by 15,311 million rubles (5%).

3.6. CAPEX (with respect to payments) in Russia reduced in 2017 vs. 2016 by 9.7% and amounted to RUB 57.4 billion.

3.7. Number of subscribers decreased, as compared with 2016, by 1.7 million individuals (2.2% decrease vs. 2016) and amounted to 78.3 million individuals as of December 31, 2017. The subscribers churn rate was 9.8% in 2017, which is a quite low rate while the subscriber base is growing; subscriber churn dynamics in 2017 did not change year-over-year. MTS is the leader in churn quality among competitors.

3.8. The plan for LTE site growth was significantly ahead of target (by 830 sites) due to the sale of sites ahead-of-schedule in accordance with 2018 Federal Targeted Program.

#### **4. DATA FROM THE REPORT OF THE EXTERNAL AUDITOR**

4.1. The External Auditor of the Company is Deloitte & Touche CIS CJSC, primary state registration number 1027700425444, member of the auditors' SRO Russian Union of Auditors (Association), ORNZ 11603080484. The External Auditor audited the accounting statements of the Company and issued the Auditor's Opinion on March 30, 2018.

4.2. The External Auditor expressed the opinion that in all material respects the accounting statements fairly represent the financial position of the Company as of December 31, 2017, the results of its business and financial activities and its cash flows in 2017 in accordance with Russian accounting and reporting standards.

#### **5. CONCLUSION OF THE OPINION**

In accordance with the results of the Company's audit held on the basis of objective and fair analysis of all information and documents that were submitted for audit, taking into account the

opinion of the External Auditor Deloitte & Touche CIS CJSC about the authenticity of statements of the Company, the Auditing Commission has reached the following conclusions:

5.1. The Auditing Commission has revealed no material breaches of accounting and reporting procedures set by the legal acts of the Russian Federation, procedure of accounting and submission of accounting statements, as well as by legal acts of the Russian Federation when performing business and financial activities of the Company.

5.2. The Auditing Commission confirms that the accounting statements of the Company for 2017 and the Annual Report on the Company's activities for 2017 in part of the accounting statements of the Company are valid, e.g. were prepared to ensure that in all material respects the assets and liabilities as of December 31, 2017 and the financial results of the Company's activities for 2017 are stated in compliance with applicable Russian legislation on accounting and reporting and accounting policies of the Company.

5.3. The Auditing Commission confirms data contained in the report on transactions of interest made by the Company in 2017.

5.4. The Auditing Commission evaluates the overall status of internal control in the Company that influences achievement of business objectives of the Company and efficiency of its business, validity of reporting and compliance with requirements as satisfactory.

#### MTS PJSC Auditing Commission

Auditing Commission Member \_\_\_\_\_ I.R. Borisenkova

Auditing Commission Member \_\_\_\_\_ M.A. Mamonov

Auditing Commission Member \_\_\_\_\_ A.G. Panarin