

REPORT  
ON SUSTAINABLE  
DEVELOPMENT

Mobile TeleSystems  
Group, 2013

**D**ata

**D**ifferentiation

**D**ividends



**D**o

**D**onate

goo**D**



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# About the Company

Open Joint-Stock Company Mobile TeleSystems (MTS) is the leading telecommunications operator in Russia and the CIS. The Company offers integrated mobile and fixed-telephony services, international and intercity communications, cable television, and data transmission based on wireless and wire-based solutions including fiber optic access technologies and third- and fourth-generation mobile networks, as well as financial services.

In 2013, MTS OJSC subsidiaries in the CIS pursued business activities in Ukraine, Turkmenistan, Armenia and the Republic of Belarus.



## MAIN RESULTS FOR 2013



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### Financial indicators

Consolidated  
earnings (RUR)

**398.4** bln

+5% over 2012

Net profit (RUR)

**76.1** bln

+22% over 2012

Net profit margin

**20%**

### Operating indicators

Increased rate  
of base-station  
construction

**78,000**  
MTS base  
stations

Total length of GPON  
fiber optic links  
in Moscow reached

**25,000**  
km

Daily volume of traffic  
carried by data-  
transmission networks

**4,300**  
Tbytes

### Non-financial indicators

Payroll (RUR)

**47.3** bln

Expenditures on CSR  
and charitable  
activities (RUR)

**829** mln

+22% over 2012

Number of participants  
in the “Deti Online”  
program topped

**200,000**  
people



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# Message from the President

Dear Friends –

Today, MTS is the undisputed leader of the telecommunications industry in Russia and the CIS, offering integrated communications services to more than 100 million subscribers. With a service offering as expansive and comprehensive as MTS offers, we touch and have the ability to impact the lives of our subscribers every minute of every day. Accordingly, when considering new communications solutions for our customers, we always assess the impact these solutions will have on society, quality of life, and the environment in which our subscribers live and work.

MTS has adopted a strict strategy in the field of corporate social responsibility (CSR) and we constantly adjust this strategy to best meet the changing expectations of society and our customers. At MTS, we take responsibility for all of our actions – an attribute that we view as the key to the Company's sustainable development.

In 2013, MTS completed its transformation from a company focused on voice-based solutions into an integrated communications operator with a greater emphasis on the development of data services. We call our corporate strategy “3-D” which aligns our business around three key pillars – Data, Differentiation and Dividends. At its core, this new strategy reflects our decision to augment the provision of voice-based communications services with the expansion of mobile and broadband Internet as priority areas of focus.





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As we evolve our corporate strategy, we remain committed to our robust CSR programming and are excited to share with you today the results of our efforts in 2013. A cornerstone of the Company's CSR approach continues to be the rendering of charitable assistance. We are pleased to report that in 2013 we earmarked a total of RUB 829 million for charitable goals and programs — a number unrivaled by our peers. And not only did we provide targeted assistance to people in need of support, but importantly we also implemented longer-term programs directed at tackling the pressing social problems affecting significant portions of the population.

In addition, during 2013 the Company implemented a series of programs designed to give assistance to orphanages and residential schools across our territory where we were able to provide both Company services, as well as much needed financial aid. We could not be more proud of the work done by MTS volunteers who regularly hosted a wide array of campaigns tailored to meet the special needs of orphans, such as “Zelyony Express” and “Yolka,” along with many others throughout the country.

Lastly, we continued to devote considerable effort toward projects aimed at environmental protection. In particular, MTS held nationwide events focused on the improvement of the ecosphere under the banner “Eco-Desant” As people demand more and more data services, we remain focused on delivering the absolute best solutions to meet and exceed the evolving needs of our customers in the most socially responsible way possible. CSR is something that runs deep within the veins of MTS — not because it is the right way to operate a company or because it is the right way to service our customers, but because it's who we are, and who we always have been.

Sincerely,  
Andrei Dubovskov,  
President and CEO, MTS OJSC Group



We are pleased to report that in 2013 we earmarked a total of

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for charitable goals and programs —  
a number unrivaled by our peers.



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# Our approach to CSR

MTS is the largest telecommunications operator in Russia, the CIS, and Eastern and Central Europe in terms of subscriber base. The Company is conscientious of its accountability to the people it serves; after all, its technological solutions and actions have a direct impact on their quality of life.

MTS views sustainable development as assuming responsibility for the impact its actions and solutions have on society and the environment through transparent and ethical corporate conduct, which does the following:

- encourages sustainable development, the promotion of public health and the improvement of social prosperity;
- takes into consideration the expectations of stakeholders;
- is integrated into Company activities and implemented by the Company in practice;
- conforms to applicable law and adheres to international norms of corporate conduct; and
- facilitates greater Company transparency and refinement of its management system.

Among MTS' high-priority objectives is the integration of corporate social responsibility into all aspects of Company operations.



MTS adheres strictly to its adopted strategy in the field of sustainable development. By the same token, it also makes annual adjustments to the strategy in an effort to respond to the changing expectations of the public and our subscribers. The MTS strategy rests on the aspiration to improve people's quality of life and encourage social progress to the greatest extent possible.



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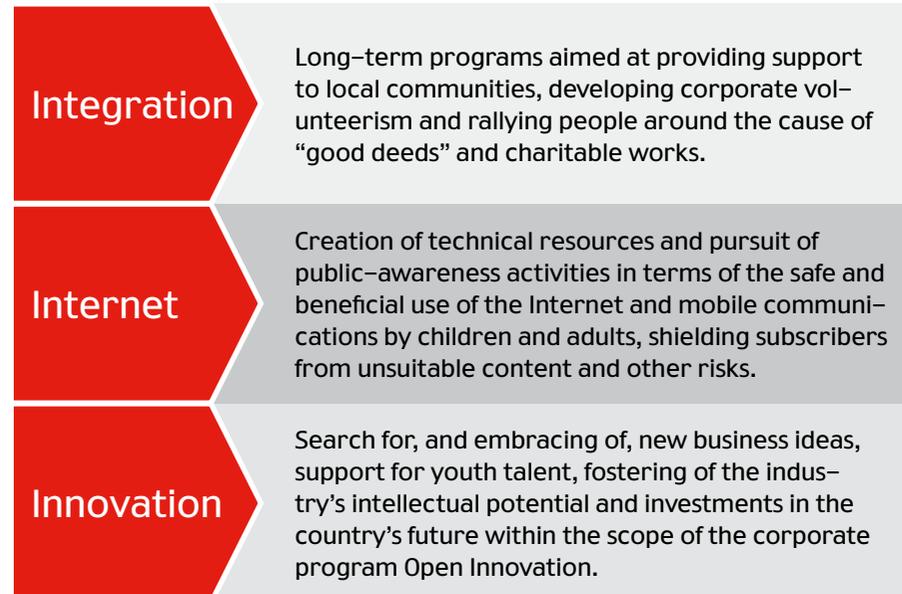


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## PRINCIPLES AND STRATEGY OF SUSTAINABLE DEVELOPMENT

The Company’s CSR activities are founded on the principles of socially responsible business practices, which are aimed at ensuring the sustainable development of the Company, growth in corporate prosperity and the formation of a competitive economy. These principles have been formulated with the consideration of the expectations of all stakeholders and enshrined in the Company’s internal regulatory document “MTS Activities in the Field of Corporate Social Responsibility (CSR),” which all Company employees are free to access and read at any time. The MTS corporate website includes MTS Group Sustainable Development Reports, main projects within the scope of the Company’s CSR and charitable activities,

In 2013, the Company’s CSR strategy was based on three “I–s”:



and feedback information. MTS pursues ongoing dialogue with stakeholders, and provides opportunities for access to comprehensive information on the Company’s socially engaged activities.

At the end of 2013, the MTS corporate strategy was overhauled, with increased emphasis placed on development of the data component and formulation of the accompanying data strategy. Similar changes were introduced to the Company’s CSR strategy: since 2013, all of our CSR-related projects have had a pronounced data focus. In 2014, instead of a CSR strategy based on the three “I–s,” MTS plans to shift to a CSR strategy based on the three “D–s.”

MTS projects such as “Deti Online,” “Web for All Ages” and “Telecom Idea” now feature a significantly enhanced data component.

As of 2014, the MTS CSR strategy will be based on the three “D–s”:

**Data:** creation of the conditions needed for the search for, and embracing of, new business ideas, support for youth talent, and pursuit of public-awareness activities in terms of the safe and beneficial use of the Internet and mobile communications by children and adults.



**Differentiation:** integration into the broader public of federal programs aimed at the promotion of corporate volunteerism featuring the active involvement of all stakeholder groups, and programs designed to expand new digital services and improve communications quality.

**Dividends:** introduction of the best practices in the field of CSR, standardization of CSR processes for conformance with international requirements, creation of a transparent environment for shareholders and potential investors, and bolstering the corporate spirit and reputation of MTS.



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## CSR MANAGEMENT

In all of its business operations, MTS is guided unwaveringly by the principles of CSR. In the field of risk management, the Company observes the basic tenets of CSR, which allows MTS to mitigate consequences and avoid adverse situations.

The MTS Board of Directors is the Company's highest collegial body in terms of CSR management. Falling within its sphere of competence are matters such as approval of the CSR strategy and related social programs, control over their implementation, and evaluation of the effectiveness of social projects. The Vice President for HR Management and Department for Corporate Social Responsibility and Internal Communications at the HR Management Unit are ultimately responsible for the planning, actual implementation and consolidation of CSR activities. The planning and implementation of MTS social initiatives in the regions

are undertaken by the responsible employees in the HR Management Department, as appointed by the respective macro regional directors.

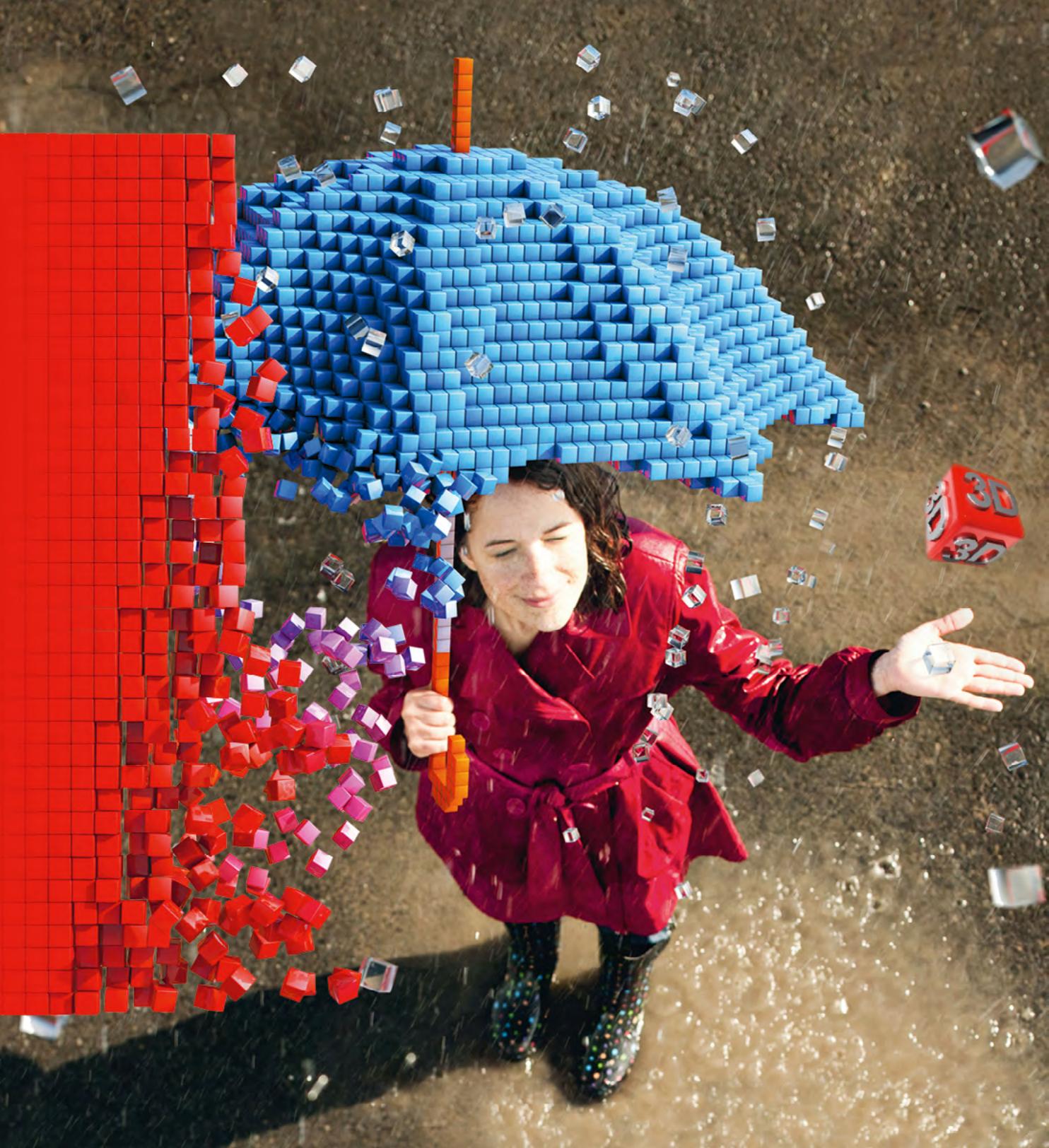
In 2013, MTS dramatically strengthened control over its reporting procedures. It regularly monitors CSR activities at both the regional and federal level. All information received concerning the Company's corporate social responsibility measures for the year, both in Russia and abroad, is consolidated in the public MTS Social Report.

MTS also analyzes the effectiveness of CSR policy implementation, as determined on the basis of the target values of key performance indicators established at the planning stage and reflected in the MTS CSR strategy. Based on yielded findings, the Company assesses the relevance and comprehensiveness of its current CSR policy. This assessment encompasses a discussion of the possible need to review activity areas in the field of corporate social responsibility for the upcoming year or adjust the aforementioned target values of key performance indicators as appropriate.





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# Responsible business practices



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MTS is guided by the principle of responsible business practices. It observes professional standards and legal and ethical norms of doing business, develops a robust system of corporate governance, constantly strives to enhance the transparency of purchasing procedures and quality of information disclosure, and works to refine our existing system of anticorruption compliance. MTS also plans and pursues activities in such a way that they respond to emerging social changes, improve the overall social climate, alleviate social tensions and stimulate ongoing development of the domestic economy.



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In its everyday operations, MTS makes an effort to consider the interests of the state – it cooperates with federal agencies of state power in those countries in which it has a market presence, as well as with the local authorities.



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The Company also strives to secure a high level of return on invested capital for its shareholders while increasing the overall value of the business. MTS views this not only as a top-priority business objective, but also as a key element of its responsibility to stakeholders. In fulfilling its obligations to shareholders, MTS places tremendous emphasis on the formation of an efficient system of corporate governance, the improvement of informational transparency and the promotion of constructive relationships with business partners.



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In its interaction with business partners, MTS aspires toward the fostering of long-term cooperation, which is why the Company builds

these relationships based on the principles of openness, honesty and fairness. The joint efforts of all communications operators are the key to the successful development of the Russian telecommunications sector. MTS participates on a regular basis with the temporary and permanent working groups created under the auspices of interested public organizations and state agencies. MTS is a member of five professional associations: Russian Managers Association, Russian Association of Networks and Services, RUSBRAND, GSMA and 3GPP.

The Company strives to build its relations with suppliers on the basis of the principles of fairness, honesty and transparency. MTS takes active steps aimed at fostering healthy business relationships, both within the Company and in interaction with counterparties.

The Company's purchasing activity is pursued in accordance with a special policy developed in compliance with the requirements of regulatory authorities and aimed at the efficient use of financial resources, the improvement of competitiveness and the enhancement of transparency. Equal access to purchasing procedures is assured via the establishment of equal competition opportunities and common rules for all participants in the purchasing process prior to its commencement. In the "Purchasing" section of the MTS corporate website, any supplier can review the principles of cooperation with MTS and the Supplier Code of Business Conduct.

MTS employees participating in purchasing activities are obligated to abide by the Company's Code of Purchasing Ethics, which reflects the principles of compliance with the ethical norms and requirements of



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applicable anticorruption legislation, including the rules set forth in the U.S. Foreign Corrupt Practices Act (FCPA). All tenders are thoroughly prepped by the categorical purchasing manager.

In the 2013 reporting period, more than 80 percent of all Company purchases were made via tenders or in the course of trading on electronic platforms. In all, MTS in Russia acquired goods, works and services worth more than RUB 15.8 billion during electronic trading in 2013, more than double the same indicator for 2012. Wherever possible, MTS makes an effort to purchase the goods and services of local suppliers, thereby encouraging economic development in the regions and countries in which the Company has a market presence.

MTS does everything in its power to reduce corruption risks, implement and refine measures designed to combat corruption, relying on the norms of anticorruption law in the countries where the Company pursues business operations, including The Foreign Corrupt Practices Act of 1977, The Bribery Act of 2010, industry specifics and global standards. The primary documents governing anticorruption requirements inside MTS are the Company's Code of Corporate Conduct and Business Ethics and its Policy on "Compliance with Anticorruption Legislation." Moreover, procedures to ensure compliance with anticorruption law are enshrined in the various regulations on Company business processes.

At MTS, the function of anticorruption compliance is distributed. This means that the primary check and verification that a particular action is not deemed a corrupt practice is the responsibility of the initiators of the action and their immediate supervisors. The Company's compliance system establishes measures aimed at the management of regulatory risks, elevation of the overall corporate culture, and the introduction and development of the best corporate governance practices and responsible business standards at MTS, based on the norms of applicable law, the recommendations of regulatory authorities, industry specifics and best practices in this area.





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# Customer as the top priority

At MTS, the interests of our customers are the top priority. The Company is committed to providing the highest quality communications solutions and access to cutting-edge telecommunications technologies, while creating a safe and comfortable environment for the use of its services. MTS constantly monitors and improves the level of customer service, provides subscribers with safe and legal content, observes the confidentiality of personal data, and wages a principled battle against scammers. Under the implementation of its marketing strategy, MTS adheres strictly to the norms of ethical business practices.



The Company views the high-quality servicing of its subscribers as a top priority. MTS is constantly improving the technical component of customer services and integrating state-of-the-art advancements in this area, while refining services and opening new service offices. Recognizing the importance of direct contact with customers, MTS pays particular attention to staff training, honing the professional skills of each employee working on the “frontline” with the customer. The Company pursues all of this in the hopes of making customers’ lives better, brighter and more vibrant.

The MTS retail network remains the main channel of Company interaction with customers. In 2013, the Company continued to develop its quality management system in compliance with the standard ISO 9001. In particular, MTS continued its implementation of the project known as the Automatic Customer Satisfaction Index (ACSI). Following a customer purchase or the completion of customer servicing, an incoming call is sent out within three days with an invitation to rate the quality of servicing at the respective MTS store on a 5-point scale. Customers leaving negative reviews are called back by MTS employees, who identify the reasons for the low level of satisfaction and help resolve the issue. The collected measurement data is used to compile a program for the planned improvement of service quality, as well as to help motivate retail personnel and management.

MTS consistently implements projects in the field of corporate social responsibility aimed at involving different social groups in the safe and beneficial use of information-and-communication technologies with a view to age-group specifics and user needs. Embracing a



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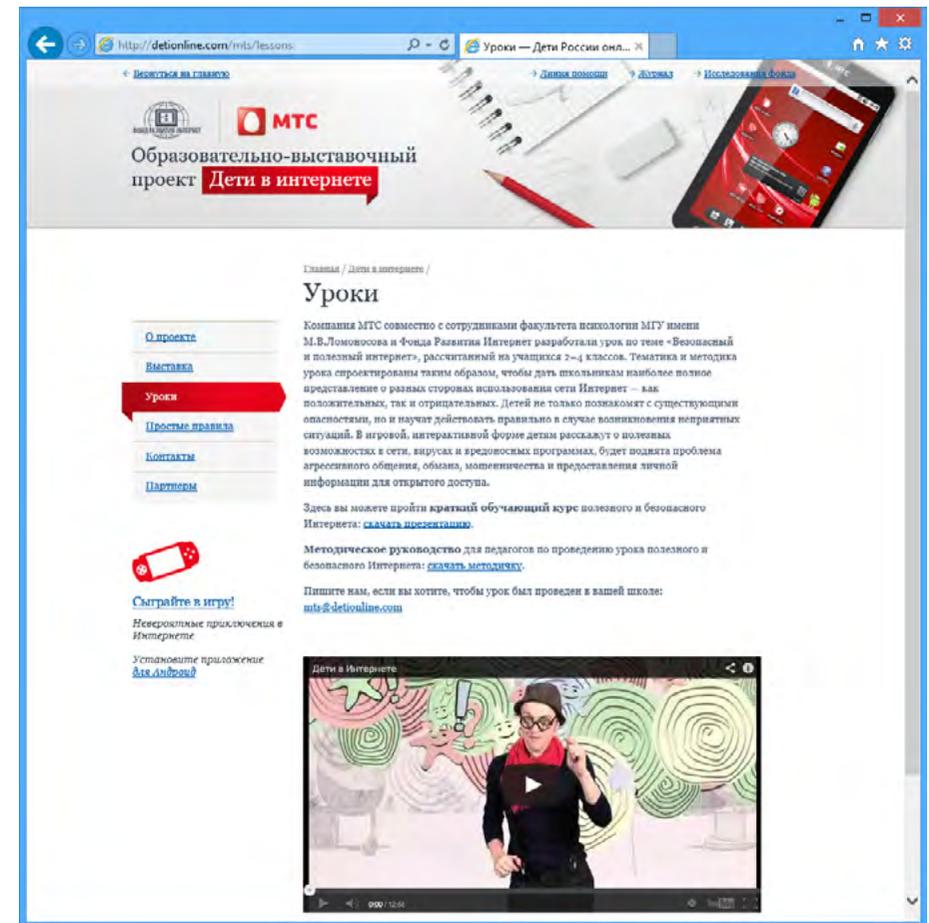
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comprehensive approach to popularization of the Internet, the Company makes a meaningful contribution to creating the conditions necessary for ensuring equal access to positive opportunities presented by the Internet for all user categories, from children to seniors, and overcoming the “digital gap” between the generations.

In 2013, MTS continued the implementation of the “Web for All Ages” program, which was designed to enhance the Internet literacy of people over 40 and popularize modern information technologies and helpful online services among people in this age group by rendering them assistance in developing the practical skills involved in Internet use for the handling of daily tasks.

MTS places tremendous emphasis on protecting children from negative content and shielding them against scam-related resources. Customers have the opportunity to utilize services designed to be effectively and safely organized for the work of the younger generation on the Worldwide Web. The Internet can yield a vast amount of helpful information needed for the purposes of study, training, continuing education and personal development, and the Company’s task is not only to create safe and convenient work-related services, but also to foster a sense of responsibility among children for their actions on the Internet.

Since 2011, MTS has been implementing the “Deti Online” (Children Online) program (<http://detionline.com/>) with the support of the Ministry of Communications and Mass Media of the Russian Federation, the RF Ministry of Education and Science, the Safe Internet League and other cooperating partners. The goal of the program is to popularize the rules of safe and beneficial Internet use among children, parents and educators. Within the scope of the “Deti Online” program, MTS implements the following measures: interactive themed exhibitions at Russia’s leading museums and libraries; Internet-literacy classes for young schoolchildren; and teacher seminars. Since its inception, more than



More than

**200,000**  
children, parents and educators

have taken part in the “Deti Online”  
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200,000 children, parents and educators have taken part in the program.

MTS also implements a comprehensive program devoted to teaching young schoolchildren the rules of safe Internet behavior so that children can securely utilize its positive aspects in terms of study, leisure and social interaction to the greatest extent possible. Through the “Deti Online” program, with the support of the RF Ministry of Education and Science, the Ministry of Communications and Mass Media of the Russian Federation, and the Safe Internet League, MTS holds classes on safe and beneficial Internet use for elementary school students and runs an interactive mobile exhibition. The primary goal of the project is to inform children and teachers of potential risks of Internet use, methods of protection against online threats, and the positive opportunities offered by the Worldwide Web.

In October 2013, MTS launched the “Children Teaching Adults” project in Moscow, in which high school students, following preliminary instruction by Company specialists, began giving “lessons in reverse,” showing parents the new opportunities opened by the mobile Internet, demonstrating its practical use in the handling of adults’ daily tasks. The youthful educators introduce their “students” to various smartphone functions, explain how to find and install preferred apps, and even recommend useful and interesting services: downloading information on traffic jams and trip routes, making doctor’s appointments, making utility payments, buying flight, movie and theater tickets, and gaining access to virtual libraries and tours of prominent museums around the world.





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# Communications for everybody

MTS is a standard-bearer for the development and spread of innovative, socially significant technologies in the countries where the Company has a market presence. Information technologies and telecommunications make it possible to render knowledge and information universally accessible, representing vital factors in the development of modern society. Expansion of the telecommunications industry and the development of emerging technologies and integration of innovations not only encourages the overall technological advancement of society, but also broadens the possibilities of the individual, improves people's quality of life, ensures uninterrupted business functioning, and facilitates general economic progress.

networks and the roll-out of fiber-optic lines across Russia as well as another RUB 10.7 billion for the development of networks abroad.

In 2013, the MTS network in Russia grew by 13 percent or 8.8 thousand base stations. By the end of the reporting period, the Company's wire-less network encompassed 44.4 thousand 2G base stations, 29.3 thousand 3G base stations and 5.0 K LTE stations, covering more than 50 thousand population centers across the country.

## DEVELOPMENT OF TELECOMMUNICATIONS INFRASTRUCTURE

The development of telecommunications infrastructure is a cornerstone of the MTS strategy – without it, the forward advancement of its business and fulfillment of the Company's social obligations would be unthinkable. In 2013, MTS invested RUB 80.1 billion in the expansion and modernization of its telecommunications networks – 25 percent more than the year before. The bulk of these funds – a full RUB 69.4 billion – were earmarked for the construction of 3G





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MTS constantly increases the speed of data transmission in its networks to make it as convenient as possible for customers to use its services. In 2013, data-transmission speed in the 2G/3G network in Russia increased by 54.5 percent totaling 3,584 Kbit/s compared to the level of 2,320 Kbit/s in 2012.

According to internal estimates, roughly 60 percent of all people on Earth will have access to LTE services by 2018, which is precisely why MTS continued the active development of 4G (LTE) technology in 2013. In addition to the existing LTE networks in Moscow, the Company built and launched into commercial operation LTE networks in 13 Russian regions including: the Republics of Udmurtia and North Ossetia – Alania, Krasnoyarsk Krai, Primorsky Krai, Khabarovsk Krai and Zabaykalsky Krai, and Kaluga, Tambov, Pskov, Kirov, Rostov, Novosibirsk and Amur regions. During the reporting period, MTS became one of the first telecommunications operators in Russia to launch LTE networks in international roaming.

MTS is one of the largest Russian companies offering services involving broadband access (BBA) to the Internet and cable television. As of year-end 2013, the Company provided services to 2.6 million pay-TV customers, 2.3 million BBA subscribers and 1 million mobile television customers. Today, MTS TV broadcasts more than 340 news, entertainment, educational, sports and HD-TV channels to the residents of nearly 180 cities across Russia. In 2013, the geography of MTS home Internet and digital-television services expanded by more than 10 cities in the Volga, Central, Southern, Siberian, Far Eastern and Northwestern federal districts.

During the reporting period, MTS concluded a multiyear investment program, modernizing MTS fixed networks in Yekaterinburg, Tyumen, Tatarstan, Tula and other Russian cities. The result of this program was the shift of 90 percent of all networks to new “fiber-to-the-building” (FTTB) fiber optic technologies, which enabled a network-quality improvement for 460,000 households across the country, the launch of



digital television in almost 150 cities nationwide, and complete discontinuation of analog-TV sales.

In 2013, MGTS continued integrating GPON technology into its fixed-communications networks in Moscow and Moscow Region, thereby allowing it to start offering digital telephony, digital TV and broadband Internet services at speeds of from 100 Mbit/s to 1 Gbit/s. During the reporting period, the total length of MGTS optical links reached 25,000 kilometers, while the total number of subscribers connected to the ultra-high-speed GPON fiber optic network multiplied by a factor of 3.5 to 700,000.

MTS views the expansion of trunk infrastructure as a critical element of overall Company development. The Company pays particular attention to this aspect, since the availability of a proprietary trunk network allows MTS to lower operating costs, which in turn reduces the cost of services for end consumers. The use of privately owned trunk networks



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also lets the Company ensure the maximum level of equipment protection, which leads to gains in communications reliability, particularly in terms of intercity and international calls and roaming services.

In 2013, MTS continued developing its own fiber optic communication line (FOCL). The Company completed the construction and launched the trial operation of a FOCL between Siberia and the Far East, which will serve as the backbone for the development of digital communications networks in the eastern part of the country. The total length of the FOCL trunk has now reached almost 5,300 kilometers, and – with its launch – the carrying capacity of proprietary MTS channels in the Far East will increase to 60 Gbit/s, with the possibility of further expansion to 400 Gbit/s. The new fiber optic line runs along the Baikal–Amur Mainline (BAM) and the Trans–Siberian Railway. In 2013, the total span of the MTS FOCL reached 145,000 kilometers. Most lines have been built based on WDM–equipment, making it possible to drastically increase the carrying capacity of the trunk network – to 100 Gbit/s.

## INNOVATIVE SERVICES FOR AN INNOVATIVE ECONOMY

Today, telecommunications operators serve as one of the main conduits for introduction of innovations into the economy. MTS invests in innovations which ultimately represent the Company’s core business: it develops innovative products for customers, and is constantly in search of new areas of application for its mobile communications services with the potential to make the lives of customers more convenient and the business of corporate clients more efficient. Whereas just a few years ago corporate clients used MTS services solely for the purposes of communication among employees and with business partners, today mobile communications makes it possible to remotely track the consumption of various resources, coordinate the travel routes of service vehicles, and even carry out medical diagnoses. These

services are highly praised not only by international experts, but, most importantly, by our customers themselves. Thanks to the optimization of logistics systems, operating costs fall dramatically, corporate operations run more smoothly, and the Russian economy gains efficiency improvements.

MTS is launching new products and services and modernizing those already in existence in an effort to respond to the changing needs of customers, as well as to the emergence of new technological capabilities. The Company places significant emphasis on making quality improvements to existing services to increase easy–of–use to enhance overall convenience for customers. A significant number of projects are devoted to improving service quality in the area of data transmission.

In 2013, MTS shifted its focus from the development of innovative services to the launch of services based on data transmission pursuant to the Company’s new “3–D” strategy and according to changing consumer preferences. The Company views the provision of telematic services (machine–to–machine or M2M services), financial services, and the development of cloud computing (SaaS), as among the most promising areas of telecommunications development. MTS regularly introduces new advancements to the market that broaden the usage possibilities of mobile devices for customers.

The most active cities in terms of telematic–service use, aside from Moscow and St. Petersburg, which account for more than 35 percent of all MTS M2M projects, are Kazan, Ufa, Nizhniy Novgorod, Yekaterinburg and Novosibirsk. Within the scope of the introduction of M2M services, MTS implements projects involving the monitoring of urban traffic flows in many cities across Russia. The monitoring system features the use of GSM communication with moving objects equipped with mobile GLONASS terminals.

For the past several years, MTS has been actively implementing telemedicine projects in the Russian regions. The use of high–tech mobile



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services, especially those targeting the elderly, is of crucial importance to improving the overall standard of living of the population and increasing the accessibility of a number of services, including rapid-response healthcare. In Yekaterinburg, Voronezh, Udmurtia, Bashkiria and the Republic of Komi, MTS mobile-communications channels are used to support the proper functioning of mobile cardiographs installed in ambulances.

Cloud technologies represent an innovative application of IT-service development that, at its core, make it possible to utilize remote IT resources: server hosting (IaaS), cloud SW (SaaS) and data storage (StaaS). MTS offers a wide range of cloud solutions for its customers, including Secondary Memory, Parental Control, Antivirus, Auto-Attendant, and others.

The use of cloud services provides companies with remote access to popular corporate computer programs and makes it possible to integrate innovative IT-solutions simply and quickly. The current set of cloud services, complemented by high-quality communications services, affords modern business the opportunity to significantly cut operating costs, strengthen the security of corporate data, and simplify and accelerate the integration process of new IT solutions.

In 2013, the Company continued to implement projects involving the development of Near Field Communication (NFC) technology. NFC makes it possible to organize secure communications within a short range (up to 10 cm) among various electronic devices. This technology is suitable for application within the transport industry, as well as in the retail sector. In the first instance, the phone can replace a transport card via no-contact interface whereby the pass balance can be replenished “over-the-air” without the need to visit a cash office; in the second, the phone replaces plastic bankcards and customer-loyalty cards, thereby eliminating the need to get out one’s wallet.



MTS, in conjunction with MTS Bank, launched a contactless-payment service with MasterCard, introducing to the Russian market a SIM-card with an integrated payment card – the MTS bank card – making it possible, thanks to NFC technology, to remit service payments in the MasterCard terminal network with the support of PayPass technology. This technology makes it possible to remit payments at a single touch with the help of the chip embedded in the respective SIM-card, mobile phone or bank card. In 2013, MTS joined forces with MasterCard to expand a project involving the provision of contactless goods-and-services payment services based on PayPass technology – now, MTS subscribers have the opportunity to “link” their BARS Bank JSC bank cards to the SIM-cards of the operator for the swift and convenient payment of purchases “at a single touch” with the help of their smartphone.



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## IMPROVING SERVICE ACCESSIBILITY

In the 21st Century, mobile communications and cable television have become an integral part of daily life. Today, even the slightest disruption in communications service has an immediate impact on the lives of millions of people who lose the ability to communicate with loved ones, colleagues, friends and business partners.

With each passing year, society places increasing demands on service quality and reliability – as well as on the ability to receive these services anywhere in the world. For this reason, MTS views increasing the accessibility of communications services at a fair price as one of the most important aspects of the social role played by the Company. MTS regularly and promptly notifies customers of any changes to connection terms or rate plans, offering high-quality communications devices at reasonable prices. MTS always does its best to accommodate the customer. For example, the Company regularly pursues the market launch of new rate offers that take into consideration the needs and preferences of our customers while allowing them to save on communications costs. From year to year, the Company brings down the per-minute cost of a call placed within the mobile network – this metric dropped by a full 11 percent between January and December of 2013 alone. Looking at the past six years (from 2008 to 2013), the per-minute cost of a mobile call (APPM) within MTS Russian networks has plummeted by more than 47 percent.

MTS is systematically reducing prices in international roaming. The Company believes that a simple trip abroad is no justification for a significant increase in communications costs. Today, MTS offers its customers the “Zero Without Borders” option, which makes it possible to significantly optimize voice-communication costs while roaming thanks to free incoming calls. By year-end 2013, roughly half of all MTS subscribers utilizing roaming had connected to the “Zero Without



Borders” option. During the reporting period, the Company also offered our subscribers the “BYTE Abroad” option, enabling the dramatic optimization of mobile-Internet costs in roaming.

Today, MTS customers in international roaming in any country of the world have free access to the mobile version of the MTS website for smartphones, which automatically determines the location of the subscriber and provides information on the roaming offers available in the respective destination country. No traffic fee is charged when MTS subscribers access the mobile version of the operator website [www.pda.mts.ru](http://www.pda.mts.ru). With the help of this website, subscribers can receive detailed information on options that can help them save on mobile-communications costs in any country and replenish the balance in their phone’s personal account using their bankcard – without commission fees or traffic charges.



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# Team of professionals

The overall success of MTS depends heavily on its employees – real people who, thanks to their dedicated efforts, allow the Company to scale new height after new height. MTS is convinced that the efficiency of its business and development dynamic of the Company as a whole depend directly on the high qualifications of our personnel, competitive employment terms, and a fair, respectful attitude toward each and every employee. MTS strives to constantly refine social-labor relations, endeavoring to create all of the employment conditions necessary to foster a safe working environment conducive to the professional development and career growth of its employees. MTS aspires to ensure that our employees gain meaningful fulfillment from their jobs and continue to take pride in the fact that they are building their career at one of the best companies in Russia today.

The human resource policy in place at MTS is implemented in full compliance with the labor laws and other applicable regulatory acts enforced in the countries in which the Company has a market presence. MTS employees receive fair remuneration and solid social protections. It also aims to create all of the conditions necessary to ensure a safe working environment at the Company. An important element of the Company's human resources policy involves the recruitment to MTS of highly qualified personnel and talented youth.

MTS operates in the most dynamic and intellectually progressive high-tech sector – the telecommunications sector. The MTS team stands out for its innovative thinking, which has allowed the Company



In 2013, MTS' total payroll amounted to

**RUB 47.3 billion,**

compared with RUB 42.5 billion in 2012.



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to remain the leader of the telecommunications industry for the past several years running. MTS relies on innovation, encouraging and utilizing innovative advancements at all levels and in all aspects of its business. The rallying cry of the MTS team is staying a step ahead in everything that it does. MTS has adopted a set of values for all of its employees – SIMPLE values. SIMPLE encompasses six core values shared by each and every MTS employee. The Company views these qualities as overarching and supreme in daily work.



In 2013, the MTS workforce consisted of 66,062 employees — 1.2 percent more than in 2012.

MTS also strives to maintain a balanced workforce structure in terms of gender and age. The Company is confident that such an approach enables MTS to ensure personnel stability, a healthy corporate microclimate and the maintenance and transfer of valuable professional experience.

MTS endeavors to provide jobs to local specialists in the countries and regions in which the Company has a market presence. This approach is geared toward growth in the overall level of prosperity of local communities thanks to increasing levels of employment and the stimulation of economic development in the regions.

Staff turnover at MTS remains at historically low industry levels thanks to the series of measures adopted by the Company. It regularly conducts the monitoring and analysis of the causes of terminations and, based on those findings, the Company takes appropriate measures to improve the situation. The Company also implements special training programs for new employees that have a positive impact on their relations with the broader workforce to help them achieve their full potential in terms of professional and personal development. In 2013, the churn rate at MTS dropped by 6 percent vs 2012.

At MTS, no forms of discrimination are tolerated in the hiring process, work activities, or professional/personal growth of any individual. The Company adheres to the principle of tolerance toward the ideological, religious, ethnic, physical and personal attributes of our employees. In the hiring of people with employment disabilities, MTS is guided by the applicable legislation in force in Russia and the other countries in which the Company has a market presence. MTS fundamentally rejects any use of child or forced labor. In recent years, no cases of discrimination at MTS on any recognized basis have been registered.

The foundation of the MTS HR policy rests on transparent, honest relationships with our personnel. The Company builds its social-labor relations with employees based on a social partnership of equality, respect



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and consideration for the interests of all concerned parties, as well as on the observance by all parties of applicable law and other regulatory acts.

At the core of all remuneration systems for MTS personnel is the principle of wage competitiveness and fair compensation. The Company takes a comprehensive approach to its staff incentive system and employs the best global practices in terms of labor compensation, both of which allow for an objective assessment of the labor productivity of MTS employees as a whole, as well as for the motivation of employees to achieve even greater productivity results.

The annual income of an MTS employee consists of the permanent aspect of the employee's salary (wage) and its variable bonus component. The amount of the fixed component is determined on the basis of the salary range established for each position according to an analysis of the labor market in the given region. The variable component depends on actual work results and is aimed at providing a financial incentive for all employee categories to constantly improve upon work efficiencies in the interests of achieving the Company's strategic, financial and operational objectives. The ratio between the variable and fixed components of aggregate income is balanced for each position in terms of its potential to influence business results. The greater the influence, the greater the share of the variable component.

In 2013, the remuneration system for MTS personnel underwent some changes: MTS increased the fixed portion of salaries, and pegged the bonus award for key management positions to an annual cycle.

Aside from financial incentives for staff, MTS also pays considerable attention to non-financial motivation. As of 2012, the Company approved a new policy on the "Non-Financial Motivation of Personnel," establishing the underlying principles of the non-financial, labor-motivation of MTS personnel and designating a set of measures aimed at meeting staff needs not directly related to financial compensation.

MTS recognizes the Company's best employees, managers and project teams on an annual basis. Corporate print publications and the news-wire on the corporate portal are regularly devoted to the professional successes and achievements of MTS employees.

MTS provides its employees with the full package of social safeguards envisioned by applicable law and much more. The Company is convinced that in order to create additional measures of social protection for employees that allow them to feel confident and comfortable in any life situation, MTS must be willing to assume enhanced commitments.

In 2013, the social-benefits package for MTS employees was expanded. The Company launched the first phase of transport programs that allows employees receive compensation for using their own vehicles for work-related purposes. MTS also broadened the benefits package for employees building their MTS careers within the territory of the Russian Federation and willing to move to other regions to receive new work assignments.

In 2013, total Company expenditures on the provision of personnel with social guarantees amounted to

**RUB 376.7 million\***

\* Including staff insurance costs, voluntary health insurance fees and other expenses



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## STAFF DEVELOPMENT AND TRAINING

MTS is convinced that the key to the ongoing professional development of MTS employees lies in high-quality and timely training. The Company operates its own Corporate University where the mission is to create opportunities for development, thereby expanding the horizons for individuals and business in the furtherance of the confident future of MTS. The career-building process at MTS is clear to all employees. The main advantage of this approach is that every employee can independently manage his own career at the Company.

The staff training program in place at MTS is aimed at the development of the company employees' professional knowledge and skills. The standards and content of educational programs are established in accordance with the requirements imposed on respective positions as well as Company personnel.

Professional training is planned on the basis of proficiency testing, the results of annual assessments, and the current needs of the given division. The professional training of employees who work directly with customers is undertaken according to common standards, in due consideration of regional specifics.

For the past five years, MTS has held annual top-manager master-classes, which allow attending employees to gain new knowledge, share experiences with colleagues and receive answers to their questions. The MTS training system is built in such a way that responds to the expectations of the business while meeting the expectations of employees.

In 2013, MTS polled employees on their level of satisfaction with MTS educational programs, the results of which confirmed the high level of training at the Company.



The MTS system for the development of managerial competencies is based on the concept of fulfillment of the respective individual study plan, formulated on the basis of the results of the annual assessment of core supervisory competencies. The Company places particular emphasis on the training of supervisors in staff-management methods (internal recruitment, evaluation, grading, developmental feedback, creation of individualized development plans, mentoring, employee motivation, etc.). The Company runs special workshops, such as “Feedback,” “Drafting Individual Plans” and “Effective Internal-Staff



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Recruitment.” Aside from the fostering of a common approach to management on the part of supervisors, an important aspect of managerial training involves the motivation and retention of Company management. The objective and content of training programs are predicated on the MTS development strategy, the business goals of individual divisions and the developmental level of the respective competencies, as revealed by evaluation results.

Employees represent the Company’s most valuable asset. The success of MTS largely depends on their competence, interpersonal skills and readiness for partnership. This is precisely why MTS focuses so heavily on the professional growth and development of personnel. MTS has a “Talent Management” program designed to provide employees with the knowledge and skills associated with encouraging the professional development of valuable staff members within the Company. Many program participants are part of the Company’s personnel reserve who have the opportunity to take the next step in their careers. Thanks to the “Talent Management” program, 84.5 percent of all management positions were filled by internal candidates in 2013. In total, 68.9 percent of all Company vacancies were closed using internal resources during the reporting period.

Given the Company’s sheer size, one of the most convenient training formats for MTS is distance learning. In 2013, the company continued developing this program, focusing on the development of its own courses and the purchase of new training programs. During the reporting period, the Company developed or purchased a total of 85 courses, more than 30 of which were video courses, and introduced a system of interdisciplinary training in the technical and financial areas. MTS also developed remote pre and post-training for employees taking internal intramural courses. In 2013, MTS held more than 92,100 remote individually attended courses, representing a three-fold increase over the same indicator for 2012.





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MTS has been developing its planned-succession program since 2010. The Company creates conditions that allow promising new leaders to manage their own careers: the successor-training system rests on the individual development plans for each employee. The educational program itself is formulated according to the results of evaluation procedures and the developmental level of the respective competencies. For its most talented employees, MTS implements a unique program combining intramural and distance learning, specially adapted to the requirements of the telecom market and related project work – “Success Academy.” The best employees from the personnel reserve are dispatched to long-term professional-development programs, including the MBA and mini-MBA.

Since 2008, MTS has run the “Idea Factory” program, in which every Company employee gets an opportunity to bring their boldest initiatives to life. The concept behind the “Idea Factory” is simple: any MTS employee can submit an innovative idea, which is then analyzed by experienced experts who provide a conclusion as to its prospects for implementation at the Company. The most successful ideas are duplicated across all regions and countries in which MTS has a market presence. These employee initiatives can be either general or non-diversified.

In 2013, the “Idea Factory” implemented 42 ideas from among the total number of 378 ideas suggested by employees. Since the program’s inception, MTS has received more than 13,200 ideas, 1,160 of which have gone on to implementation. The economic effect of the introduction of employee initiatives in 2013 totaled more than \$4.8 million USD, with the overall economic effect from the implementation of employee ideas over the life of the “Idea Factory” topping \$59.3 million USD.





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## PERSONNEL RECRUITMENT AND ADAPTATION

MTS is certain that the achievement of the Company's strategic objectives will only be possible as long as it employs the industry's best professionals who are motivated for success. MTS continuously improves its staff-recruitment tools, which allows the Company to attract the most promising candidates and highly qualified specialists.

In 2013, MTS launched the career portal for job seekers <http://rabota.mts.ru/>, which provides information on professional development, the career ladder, and corporate culture at MTS Group. Vacancies for various positions are posted for both newcomers and experts/senior managers alike. Any job seeker wishing to secure employment at MTS can click on the vacancy of interest in a convenient format. During the reporting period, MTS also organized a system of summer job placements for students.

MTS strives to hire the best professionals in the market. Moreover, the Company invests considerable financial resources in the training and professional development of personnel. The Company's staff-recruitment process is as transparent as possible. Competition for the filling of vacancies is open to participation by both internal and external candidates.

## LABOR SAFETY AND WORKPLACE HEALTH

MTS pays close attention to ensuring proper workplace conditions and labor safety. The safety of employees is a crucial component of the Company's corporate social responsibility. In terms of labor safety, MTS is guided by the requirements of applicable law in each local country, as well as by the norms of international law. The Company employs a three-tiered system of labor-safety management focused on the creation of safe working conditions and the prevention of workplace injury.

In 2013, MTS had seven accidents. No incidents with a fatal outcome occurred at the Company by fault of the employer. The main cause of these accidents involved the personal negligence of the victims themselves. That said, the frequency coefficient\* (Fq) of workplace injury stood at 0.19.

\* Frequency coefficient (Fq) is determined by the number of accidents occurring over the reporting period per 1,000 employees.





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# Our social programs

Practical implementation of the principles of corporate social responsibility is a key objective of the MTS CSR policy. MTS actively participates in various charitable projects and campaigns, striving to provide social support to those in need. The Company is convinced that this is precisely the approach that should be embraced by a socially responsible business.



MTS provides charitable and sponsorship assistance to private individuals and organizations engaged in charity work. It also implements a number of socially-focused projects in conjunction with its core business – the provision of mobile, and fixed-communications services and Internet access.

The Company enthusiastically endorses the involvement in charitable activity of MTS employees, customers and partners. One important area is support for the volunteer movement within the Company. The volunteer movement “Give the Gift of Kindness,” created by MTS in 2011, regularly organizes various projects and programs aimed at helping children. Today, the movement encompasses roughly 3,000 MTS employees. In 2013, volunteers held more than 250 separate events across the country. The “Mobile Fairytale Theater,” where MTS employees perform, enjoyed particular popularity among the children residing at affiliated orphanages.

MTS strives to support long-term, large-scale projects offering solutions to the most acute social problems that are aligned with state social policy priorities. MTS is interested in projects that can be broadly duplicated, both within the territory of the Russian Federation and in the other countries where the Company has a market presence.

In 2013, MTS implemented a series of measures aimed at elevating social IT penetration, unleashing the hidden potential of young talent, providing assistance for family and childhood, protecting the environment, improving people’s health, supporting veterans, and developing



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the cultural and historical heritage of the regions and countries in which MTS operates.

MTS adheres to a set of established principles in its implementation of projects in the field of corporate social responsibility. In particular, the Company does not participate in charitable initiatives with the aim of exerting direct or indirect influence on decision-making, or offering compensation for decision-making, by representatives of state agencies, local self-government authorities or other officials on issues related to MTS operations. Similarly, MTS abstains from participating in projects favoring specific political parties, organizations, movements and/or associations, and does not take part in charitable initiatives closed to public scrutiny that involve participation from public companies or officials, to the extent that the disclosure of related information is capable of damaging the Company or its employees.

**In 2013, MTS' charitable and sponsorship activity unfolded in the following directions:**

- **Assistance for children**

An important aspect of the charitable assistance rendered by MTS involves providing aid to socially-vulnerable, at-risk children. The Company regularly organizes, participates in and hosts various events for orphanages and residential schools. MTS frequently provides free access to the Internet and cable television to children's organizations. It also actively support social projects aimed at the support and development of children deprived of parental care. In addition, the Company cooperates with charitable foundations, holds charity auctions and supports the social projects of regional authorities and public organizations.

During the 2013 reporting period, the Company hosted the "MTS Green Express" charity tour for the sixth time, supported by the participation of company volunteers. The main goal of the campaign is to support vulnerable population groups and raise public awareness of the



In 2013, MTS earmarked more than

**RUB 829 million**

for charitable activities and other CSR-related projects



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social-development problems existing in the cities in which MTS has a market presence. In 2013, the campaign was held nationwide.

Every year in December, within the scope of the federal program “Children Are Our Future,” MTS hosts social New Year’s campaigns for orphanages and children from underprivileged families in most Russian regions. On an annual basis, orphanages and welfare shelters in many cities across our country receive not only individual children’s gifts for

the holidays, but also computers, home-theater equipment, cameras and discs with movies and cartoons.

Since 2012, MTS’ corporate-volunteer puppet theater “Mobile Fairytale Theater” has operated in three macro-regions. Artistically gifted MTS employees serve as theater’s actors. The theater’s repertoire includes several shows, which MTS volunteers stage for the children residing at affiliated orphanages.





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- **Caring for people's health**

MTS takes active part in charitable campaigns and events aimed at improving people's health – after all, how each person feels is ultimately responsible for the state of society as a whole and overall socio-economic development.

In 2013, MTS was proud to serve for the fifth year in a row as an official partner of the international charitable campaign "Operation Smile," devoted to treating children born with cleft palates, which was held in the Novosibirsk Municipal Clinical Children's Hospital for Acute Care. Since its founding 30 years ago, the organization has operated on more than 200,000 children in 25 countries around the world.

In 2013, MTS continued its implementation of the national charitable program "Give the Gift of Kindness!" which was first launched in 2011 ([www.dobroedelo.mts.ru](http://www.dobroedelo.mts.ru)). Under this program, MTS provides assistance to children in need of acute care, in cases where a child's life hangs in the balance or serious health issues must be overcome. Sometimes, an urgent operation is required but the line for free medical care is too long and the child could die before receiving treatment. The child might also urgently need a drug or transplant that is currently unavailable at public dispensaries. It could also be the case that the illness is simply not covered by public health plans. In 2013, the "Give the Gift of Kindness!" program provided assistance to 58 children in 20 regions across Russia. Since the launch of the program, MTS and program donors have helped more than 100 families from 30 Russian regions.

In 2013, MTS also commenced preparations for the launch of the Russia-wide charitable arts project "Generation Mowgli" in association with the Konstantin Khabensky Foundation. The project features the participation of Russian stars of the stage and screen, roughly 1,000 children from the Russian regions – and millions of Internet users. "Generation Mowgli" combines two main goals: developing the artistic



potential of children and collecting charitable donations. The goals are achieved through a comprehensive set of online and offline efforts and measures.

- **Open innovations**

The world is currently experiencing snowballing growth in the use of mobile Internet. That said, it is clear that the limit of this growth is far from being reached – even with today's 3G networks. Whirlwind market changes are presenting telecommunications operators with new challenges, and the leadership will be claimed by those who most effectively manage traffic, respond to the growing expectations of customers, and utilize the company's technical capabilities. Yet, the sustainable development of any telecommunications company over the long-term would be rendered impossible without pursuing work



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with rising talent, the search for innovative solutions, and the integration of these solutions into daily life.

Since 2011, MTS has been implementing the project “Telecom Idea” ([www.telecomidea.ru](http://www.telecomidea.ru), [www.facebook.com/telecomidea](https://www.facebook.com/telecomidea), [twitter.com/telecomidea](https://twitter.com/telecomidea)) – a competition aimed at supporting and incorporating “open innovations” and getting students, young scientists, designers and startup-entrepreneurs involved in development of the Company’s business and the broader telecommunications industry. The project helps to identify new ideas percolating in the student and research communities as well as evaluate and support promising projects in the field of information-and-communication technologies that may be of practical value in the business, social and government arenas.

Eligible for participation are innovative projects at any stage of development – from idea to integration and operation, including technical solutions and software products for telecommunications systems, new services, mobile, content-based and web services, and marketing and management solutions. An important project-evaluation criterion is the practical application of the proposed technologies and services.

In 2013, MTS hosted the third “Telemedia Idea” competition among innovative youth projects in the field of telecommunications. The main theme of the competition in 2013 was utilization of the capabilities of broadband mobile and fixed Internet and the monetization of data transmission.

Taking part in the qualifying round from March through June were 172 projects from Russia and the CIS. Of the projects presented, 58 percent were presented at the “seed stage.” A total of 57 works made it through to the second phase of the competition. In the finals, 14 participants, with the help of mentors from the Higher School of Marketing and Business Development at the National Research University – Higher School of Economics, defended their advancements in a presentation-session format in front of an expert council consisting





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of MTS area specialists and experts from the telecommunications and venture capital industries. The organizer and curator of the expert evaluation was the Institute of Innovation Management at the National Research University – Higher School of Economics.

MTS was the first telecommunications company to shift to the “open innovations” model, creating a unique mechanism for the generation and screening of new ideas. Within the scope of the “centers of gravity” project, communication sites were based on information technologies, which made the process of managing open innovations as open as possible as well. The experience the Company gained throughout the project has been benefitted not only tech companies, but also companies in the retail sector in that they are engaged in direct contact with mass consumers who are willing to maintain an active conversation with the company. MTS’ experience can be duplicated and would be of practical value to other sectors for the purposes of increasing innovation potential in the process of the country’s modernization as a whole.

- **The generational ties that bind**

Victory in the Great Patriotic War (World War II) is a prime example of the heroism of the population. As time passes, we move farther and farther away from the tragic years of the war, making it all the more important to demonstrate gratitude to those who allow people to live in a free country, work for the betterment of society, raise children and reach for their dreams. On this profound holiday, MTS aims to pay tribute to the memory of the Great Victory and its heroes, whose sacrifices cannot be overstated, and to fundamentally change the lives of the participants of those terrible years for the better.

In May 2013, during celebrations surrounding the 68th anniversary of the Great Victory, MTS launched special national and regional offers for veterans of the Great Patriotic War and all Russian citizens. On 9 May, in more than 25 cities across Russia, the Company held its traditional “Call an Army Buddy” campaign, during which everyone had the



opportunity to place a free call to loved ones to congratulate them on the Victory holiday at special mobile-communications points temporarily stationed in the cities’ central squares. In a number of regions, veterans were treated to video-chat sessions with their army buddies and comrades-in-arms in other Russian cities with the help of specially-organized MTS mobile-Internet facilities.

- **Support for sports**

MTS shares the common principles of healthy lifestyle, competitive spirit and fair play. The Company regularly provides support to sporting events in the countries and regions in which it has a market presence, as well as to campaigns aimed at popularizing sports and physical fitness among the younger generation.



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MTS is an official partner of the Russian National Rugby Team and the Russian Aerial Acrobatics Team. Since 2008, MTS has been a permanent partner of the Russian Sport Fishing League, supporting the team in international competition.

In 2013, MTS served as an official sponsor of Russian Premier-League Football. It became the first telecommunications operator in Russia to reach out directly to fans. Within the scope of partnership, the Company proceeded to hold specially-themed events for football players and fans across the country, and even launched unique offers and mobile services for them like the “Futbolizator.” This app lets football fans place bets on match results, check out different games, and participate in a competition for the best banner and much more. Thanks to MTS, those interested can leave their match comments on the Sport-Express website or at the mobile studio set up right at the game venue – the best comments are featured in the online version of the Twelfth Player talk-show, and the most engaging commentators get the chance to become a cohost on the Our Football channel.

- **Preserving our historical heritage and promoting our culture**

In 2013, MTS continued implementing Russia’s first-ever innovative historical-cultural project “Virtual History” based on “augmented reality” technology, which makes it possible to display on the screen of a smartphone the image of cities in historical retrospective. Now, the residents of many cities in Russia and Ukraine can see how local streets and sights looked many years ago on the screens of their smartphones and tablets, and view unique archival images of buildings that have not been preserved or been subject to reconstruction.

The project is based on the popular free service Historypin for smartphones using the operating systems iOS, Android or Windows Phone. The app automatically pinpoints the location of the user and invites him or her to peruse old photographs of historical landmarks in the vicinity, complete with reference material, or use the augmented-reality



function – point the camera toward the building or street of interest to view its archival image superimposed on its contemporary appearance. For the convenient installation of the app, central stations and areas in the vicinity of historical landmarks in participating cities have been equipped with special host modules with a QR-code\*, which, when swiped, direct the user to the virtual excursion.

\* QR-code (quick response) is a two-dimensional barcode containing a greater volume of encrypted information than that usually contained in a regular code that is easily recognized by scanning equipment, including the camera found on a mobile phone. Today, QR-codes represent a cutting-edge technology and is widely used in commerce, production and logistics throughout the world.



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# Environmental protection

Russia ushered in 2013 under the banner of Environmental-Protection Year. During the reporting period, MTS aimed to exert minimal impact on the environment and reduce negative environmental effects to the greatest extent possible. MTS implemented a wide array of internal and external measures aimed at improving public awareness of environmental issues, improving environmental conditions and fostering an eco-responsible generation.

## MANAGEMENT OF ENVIRONMENTAL ACTIVITIES

At MTS, the management of environmental activities is undertaken by the responsible divisions in each macro-region. Performance of the mandated environmental actions at the federal level is overseen by the Administrative Unit (Immoveable Property Unit and Office Management Department) and the HR Management Unit (Department for Corporate Social Responsibility). At MGTS, the management of environmental projects is undertaken by the Environmental-Protection Office at the Department for the Operation of Buildings and Structures.





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## ECO-OFFICE

At all MTS offices and subsidiaries in Russia and abroad, the Company is implementing the Eco-Telecom project, which is designed to foster an environmentally conscious culture among Company employees, subscribers, customers and stakeholders.

Since 2012, MTS has been running the “Eco-Office” project. Its main goal is to popularize environmental knowledge and raise the overall level of environmental awareness and conscientiousness among Company employees. The project entails the introduction of principles underlying the rational use of electricity and consumables for office equipment, and the separated collection of garbage and environmentally friendly disposal of waste, as well as programs designed to popularize a thoughtful attitude toward the environment.

In 2013, within the scope of this project, MTS implemented a series of environmental measures involving the collection of batteries and recyclable trash, the “Save A Tree” campaign, the “Living Planet” children’s drawing contest, the “Eco Airlift” Saturday cleanup, and the international flower and garden festival.

MTS places tremendous emphasis on energy-conservation issues. Since 2010, MTS has instituted an “Energy-Conservation and Energy-Efficiency Strategy,” aimed at limiting the growth and reducing the consumption of electricity. In 2013, MTS branches in certain regions developed their own energy-conservation and energy-efficiency programs. In order to enable the online monitoring of energy consumption and electricity expenditure by the Company’s infrastructure facilities, it uses special M2M-modules and telematic services. MTS uses a radio-access network software function that makes it possible in cases of low traffic volume to either change the operating mode of the transmitter, thereby reducing power consumption, or switch the transmitter off completely.



ЭКО ОФИС

МТС

Энергосбережение

Уходя, гасите свет! Не оставляйте без необходимости включенными лампы, компьютеры и другие электроприборы. Для производства электричества сжигаются уголь, нефть, газ. Экономное использование позволяет снизить выбросы вредных веществ в атмосферу.



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Under the construction of base stations, MTS installs energy-saving equipment, including enclosures with a free-cooling system – cooling of the base station's technological equipment using the temperature of the surrounding air. What's more, MTS actively uses a radio-access network software function that makes it possible, in low-traffic situations, to adjust the operating mode of the transmitter, thereby generating power-consumption savings.

In all MTS office buildings, contact centers and other structures, the Company uses energy-saving light bulbs and LED light fixtures, which allow MTS to reap considerable savings in terms of electricity consumption.

In 2013, total power consumption at MTS stood at 736.9 million kWh, which is roughly 11 percent more than the same indicator for 2012. The main reason for this growth in power consumption was the increased number of MTS base stations and the development of technological infrastructure. At the same time, specific intensity of power consumption per site dropped by approximately 3 percent compared with 2012 due to the introduction of free-cooling technology and use of energy-efficient equipment.

In its efforts to improve the energy-efficiency of Company sites, MTS remains mindful of the use of alternative, "green" sources of power. Several MTS base stations have been equipped with backup sources of electrical supply powered by hydrogen fuel cells or solar batteries. Two Company base stations in the Chekhov District of Moscow Region have been equipped with backup electrical-supply sources powered by hydrogen fuel cells. In Krasnodar Krai, one base station operates on solar batteries. In Crimea, the operation of two base stations is powered by an Excel-R wind turbine. Compared with traditional methods of power supply, the wind-driven alternative has a pronounced environmental and economic effect. In 2013, a similar wind turbine was commissioned in Murmansk. Its functioning now supports a full 63 percent of total base-station operation.



**СКАЖИТЕ БАТАРЕЙКАМ: «СДАВАЙТЕСЬ!»**

Одна беспечно выброшенная батарейка необратимо загрязняет около 20 кв. м. почвы

**МТС** на шаг впереди

**ЭКО**  **ОФИС**

Отслужившие батарейки содержат никель, литий, цинк, магний, кадмий, свинец и ртуть – вещества сильно загрязняющие окружающую среду. Не выкидывайте батарейки, в каждом административном офисе организован сбор батареек.



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MTS also implements measures geared toward resource optimization. For example, our vehicle booking-and-utilization system for work-related purposes makes it possible to maintain a small fleet of vehicles not assigned to specific divisions, which can then be used with maximum efficiency while reducing exhaust-fume emissions into the atmosphere.

At the macro-regional level, the Company has introduced and continues to operate the “Boss-Referent” electronic document-management system, which makes it possible to significantly reduce the overall volume of paper-document turnover. All office memos, administrative documents and the agreement of internal documents are processed not on paper but electronically. Furthermore, all corporate materials are published on the internal portal in electronic form or sent out by email. The system contains more than 33,000 registered employees, while the total volume of monthly document flow within the system stands at roughly 100,000 documents per month. The use of electronic document management lets MTS significantly cut back consumption of related resources – paper, toner and electricity.

In the course of its business operations, MTS generates various kinds of waste, including hazardous waste and waste suitable for recycling. The Company takes a responsible approach to the issue of waste disposal, and a key stipulation of the draft agreement with any company engaged in the haulage and disposal of commercial waste is that they undertake to perform the full cycle of work with the waste hauled from our offices: sorting and production of secondary raw materials, the provision of reporting and confirming documentation, and the Company’s ability to verify the course and quality of provided services with respect to waste treatment.

In 2013, the Company generated 4,751.8 tons of waste in hazard classes 1–5, of which 1,332.2 tons were sent for recycling, 3,386.9 tons were buried in landfills and 31.7 tons were decontaminated.





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Under the purchase of vehicles, MTS only acquires those whose eco-class conforms to the latest global requirements in the field of environmental-protection. As of year-end 2013, virtually the entire MTS fleet met Euro-4 or Euro-3 emission standards.

Under the installation of air conditioners, MTS does not use the dangerous Freon R22, which is destructive to the Earth's ozone layer. All of the Company's conditioners are powered by the environmentally friendly Freons R410 and R407.

## ENVIRONMENTAL CAMPAIGNS

MTS implements environmental projects throughout the territory of the Russian Federation, as well as in those countries in which the Company has a market presence. Among its most recent initiatives are the installation of a unique fire-prevention monitoring system on the northern border of the Khingansky Nature Reserve in Amur Oblast, the introduction of systems to prevent forest fires, among others.

During the 2013 reporting period, MTS continued developing the "Forest Ranger" information system — an IT suite for the constant monitoring and early detection of forest fires in the Central Federal District, the Russian South, the Volga Region, the Urals and the Far East. Forest monitoring is undertaken with the help of special video cameras installed on MTS base stations. The equipment relays a video image to the dispatch unit of forest-fire services. In the event that smoke is detected, the respective information is transmitted to the forest-ranger station, thereby allowing fire-service specialists to localize and extinguish the hot spot. The modern technologies used in the project, such as IP-video-monitoring, mobile apps, geographic-information systems (GIS) and the "computerized vision" system for the visual detection of

potentially-dangerous spots let a single specialist remotely monitor wide swaths of forest and, upon detecting a fire, precisely determine its coordinates, thereby greatly speeding up reaction time.

In 2013, MTS began implementing a project to determine the location of reindeer in Nenets Autonomous Okrug. The special collars worn by each reindeer, featuring a built-in GLONASS/GPS-tracker and MTS SIM-card for data transmission, make it possible to track the animal's movement with the help of a mobile phone, tablet or computer connected to the Internet. Thanks to these special collars, reindeer breeders can quickly locate stray deer or even entire herds lost in the difficult weather conditions of fog, blizzard and the polar night. When needed, RF Emergency Situations Ministry officials or the police join the search, helping to track the movement of deer-herding brigades at situation centers. What's more, the collars let biologists gather information on the seasonal migration patterns of the animals.

In 2013, MTS joined forces with RETECO recycling and waste-management company to implement the environmental-protection program "Discard It Properly!" in which a comprehensive system for the collection and recycling of spent accumulator cells and batteries will be organized in Novosibirsk for the first time ever in 2014. The first seven collection points have already been organized at MTS stores, and in 2014, special safe containers for the collection of chemical power sources will be placed not only at MTS stores, but also at government offices, post-secondary schools and partner companies. The program will be supported by an information campaign designed to heighten public awareness of environmental-protection issues. The program envisions the storage and disposal of spent batteries in compliance with applicable EU environmental norms. Any organization is welcome to participate in the program and place the special containers for battery collection on its premises.



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