

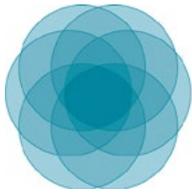
25 years  
of sustainable growth



# 2017 MTS Group Sustainable Development Report



- 1 NO POVERTY
- 2 ZERO HUNGER
- 3 GOOD HEALTH AND WELL-BEING
- 4 QUALITY EDUCATION
- 5 GENDER EQUALITY
- 6 CLEAN WATER AND SANITATION
- 7 AFFORDABLE AND CLEAN ENERGY
- 8 DECENT WORK AND ECONOMIC GROWTH
- 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
- 10 REDUCED INEQUALITIES
- 11 SUSTAINABLE CITIES AND COMMUNITIES
- 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
- 13 CLIMATE ACTION
- 14 LIFE BELOW WATER
- 15 LIFE ON LAND
- 16 PEACE, JUSTICE AND STRONG INSTITUTIONS
- 17 PARTNERSHIPS FOR THE GOALS



**Member  
of the Social  
Charter  
of Russian  
Business**

Full trade name of the Company in Russian:

**Публичное акционерное общество «Мобильные ТелеСистемы»**

Short trade name of the Company in Russian:

**ПАО «МТС»**

Full trade name of the Company in English:

Mobile TeleSystems Public Joint Stock Company

Short trade name of the Company in English:

**MTS PJSC**

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In this report, the terms “MTS”, “the Company”, and the “MTS Group” shall refer to the group of companies consisting of MTS PJSC and its subsidiaries; MTS PJSC and “the Company” shall mean Mobile TeleSystems Public Joint Stock Company.

The indicators contained in this Annual Report are as of December 31, 2017, unless other periods or dates are expressly indicated.

The Annual Report of MTS PJSC for 2017 is at [report2017.mts.ru](http://report2017.mts.ru).

The interactive version of Sustainable Development Report of MTS Group for 2017 is available at [our2017.mts.ru](http://our2017.mts.ru).

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# Message from the President



Dear friends!

This is the 10th Sustainable Development Report prepared by MTS Group. In this document, we traditionally evaluate and present our progress in being more transparent and more responsible business as well as our contribution to society and the environment.

The world is changing rapidly. Today, we live in a new digital reality. The fast spread of the Internet and the associated technologies open up new horizons for humanity, affecting our habits and behavior patterns, our preferences and aspirations. Along with the digital transformation of an individual, the transformation of business that serves or is operated by that "new" person is also gathering pace.

Accordingly, a business must respond to the specifics of "new" consumption. Many lasting paradigms have completely changed in recent years. A whole bank now fits into a smartphone; as do online trade and shops, transportation services, geolocation, cinema, training courses, public services, etc. Established industries such as agriculture and medicine are going digital.

New technologies and their use in everyday life contribute to a particularly innovative way of thinking, which in turn stimulates the development of society as a whole, promoting economic growth, and is the key to a sustainable future.

For us, as a company, that provides necessary infrastructure for these new and exciting technologies, active creation and development of our own digital solutions is a natural progression. We strive to use all our potential to make life of each subscriber ever more comfortable and the business of our corporate clients ever more effective.

MTS not only reacts to changes in the world around us. We also set trends of our own, pushing the boundaries with new businesses emerging from this digital reality. By exploring areas such as telemedicine, FinTech, cloud services, Internet of Things, and Big data, we contribute to the rapid migration of society to the digital world and to the emergence of smart and safe cities and communities.

MTS adheres to socially oriented priorities. We share the UN's Sustainable Development Goals, aimed at transforming the world. We integrate the principles of sustainable development into our business performance, corporate culture and decision-making system. That is why MTS is implementing a comprehensive corporate social responsibility strategy focused on achieving these goals.

We build our relationships with clients, partners, suppliers, shareholders and employees on the principles of integrity and transparency. Our stakeholders trust us and share our socially responsible approach to doing business.

We will continue to work actively going forward to improve the quality of life of people and to drive positive changes in the development of our society and country.

Yours faithfully,  
Alexey Kornya  
President of MTS PJSC

# Key figures 2017

## MTS for business

106.5 mln subscribers in host countries

34.7 mln visitors of the online store

5.7 retail stores

213,000 km of fiber-optic lines

74.6 bln RUB of capital costs on infrastructure

> 25 own mobile applications

5.6 bln RUB of income from system integration

42% of the IoT SIM cards in Russia

22.4 bln RUB of turnover of MTS Money service

1.6 bln RUB is the cumulative effect of the Big Data products

## MTS for employees

> 65,000 employees

62 bln RUB is total HR costs

71,000 is the average salary

16.5 is the average number of training hours per employee

> 700 unique training topics of the Corporate University

66% of vacancies closed by internal candidates

## MTS for society

**612.7 mln RUB** is total costs on charity and social projects

**15 mln** people of Generation M Internet audience

**6,500** volunteers

**> 800** participants of the donor movement

**> 300** monthly users of MTS/Media Educational Resource

## MTS for shareholders

**442.9 bln RUB** of consolidated revenue

**56 bln RUB** of net profit

**52 bln RUB** of paid dividends

# MTS Group

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# About the Group

MTS is a leading company in Russia and CIS countries by mobile and fixed-line communication services, Internet access, cable and satellite TV broadcasting, digital services and mobile applications, financial and e-commerce services, as well as convergent IT solutions in system integration, Internet of Things, monitoring, data processing and cloud computing.

Providing innovative services and solutions, MTS makes a significant contribution to the development of regions of operation and improvement of the quality of life of dozens of millions of people.

## Key results

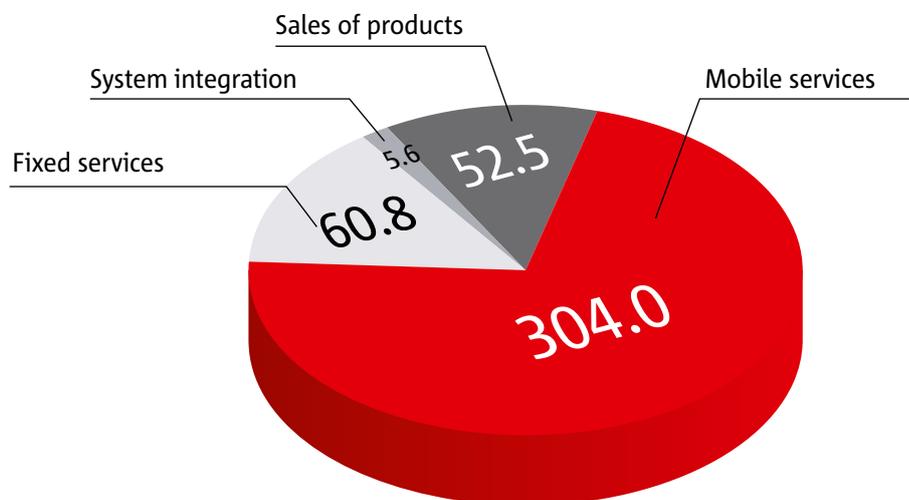
In 2017, income of MTS Group amounted to 442.9 billion rubles (+1.7% against 2016), while the income in Russia grew even faster, by 2.9% to 412.3 billion rubles.

The income growth in 2017 was influenced by the market recovery in terms of pricing and increased con-

sumption of mobile Internet services, as well as sales of high-end smartphones of the high price category, which provide access to modern digital services.

OIBDA in 2017 increased at the expense of higher income in Russia on the background of reduced level of

Income structure of MTS Group in Russia in 2017<sup>1</sup>, bln RUB.



<sup>1</sup> Intercompany operations in 2017 amounted to 10.6 million rubles.

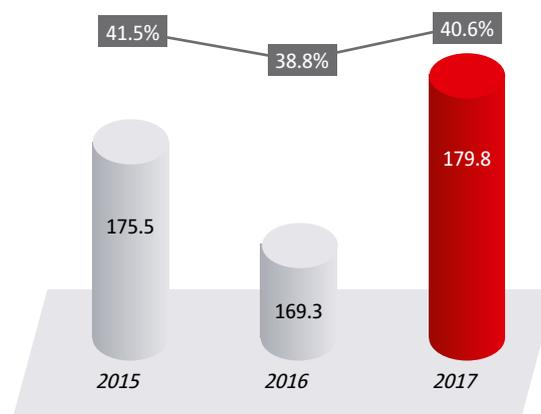
SIM-cards sales, increased profitability in Ukraine and relative macroeconomic stability. Key role was played by increased consumption of high margin Internet services.

In 2017, MTS Group's net income grew by 15.6% to 56 billion rubles compared to the previous year. The growth was mainly caused by high performance and higher profitability.

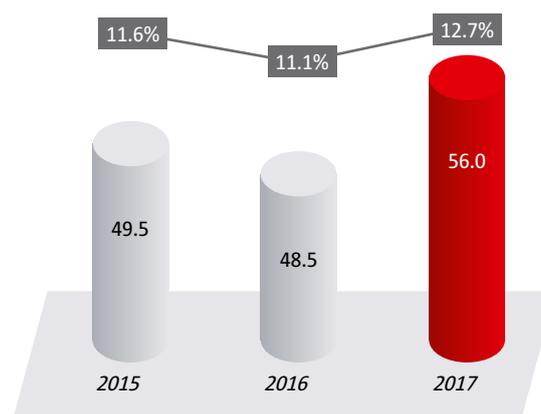
MTS remains a major source of replenishment of federal and regional budgets. In 2015, MTS Group paid around 22.4 billion rubles of income tax, up 91.9% against 2016. The significant increase in income tax payments was caused by growth in revenue from consumption of data transmission services, uneven recognition of internal group costs among the MTS subsidiaries (income for 2015, expenses for 2016), and reduced depreciation expenses, as well as reversal of one-time recognition of costs on LTE and GSM licenses in 2017.

More details about MTS Group, its position in the industry, as well as the projected development of markets in 2018 and in the mid-term outlook are given in the 2017 Annual Report of MTS PJSC, the Future Outlook section.

### Adjusted OIBDA of the Group (bln RUB) and OIBDA margin of the Group



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



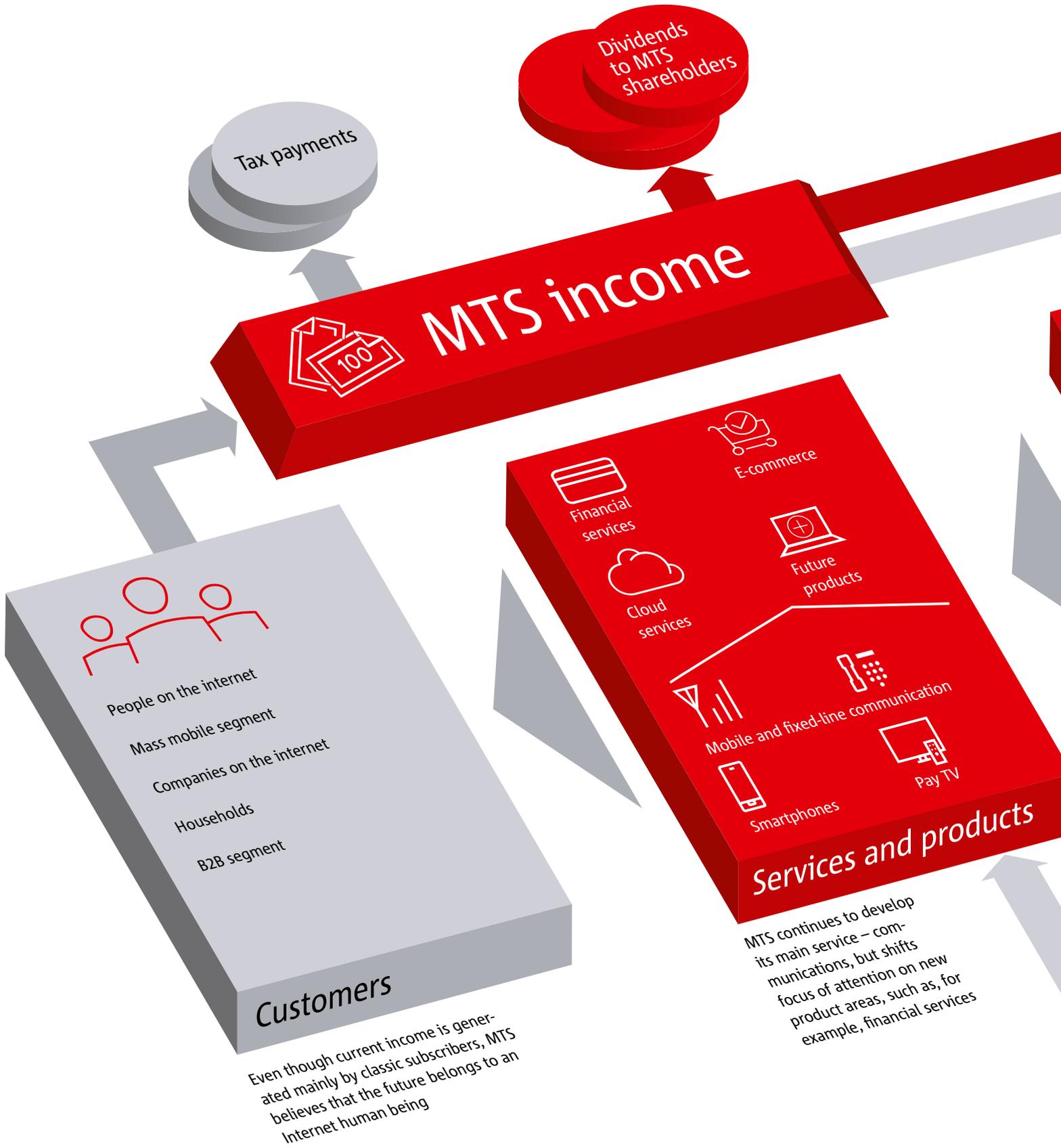
### Paid income tax by MTS Group, thou RUB

	2015	2016	2017
Russia	7,146,921	10,603,890	21,264,671
Ukraine	1,449,819	37,219	594,645
Armenia	381,788	379,234	123,171
Belarus	14,422	1,958	13,416
Foreign SPV	472,755	351,386	431,348
<b>Total</b>	<b>9,643,265<sup>1</sup></b>	<b>11,687,357<sup>2</sup></b>	<b>22,427,252</b>

<sup>1</sup> Including paid income tax in Turkmenistan in the amount of 177,561 rubles.

<sup>2</sup> Including paid income tax in Turkmenistan, the Czech Republic and Uzbekistan in amounts of 228,680 rubles, 77,956 rubles and 7,033 rubles, respectively.

# MTS Business Model:



Even though current income is generated mainly by classic subscribers, MTS believes that the future belongs to an Internet human being

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



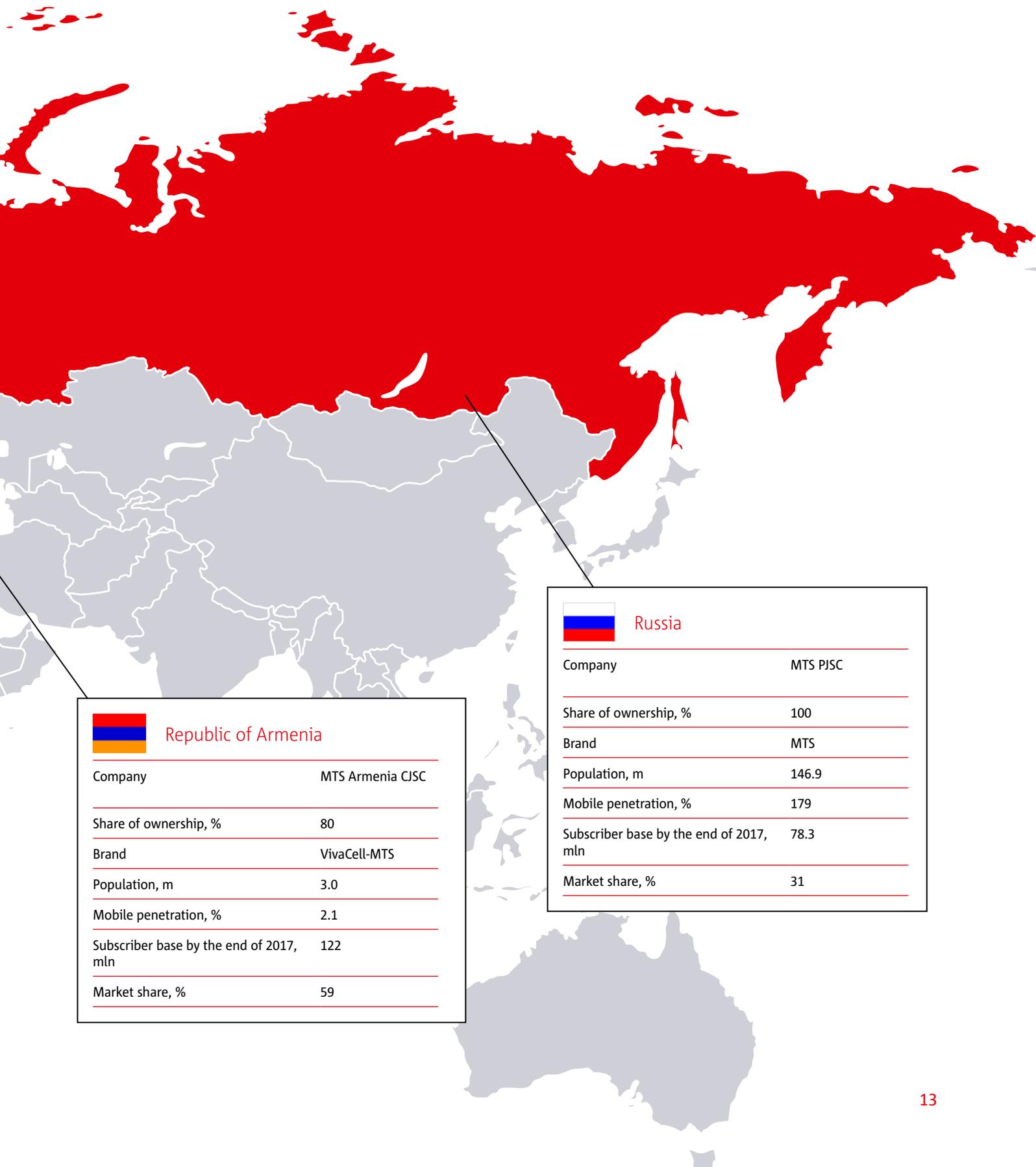
# Our Markets

In 2015, MTS Group performed its activities in 83 regions of Russia, as well as in the territory of Ukraine, the Republic of Armenia and the Republic of Belarus, where it had required licenses for provision of communication services<sup>1</sup>. Total population in the area covered by the MTS PJSC licensed services exceeds 200 million people.

 Republic of Belarus	
Company	Mobile TeleSystems PJSC
Share of ownership, %	49
Brand	MTS
Population, m	9.5
Mobile penetration, %	5.3
Subscriber base by the end of 2017, mln	123
Market share, %	45

 Ukraine	
Company	PrJSC VF Ukraine
Share of ownership, %	100
Brand	Vodafone
Population, m	42.4
Mobile penetration, %	20.8
Subscriber base by the end of 2017, mln	126
Market share, %	36

<sup>1</sup> In September 2017, due to expiration of a permit for use of the allocated radio-frequency spectrum and some other required resources, provision of communication services to subscribers in Turkmenistan was suspended. The number of Economic Society MTS-TM's subscribers was 1.7 million people.



Republic of Armenia

Company	MTS Armenia CJSC
Share of ownership, %	80
Brand	VivaCell-MTS
Population, m	3.0
Mobile penetration, %	2.1
Subscriber base by the end of 2017, mln	122
Market share, %	59



Russia

Company	MTS PJSC
Share of ownership, %	100
Brand	MTS
Population, m	146.9
Mobile penetration, %	179
Subscriber base by the end of 2017, mln	78.3
Market share, %	31

# Development Strategy

## Business strategy

2017 became the first full year of operation in the new digital reality for MTS. "3D. Data. Digital. Dividends" is the updated wording of our strategy. We transform our strategy with consideration of the most promising trends in high technologies. Now, Digital is the most important "D" for us.

Over a year, the 3D concept faced some changes, although it preserved completely its semantic content. We identified a separate category from the Digital area and named it Digital Transformation. Establishment of a separate category emphasizes the importance of the ongoing reform of the entire Company from its very foundation. We expect changes associated with introduction of digital technologies at all levels, from

corporate culture and business processes to the product range and subscriber base.

For more details about the implementation of our business strategy see the 2017 Annual Report of MTS PJSC.

## CSR strategy

To date, requirements of stakeholders to responsible (broadly defined) behavior of companies result in the necessity to integrate strategic business targets and social tasks.

The society expects a socially responsible way of doing business in general, instead of selective social events and one-off charity campaigns.

In 2016, we developed and approved a Corporate Social Responsibility (CSR) Strategy of MTS being a continuation of the Company's business strategy. When developing the Strategy, we considered both responsibility for our activities to our stakeholders and global social and environmental issues.

As part of our Strategy implementation, we consider the following aspects:

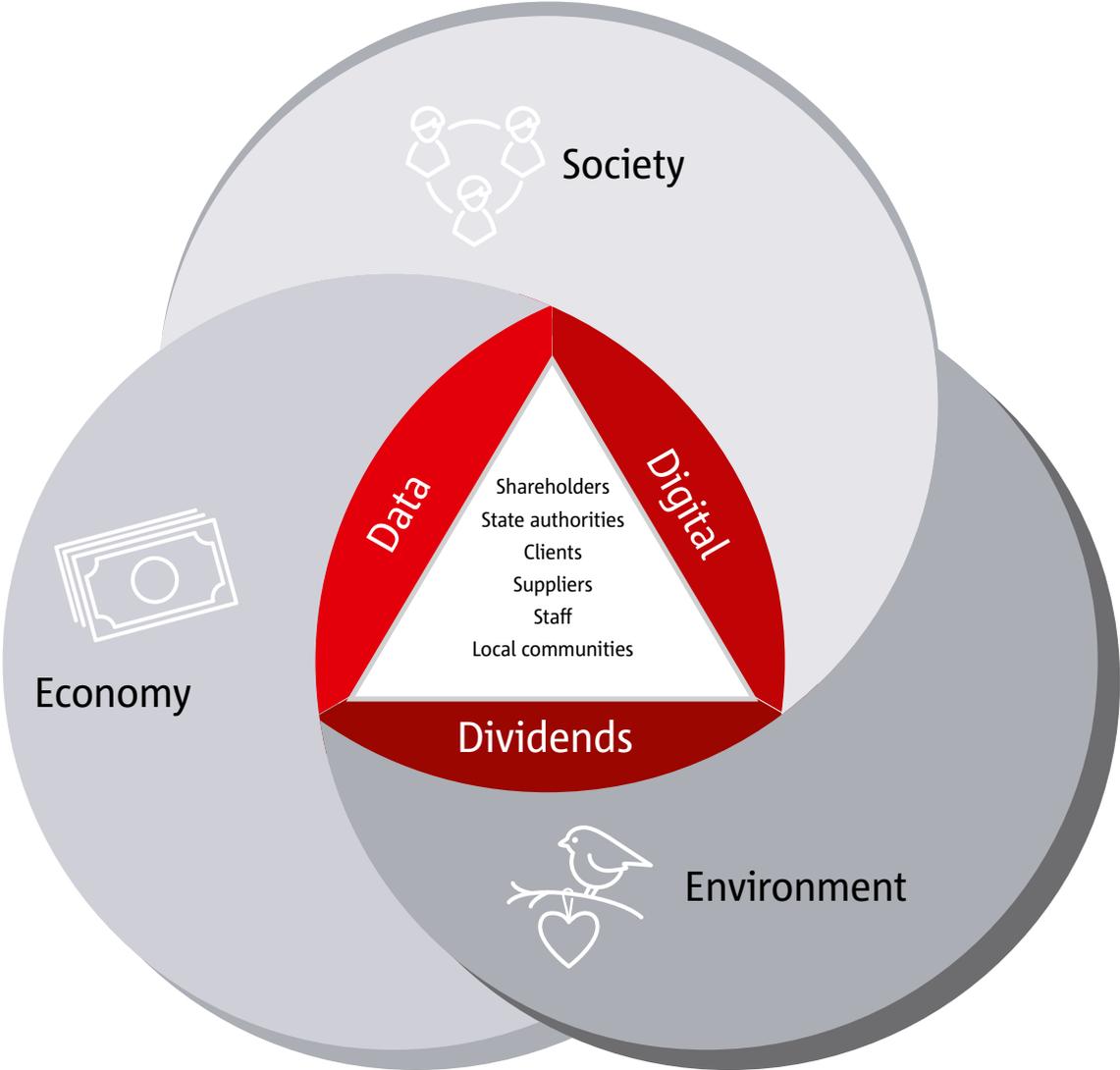
- the Forecast for long-term social and economic development of the Russian Federation for the period up to 2030;
- the Strategy for the IT sector development in the Russian Federation for 2014-2020 and up to 2025;

- National security strategy of the Russian Federation;
- Information Security Doctrine of the Russian Federation;
- strategic documents on sustainable development of countries where we operate.

Our main goal is to improve the quality of life and the safety of individuals and communities by implementing innovative programmes and providing a wide range of services to our clients. We take responsibility for our actions and consider it as a key of our Company's sustainable development.

Our CSR activities cover nine major areas across society, the economy and the environment. We upbuild our CSR framework based on the requirements of society, consumers, shareholders, our employees, governments, non-commercial and public organisations, partners, suppliers and local communities.

In 2017, MTS continued implementation of projects supporting thirteen UN sustainable development goals up to 2030, which are in line with the Company’s lines of service:



**Society**

- Improving subscriber quality of life
- Attention to employees and their development
- Corporate volunteering
- Charity

**Economy**

- Development of regions and local communities
- Synergy of CSR practices and creation of shared values
- Responsible business

**Environment**

- Development of services that improve environmental sustainability
- Environmental protection measures



## Society

### Improving subscriber quality of life

#### Targets:



#### Projects under implementation:

- Accessibility and expansion of digital services:
  - Online education;
  - My MTS (self-service digital system);
  - Implementation of own mobile applications;
  - Telemedicine;
  - Active pensioner data plan;
  - MTS/Media content project;
  - Data Telemetering service.
- Internet training for people of any age:
  - Mobile Academy;
  - Children Online;
  - MTS School.
- Protection of subscribers:
  - Information about safety for subscribers: <http://www.safety.mts.ru/ru/>
  - Cybersecurity projects of the Operational Monitoring Center;
  - Integrated Safety and Security Center: hotline [privacy@mts.ru](mailto:privacy@mts.ru);
  - Review of all projects for compliance with security requirements before implementation.
- Promotion of a healthy lifestyle:
  - Mobile health: selection of mobile applications on fitness.

### Attention to employees and their development

#### Targets:



#### Projects under implementation:

- Social programmes to support employees:
  - Voluntary medical insurance, accident and health insurance;
  - Additional payment of temporary disability and pregnancy/maternity leave benefits;
  - Material aid, in particular in times of hardship;
  - Cafeteria of Benefits Programme: possibility to replace guaranteed benefits from the company (sports programme and/or voluntary medical insurance) with other benefits or services;
  - Provision of three additional paid days off to participate in social programmes.
- New approaches to employee training and development, development of communication channels:
  - Online training;
  - Virtual Academy;
  - MTS Library;
  - MTS Corporate University;
  - Possibility of career moves within the business transformation programme;
  - Gamification for employees.

- Better working conditions:
  - Remote workstations;
  - Culture of innovation;
  - Creating working conditions for all employee categories, including vulnerable employees.
- Promotion of a healthy lifestyle:
  - Events for employees to support a healthy lifestyle;
  - Sports programme: discounts/compensation for fitness clubs;
  - Mobile health: selection of mobile applications to be fit.

## Corporate volunteering

### Targets:



### Projects under implementation:

- A space for the social realisation of each employee
- Intellectual volunteering to support children, the elderly and the environment:
  - MTS' volunteer programme JUST Give Good!;
  - Mobile Puppet Theater <http://puppet-mts.ru/msc/>;
  - Volunteer Center of AFK Sistema Charity Fund;
  - Donor Day;
  - Spring clean-ups.

## Charity

### Targets:



### Projects under implementation:

- Supporting for education, health and social infrastructure:
  - Generation M;
  - Mobile Puppet Theater;
  - Children Online;
  - Web for All Ages;
  - Mobile Academy.
- Aid to children with serious illnesses:
  - Generation M;
  - Give of Life.

## Economy

### Development of regions and local communities

#### Targets:



#### Projects under implementation:

- Elimination of digital gap, in particular through development of infrastructure and services:
  - Operation of cell communication;
  - MTS/Media content project.
- Projects to develop and support schoolchildren, students and young entrepreneurs:
  - Lift to the Future;
  - TelecomIdea;
  - Opening MTS laboratories in universities;
  - Econeshka: ecology lessons for schoolchildren;
  - Generation M;
- Children Online;
- MTS Mobile Library.
- Cooperation with federal and regional authorities, non-commercial organizations, and business communities on joint social programs (subject to compliance with applicable legislation and other limitations):
  - Mobile Guide;
  - Computer championship of Russia among pensioners organized by the Union of Russian Pensioners together with MTS.



## Synergy of CSR practices and creation of shared values

### Targets:



### Projects under implementation:

- Synergy of business and CSR practices with AFK Sistema and the Company's partners based on economic efficiency and social impact:
  - Lift to the Future;
  - Joint eco-Saturdays;
  - Museum support program;
  - Cultural events;
  - Charity festivals;
  - Membership in professional communities;
  - Presentations at conferences;
  - Requirements on suppliers and partners.

## Responsible business

### Targets:



### Projects under implementation:

- Doing business in accordance with the principles of reporting, transparency, ethical conduct, respect for interests of stakeholders, respect for human rights, compliance with the rule of law and international norms of behaviour:
  - Since 2011, the company has been annually developing compliance strategy, subject to approval by the Management Board;
  - Code of Business Conduct and Ethics;
  - Development of an information security strategy;
  - Sustainability reporting;
  - Financial statements and annual reports.

## Environment

### Development of services that improve environmental sustainability

**Targets:**



**Projects under implementation:**

- Development of services that improve environmental sustainability:
  - MTS Books (e-books in smartphones instead of printed books);
  - Forest Beat service: forest fires monitoring;
  - Data Telemetering service.

### Environmental protection measures

**Targets:**



**Projects under implementation:**

- Environmental protection and sustainable resource consumption:
  - Eco-packing for SIM cards;
  - Collecting batteries;
  - Eco-Saturdays (Spring clean-ups);
  - Eco-education: videos, applications in smartphones;
  - Monitoring forest fires.
- Environmental sustainability of MTS facilities:
  - Energy saving and efficiency programme;
  - Energy-efficient equipment for construction of particular towers;
  - Alternative energy sources.

CSR activities of MTS are based on principles of socially responsible business conduct aimed at ensuring sustainable development and growth of the Company's prosperity, developing a competitive economy, improving the life quality and well-being of the society. These principles were developed with support and consideration of expectations of all stakeholders and specified in the Corporate Social Responsibility Policy of MTS regulating implementation of CSR projects.

The Board of Directors and the Executive Board of MTS are main governing bodies to control CSR. Their competencies include approval of the CSR Strategy and social programs, supervising implementation and efficiency evaluation of social projects. The Vice-President for Human Resources, as well as the Corporate Social Responsibility Department of the HR unit are responsible for planning, direct implementation and consolidation of CSR activities. Employees of the HR, Marketing and PR Departments appointed in regions oversee planning and implementation of MTS' social initiatives in regions.

In 2017, the CSR Committee being an advisory body of the President, members of which work for attraction of partner programs, broadcasting the Company's domestic and foreign CSR Policy, creation of the CSR environment inside and around of the Company, consolidation and efficient use of Company resources in integrated CSR projects, preparation of sustainable development reports, approval of action plans of MTS Corporate Center and Clusters, continued its operations.

You can find MTS Group's sustainable development reports, main charitable projects implemented by the Company and see contacts for feedback on our official website. We have ongoing dialog with our stakeholders and provide all information about our social activities.

CSR goals for 2018:

- promoting a wide range of services, as well as developing innovations to improve the quality of life and safety of our subscribers;
- conducting a self-assessment in accordance with recommendations of ISO 26000:2010 international standard — Guidance on Social Responsibility — with MTS' functional divisions;

In November 2017, MTS Belarus together with other business representatives signed an Agreement for Interaction between Socially Responsible Companies of Belarus in Implementation of Corporate Social Responsibility Projects. The Agreement was initiated by the Local Social Fund Dobro being the Office of the UN Global Compact Network in Belarus. The event was held in cooperation with the Ministry of Foreign Affairs of the Republic of Belarus and the UN Development Program in Belarus.

The Interaction Agreement is a timeless document with public invitation for companies to participate in the initiative and implementation of important social projects. The document is intended to bring efforts of local business together to achieve maximum results.

- developing a list of key performance indicators for CSR and sustainability, in line with their quantitative and qualitative measurement;
- updating the CSR Policy in compliance with the best practices;
- publishing non-financial reporting in accordance with GRI Standards for sustainability;
- increasing the stake of cross functional projects with attraction of all functional divisions of MTS;
- involving MTS' regions of operation, subsidiaries and partners in implementation of key CSR projects. In 2017, the share of regions participating in activities increased by 7.5 p.p. to 55%, while in 2018 80% of regions are targeted to participate in CSR activities;
- developing JUST Give Good! corporate volunteering system of MTS;
- developing Social HR area: expanding opportunities for internships, practice and recruitment for persons with disabilities and elderly people; active participation and involvement of Company employees in socially significant activities aimed at socializing the disadvantaged social groups;
- activities on Eco-Telecom project: promoting environmentally responsible lifestyle and attitude towards natural resources among Company employees, providing support to federal and international environmental initiatives.

# Corporate Culture

MTS' unique corporate culture enables each employee to feel himself/herself an integral part of a great team that can move and develop the Company in the right direction. Flexible corporate culture encourages development of innovations, allows improving our services and technologies, and enhancing the quality of life.

MTS has adopted six key corporate values that every Company employee shares.

These values are not only the key to prosperity and success of the whole Company, but also the personal growth and development tool for each of us. MTS creates opportunities for comprehensive self-development, involving as many employees as possible to unite them using sports, creative and intellectual challenges.

In 2017, the Company launched three federal projects almost simultaneously, which allowed its employees to change their settled routine, and some of them even managed to fulfill their dreams: MTS Creative Heart, Strong in Spirit cross challenge, and MTS Spherum mind games.

## Strong in Spirit

Strong in Spirit project launched a year ago in Moscow provided training for its participants to pass a set of GTO sport standards. In 2017, the project's authors wished to invent something interesting and suitable for everybody, regardless of their level of preparation; something that would encourage MTS' employees all over the country to keep a healthy lifestyle. This is how Strong in Spirit cross challenge, attended by more than 1,000 people, was started.

The participants were required to share videos of their workouts, which were later discussed online with their tutors and colleagues. One month of daily workouts and a hard-self struggle led to qualifying competitions attended by 400 people and a final competition held later in Karelia among the 200 strongest participants. Twenty four teams participating in the final competition were driving bicycles, overcoming ravines, climbing the rocks and even trying to catch up riding the dogs to win the game. At the same time, the colleagues rather helped each other than competed on this challenging distance. The self-victory became more important for each participant.

## Zaprosto magazine

A magazine under a high-sounding name Zaprosto [Easily] has been published by MTS for its employees for 6 years already. In the magazine we tell about the most interesting events in the Company's life: new projects, major changes and appointments, services, products, tariffs, and advertising campaigns. It offers interviews with MTS' top managers, interesting client stories, tips to improve work performance, announcements of training courses, and lots of other useful and fascinating information.

Representatives of all the Company's functional divisions take part in the editorial board and development of the editorial calendar, helping to make the magazine relevant and with diversified content. 8 issues of Zaprosto magazine were published in 2017.

The magazine is published not only in the standard printing format but has also digital versions. Its Flash version is available to employees on the corporate portal and contains not only texts but also videos, photo galleries and animation. We have developed a special mobile application Zaprosto, which employees download to read the magazine at home or on the way. The mobile application is available for all gadgets on iOS or Android platforms and distributed by a private link.

Target for 2018 is to change the electronic format of the magazine: to replace Flash with modern HTML5 and to launch a new mobile application.

**S**

**Partnership:**  
ability to perform as a team, reliability,  
readiness to help and support

I work with friends. We are a team. I always help them, and they help me. Being together makes us stronger.

**I**

**Efficiency:**  
result oriented, achieving set goals

I do everything possible and even more to achieve the result. I always raise the bar of my demand to myself and others and strive to achieve more. I know that the Company appreciates what I do.

**M**

**Responsibility:**  
ready to be responsible for the result of own actions

I always meet commitments and personally responsible for the result of my actions. It's a shame to justify what is not done. I do.

**P**

**Courage:**  
determination, readiness to take the first step and change something

Who wants to change the world must start from oneself! This is my credo. I courageously express my point of view and I am not scared of difficulties on my way to success. I go forward!

**L**

**Creativity:**  
ability to search for new unusual solutions, to think outside the box

Each day brings new opportunities. Each day sets new goals. But the toughest goal the faster I grow as a person. I don't want to be just a doer, a little screw in a big mechanism of a big company. I always search for new options and alternative solutions.

**E**

**Openness:**  
ready to express my opinion and listen to other people, be honest, thoughtful about colleagues, and open to everything new

I easily implement innovations in my job and I am open to new suggestions. I want to share my ideas, as new ideas are new opportunities for my personal growth.

## Internet portal

Pulse corporate portal, where all the Company's news, regulatory and reference documents and search tools are shared, represents the main information resource for MTS employees.

The portal contains links to additional resources, namely the remote training and testing system, performance management system, personal accounts of employees, digital library, etc. The portal services include translation of documents, making orders for corporate vehicles, booking conference calls and meeting rooms, vacation planning and office stationery orders, discussion of relevant issues on forums, and reading Zaprosto corporate magazine.

**13,200** users per month

**2,000** users per day

**20%** monthly increase in portal visits since its launch

Target for 2018 is to develop social network elements on the portal. Employees are provided with an opportunity to keep personal and common public accounts, and MTS Journalist School will open a blog department.

## MTS Life social network

An own social network has been created for work and communication in MTS Retail Chain (RTC JSC), that any Company employee may use. More than 16,000 users have already registered in the network, including the whole management team of MTS Retail Chain.

MTS Life lives an active life of a social network providing not only for discussion of work issues, quick solution of challenging situations, receiving an expert opinion or sharing own ideas for improvement of the Company's procedures, but also for getting to know colleagues from any city and receiving their comments, participating in discussions and organizing voting. New groups and local "stars" known by all users of the network emerge in MTS Life every day. An employee can get access to the social network from a computer, a tablet or the smartphone application any time of the day.

### Starring

In summer, initiators of Creative Heart corporate project announced a casting call in three areas: acting, directing and writing. Candidates had to fulfill one of the tasks to become participants: to make a short movie, a video with a monologue or to write a script. About 400 applications were submitted, and 127 people from 27 cities passed the competitive selection.

After that, the participants began their studies in a film school, where the real film industry professionals were their teachers. Participants in Moscow attended the film school in person, while in regions classes were given via webinars. The first task of the competition was to make a short film, which topic depended only on imagination of its authors. The second task was to make a film on the Birthday topic in view of the upcoming birthday of MTS. Following the results, 6 teams were selected for the final competition. The possibility to remake own film together with professional filmmakers became the main prize for the winners.

The Company's management made sure once again that such projects, among other things helped to develop creativity of employees and find fresh approaches to solution of business tasks.

### Mind games

Spherum is like the popular TV game What? Where? When?, but without a spinning top. Similar events had been held earlier in different regions, but in 2017 the project's authors decided to organize a game at the professional "mind sports" level.

Qualifying games were held first: 306 teams (comprised of 2,000 people!) had to answer 10 questions of the presenter without preliminary preparation. Following the results of these games, 60 teams were selected for participation in a qualifying round. All participants were asked questions via video conference at the same time, and their tasks became more difficult. 12 teams went to Prague to compete for the main prize of a crystal raven in the final competition held in the brain ring format. Quick response, extensive knowledge and team cohesion allowed determining the winners.

## Recognition programs

A unified system of recognition and rewarding the professional development of employees is operating in all structural divisions and branches of MTS.

Existing Recognition Programs of MTS Group are intended to reveal both individual and team achievements of employees, as well as to distinguish the best ones.

Based on results of the year, the following nominations are determined: best head (Manager of the Year program), best manager (Professional of the Year program), best team (Our Team program) and best implemented cross functional project (Well done! program). In addition, the Company selects Best Contact Center of the Year, and in 2017 Best Social Project nomination was introduced for the first time. The implementation of recognition programs is accompanied with a wide media campaign, as well as sharing of information on employee achievements in all MTS' offices.

Winners of the programs from different regions of Russia and foreign subsidiaries were invited to Moscow to participate in the awarding ceremony.

In 2017, 597 employees of MTS were recognized with departmental awards by the Ministry of Communications and Mass Media of the Russian Federation.

## Outcomes of federal recognition programs, 2017

Recognition program	Number of applications, pcs.	Number of winners and participants
Well done!	55	3
Our team	54	1
Manager of the Year	80	15
Professional of the Year	155	23
Best Contact Center	5	1
Best Social Project	23	3

## Awards of the Ministry of Communications and Mass Media, 2017

Award	Employees awarded
Commendation	173
Certificate of Merit	249
Honorary Radio Operator title	167
Communication Master title	8

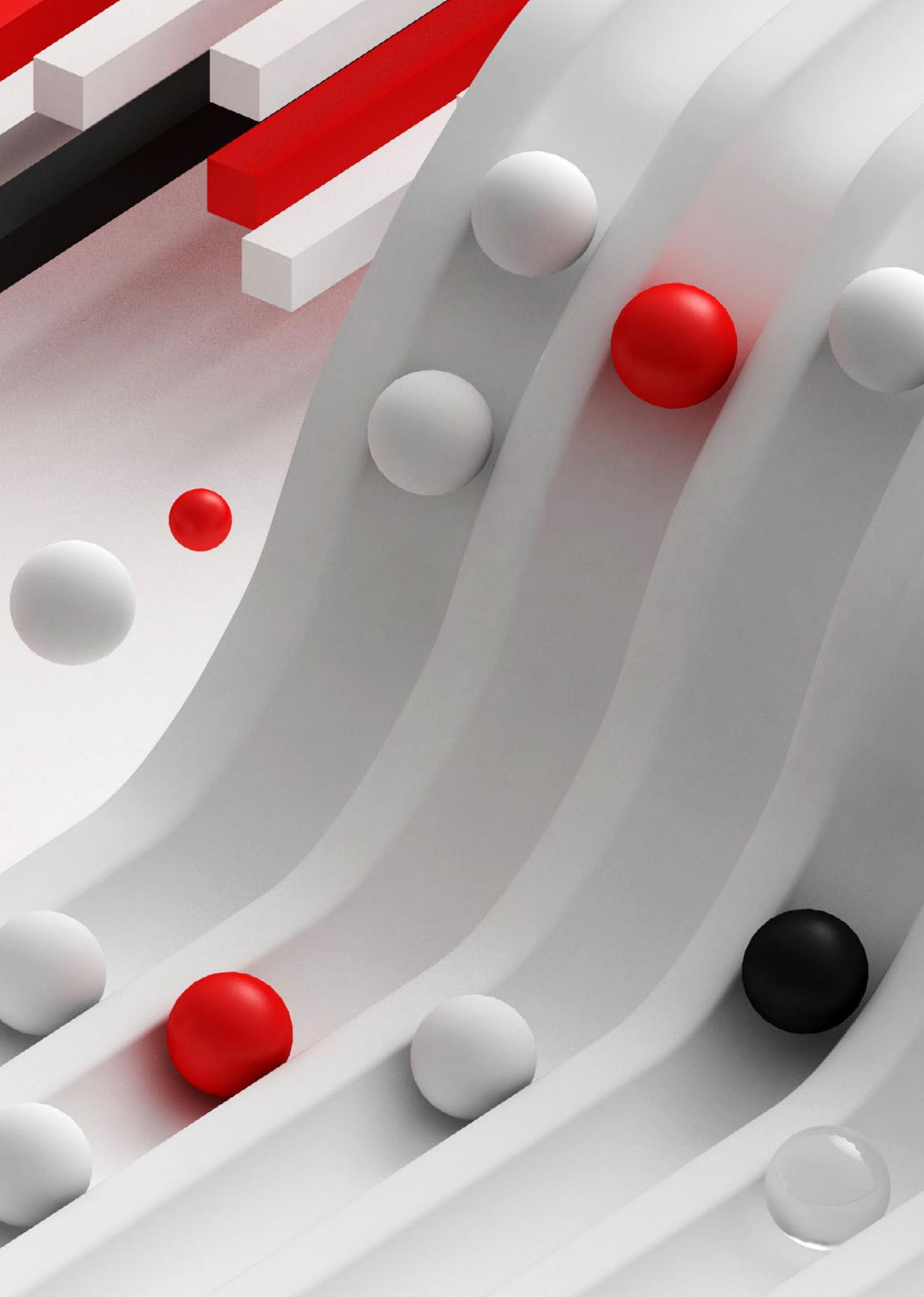
## #MyTrainingToday

MTS' project called #MyTrainingToday has been successfully implemented in Belarus for the second year already. It provides information about new sports, encourages for healthy lifestyle and makes workouts available for everybody. Free outdoor trainings were run in the largest cities in summer. Pilates, yoga, aerobics, stretching, dance, weight training and other master classes were given in autumn as part of the project. Participants could not only make something useful for their health, but also receive bonus minutes or megabytes from MTS. A total of 167 trainings were run over a year, attended by more than 3,000 people. To give a good example and encourage families and friends to keep a healthy lifestyle, MTS offers to share pictures and videos of workouts in social networks under #MyTrainingToday hashtag.



# Business

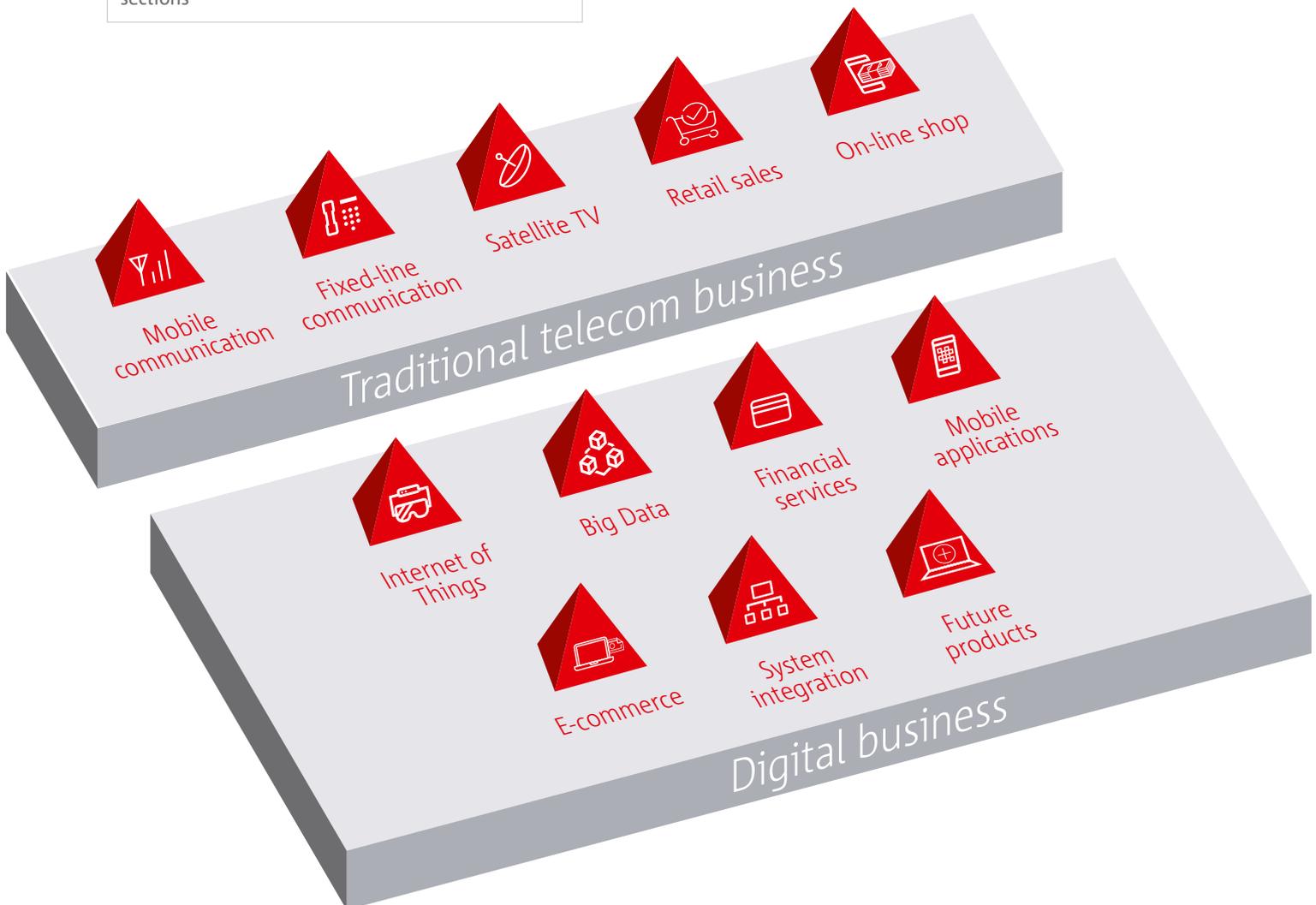
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# Key Services

MTS divides all its activities into two segments. The first segment is traditional telecom, where we are leaders. We intend to keep this status by accepting the reasonable cost optimization as the main vector. The second one is promising digital fields at various development stages, which demonstrate high dynamics or clear growth potential. Here, we are at the position of new players, for which reason we should and are ready to be more active and improve our competences both organically and by means of effective takeovers.

For more details about digital business see [Digital Innovations](#) and [Promotion of Innovative Activities](#) sections



## Mobile communications

On results of 2017, mobile penetration in Russia reached 179%, placing the country among the most developed telecommunication markets of the world. In Russia, we face the growing number of regular users of data transmission services: at the end of 2017, their share exceeded 53% of a total number of subscribers. Data traffic consumption rose by 86% compared to 2016. LTE penetration among mobile Internet users increased 1.6 times compared to 2016.

In 2017, mobile communication services in Russia were rendered by four federal operators: MTS PJSC, MegaFon PJSC, VimpelCom PJSC and RT-Mobile CJSC (T2RTK Holding, a joint venture of Rostelecom PJSC and Tele2), as well as regional telecommunication companies operating in different standards for cellular communication (GSM, NMT 450 and CDMA –1x, UMTS (3G)).

Expansion and updating of the mobile communication infrastructure remain the most important area in the mobile segment.

MTS continues to build base stations to develop the mobile communication infrastructure. We strive to maximize the coverage area of mobile communication in MTS host countries and regions to meet our clients' needs and apply an integrated approach to development of data networks: while actively developing 4G networks, we continue investing into development of 3G network infrastructure. We are proactive and prepare our network for change in technologies from 4G to 5G.

for more details on 5G adaptation see the [Innovative Network Development](#) section

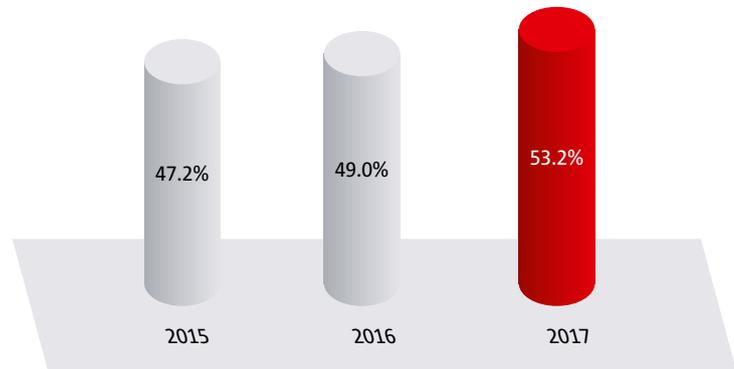
We keep investing into development of the infrastructure and see the possibility for gradual reduction of our capital costs while maintaining the quality of rendered services and increasing cash flows. Capital expenditures of MTS Group in 2017 amounted to 76.4 billion rubles, which is 8.6% less than in 2016.

In 2017, MTS paid special attention to development of the LTE network in Russia and use of the network together with other operators. The Company installed more than 13 LTE base stations. As a result, by the year end LTE networks were put into commercial operation in all Russian regions<sup>1</sup>.

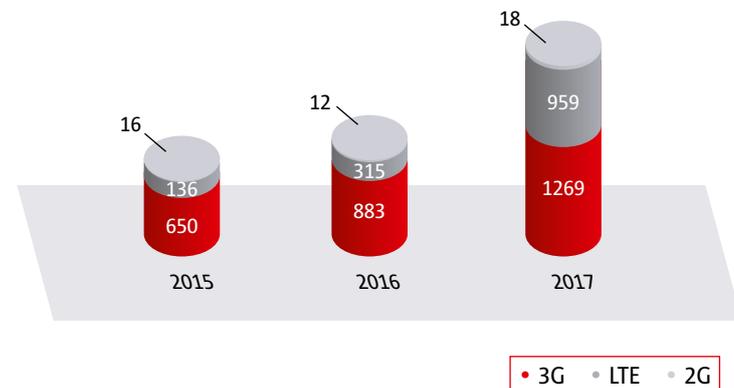
MTS' 3G network covers all Russian Federal Okrugs, as well as Armenia, Belarus and Ukraine. In Ukraine capital expenditures increased due to active construction,

<sup>1</sup> Except for the Republic of Crimea and the city of Sevastopol, where MTS has no license for communication services.

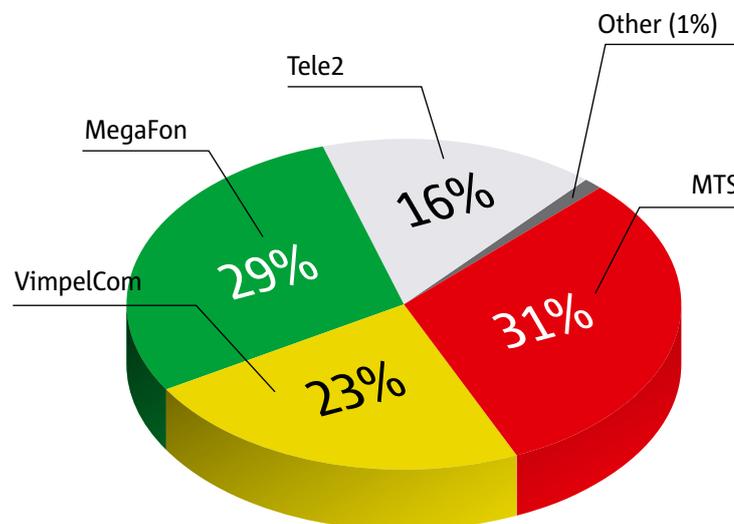
## Share of regular users of data transmission services



## Mobile traffic in MTS' network, PB

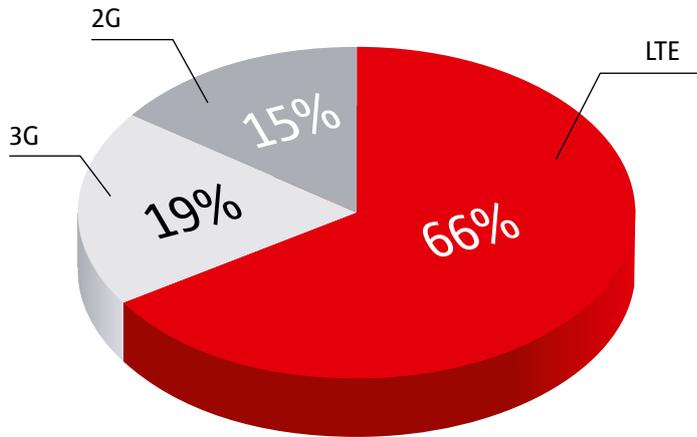


## Share of the Russian market's mobile operators by number of subscribers in 2017



According to AC&M agency

## Share of technologies in the network development



which resulted by the end of 2017 in 3G coverage of the territories where 78% of the population live.

To date, the most important growth factors in the mobile sector are improvement of the general usage level of communication services and more active consumption of additional services by consumers together with their increased loyalty.

MTS remains the leader by number of subscribers. Following the results of 2017, the number of mobile subscribers in MTS' host countries amounted to 106.5 million people, with 78.3 million of them living in Russia.

## Upgrading the network in Belarus

In 2017, MTS completed upgrading of 2G and 3G networks in Belarus. UMTS-900 standard ensuring higher signal penetration was activated at many base stations, which allowed improving 3G coverage in rural areas and in cities with dense development. As a result, the 3G coverage area increased from 40.6% to more than 93%.

4G network is available in all regional centers of Belarus, where 78.8% of the urban population live. In 2017, around 500 new 4G base stations were put into operation. The number of MTS' 4G subscribers increased 3 times over a year. MTS develops LTE network in Belarus in cooperation with beCloud infrastructure operator.

Target for 2018 is to expand the network capacity and to cover almost all regional centers of Belarus with 4G network achieving MTS 4G coverage of 95% of the urban population.

## MTS acquired Bashkortostan Cellular Communications

"The acquisition of an important frequency resource in Bashkortostan being one of ten largest telecom markets in Russian regions was made in full compliance with our strategy for strengthening of MTS' regional presence," noted Andrey Ushatsky, Vice-President of MTS for Engineering and IT.

Quoting Mr. Ushatsky, by closing this transaction MTS will double its frequency resource in the band of 2100 MHz in Bashkortostan to increase the capacity and data transmission speed of 3G networks. These frequencies are planned to be used for the LTE networks development in the long term.

By the end of 2018, VivaCell-MTS plans to make 4G+ network (LTE Advanced) available for 64% of the Armenian population, while as of the end of 2017 it was available for 52.4%. In 2019, 4G+ network will cover not only Armenian cities, but also large villages and motorways. According to the company's strategy until 2020, the 4G+ technology will be available for 80–90% of the population in Armenia.

## Capital expenditures of MTS Group

Capital expenditures	2015	2016	2017
Russia <sup>1</sup> , bln RUB	79.6	73.8	65.2
in % of revenue	20.4%	18.4%	15.8%
Ukraine , bln RUB	12.4	7.5	10.3
in % of revenue	44.1%	25.6%	39.4%
Armenia <sup>2</sup> , bln RUB		1.0	0.9
in % of revenue	15.2%	11.8%	12.5%
Turkmenistan, bln RUB		0.4	0.1
in % of revenue	9.8%	9.0%	3.9%
MTS Group <sup>3</sup> , bln RUB	96.1	83.6	76.4
in % of revenue	22.5%	19.2	17.3%

<sup>1</sup> Excluding expenses for 4G license acquisition.

<sup>2</sup> Excluding expenses for 3G license acquisition.

<sup>3</sup> Including capital expenditures in Uzbekistan and Turkmenistan reflected in cash flow from discontinued operations.

## Fixed-line communication

We continue to systematically pursue the strategy for improving the quality of our fixed-line products by upgrading our networks, launching digital and interactive TV services, and increasing the capacity of our trunk channels to accelerate the speed for our subscribers.

MTS is one of the major Russian companies providing the fixed broadband access (BBA) and cable television services.

The main strategy on the fixed BBA market is attracting and retaining subscribers by means of developed bundled offers, higher access speed, and implementation of convergent services. In 2017, leading providers continued switching to convergence of fixed and mobile services.

MTS' fixed business kept growing in retail segments of BBA and fee-based television, however reduction of revenue in the B2B segment affected the aggregate revenue that decreased by 0.6%. The number of fixed telephony subscribers keeps reducing with this fact generally corresponding to the industry trends.

The number of GPON users in Moscow increased from 1.72 million to 1.85 million thanks to efforts of MGTS PJSC for attraction of subscribers to the GPON network.

In spring 2017, MTS launched interactive TV services at the federal level, subscribers of which were provided with access to wider selection of channels, including the

ones in HD quality, as well as to premium packages and modern interactive services.

The project was created not only as television that forms part of MTS, but also as a platform for various partnerships with companies which are not members of MTS Group.

Such applications as Yandex.Disk, Wikipedia, Megogo, Amediateka, and Easy Payment were integrated in the MTS Interactive TV in 2017. More than 6 content items are available in Video on Demand catalog of the Interactive TV service. In 2017, the number of TV subscribers using additional thematic packages increased by 72%, while income generated from them — by 34%.

According to TMT Consulting, MTS is one of the TOP 3 Russian BBA operators and the leader on the Moscow market.

Since June 2017, Interactive TV has been available in more than 100 regions of operation of fixed BBA and TV.

In 2017, MTS significantly strengthened the attractiveness of digital TV, increasing the number of available channels to more than 170 channels, including more than 40 HD channels.

MTS was the first among ground fee-based TV operators to launch an UltraHD channel in its DVB-C cable network and on a satellite platform.

## Satellite TV

The satellite TV project became one of the elements representing a balanced supplement to the overall picture of MTS' diversified business. Over three years of the project implementation its philosophy did not face any changes, and today we are the fastest growing satellite TV operator.

According to TMT Consulting, MTS is in the TOP 5 Russian fee-based TV operators.

The main objective of MTS is not to create content, but to select the best that is available on the market and provide it to subscribers at a reasonable price. In addition, we are actively developing partnerships with various VOD services providing subscribers with the required interactivity and the possibility to choose those movies, TV series and programs, which they are really interested in. At that, we distribute the content that is relevant to requests of our subscribers: for example, we remove from the package TV shops, which are obviously not in demand, and add top-rated film and entertainment channels on purpose.

MTS is the only satellite TV operator in Russia, which provides reliable coverage in Russia's populated areas, from Kaliningrad to Vladivostok due to location of the satellite's standing point just above the center of Eurasia, unlike most satellites located in the Eastern or Western parts of the continent.

Which programs does TV offer today for the youngest audience? MTS together with Satellite TV became well informed about children's educational and entertainment content:

- Leo & Tig;
- Colette and Ernest;
- Knight Rusty;
- Milo Murphy;
- The Powerpuff Girls;
- Eagle.

Stories of these heroes are only a small part of what can be found on the MTS Satellite TV: there are 15 channels for kids, which are available to the operator's subscribers, in particular, new and classical animated cartoons, in line with musical and scientific programs entertaining and teaching main life values to children of any age.

**350,000** users of the MTS Satellite TV in 2017.

## Retail sales

The retail network of MTS remains the main channel for attracting subscribers with its shops accounting for some 60% of SIM card sales. The presence of own sales channel provides for more efficient management of the quantity and quality of connections, as well as for rendering of high-quality services to existing subscribers of MTS.

MTS remains the largest non-food retail chain in Russia. At the end of 2017, the number of MTS' shops reached almost 5,700 points, including 1,700 points operating under the franchise model.

With active shifting of sales and customer service processes to the online mode, we were able to reduce our retail chain by around 500 points in 2017 and plan to decrease expenses in this area in future as well.

In MTS shops our subscribers can always receive a full range of services provided by the operator, including fixed broadband access to the Internet and television services. Any new service produced by the Company automatically becomes available for sale in our retail shops. Furthermore, our retail clients are offered an extensive range of financial services, such as consumer lending, money transfers, credit repayment, life insurance (voluntary medical insurance) and insurance on goods, as well as MTS Money cards.

MTS is the largest retailer of non-food items.

Main priorities for working with sales channels in 2017:

- sales of Voice&Data tariffs;
- service quality leader in the mono-brand retail sector;
- improvement of the operational efficiency;
- joint sales with data generating devices;
- sales of key products of MTS Group (MTS Bank, Satellite TV, BBA);
- maintaining a high client flow in MTS' shops.

On results of 2017, smartphones accounted for 76% of all telephones sold in the MTS retail chain with 80% of them being LTE-enabled smartphones. The retail chain continues to outpace the market indicators by the smartphone penetration level. The largest increase in monetary value was demonstrated by smartphones in the range of more than 40,000 rubles (+82%) and

from 20,000 rubles to 30,000 rubles (+30%). Sales in the price segment from 30,000 rubles to 40,000 rubles increased by 26%.

Because of the increased demand for expensive gadgets, the number of smartphones sold on credit increased in the MTS retail chain by 40% in volume and by 74% in monetary value. Loans for the period of 12 and 24 months were granted 12 and 16 times more often, respectively, compared to the previous year.

Along with the growth of gadget sales, the MTS retail chain also increased its revenue from financial services and commercial projects by 22%. At the end of 2017, the number of MTS Money cards issued in MTS' shops increased by 65% than in the previous year. MTS' shops restarted to issue cards with a credit limit. A new card MTS Money Weekend, which can be either a debit or a credit card, was launched together with MTS Bank in summer. Cardholders are provided with an increased cashback for certain categories of goods, as well as the possibility of interest accrual on the balance remaining on their savings account. These cards can be acquired in MTS' shops, offices of MTS Bank, as well as in MTS Money application upon request.

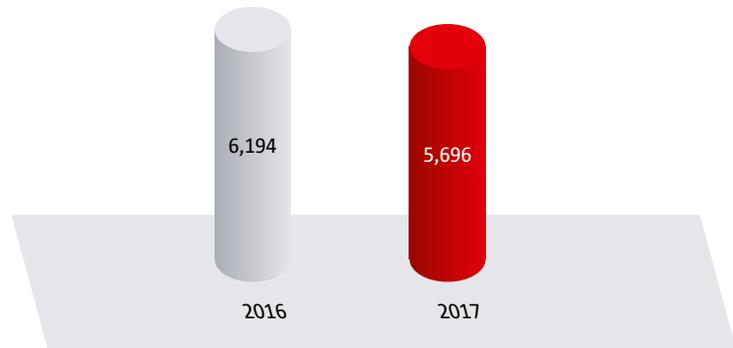
## Online store

Development of the online store as e-commerce channel for sale of the whole range of MTS' products remains our priority. Possibilities offered by the MTS online store significantly increase the convenience of choice and a user-friendly interface saves time of customers. In addition, the online store is another source of knowledge about our clients. It allows us to be "closer" to our consumer on the way of improving the quality of life.

The MTS online store takes the first place among Russian operators and is ahead of numerous specialized e-commerce platforms in the category of electronics and technical equipment.

2017 marked the beginning of a completely new phase in operation of the MTS online store. Change of the technological platform formed the basis for it. The selected and implemented solution allows creating functionality, which can provide the online store visitor with a completely new level of service. The website speed performance and its fault tolerance were also improved considerably.

## Number of MTS' retail shops



The possibility to obtain a decision made on the loan application submitted online became one of the most important innovations. The client can fill in a short form and receive a reply from the bank in 1–2 minutes. This maximized availability of the Credit without Overpayment offer, which allowed many buyers to acquire the latest flagship gadgets of the leading brands. By the end of the year, every fifth purchase was made using this financial tool.

The logistic opportunities of the online store continued developing. While the courier delivery option was made available for even greater number of clients, the reviewed mode of cooperation with the courier services resulted in reduced cost of delivery to the courier address.

Use of technologies based on big data was also developed. Offering the most suitable devices to MTS' subscribers in My MTS application, the online store managed to increase the turnover of this channel three times.

**Best online store amid Russian operators (E-commerce Index TOP-100, 2017).**

**The number of the online store visitors reached 34.7 million people in 2017.**

# Availability of Services



We believe that providing affordable and quality communication services is one of the most important aspects of MTS' social role. The Company constantly develops more convenient tariff plans considering requests of subscribers and expands the line of quality branded communication devices at reasonable prices.

We provide a solution for a huge social task: people living in different regions have equal opportunities thanks to available communication. Information technologies, the Internet and mobile applications help to smooth social inequality.

## Tariffs

MTS makes fairly priced tariff proposals to its clients, as well as regularly and timely informs of any changes in the connection conditions and tariff plans.

Voice&Data package proposals – Smart tariff plans – have become the core of our tariff line. These tariffs are targeted at a rapidly growing segment of smartphone users.

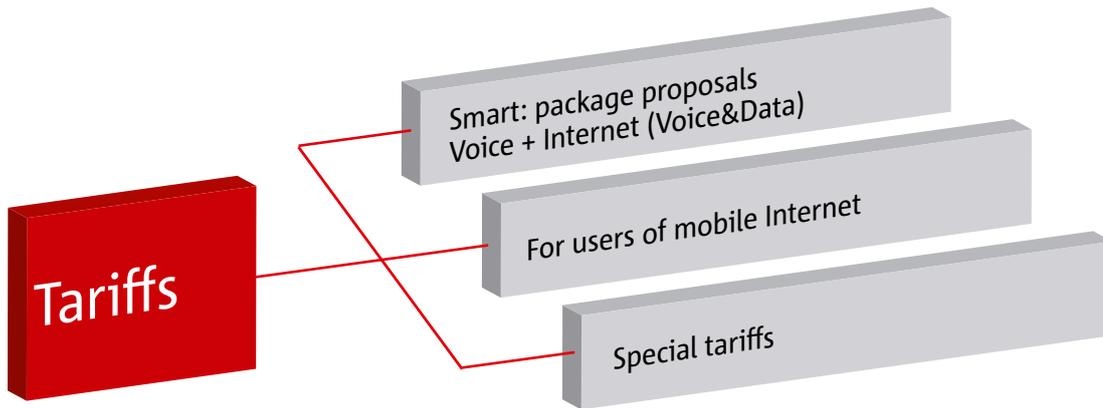
We have always striven to satisfy our clients: MTS systematically issues new tariff proposals, considering demands and wishes of clients, as well as allowing them to save on communication.

In 2017, we developed a special offer for young people – Hype Tariff with free traffic on Youtube, music, social networks, messengers, online games and live broadcasts. The tariff became popular and allowed attracting the young audience to the MTS network.

We offer updated in 2017 tariff plans oriented at mobile Internet users. The tariff for tablet users gives the opportunity to activate one of 4 options, namely unlimited access to MTS' mobile television, social networks, video calls or YouTube video hosting. The new tariff plan for modem users provides the unlimited Internet access at an optimal speed.

We believe that trips to another region of Russia or abroad should not lead to a significant increase in the





cost of mobile communications. We offer to choose one of the tariffs: Smart, Smart Unlimited, Smart Top or ULTRA, which allow making calls, sending SMS and using the Internet during trips in Russia on the same terms as at home. In addition, in 2017 MTS presented a unique tariff Smart Abroad for subscribers who often use international roaming. This tariff applies a new charging principle abroad: the cost of calls and the mobile Internet will not change when traveling abroad with minutes of the Internet package to be consumed "same as at home".

We continue implementing our policy of uninterrupted and convenient communication when traveling abroad and offer free calls to the MTS contact center, free access to MTS' sites, an opportunity to replenish the account free of charge, as well as free delivery of SIM cards abroad. The mobile version of MTS' website for smartphones automatically detects the subscriber's location and provides him/her with information about roaming offers in accordance with the host country.

We recommend our subscribers who do not use tariffs of the Smart line to activate Everywhere at Home option to save money during their trips in Russia, which offers free incoming calls outside of the home region, outgoing calls to any Russian phone numbers at a reasonable daily fee of 3 rubles/min, and for the Internet users — traffic packages of different volume, which are active both "at home" and outside of the "home network".

In December 2017, a pilot Wi-Fi Calling service was launched. Its main feature is the possibility to make calls under the "home" tariff plan of the subscriber even when being abroad. The service requires Wi-Fi connection, which in this case performs the function of the operator's base station. Thus, subscribers can make their usual calls even in such places where there is no cellular communication. For more details about the Wi-Fi Calling technology see the Innovative Services section of the 2016 Sustainability Report of the MTS Group.



We offer our clients a number of options in addition to their basic tariff plan, providing for significant optimization of costs on voice communication in international roaming thanks to free incoming calls. Since 2015, clients using Zero without Borders option have accounted for a considerable share of the international roaming traffic. For users of the mobile Internet in the most popular countries among tourists, we offer an updated option BIT Abroad with unlimited Internet access.

## Available TV

While solving our business tasks, we also implement a very important social mission — improving the availability of the satellite TV for population. For this purpose, MTS uses the following instruments:

- **availability of fine content in the regions of Russia.** MTS' basic package covers almost all constituent entities of the Russian Federation and is available for 99% of the population with viewers from different parts of the country having equal opportunities to watch the same number of channels. The basic package includes 49-time versions of the country's main federal channels allowing viewers to watch programs not only in Moscow time, but also at such hours which are convenient for them;
- **discounts on additional thematic content** provide the opportunity to watch even those programs, which were not available before: kids' channels as part of the extended package at a reduced price and regular promotional discounts on AMEDIA PREMIUM and SET THE FILM! film packages;
- **equipment availability.** Before MTS entered the market, the high cost of equipment was the main obstacle for connection of satellite TV. Introduced installment and lease plans, in line with discounts on equipment sets significantly reduced this barrier;
- **service availability.** MTS' widest retail chain, 24/7 contact center, and own installation team brought sales and market service to a new quality level.



In 2017, we actively developed our agent sales channel, when sales are made not in a shop or a store, but at home of a potential client.

This channel provided satellite TV to residents of remote and small settlements: around 50 rural residents received access to modern digital TV.

Implemented federal promotion campaigns Satellite TV is No Longer a Luxury. Equipment for Only 2,990 Rubles, and Equipment Set on Lease resulted in growth of the satellite TV sales in MTS' shops four times.

## Transport communication

In 2017, an innovative project for mobile communication in metro with use of femtocells was completed. Voice calls, SMS, and data transmission services are now available for MTS' subscribers at all 12 lines of the Moscow metro.

During the project implementation we installed almost 4,000 3G femtocells providing our subscribers with the possibility to stay connected when being "under the ground" even during peak hours.

At the same time, MTS expands the coverage of own LTE network in the Moscow metro. At the end of 2017, MTS' radio access network signal was received at 140 metro stations.

Public Wi-Fi service was launched in Belarus, which provides free access to the Internet in public areas. This solution allowed implementing together with the Belarusian Railway a large-scale project for Wi-Fi coverage of all 19 railway stations of the country. Public Wi-Fi by MTS is also available in medical centers, educational institutions, banks, hotels and petrol stations in Belarus.

## MTS is the first cellular operator to provide the mobile Internet in all trains of the Moscow metro.

"This project provides our subscribers with a completely new quality of MTS' services in Moscow: now they can answer their calls and use the mobile Internet not only in halls of metro stations, on rolling stairs or walkways, but also directly in trains when moving between stations, where millions of residents spend so much time," noted Igor Egorov, Director of the Moscow Region, MTS. "In the near future we plan to pay special attention to configuration of a new metro network, identification of bottlenecks and installation of additional equipment, if necessary."



# Service Quality

Reliable communication and quality service are the general principles for observing the rights and interests of subscribers. Cellular communication and telecom services became one of the main social services long ago, for which reason we strive for continuous improvement in our work and consider focus on customers to be of key importance for MTS business.

We regularly introduce advanced solutions and improve the technical component of our client services, open new offices and strive to offer improved services. In many respects, the Company's perception by its clients is associated with certain communication experience with front office employees. Therefore, MTS pays special attention to training of its employees and does everything to make the lives of our clients better and more exciting.

Main service control and quality improvement areas in 2017:

- implementation of Closing the Loop project intended for improvement of the client loyalty was continued. In the reporting period, the project was expanded to all channels of interaction with clients: contact center, social networks, website, and the online store. Employees of the special loyalty group help to solve the client's request and neutralize

the negative experience from interacting with the Company;

- tNPS poll (Transactional net promoter score) was transformed: now, the client answers his/her own personalized questionnaire for each type of applications made to the shop. This method provides for a detailed study of every service rendered in MTS' shops;
- a project for measuring the level of client loyalty to voice services and MTS' Internet was implemented. 1/12 of MTS' active client base is interviewed every month. Furthermore, the most critical locations when using communication for clients are identified and transferred to technical experts for planning the network construction;
- a project for measuring the level of loyalty of new MTS' clients after using communication services for 40 days after connection was implemented. "Bottlenecks" in communication with new clients, their experience of using the tariff or additional services are identified based on the obtained data. Later, changes are introduced to the existing business processes.

## Transformation of the quality management system in the client service

The main innovation touched on the quality control function of dialogs between employees of the call center with clients. Now, auditors from monitoring and development groups are also trying to figure out, why the client decided to make a call and could not solve the issue on his/her own.

If we talk about the mobile business, we listen to about 30 calls per month. Analyzing every call, we collect and structure the feedback from our clients and have the possibility to clarify the service conditions together with colleagues from other divisions responsible for tariffs, products, services, applications and SMS notifications. Thus, we take up a proactive position and do our best to anticipate the incoming call to our contact center.



### 24/7 client service

Previously, lack of active actions for resolving of incidents at night and on weekends led to long waiting, repeated calls and a potential decrease in the client loyalty.

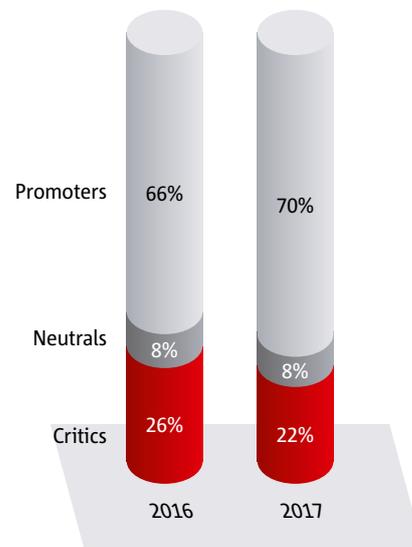
To date, MTS has a 24-hour service with a fixed deadline for incidents resolving within 1 day. The deadline for troubleshooting became much smaller and clearer both for employees of the contact center and subscribers.

We do not just make interviews but work personally with critics providing them with a feedback: we listen to their problems, solve their requests and give consultations. Such personal approach has an amazing effect — converting our criticizing clients into our promoters: in 2017, a total number of promoters increased by 4% compared to the previous year.

MTS analyzes and restructures its processes to make them more convenient for the client. We study the Customer Journey and form our design teams, which adjust/improve the processes, as part of our integrated approach to improvement of the client experience. We have established a continuous improvement process based on the actual client opinion and we can see the effect of such approach relying on the client feedback.

In 2017, Customer Journey Maps reflecting strengths and weaknesses of the client processes were designed. Clients connecting in communication shops, doing shopping in the MTS online store, regularly traveling abroad and using MTS applications could enjoy the processes, which became much simpler, clear and convenient, to the full extent.

### Increase in the percentage of promoters from total number of clients



### My MTS

My MTS mobile application performs remote client servicing without the necessity to use a stationary computer, visits to the office or contact the Company's call center.

Troubleshooting the Network Problems project is intended for identification of locations facing problems with the communication quality compared to the statistical level. Identified areas are classified by priority of their impact on the client experience to focus on the most "painful" points (for more details about the project see the Digital Innovations section).

# Personal Data Protection



We pay special attention to protection of confidential data of our clients. Personal data disclosed to MTS are treated as classified information and are subject to protection in accordance with Russian laws.

The Company has a personal data protection system: a group has been established for processing such data, and responsible persons have been appointed to ensure processing and security of the personal data. We perform regular audits to check the observance of personal data security requirements.

The Department for Protecting the Secrecy of Communication and Security of Information of the Integrated Safety and Security Center, created as part of restructuring of MTS PJSC, monitors user requests for information related to the secrecy of communication. If there are cases of unlawful treatment of information related to the secrecy of communication, beyond employee's official duties, an internal investigation is initiated with subsequent transfer of materials to law enforcement authorities.

Documents forming the basis for personal data processing:

- Federal Law No. 152-FZ of July 27, 2006 "On Personal Data", including amendments related to localized processing of the personal data of Russian residents in Russia;
- Decree of the Government of the Russian Federation No. 1119 of November 1, 2012 "On the ap-

proval of requirements for personal data protection when processing them in information systems of personal data";

- Company Policy – Personal Data Processing in MTS PJSC.

When concluding a Communication Service Contract, our subscribers are informed on how their personal data will be used. The procedure for processing the personal data of subscribers, with whom the contracts are signed, is described in the Company's Rules of Provision of Communication Services being an integral part of the Service Agreement. These Rules and the Policy of Personal Data Processing in MTS PJSC are available on the Company's official website. MTS' partners that are engaged in the processing of personal data sign a special Confidentiality Agreement, which specifies the personal data security and processing requirements, as well as data protection means that ensure secure transfer of data.

MTS takes part in the development of regulatory documents and assessment of their regulatory impact. The Company's representatives take part in the work of the Interim Commission under the Federation Council on the Information Society Development, which develops amendments to the personal data protection laws and

## Number of complaints concerning violations of consumer privacy

Indicator	2015	2016	2017
Number of complaints received from third parties concerning violations of consumer privacy	112	78	60
Number of complaints received from supervisory authorities concerning violations of consumer privacy	35	16	18

analyzes the subordinate regulatory acts. MTS' representative is a member of the Advisory Board under the authorized body for protecting the rights of personal data owners of the Federal Service for Supervision of Communications, Information Technology and Mass Media. New initiatives are discussed in its working groups.

All complaints from personal data owners related to personal data processing received by MTS PJSC in 2017 through the existing channels, including [privacy@mts.ru](mailto:privacy@mts.ru) email address, were considered. The personal data

owners were informed on results of consideration of their complaints within time limits established by the law.

In 2017, a large-scale regular on-site inspection of the MTS PJSC compliance with requirements of the Russian law on personal data was carried out by the Department of the Federal Service for Supervision of Communications, Information Technology and Mass Media for the Central Federal Okrug. The inspection did not reveal any violations related to illegal access or transfer of confidential data about subscribers.



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# Corporate Governance

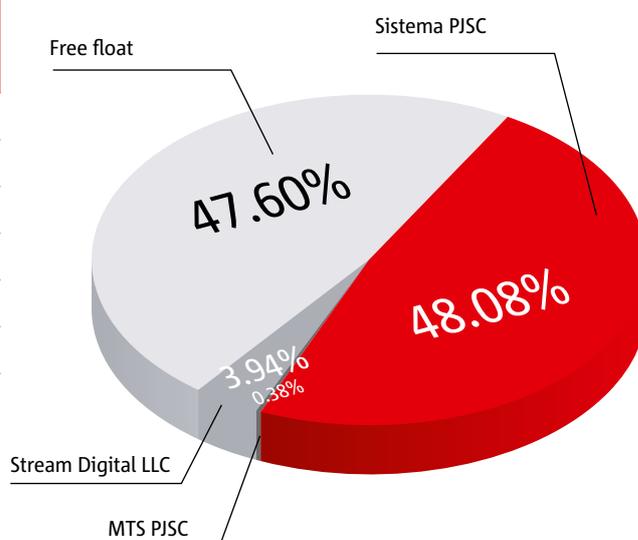
## Shareholder structure

The Company's major shareholder is Sistema PJSC, which held 48.08% of shares as of December 31, 2017.

Detailed information on shares and the share capital structure of MTS PJSC is available in the Capital and Securities section of the 2017 Annual Report of MTS PJSC.

### MTS PJSC share capital structure as of December 31, 2017<sup>1</sup>

	Number of ordinary shares, pcs.	Interest of authorized capital
Sistema PJSC	960,737,937	48.08%
MGTS PJSC	7,569,230	0.38%
Stream Digital LLC	78,768,793	3.94%
Bastion LLC	1,133	0.00%
MTS PJSC	497	0.00%
Free float	951,303,985	47.60%



<sup>1</sup> All registered voting shares of common stock that are at disposal of MTS PJSC according to requirements of the existing legislation do not entitle for voting, are not considered when votes are counted, and are not subject to dividends accrual.

The stake of Sistema PJSC includes stakes in the following subsidiaries: LLC Sistema Telecom Assets (11.03% of shares of MTS PJSC) and Sistema Finance S.A. (5.29% of shares of MTS PJSC).

Vladimir Evtushenkov is the controller of Sistema PJSC.

The stake of Sistema PJSC including indirect interest via controlled entities (MTS PJSC, MGTS PJSC, Stream Digital LLC and Bastion LLC) is 52.31% of shares of MTS PJSC, the effective stake is 50.2%.

MGTS PJSC, Stream Digital LLC and Bastion LLC are the subsidiaries of MTS PJSC.

Free float shares include 9.13% of shares of MTS PJSC and ADR for 38.48% of shares of MTS PJSC.

## Dividend policy

In 2016, a new dividend policy was approved for 2016–2018, in accordance to which the Company set a target dividend yield at the level of 25.0–26.0 rubles per share of common stock of MTS PJSC (50.0–52.0 rubles per ADR) for each calendar year. At the same time, the dividend policy assumes a minimum dividend payout by MTS in the amount of 20.0 rubles per share (40.0 rubles per one ADR) a year. Dividends, as before, will be paid by two installments during the calendar year. At the same time, MTS is shifting to a more even distribution of dividend payments during the year.

In 2017, MTS continued making dividend payments under this program. On June 29, 2017 the Annual General Meeting of Shareholders approved payment of dividends in the amount of 31.2 billion rubles. The Extraordinary General Meeting of Shareholders held on September 29, 2017 decided to pay dividends of 20.8 billion rubles. Thus, total payments in 2017 reached

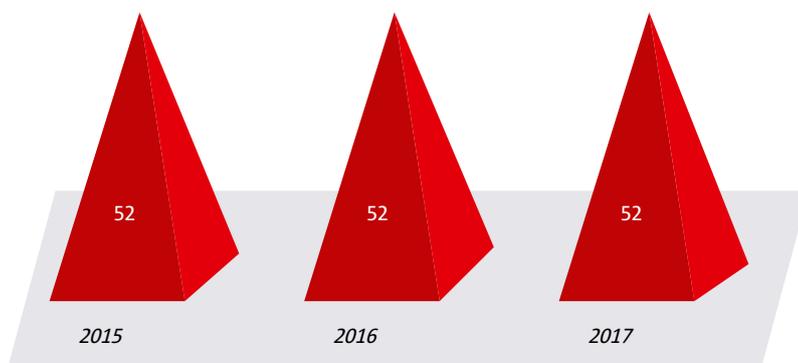
52 billion rubles (26 rubles per share of common stock and 52 rubles per ADR).

In addition, MTS provided additional yield in 2017 for its shareholders of 10.9 rubles per share and additional 21.8 billion rubles due to the share repurchase program.

Detailed information on the dividend policy and payment of dividends is available in the Interaction with Shareholders and Investors section of the 2017 Annual Report of MTS PJSC.

The dividend payment statistics and the Regulations on the Dividend Policy are available on the Company's website: <http://ir.mts.ru/investors/shares/dividends/default.aspx>.

### Dividend payments by MTS PJSC, bln RUB



## Corporate governance system

We are constantly improving our corporate governance system, monitoring its efficiency and implementing the best practices.

The MTS corporate governance system is based on the clear delineation of responsibilities of governing bodies, respect for shareholders' rights and interests, as well as information transparency. MTS' corporate governance relies on provisions of the Russian legislation but is not limited thereto — we constantly develop it with due regard for global best practices.

A high-quality corporate governance system and effective operation of the Board of Directors represent the crucial conditions for long-term sustainable development of a modern company. At least 1/3 of the Board of Directors shall comprise independent directors to ensure efficient performance of its functions, making well-targeted substantiated decisions and ensuring control over management in the interests of the Company's owners.

To improve the efficiency of decisions made by the Board of Directors, to provide a more detailed preliminary review of the most important issues and to

prepare the relevant recommendations, the following committees operate under the Board of Directors: Budget Committee, Audit Committee, Remuneration and Nominations Committee, Corporate Governance Committee, and Strategy Committee.

According to recommendations of the Corporate Governance Code, key committees (the Audit Committee and the Remuneration and Nominations Committee) are comprised of independent directors exclusively. Representatives of the MTS PJSC management in the committees ensure a meaningful dialog in the course of committee meetings.

According to our estimates, we fully performed 85% of recommendations of the Corporate Governance Code as of the end of 2017. A complete report on compliance with the Code's recommendations and detailed information on the corporate governance system are provided in the 2017 Annual Report of MTS PJSC.

### Key principles of MTS corporate governance



## Electronic document flow system

Portal of the Board of Directors, an efficient electronic document flow system, installed on personal tablets of members of the governing bodies is operating in MTS (the Board of Directors, the Executive Board, the committees under the Board of Directors and the President) and subsidiaries of MTS Group. In 2017, we improved the Portal's functionality allowing for accumulation of required and relevant set of options for work of members of the Company's collegial executive bodies, automation of their work, as well as improved the system ergonomics in a single mobile space.

A performance assessment (questionnaire) of the Board of Directors was conducted through the Portal for the first time in November 2017.

In 2018, we plan to introduce a voting function on the Portal for meetings of the governing bodies with use of an electronic signature on a SIM card.

## Electronic services for shareholders

### 2016: Electronic voting

In 2017, we continued the successful experience of applying e-voting at meetings of shareholders. Electronic voting is available to all shareholders: for those who keep their shares directly in the register, and for clients of the broker, the depository or the Central Depository.

### 2017: Shareholder's personal account

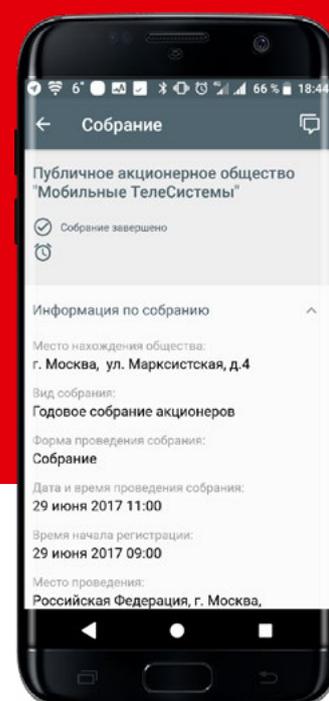
In 2017, we offered our shareholders a comfortable online service — Personal Account of MTS Shareholder. The service allows participating in general meetings of shareholders through the Internet. At the Annual and Extraordinary General Meetings of Shareholders held on June 29 and September 30, 2017 shareholders could participate remotely through their Personal Account of MTS Shareholder: watch the broadcast, study the meeting materials, send their questions to the Meeting Presidium and vote.

The personal account was created especially for MTS' shareholders and designed in our corporate style. It provides shareholders with 24-hour access to information about the quantity and cost of their shares, accrued and paid dividends, contacts and useful links. In addition, the MTS Personal Account provides an opportunity to fill in document forms for operations in the register of security holders in advance and receive notifications of receipt of documents on the shareholder personal account.

### 2018: Mobile application for shareholders

In 2018, our shareholders will be able to participate in the Annual General Meeting of Shareholders of MTS through Shareholder.online mobile application developed by JSC Independent Registrar Company, the MTS registrar.

Apart from voting at a meeting of shareholders, the application will provide the possibility to familiarize with the meeting materials, to watch its broadcast and ask questions to the Presidium. Moreover, the application will provide access to information on the quantity and cost of shares on the shareholder's account in the register and notify of receipt of documents.



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



**Andrei Dubovskov**

Executive Director

Member of the Corporate Governance Committee

Member of the Strategy Committee

Member of the Board of Directors from June 27, 2011

Born in 1966

Citizenship: Russia



**Ron Sommer**

Non-Executive Director

Chairman of the Board of Directors

Chairman of the Strategy Committee

Member of the Board of Directors from June 25, 2009

Born in 1949

Citizenship: Germany

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



**Alexander Gorbunov**

Non-Executive Director

Deputy Chairman of the Board of Directors

Member of the Strategy Committee

Member of the Budget Committee

Member of the Board of Directors from February 14, 2013

Born in 1967

Citizenship: Russia



**Michel Combes**

Independent Director

Member of the Audit Committee

Member of the Remuneration and Nomination Committee

Member of the Strategy Committee

Member of the Board of Directors from February 14, 2013

Born in 1962

Citizenship: France



**Stanley Miller**

Independent Director

Chairman of the Remuneration and Nomination Committee

Member of the Audit Committee

Member of the Corporate Governance Committee

Member of the Strategy Committee

Member of the Board of Directors from June 24, 2010

Born in 1958

Citizenship: Belgium, South Africa

In 2017 entered the rankings of “50 best independent directors” during the ceremony of “Director of the year 2017” National Awards



**Vsevolod Rozanov**

Non-Executive Director

Deputy Chairman of the Board of Directors

Chairman of the Budget Committee

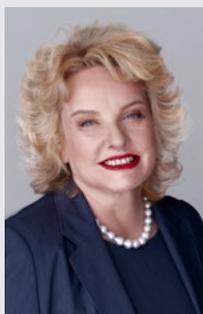
Chairman of the Corporate Governance Committee

Member of the Strategy Committee

Member of the Board of Directors from June 27, 2012

Born in 1971

Citizenship: Russia



**Regina von Flemming**

**Independent Director**

**Member of the Budget Committee**

**Member of the Corporate Governance Committee**

**Member of the Remuneration and Nomination Committee**

**Member of the Special Committee**

Member of the Board of Directors from June 25, 2015

Born in 1965

Citizenship: Germany



**Thomas Holtrop**

**Independent Director**

**Chairman of the Audit Committee**

**Member of the Remuneration and Nomination Committee**

**Member of the Budget Committee**

**Finance Expert**

Member of the Board of Directors from February 14, 2013

Born in 1954

Citizenship: Germany

In 2017 entered the rankings of “50 best independent directors” during the ceremony of “Director of the year 2017” National Awards



**Artem Zasursky**

**Non-Executive Director**

**Member of the Strategy Committee**

Member of the Board of Directors from June 29, 2017

Born in 1979

Citizenship: Russia

Detailed information on the experience of members of the Board of Directors is available on the Company’s website:

<http://ir.mts.ru/about-mts/corporate-governance/board-of-directors/default.aspx>



**Appointment of Alexey Kornya for the position of President of MTS PJSC**

Andrei Dubovskov performed functions of President of MTS PJSC in 2017 (since March 5, 2011).

Since March 13, 2018, following a resolution of the Board of Directors Alexey Kornya has been performing functions of President of MTS PJSC.

Information about Alexey Kornya is available at <http://ir.mts.ru/about-mts/corporate-governance/management/default.aspx>

# Compliance and Culture of Good Faith Behavior

## Unified Compliance System of MTS PJSC

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

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



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

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

## MTS PJSC Code of Business Conduct and Ethics

The Code of Business Conduct and Ethics (hereinafter referred to as Code) includes the main principles of MTS business. In its business the Company complies with the laws, follows generally accepted business ethics standards and will not tolerate any other methods of doing business that contradict with such regulations.

The Code of Business Conduct and Ethics (hereinafter referred to as Code) includes the main principles of MTS business. In its business the Company complies with the laws, follows generally accepted business ethics standards and will not tolerate any other methods of doing business that contradict with such regulations.

The Code shall be treated as a document that contains a minimum set of standards and requirements accepted in the Company with the purpose to maintain fair and ethical business and to prevent abuse. The Code defines rules and standards that the employees have to follow in their daily work. When it is required to apply higher standards compared to those accepted in commercial practice, or a regulation of higher legal force according to the existing legislation, MTS will use such high standards.

The MTS PJSC Code covers such topics as MTS and employees, MTS and customers, MTS and company, MTS and laws, applications and messages on violations of the Code, which record responsibility of the Company to employees, subscribers, shareholders, partners and all interested persons and public.

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

The Code is a fundamental document, which the Company follows in its daily business and which helps to protect the Company's good reputation and maintain its competitive advantage.

The Code is available on the MTS official website: <http://ir.mts.ru/about-mts/mts-at-a-glance/compliance-and-business-ethics/default.aspx>.

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

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

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

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

In 2017, the Certification Compliance Audit of the MTS Unified Compliance System with ISO37001:2016 and ISO19600:2014 standards was conducted.

## Compliance Committee

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

The Committee was established to make decisions on the issues of formation and implementation of compliance programs making the Unified Compliance System; the main tasks of the Committee are implementation of a policy in the field of compliance risk management and making proposals on the development priorities of MTS Group in this area. For 2017 five Committee

meetings were held, the process to provide the management reporting to the Committee was adjusted, and such management reporting is generated on a quarterly basis by the work team under the Committee, comprising the employees functionally responsible for compliance programs and performing the instructions of the Compliance Committee.

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

### Day of Ethics and Compliance

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

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

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

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



## Anti-corruption compliance and business ethics

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

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

In order to reduce the level of corruption in the country, consolidated efforts of government, business and society are needed. We are convinced that one should always start with oneself, and for this reason MTS is doing its best to mitigate corruption risks, leveraging the most advanced anti-corruption measures based on the anti-corruption laws of the countries in which the Company operates.

Fundamental documents regulating the anti-corruption requirements within MTS are the Code of Business Conduct and Ethics and the Compliance with Anti-Corruption Legislation Policy. In these documents the Company publicly states its zero tolerance – resentment – to corruption in any forms in day-to-day activities as well as in strategic projects implementation. In addition, anti-corruption law enforcement procedures are set forth in the Company's business process regulations.

The anti-corruption compliance system at MTS PJSC sets forth measures aimed at regulatory risk management, prevention and protection of the Company against any manifestations of corruption both inside the Company and against attempts to involve the Company into the corruption activities from outside, improving corporate culture of the Company, implementing and developing in the Company best corporate governance practices as well as standards of responsible business conduct relying on norms of applicable legislation, recommendations of regulatory bodies, industrial specifics and best practices in this area.

Complying with recommendations of regulatory bodies, specialized international organizations and researching best practices in the field of development of corporate anti-corruption compliance programs, MTS

generated its approach on the basis of the following principles:

- active involvement and support from the side of the management in development and functioning of compliance system and direct participation in its individual mechanisms (Tone from the top);
- performance of regular events to detect and subsequently update corruption risks;
- introduction of anti-corruption procedures that reasonably and proportionately meet the level and nature of detected risks, improvement of internal policies and procedures;
- orientation at achievement of long-term strategic objective for establishment and development of compliance culture in the company;
- training of employees and members of management bodies in principles and standards of compliance with applicable anti-corruption legislation by means of a specially developed training system;
- monitoring of efficiency of introduced procedures for corruption prevention and monitoring of their compliance;
- implementation of specially developed due diligence procedures both in respect of contract parties – legal entities (including members of joint ventures, companies or associations, including when the Company acquires the interest in any legal entities) and in respect of individuals with whom the Company plans to enter into a labor contract or a civil law contract;
- annual assessment of corruption risks in business processes of the organization with active participation of business units;

Since 2015, MTS is a member of the Anti-Corruption Charter of Russian Business.

- realization of preliminary control, generating of reporting and subsequent analysis of riskiest transactions from the compliance point of view;
- inspections of the discipline of execution of the established procedure for implementation of business processes, including inspections of lawfulness of executed transactions with Company's assets;
- ensuring operation of a single "hot line" (control&audit@mts.ru), making it possible to send messages on violations in the field of compliance anonymously. Bona-fide claimants are provided by the Company with protection from any forms of persecution or discrimination;
- continuous study of potential for automation of compliance procedures and controls on the basis of cutting-edge IT solutions.

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

- independent assessment of efficiency of the corporate anti-corruption compliance program was performed in the largest subsidiary VF Ukraine PrJSC, and subsidiaries for further such assessment were identified;
- the IT-solution was identified, and the supplier was chosen under the project of compliance processes and procedures automation;
- large-scale campaign was conducted for classroom training of employees of the Corporate Center and regions in the field of anti-corruption compliance:
  - classroom training on the subject of anti-corruption compliance was provided to 3,935 (within 128 training events) Company employees and subsidiaries and affiliates of MTS, including Company top management;
  - 17,641 MTS employees had e-training;
  - classroom training on the subject of principles and requirements of MTS in the field of anti-corruption compliance was attended by 168 contractors of the Company;
- internal communications actively covered the subject of compliance: during the year, newsletters on quarterly monitoring of the regulatory environment, news on update of the compliance section in the internal portal of the Company, notices of compliance events, a video was published, which was prepared for the International Anti-Corruption Day, a notice of the webinar by invited speaker, news on launching the project of compliance representatives, etc. The corporate magazine published four articles on compliance;
- in 2017 the Company launched the program of compliance representatives designed to improve involvement of representatives of business units into compliance system operation. Within the program, 14 employees-volunteers were engaged from various business functions;
- during the year, work was in progress to improve internal compliance controls, three new controls were introduced, 15 controls were amended. In total as of the end of 2017, 140 compliance controls were introduced in local regulations of the company in 48 documents.

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

## Handling conflicts of interest

For the purposes of establishment of a uniform and efficient actual and potential conflict of interests management system as well as definition of requirements for employees' conduct, observance of which enables to minimise risks of making decisions under the influence of personal interests and connections, in 2012 the Company put into operation the Policy "Conflict of Interests Management"; in 2015, a new version of the Policy was approved, in 2016 a new version of the Annex "Disclosure of information about the conflict of interests" was adopted, supplemented with a clause on relatives in government structures.

Compliance with the Policy is an obligation of any employee of the Company, irrespective of its official position. Employees holding management positions are obliged to show the example of law-abiding and ethical conduct and actively support execution of the Policy "Conflict of interests management".

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

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

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

## System of antimonopoly risk prevention (antimonopoly compliance)

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

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

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

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

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

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

## Inside Compliance

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

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

The Company operates the system of measures, processes and procedures aimed at preventing breaches of legislation on the usage of insider information built with due account of best Russian and international practices.

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

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

1. None of the officers, directors or employees of the Company possessing insider information relating to securities shall have the right to buy or sell these securities, directly or through relatives or other persons, irrespective of whether the issuer of such securities of the Company or any other public company.

2. No officer, director or employee of the Company shall sell or purchase securities of the Company during the period commencing on the first day of the financial quarter of the Company and ending two business days after the publication of data on the Company's revenue for the previous fiscal quarter (hereinafter the "Closed period"), except for exercise of options not related to the sale of securities of the Company.

3. Transactions with securities of the Company may be made not earlier than on the third business day after public disclosure of financial results for the fiscal quarter or year, subject to other restrictions contained in the Regulation "On Principles and Procedures Concerning the Prevention of Insider Trading of MTS".

4. Under no circumstances shall insider information be transferred by officials, directors and employees of the Company, directly or through other persons, to third parties outside the Company or even to persons within the Company, except for those who have a need to know such information.

5. If a person has doubts as to whether it is allowed to make a transaction or not, it is better to refrain from the transaction.

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

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

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

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

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

In order to maintain an effective system of insider compliance, the Company audits system's controls: on an annual basis by efforts of employees involved in the operation of insider compliance system (verification of

compliance with insider system requirements related to notification of insiders on their addition and removal from the List of insiders, and fulfillment by insiders of their obligations to notify the company of transactions with MTS securities, compliance with insider information disclosure rules, maintaining the List of insiders etc.); as necessary (on the basis of risk-oriented approach) – by internal audit department, headed by a person accountable to the Board of Directors.

In the end of 2017 we started building a formalized risk map in the area of inside compliance and plan to complete this project in Q1 2018. Our next step will be elimination of faults that will be detected as a result of map building.

## Personal Data Processing Organization

The main and most significant event within the program in 2017 was inspection (state control) for compliance of Company's business with requirements of the legislation of the Russian Federation in the field of personal data conducted by MTS PJSC regulator in the field of personal data processing – Directorate of the Federal Service For Supervision In The Sphere Of Communications, Information Technology And Mass Media (Roskomnadzor) in the Central Federal District.

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

The inspection was completed by the regulator in the period from November 1 to December 27, 2017. As a result of inspection of facts of illegal access to data on subscribers, no illegal transfer and distribution was established.

Apart from the above cooperation with regulatory bodies, development of the main elements of the compliance program did not stop in 2017. For example, within the process of rising awareness of Company employees in the field of personal data processing, the remote training course "Personal Data Processing in MTS PJSC" in accordance with requirements of the Federal Law No.152" was attended by 7,880 MTS employees.

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

MTS has built a corporate system for counteraction to the legalization (laundering) of money obtained through criminal means and financing of terrorism, which covers MTS' branches and representative offices, as well as its foreign subsidiaries:

- a division (Functional Interaction Group with the Russian Federal Service for Financial Monitoring) has been formed, which functions include counteraction to the legalization (laundering) of money obtained through criminal means and financing of terrorism;
- an official responsible for implementation of the Internal Control Rules has been appointed;
- the Company's employees have been trained for counteraction to the legalization (laundering) of money obtained through criminal means and financing of terrorism;
- the Internal Control Rules have been approved;

- interaction with territorial units of the Federal Service for Supervision of Communications, Information Technology and Mass Media and the Federal Service for Financial Monitoring has been arranged.

An inspection conducted in 2017 by the Federal Service for Supervision of Communications, Information Technology and Mass Media for compliance of MTS with the law in the field of counteraction to the legalization (laundering) of money obtained through criminal means and financing of terrorism noted a high level of work organization in this area.

MTS adopted new local regulations:

- Identifying operations for counteraction to the legalization (laundering) of money obtained through criminal means and financing of terrorism;
- Freezing (blocking) cash funds on client accounts;
- Internal Control Rules for counteraction to the legalization (laundering) of money obtained through criminal means and financing of terrorism.

## Health and Safety Management System

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

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

The Company operates a two-tier system of H&S management, focused on creating a safe working environment, prevention of occupational injuries and personnel training of safe work rules.

The following is provided within the program:

- special evaluation of labor conditions and production monitoring, with the purpose to identify and minimize risks;
- medical examination;

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

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

During the reporting period, MTS PJSC held preventive and periodic medical examinations of 3,021 and 8,301 employees, respectively. Following the results of periodical medical examinations, 35 employees needed transfer to another work – their functionalities were accordingly amended; health resort treatment was recommended to 52 employees, which they were able to get at the expense of the Company's funds.

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

For more details see section [Occupational Health&Safety](#).

## Human Rights at the Workplace

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

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

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

MTS understands that the Company's activities can have a negative impact on human rights with regards to local population, including tribal and indigenous people and makes every effort to minimize such adverse effect.

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

- An informational video commercial – address of MTS top management regarding the responsible conduct of business and transparent supply chains – has been developed for MTS suppliers.

- Certified training in “Corporate Social Activity Management” has been conducted for suppliers within the framework of the Day of MTS Suppliers, 130 representatives of MTS partners completed the training.
- An informational video commercial – address of MTS top management – “Simply about Important Things: CSR” has been developed for MTS employees regarding the CSR, particularly, human rights.
- Supplements to Policy “MTS Activities in the Field of Corporate Social Responsibility”, in particular, Annex to the Policy “Human Rights” have been developed.
- Certified training have been conducted for MTS regional employees and employees of functional divisions that participate in the implementation of CSR projects (including issues of respect for rights of employees) on the subject: “Corporate Social Responsibility”.

### Key principles for observance of human rights, by which MTS is guided in its activities:

- equal opportunities and treatment under the labor and employment conditions;
- freedom of associations;
- renunciation of bound and forced labor;
- renunciation of child labor;
- non-discrimination;
- non-discrimination by disability with respect to all issues related to all forms of employment;
- protection, support of family, maternity, paternity and childhood;
- safe working conditions;
- education.

- Independent audit of MTS internal processes was held on working, responding and eliminating possible disputable situations on human rights issues.
- In the area “Human Rights at the Workplace”, risks were evaluated at the level of business processes, the relevant risk map was developed.

In the reporting period, the Single Hotline received 13 messages related to observance of rights of employees at their workplaces. All claims were settled in the regular course of business.

Targets for 2018:

- approval of a new version of PT-080 Policy for Corporate Social Responsibility Activities, in particular appendices to the Policy, which are dedicated to human rights;
- making a video for MTS' employees on human rights at the workplace;
- working on the risk map.

## Ecology

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

Within development of the “Ecology” compliance program, in 2017 the MTS Environmental Safety and Environment Protection Policy was developed, which

reflects the position of the Company in respect to the environment at facilities of administrative purpose and implementation of sustainability principles in the current context, and is also the basis for determination of MTS development strategy, scheduling of Company’s business in the sphere of environmental protection in the short and mid run. Internal programs for employees are also important in order to attract their attention to issues of environmental protection.

For more details see section [Environment](#).

# Responsible supply chain

Procurement management is intended to maximize the Company's business expansion, achieve the full satisfaction of the client's needs and offer the best value for money.

MTS builds its relationships with suppliers based on the principles of good faith, integrity and transparency. To that end, we enhance our sound business relations both within the Company and with our contractors.

Procurement at the Company is in compliance with the special policy developed as required by regulatory authorities and is focused on the efficient use of cash and increase of competition and transparency. The equal access to the procurement procedure is ensured by preemptively using equal competitive opportunities and unified rules for all participants of the procedure. The MTS Procurement Rules and Code of Business Conduct of the Supplier are available to any supplier on our website in the Procurement section <https://tenders.mts.ru/>.

The Company's Code of Business Conduct of the Supplier (<http://ir.mts.ru/about-mts/mts-at-a-glance/compliance-and-business-ethics/default.aspx>) describes the minimum standards expected to be observed by suppliers. Apart from good faith and integrity, the Code highlights the significance of compliance by suppliers with environment protection laws.

E-mail addresses of the lines for supplier feedback are available on MTS website to obtain information about the terms of participation in procurement procedures and prevention of procurement violations:

- [buz@mts.ru](mailto:buz@mts.ru) is the line of the Procurement Management Unit, part of the Single Hotline, used for sending messages about delivery of the products made and services rendered as well as about participation in procurement procedures. The employees of the Strategic Development and Procurement Planning Department take care of the messages coming to the line. In 2017, 334 messages from the current and potential suppliers came to the line (6 messages a week on average). All the messages were taken

care of and our partners received comprehensive answers on the subject of the message;

- [control&audit@mts.ru](mailto:control&audit@mts.ru) is a line of the Internal Control and Audit Unit, part of the Single Hotline, used for receiving messages on violations in procurement area. The employees of the Control Department take care of the messages on violations in procurement area coming to this line;
- The e-mail address for suppliers' questions and consultation of the suppliers on navigation in the Procurement Procedure Newsletter Opt-In System on the Procurement portal is [tendersmail@mts.ru](mailto:tendersmail@mts.ru). Within the reporting period, 213 messages (some 4 messages a week on average) came from the current and potential suppliers. We advise our partners on all their inquiries and explain how to work with the Newsletter Opt-In System;

The Procurement Procedure Participant's Questionnaire includes a section with a questionnaire on the Corporate Social Responsibility (CSR). The section includes both general questions related to application of the CSR standards by the contractor and questions on occupational health and safety, and environmental protection. The questionnaire is mandatory for all the MTS PJSC contractors.

In 2017, an automated CSR poll was conducted, when signing up new suppliers to the MTS PJSC electronic procurement system.

A questionnaire for English-speaking suppliers was developed. It is planned to be implemented soon in the IT system, along with the Russian version.

**New on the Procurement portal in 2017:**

- Information for Contractors section containing information on cities with warehouses and recycling companies was added;
- a framework agreement with MTS was shared;
- the following links were added:
  - to MTS Trading Platform [torg.mts.ru](http://torg.mts.ru), through which MTS sells its property to legal entities;
  - Conflict Commission section on Sistema website.

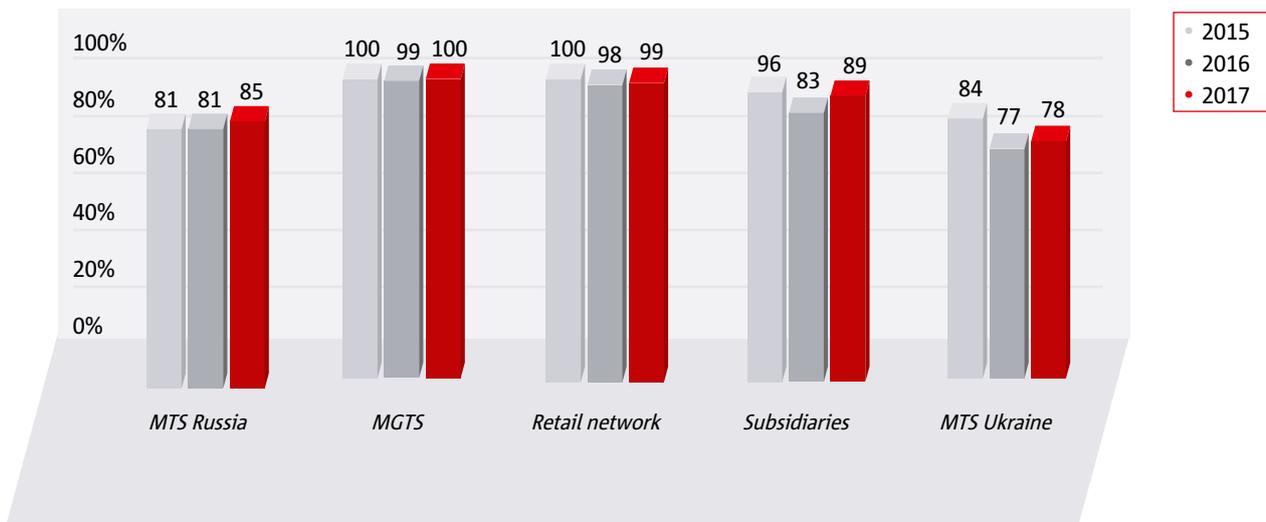
- Procurement portal <http://tenders.mts.ru> is a system for publishing and mailing the notifications on procurement procedures and is used to register the suppliers and post information on commencement/prolongation/closure of open and closed procurement procedures. In 2017 3,180 notifications were published by employees of the Procurement Management Unit on the procurement portal. The number of suppliers that signed up for the notifications of procurement procedures in the reporting period amounted to 980. The total number of suppliers that joined this mailing list as of the end of 2017 was 9,880.

Oracle Sourcing module of the IT system allowing the Company to make 100% of procurements in electronic format was introduced in MTS. Oracle Sourcing is an integrated ERP solution, which automates the supplier selection process, including electronic trading on own electronic trading platform.

Total amount of procurements made electronically exceeded 104 billion rubles in 2017. Electronic procurements resulted in 9% of savings from procurement activities (based on results of certain procurement projects — up to 20%). Regulatory deadlines for procurements and contract signing procedures were developed and approved in 2017 to measure the "timing" indicator with more than 80% of procurements having been made in compliance with pre-set target deadlines. The procurement planning system was improved by 13% compared to the previous year and 74% of procurements from the total volume were made in accordance with the schedule. At the same time, certain project procurements are made "out of schedule".

We always aim to purchase services and products from local suppliers, thereby promoting economic development in the regions and countries of MTS presence.

**Local suppliers share<sup>1</sup>, %**



<sup>1</sup> In terms of this Report local supplier is defined as an enterprise, the address of which coincides with the address of a company of the MTS Group. Thus, the suppliers from Ukraine are considered local for MTS Ukraine.

## Key Results of Procurement Management System Enhancement in 2017:

- a business process was developed to deal with insolvent contractors or contractors at the pre-bankruptcy stage. A regular bankruptcy committee was established;
- a pre-qualification procedure to select a contractor for construction of the fixed network was specified;
- OEBS electronic order system was finalized with regards to coordination of the results of additional procurements and changes in existing procurements;
- criteria were developed to recognize the equipment as unclaimed. An Internet platform for sale of unclaimed equipment MTS Trading Platform was created. The range of goods for sale on the platform is being expanded. In 2017, revenue amounted to around 61 million rubles, and total winning rates reached 177 million rubles;
- to optimize the cost of technical maintenance and repairs in the Radio Network category, part of equipment repair services was transferred from the vendor to an outsourced provider. Potential savings will exceed 12 million US dollars per 3 years;
- a procedure for advance payments under the mutually beneficial contractual conditions with vendors on SbS was developed;
- changes were introduced into the factoring procedure: to exclude from the Factor Interaction pattern requests for confirmation of fulfillment of obligations under orders, which included assignment of rights for collection of receivables, OEBS was finalized to prepare and send to the email address of LLC Factoring Laboratory (info@fc-lf.ru) a weekly MTS report, the Factoring Agreement;
- a responsibility assignment matrix was developed for the external training organization procedure;
- a risk map has been developed for all processes.

**Vendor** is a company supplying/manufacturing goods and services under own widely promoted trademark.

**Software by Subscription, SbS** sales pattern is a new business model, which became technically possible due to huge development of the network infrastructure over the last few years and which offers only temporary subscription for the product unlike models for sale of software with perpetual license, which have already become traditional.

Now, the user has a flexible opportunity to pay for only one month (quarter or year) to use the desired software with the right to unsubscribe any time.

**Factoring** (factor — intermediary, sales agent) is a set of financial services for producers and suppliers making sales on a deferred payment basis.

The factoring operation usually includes three parties:

- factor (factoring company or bank) as an order buyer;
- supplier of goods (creditor);
- buyer of goods (debtor).

## Joint procurement

MTS makes joint procurements with a number of partners. Apart from economic benefits, unification of technical and functional requirements, approaches and methods is achieved in the framework of cooperation.

In 2017, together with MTS Bank procurements were made for a total amount of more than 1 billion rubles

in the following categories: Marketing, IT, Services, and Subscriber Equipment. Savings amounted to some 9.5%.

Procurements in the Marketing category were made from Ozon, Medsi, Leader-Invest, Binnopharm, LitRes.

## Supplier–customer satisfaction model

Supplier–Customer Relationship Satisfaction Model is formed on the results of the annual poll conducted among suppliers and the annual supplier assessment. This model is built using the NPS (Net Promoter Score) method by comparison of two loyalty factors:

- loyalty factor (NPS grade) measured based on the results of the Voice of the Supplier poll, which is a supplier's assessment of MTS PJSC;
- loyalty factor (NPS grade) measured based on the results of the Annual Supplier Assessment, which is an MTS PJSC assessment of suppliers.

This model provides insight into the supplier–customer mutual cross-evaluation and helps to identify negative factors preventing from effective and mutually beneficial cooperation.

The 2017 model demonstrated a high level of satisfaction from both parties. At the same time, certain areas were identified, where either supplier or customer were not completely satisfied with these areas to be treated with special attention to improve the quality of MTS PJSC interaction with the suppliers.

Based on the poll results, the overall NPS Grade remained at a rather high level in 2017:

- NPS 2017 – 76.16% – Grade A (Excellent);
- NPS 2016 – 81.00% – Grade A (Excellent).

In 2017, Voice of the Supplier was conducted among suppliers, including with the breakdown by question categories. The NPS Grade in the Efficiency category received the highest score of 88.63% — Grade A (Excellent).

In the course of the poll, development areas were identified for MTS as a customer that are included into the plan of actions aimed at optimizing and improving the Company's operations and increasing the level of interaction with suppliers.

## Annual supplier assessment

In addition to the poll of suppliers, MTS PJSC carries out their annual assessment. The assessment is performed by Company employees throughout Russia, who interacted with suppliers during their work in the reporting period.

General performance assessment of suppliers increased significantly compared to the previous year:

- NPS 2017 – 80.7% – Grade A (Excellent);
- NPS 2016 – 70.9% – Grade AB (Good).

A significant increase of the grade compared to the previous year is observed in the categories of Commercial Issues — by 11.7%, and Cooperation — 11.8%.

## Annual supplier poll

MTS PJSC conducts the annual supplier poll Voice of the Supplier. This process is part of the Company's Supplier Management System and a way of developing relationships with suppliers. The poll provides the Company with feedback, helps to identify inefficient processes and bottlenecks in organization of procurement and supplies, as well as to form proposals for their optimization.

## Rewarding the best suppliers

In 2017, MTS decided to move away from the usual form of awarding the winning suppliers and not to hand over the cups.

Having considered several awarding alternatives, the Company opted for providing of 1 free training at choice at the MTS Corporate University for employees of the winning companies:

- Igtel LLC — System Thinking course — 5 people;
- LLC ZTI-Svyaztekhnologii Corporation — Negotiation Technique course — 17 people;
- Everest-S CJSC — Leadership in Changes Management course — 17 people.

In 2017, 320 suppliers were assessed in the following categories: Equipment, IT, Marketing, Subscriber Equipment, and Services. 886 employees participated in the assessment, 2.5 times exceeding the number of participants in the previous year.

Results of the Annual Supplier Assessment are used in MTS:

- when selecting candidates and winners in the nominations Quality Supplier, Reliability Supplier, and Supplier of the Year for their awarding at Day of MTS' Supplier;

- when selecting a supplier in the course of procurement procedures.

Suppliers with grades A and AB receive MTS Supplier Certificate, as well as an individual file with assessment results by all assessment criteria, including information on those interaction areas which require improvement. Companies are selected among suppliers who received low grades to conduct an audit of their quality management system.

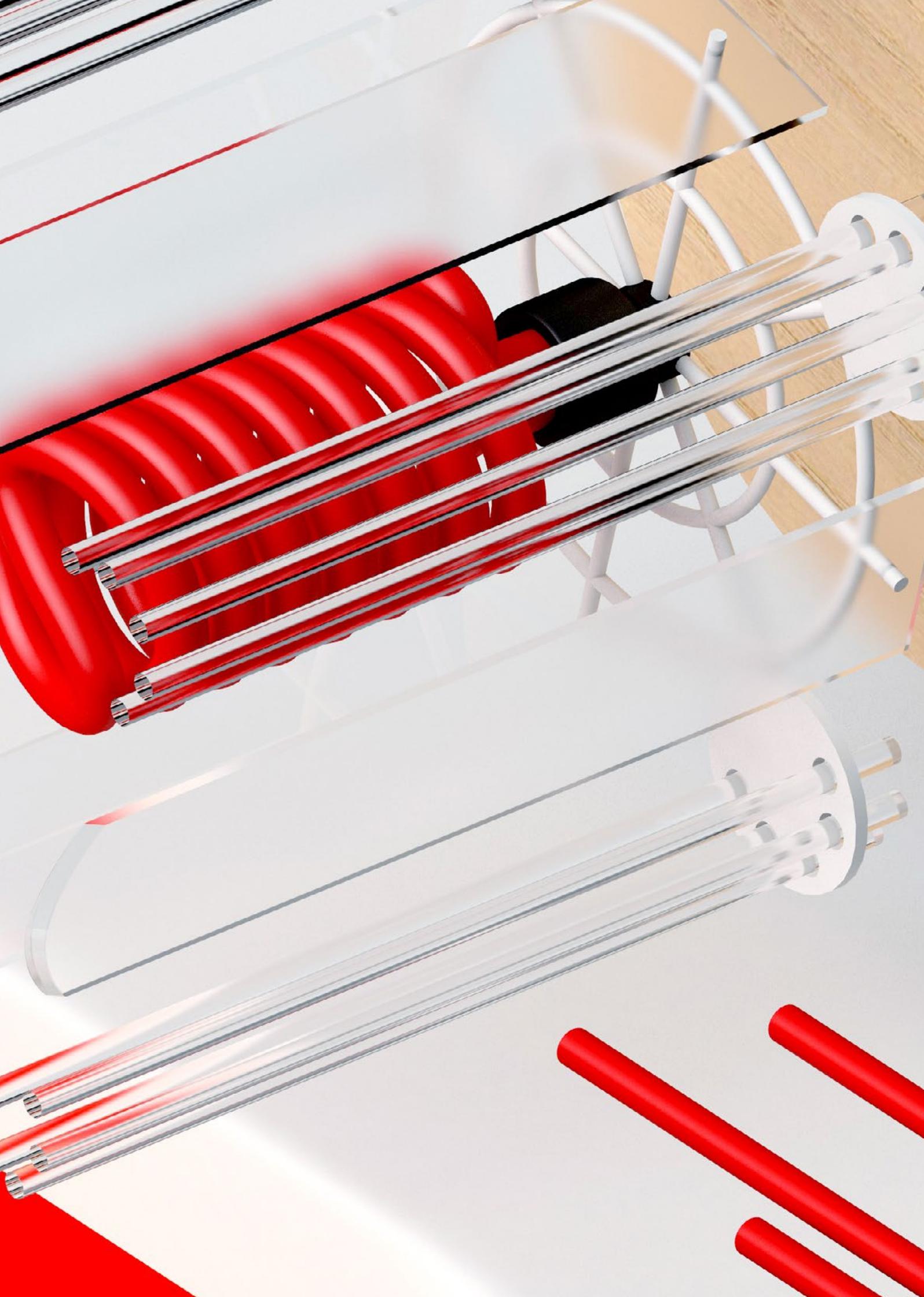
## 2018 targets for enhancement of the procurement management system

- using intelligent technologies in procurements;
- searching for possibilities to develop competition, forecasting the price level for new technologies, defining the optimal cost for technical support and repair in the Radio Network category;
- further development of the Internet platform for sale of unclaimed equipment, which will allow: selling the unclaimed equipment stock at 600 million rubles and promoting the marketplace for B2B & B2C.

On December 6, 2017, MTS was awarded the High Transparency Certificate and occupied a higher position compared to VimpelCom and MegaFon following the results of participation in the National Procurement Transparency Rating 2017.

# Innovations

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# Innovative Approach

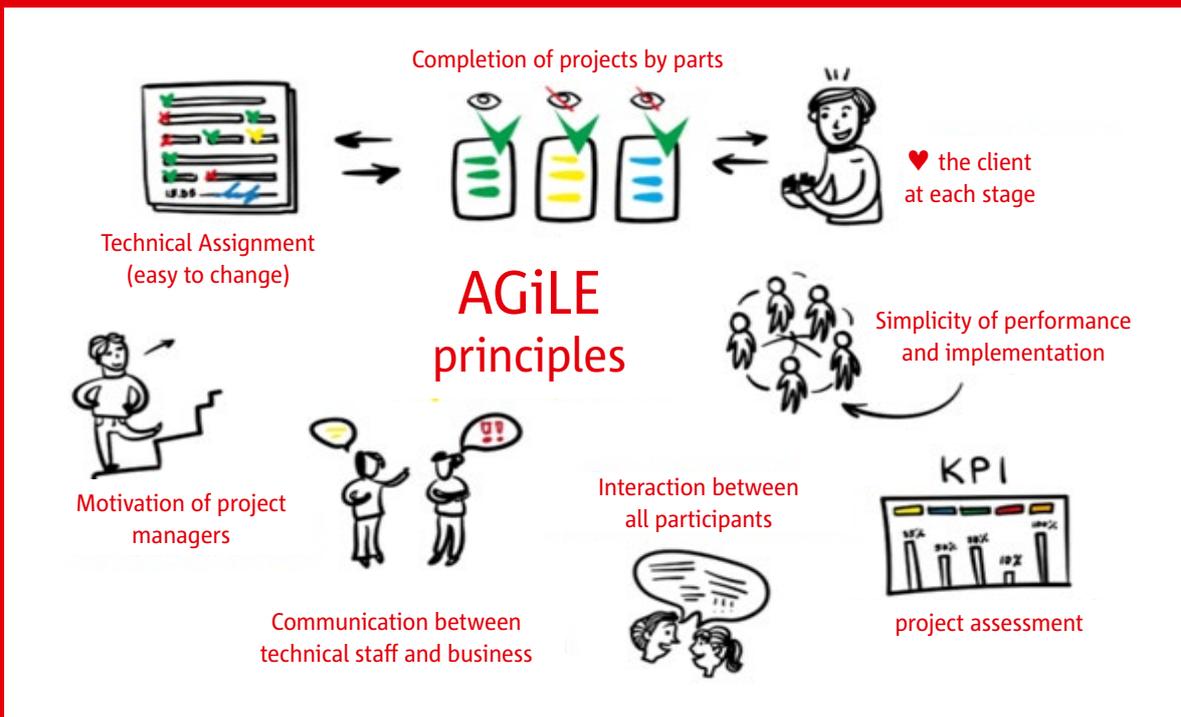


Days of telecommunication business are gone — the future belongs to software companies. Today, the key target of MTS is business transformation. MTS' evolution from a communications service provider to a digital company is impossible without the efficient management of changes and innovations.

Striving to provide our clients with the most convenient services, MTS is systematically developing innovative products and is in constant search of new applications for cellular services, making the life of each subscriber more comfortable and the business of corporate clients more efficient.

The Company successfully develops on the digital market, has more than 25 own mobile applications, and offers cloud services and IoT solutions. This market sets a quick pace of adaptation to changes. Under given conditions the only true strategy is to search for new growth points and to find new areas, which are important for business development.

**Agile software development**, a flexible development methodology, is an iterative software development by full-featured working groups consisting of specialists of different profiles. It allows focusing on creation of a business value in the rapidly changing world.



The Committee for Launching New Products and Services is the main governing body for development and introduction of new products. Any idea having passed the expert “sieve” and the calculation of its commercial appeal is considered by the Committee members, including representatives of the Company’s various departments and units.

In 2016, MTS established a new structural unit — the Innovations Center — engaged in invention, development and testing of promising technologies, which can change our work, business and daily lives already tomorrow.

Functions of the unique unit include searching for the most promising points of effort, launching of pilot projects and further translation of their functions into the Company’s operating divisions. The Innovations Center forms a team for each field, which is comprised of the existing employees of MTS Group, including not only MTS, but also its subsidiaries, such as MGTS, NVision Group, MTS Bank and others.

Innovation and focus on the client and speed of decision-making have always been and remain key performance indicators for each MTS employee. Therefore, in order to become even more flexible and quick we only had to make a few small steps. The Company has been reducing vertical steps in its structure for a long time already with no employee having to deal with dozens of parties issuing approvals. However, we have set ourselves an ambitious goal: to reduce the number of parties issuing approvals to two people and the approval period to one or two hours, even if it refers to the most sensitive case of budget allocation. And now we managed to implement it based on our own Innovation Center. This is something like a start-up under the wing of a big company.

When developing new products, MTS uses Agile technology, which has proved itself at the international level.

## Work for the future

MTS not only develops technologies for the future, but also trains human resources for its research laboratories. For this purpose, the Innovation Center’s team participates in various educational programs, actively cooperates with the Skolkovo Foundation and the Internet Initiatives Development Fund, and visits universities.

We are looking for talented students, attract them for participation in our projects, offer them challenging tasks and help them to develop. Everybody gains from such an approach: MTS receives fresh ideas and students obtain experience, which will be useful for them in their future career.



### Interaction with universities:

- joint master’s degree program for intelligent medical systems in cooperation with Moscow Polytechnic University;
- agreement on cooperation with the Far Eastern Federal University: MTS became a member of the Consortium of the National Technology Initiative Competence Center for neurotechnology, virtual and augmented reality established on the basis of the university.



## Contribution to digital Russia

In July 2017, a program Digital Economy of the Russian Federation was adopted by the governmental decree. The program is intended for systematic development and introduction of digital technologies into all areas of life. The program is scheduled for implementation by 2024.

ANO Digital Economy approved by leading digital economy companies forms part of the program implementation control system.

Autonomous Non-Profit Organization Digital Economy was established to render services for development of the digital economy in the Russian Federation, in particular by means of supporting important social projects and initiatives in this area, as well as coordinating interaction between the business community in the area of digital economy, scientific and educational institutions, other communities and the state authorities.

Although ANO Digital Economy was established in October 2017, the following action plans have already been coordinated by December:

- regulatory control;
- establishing research competencies and technological reserves;
- information infrastructure;

- information security;
- human resources and education.

MTS is one of the founders of ANO Digital Economy, with this fact positioning us once again as a proactive company with a strategic mindset. We are one step ahead, as usual.

Ruslan Ibragimov, Member of the Management Board, Vice-President of MTS PJSC for Corporate and Legal Issues heads regulatory control being one of the program areas. Members of his team and colleagues from other MTS' divisions and units participate on a regular basis in working groups in all areas of the program Digital Economy of the Russian Federation (regulatory control, infrastructure, information security, human resources and education, technological reserves).

At the beginning of 2018, a Legal Innovations Center was established within the Company as a special legal division forming part of the Corporate and Legal Issues unit headed by Ruslan Ibragimov. This division provides comprehensive legal support for MTS' innovative projects and ensures the Company's participation in development of favorable regulatory and legal conditions for effective business operations in the digital economy in Russia.

# Digital Innovations

Over the past few years, digitalization affected almost all major industries: we arrange our visits to the doctor in the Internet, call a taxi using mobile applications, and do online shopping staying at home. Market leaders can become outsiders in an instant if they do not follow the world trends for digital innovations. MTS not only reacts to changes in the world around and guides them, but also sets trends on its own.



We see growth opportunities in search for new businesses related to digital reality and have identified a number of areas being of the highest priority for us.



## Internet of Things

In the near future, the Internet of Things (IoT) and the machine-to-machine (M2M) market will be one of the growth areas for telecommunication companies. As a basis for innovation, the IoT/M2M area develops solutions from simple water meters to smart city projects. For standardization of the IoT security, MTS PJSC participated in the 17th Information Security Research Committee of the UN International Telecommunication Union.

Responding to requests of business and the society, MTS implements a number of services and products, which make life easier.

### Data Telemetry

It is a service for monitoring remote objects, utility metering and remote technological equipment control.

Data Telemetry provides several valuable solutions for business:

- prevention of failures and emergency situations;
- automated collection of readings;

- operation and maintenance quality control;
- lower operating costs;
- new services for own clients.

## 5.5 mln SIM cards

MTS is the leader of the IoT/M2M market in Russia

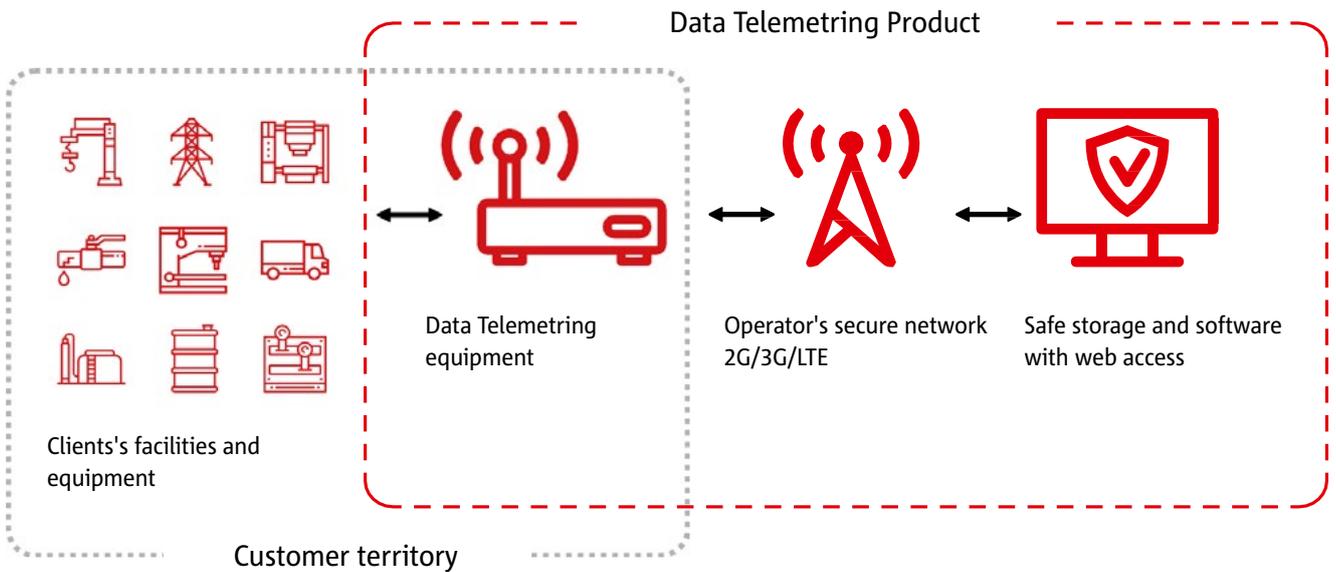
### Internet of Things

is the concept of a computer network of physical entities ("things") equipped with built-in technologies for interaction with each other or with the external environment and considering organization of such networks as a phenomenon, which can restructure economic and social processes by means of excluding human participation from certain actions and operations.

### M2M

is the common name for technologies enabling various devices to exchange information between each other or to transmit it in one direction.

General technical scheme



Service application:

- Housing and utility: "smart apartment" service provided to residents based on the own service and Telemetry.
- Production: energy metering and safety system control. Monitoring of production equipment by built-in sensors.
- Retail: monitoring of operation of refrigeration equipment, preventing violation of temperature conditions.
- Agriculture: monitoring of climatic parameters of the shed, working capacity of livestock life-support systems, entry into premises, and timely warning of emergency situations.

- displaying set tasks on the map and in a table form;
- monitoring fulfillment of tasks in real time or based on the report data;
- confirming arrival of the employee to the specified facility ("notice");
- view of a detailed history of performed tasks linked to the map.

For employees:

- displaying the list of assigned tasks on the phone screen;
- displaying detailed information about the task, such as an address, date, priority, client contacts, and important comments;
- convenient control of the task status: "accept", "reject", "complete";

**MTS Coordinator**

MTS Coordinator application developed for mobile phones based on Android and iOS and integrated with Mobile Employees service offers management and planning of functions for traveling employees.

For dispatchers/managers:

- planning tasks for employees, both in advance and based on the operational situation and current location of employees;

- viewing own tasks on the map and the possibility to use navigation to build a route to the destination point (order, task);
- commenting on the task progress;
- arrival notice.

## MTS Cash Desk



This is a ready end-to-end solution developed in compliance with Federal Law No. 54-FZ dated May 22, 2003 "On application of cash register equipment for cash settlements and (or) settlements using electronic payment instruments", which suits perfectly for small and medium business, such as retail outlets, services sector, any kinds of itinerant trade, as well as courier services. Class 5 Smart Terminal by MTS is included into the register of cash register equipment.

### Features and functionality:

- discounts and operations with loyalty cards;
- pricing;
- deferred cash receipt;
- bar-code scanner;
- reporting;
- collection of cash funds;
- integration with the POS equipment and sale by bar-codes or names;
- quick search of goods using the Favorites panel (up to 10 screens);
- shift closing;
- quick addition of goods;
- global goods directory;
- data exchange;
- stock control;
- remote connection through the cash register interface.

In October 2017, MTS purchased a share in the authorized capital of Cloud Retail LLC (LiteBox trademark), the Russian developer of software for retail. This transaction introduces MTS to the cloud cash register market as a provider of ready-made solutions for cash servicing of business customers.

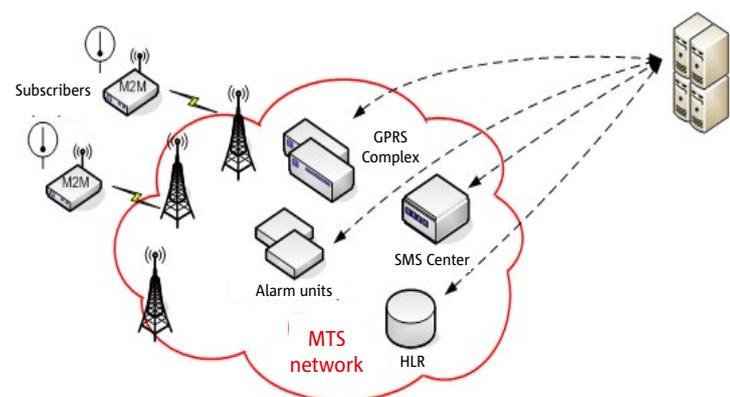
## M2M Manager

The M2M Manager service provides MTS' clients with broad capabilities to monitor remote M2M devices in real time. In particular, M2M Manager gives an opportunity to obtain objective and complete status, statistical and other information about operation of SIM cards in remote devices and equipment.

### Functionality:

- getting information about the SIM card status;
- managing accessible communication channels;
- expenditure control;
- diagnostics;
- notification settings by events.
- SIM card location;
- sending SMS to devices;
- IMSI-IMEI (TAC) conformity control.

## M2M Manager platform



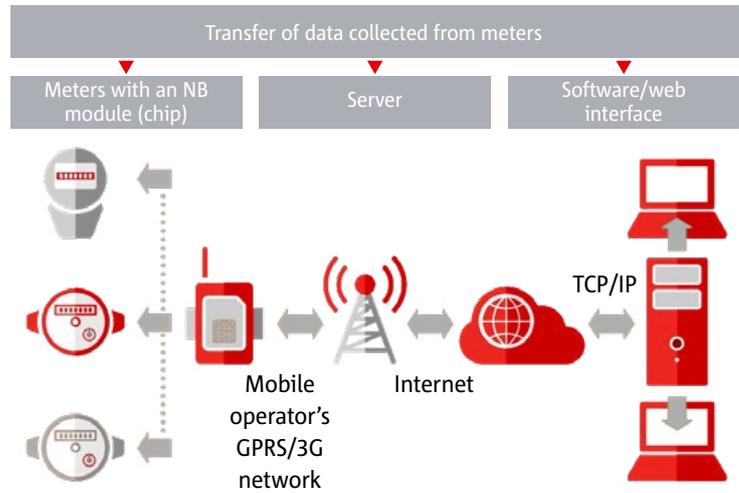
## NB-IoT project in Belarus

In 2017, Mobile TeleSystems PJSC was authorized by the State Radio Frequency Commission to operate the network for the Internet using NarrowBand Internet of Things standard and started preparation of a pilot area.

The main elements of the MTS ecosystem are the radio access network and the cloud platform to handle traffic and data storage.

The focus in the pilot area organization was the implementation of a cloud-based system for dispatching and automation of data collected from gas, heat, water and electricity meters.

### How it works



### Secure data transfer (APN)

This service provides secure remote access to the Company's information resources through packet data channels (GPRS).

Having connected this service, the client will be able to:

- provide own employees with secure remote access to the corporate network (an Internet site, databases, file resources, corporate mail, applications);
- ensure secure connection of remote equipment (ATMs, payment terminals, sensors and meters, vending and game machines, as well as other telematic equipment) for data exchange between each other and the Company;
- control access to information provided to employees to the full extent.

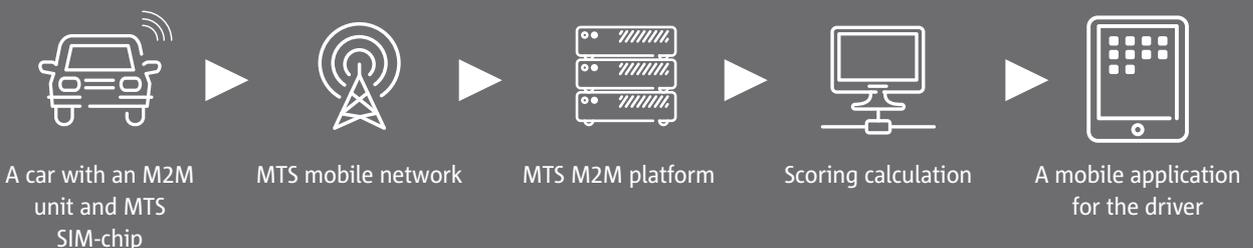
### Smart vehicle insurance

This is a Russian version of the Pay How You Drive principle. MTS partnership in the area of Internet of Things makes it possible to run smart insurance programs, which are based not on the standard recording of the accident rate, but on the driver's personal characteristics.

Telematic insurance services were implemented earlier for "young" and "experienced" drivers with the franchise depending on the driving style. When choosing a cashback option, the driver receives a partial refund of the insurance price for defensive driving.

MTS is a driver of the market, offering new types of insurance. For instance, a new insurance product – the mileage – was launched in 2017. The client pays the insurance policy with a limited mileage (for example, 5,000 km). When the limit is reached, the system informs the client thereof and offers to "buy" extra miles. At the same time, the cost of the next batch of kilometers may be reduced, provided that the grade is good.

### Data collection and aggregation



## Big Data

Big Data development is one of the key areas of MTS' digital strategy. Big Data is the extraction of useful information from huge volumes of diverse data. MTS has accumulated a huge amount of such data, that continues to grow.

In fact, all the MTS data serve as a basis for developing useful services for customers and improving the quality of these services. By collecting and analyzing big data, we can create brand new products, understand how to improve existing business processes and products, how to optimize or make them more efficient, and how to make more or save money. At the end of 2017, the cumulative effect of Big Data products amounted to 1.6 billion rubles, which is three times more than in 2016.

Information that has been collected for years is part of our assets.

MTS' Big Data is used to determine the best locations for business:

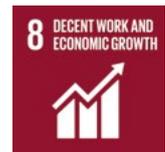
- social and demographic characteristics;
- types of devices;
- volumes of voice and mobile Internet traffic;
- time spent by subscribers in the area of the potential shop opening;
- points of financial activity;
- concentration of the digital environment, the most popular Internet resources.

### Time management system for retail employees

In April 2017, MTS launched a Workforce Management project (WFM). It is an automated system that allows optimal using of human resources while increasing their efficiency and productivity.

MTS uses the WFM system for scheduling the work of retail employees. To this end, a number of mathematical and optimization models that form the necessary staff were created, a working schedule is drawn up for each employee in accordance with the flow of customers at the sales office. This project takes into account numerous conditions and restrictions, such as load, shift requests, unscheduled vacation, sickness, shift replacements, etc.

Today, about 1,150 sales offices operate based on the WFM system. In the first half of 2018, it is planned to integrate the system into all shops of Russia.



**Big Data** is a series of approaches to handle huge data volumes and a significant diversity in order to get perceived results.

### MTS' Big Data for the development of Moscow

- Change in the number and density of population
- Underground load
- Matrix of change of the place of residence
- Dynamics of summer residents' motion
- Labor migration
- Duration of trips
- Transit flows

## Troubleshooting network problems

In August 2017, MTS launched an internal Big Data project to analyze the client feedback regarding the quality of mobile communication. Based on the project results, 10 new base stations were built in 2017, and it is planned to build about 100 stations in 2018.

This system aggregates all available impersonal information about locations where clients could experience problems. Among the sources there are both internal databases (inquiries to the call center, offices and via the website) and external crowdsources (for example, measuring the speed of the mobile Internet traffic using popular applications). Mathematical modeling

and geo-analytical tools are used to process the data for specific locations. Based on the information on intensity of negative events in certain locations as compared to statistical expectations, the model identifies a "problem" area and information about this area is transferred to technicians.

The introduction of this approach enabled us to concentrate investments on improving the quality of communications in areas that are most requested by customers, and, thus, to improve their perception of quality of MTS' communication.

## Big Data Lab

Vodafone held an unprecedented Big Data Lab project in Ukraine to create a coherent viable and successful ecosystem of entrepreneurship based on Big Data tools, and to form a Big Data market in Ukraine.

The project participants had access to an array of real data for developing practical skills and creating new projects. Based on these data, developers and analysts have created solutions that give answers to real-world challenges and business needs of the city and of every Ukrainian.

Big Data Lab included several phases of big data processing:

- registration and qualification testing of candidates (more than 1,500 applications);
- educational kick-off meeting for participants, admitted to work (over 600 people);
- 2-day hackathon to develop project ideas/solutions (205 specialists and 34 teams);
- 2-month business accelerator for the development of projects with participation of mentors (14 teams and 22 mentors);
- final pitching in front of potential investors.

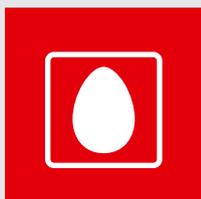
## Financial services

The financial services market is undergoing transformation worldwide. Smartphone applications replace cash and plastic cards; in some regions of the world they are already the main payment method. MTS believes that the potential of multiple growth of fintech applications is not so much due to increase of payments turnover, but rather to the evolution of data processing systems based on Big Data principles.

The key areas for MTS are: expanding the functionality of MTS Money mobile wallet, improving the penetration of financial services in the subscriber base, integrating the payment, bank and investment products into a single user interface.

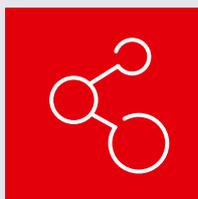
### MTS Money

MTS Money mobile wallet is the first financial marketplace from a mobile operator in Russia. This payment service is an integration of technical capabilities of MTS as a mobile operator and financial services of MTS Bank.



#### MTS

- Standard services of the operator (account replenishment)
- Automatic payments
- Scoring



#### Joint products

- MTS Money cards
- MTS POS
- NFC



#### MTS Bank

- Bank cards
- Deposits
- Remote services
- Acquiring



#### MTS Money e-wallet

- Payments and money transfers
- Standard banking products
- POS-lending and microlending
- User identification
- Online and offline payment

**22.4 bln RUB**

turnover of MTS Money service in 2017

**9.7%**

coverage of Wallet MTS Money service in MTS' subscriber base in 2017

## Mobile applications

MTS believes that a key challenge for the near future is to increase penetration of its services and a number of its users, achieve closer cooperation with clients, understand better their needs, and accumulate an array of primary data.

Therefore, a significant increase in the popularity of smartphones as a primary device to access the entire range of mobile applications (OTT, Over the Top) should be noted. Having a full-fledged mobile version becomes essential to successfully implement any OTT project, which in turn has a positive impact on the amount of mobile data traffic consumption.

MTS sells more than 25 applications focused on entertainment (music, video, games, communication) and the so-called direction of "smart life", including the following elements: house, car, transport, and security.

In addition to developing our own products, we interact with other market participants, together providing the best customer experience for our users.



### Key areas of OTT development:

- Entertainment
- Communication services
- Services for life

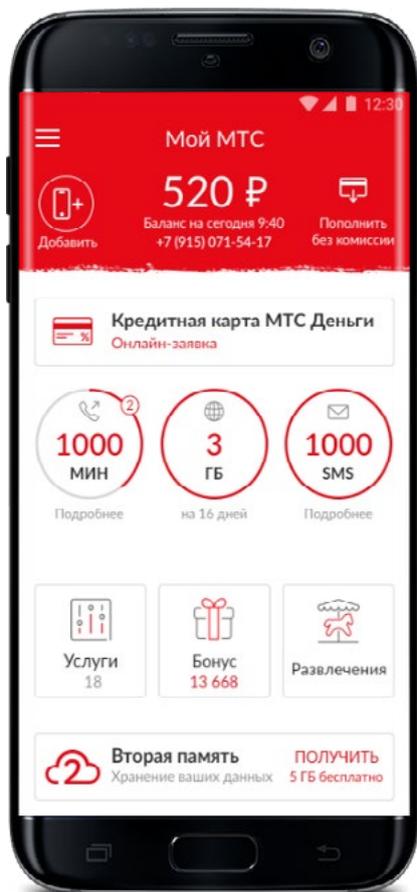
**12.6 mln** monthly users

**26** applications

## My MTS

My MTS self-service application takes a leading position among applications of Russian operators. It allows controlling expenses and the balance of minutes, SMS, and Internet traffic. Using the application, the customer can connect or disconnect the service in a few clicks (e.g. roaming when traveling), see his tariff rate, choose a more profitable tariff or move on to another one.

My MTS is a unique channel of communication with customers and a cross-sales tool for other digital MTS' services.



Upgrade in 2017:

- the possibility of account replenishment using Apple Pay;
  - integration with the online store; each user gets unique proposals for the purchase of a smartphone;
  - integration with MTS Cashback service;
  - launch of Cost Control service with visualization of expenditures for each area;
  - integration with MTS Bank, the possibility of applying for a card of MTS Bank was added.
- **Tariff management**
  - **Control over expenditures**
  - **Account replenishment**
  - **Services management**
  - **Visualization of the package balance**
  - **Detailing of expenditures by areas**
  - **Bonuses management**
  - **Ability to measure the speed of the Internet connection**
  - **Entertainment Center**
  - **Access to unique offers of MTS' online store**

**9.5 mln** monthly users

**26.2%** penetration rate of the application in the subscriber base (smartphones, tablets and other digital devices)

**4.5** average rating in the apple store and play market

## Second memory

It is a cloud service for storing and sharing data. The application provides access to all user content from all devices, allows sorting bright moments by time and location, and share the content and whole albums

**2 mln** users in 2017

with friends and family. Second Memory has become a central element for combining digital services in WEB and multiaccount services.

In 2017, Cloud DVR was added to the application, which helped to keep the file with recorded data in the safe cloud. Moreover, integration with messengers and Gmail was realized in the reporting year.

## E-commerce

The growth of e-commerce is a common global trend, which is accompanied by an overall change in patterns of goods and services consumption, virtualization of the purchasing process, a gradual shift of shops from the real world onto a PC, tablet, and mobile phone display. We can see a combination of electronic marketplaces, social networks and new technological tools based on a deep analysis of consumer behavior. The Big Data principles are used as a basis for developing new rules of the game in such areas as marketing, advertising, and sales growth.

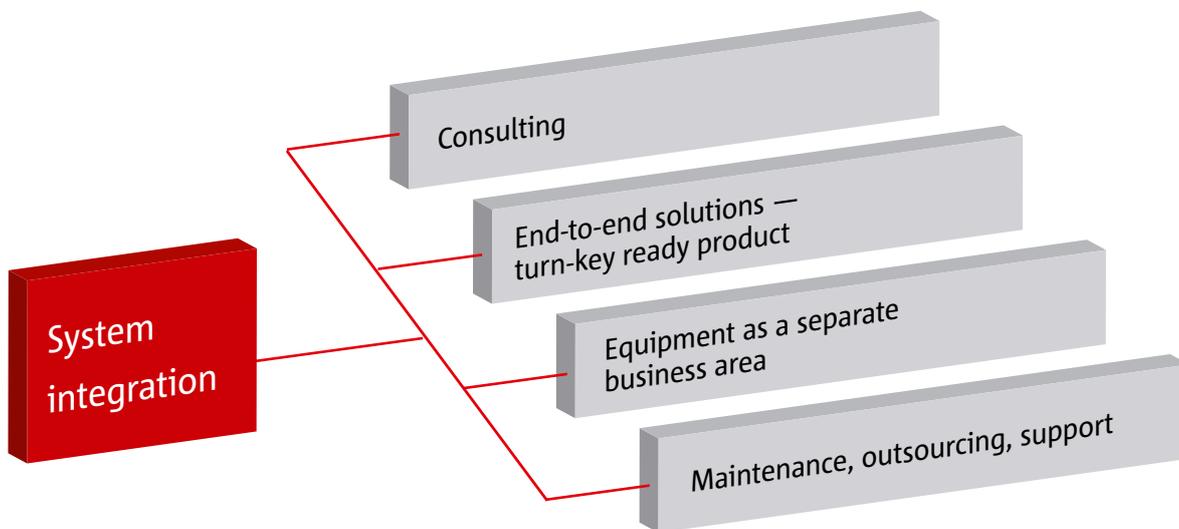
Today, a popular blogger can publish a post that may generate a rush for the product, which in the same conditions could stay unnoticed, and the market participants take this new reality in consideration and use it in their favor.

Development of the online store as an e-commerce channel for sale of the whole range of MTS' products remains our priority in e-commerce business. We also expand our participation in this market through the implementation of a well-balanced mergers and acquisitions policy (M&A) in relation to promising businesses confidently demonstrating good operating results.

In February 2018, MTS acquired two ticket operators, which are also subjects of the e-commerce market: Ticketland.ru and Ponominalu.ru. These transactions allowed the Company to confidently enter a new entertainment market – today, MTS controls a quarter of the sales of theater and concert tickets in Russia. MTS uses this profitable acquisition as an additional channel for attracting clients and plans to expand its ecosystem of mobile applications with a new functionality for purchasing tickets in mobile devices.

According to the research of Economy of Runet – 2017, the size of e-commerce market in 2017 was estimated to be 1.73 trillion rubles with an annual growth rate of 26%.

## System integration



Thanks to the valuable acquisition, MTS demonstrates encouraging results on the system integration market. Today, we offer our customers a full range of innovative hi-tech services from the “one-stop shop”: IT consulting, development and implementation of comprehensive integration solutions (including mobile and fixed communication channels, full-cycle M2M solutions, VAS services, Big Data solutions, etc.), software development, delivery of IT equipment from leading vendors, outsourcing services, and service and warranty servicing.

At the end of 2017, revenue from the system integration amounted to 5.6 billion rubles.

NVision group is one of the few Russian IT companies that has a full certification package for all activities. However, the system integrator is already preparing to move to a new level of ISO 9001-2015 certification, focusing on its leadership and its knowledge of process arranging, planning and support, efficiency evaluation and — the most important — risk management. Introduction of a new version of the standard in 2018 will allow monitoring and identifying risks at all stages of business processes.

The high level of the system integrator performance was also confirmed by independent auditors. The Russian developer and provider of information and communication solutions has successfully passed recertification of the quality management system.

The direct line with President in 2017 was called the most high-tech. This became possible thanks to the platform expansion, which has been supported for many years by NVision Group, a subsidiary of MTS.

In September 2017, MTS and Group-IB signed a cooperation agreement for prevention of cybercrimes, investigation of incidents and online protection of MTS and its customers. The companies will exchange data related to cyberthreats, provide each other with organizational and methodological support, provide their technical, financial and human resources.

As a member of the system integration market, in the reporting period we started to provide companies and organizations with end-to-end services to counter cyberthreats based on our own information security center (Security Operations Center, SOC). Collaboration with Group-IB will reinforce our expertise in the field of IT-security and make our subscribers and clients more secure.

# Innovative Network Development



## One step away from 5G

The fifth generation of mobile communication (5G) will give operators the opportunity to create many new services and to obtain additional sources of income.



According to the Ericsson Mobility analysts, standards of 5G communication technology will be approved by 2020. At the same time, many operators will put 5G network in commercial operation. In 2022, more than 500 million subscribers will be registered in 5G networks without considering IoT devices. Broadband 5G mobile Internet will be first launched in large cities and continue to grow at LTE's pace: it is expected that the level of penetration will reach 15% by 2022. 5G networks will provide a wide use of Massive IoT and Critical IoT technologies.

On its way to a large-scale and commercial development of 5G technologies, MTS operates in partnership with large global information and communication businesses: Ericsson, Nokia, Samsung etc.

In 2017, under the existing agreement with Ericsson, we organized several pre-5G technology test areas, in particular LAA and Massive MIMO technologies.

In the LAA solution (License Assisted Access), the licensed frequency band in the LTE standard, owned by the operator, is combined with an unlicensed spectrum of Wi-Fi networks to increase the bandwidth of the communication channel. The LBT solution (Listen

Before Talk) implies a "listen before talk" principle, when the Wi-Fi frequency-based operator station periodically interrupts its transmission services in the LTE standard to prevent disturbance and provides equal access to the band to other devices connected to the Wi-Fi network. During testing in Moscow, we successfully tested the possibility to aggregate the ranges using the LBT functionality that allows LTE (LAA) and Wi-Fi networks to coexist in the overall unlicensed 5 GHz spectrum. In the future, application of the LAA technology will enable MTS to provide customers with peak data transmission speeds up to 1 Gbps and above using the latest subscriber equipment.

In the summer period, we used our commercial network in Moscow to test active antenna system Massive-MIMO 64T64R manufactured by Huawei in a range of 2600TDD (band 38). This solution will allow us to improve efficiency of use of the existing frequency resources, and therefore the network capacity and quality of data transmission. During the tests, only one band 2600TDD achieved the aggregate data transmission speed of 711 Mbps in DL with the simultaneous operation of 16 subscriber units. Previously, such speeds could be achieved only by aggregating several ranges.

At the Moscow stadium Otkritie Arena in April 2017, MTS and Ericsson conducted successful tests of 5G technology which allowed for the first time in Russia

In December 2015, MTS and Ericsson agreed to conduct research and development for technical preparation of the operator network to a rapid commercialization of new 5G and IoT-based services. In 2016, similar agreements were reached with Nokia and Samsung.

To get more details on the results achieved during this reporting period within the framework of these agreements, see 2016 Sustainable Development Report of MTS Group.

In May 2017, VivaCell-MTS acquired assets of ADC (Armenian Datacom Company). This transaction will allow the company to expand the capacity of its own telecommunication network, which in turn will improve the quality of services. Furthermore, VivaCell-MTS will expand a range of its services and will be able to position itself as a multiservice operator and the leader in the end-to-end telecommunication solutions segment.

# Faster, higher, stronger!



	<b>Lte</b> <small>ADVANCED</small>	<b>5G</b>
Lag	To 10 ms	1–4 ms
Energy efficiency	Time of recovery from sleep mode is 100 ms	MIN time of recovery from sleep mode is 0–10 mc
Connection density	MAX 2,000 decices per km²	MIN 1 mln decices per km2
Peak throughput	DL 1.5 Gbps, UL 0.67 Gbps	DL 20 Gbps, UL 10 Gbps
Spectral efficiency	For DL 15 bps/Hz, for UL 6.75 bps/Hz	For DL 30 bps/Hz, for UL 15 bps/Hz
Channel bandwidth	40 MHz, MAX 100 MHz	MIN 100 MHz
Mobility	Communication in motion 0–350 km/h	Communication in motion 0–500 km/h

Mission Critical and Clouds-services

Devices network — high density of devices

Services UHD and Video 360 AR/VR

Will allow dealing with increased traffic

MTS, like the whole country, is proactively preparing for the main football event of the world — the FIFA World Cup, which starts in Russia in June 2018. MTS in cooperation with other operators of the Group of Four implements a project for construction of a mobile network at stadiums, which will host games of the World Cup in Rostov-On-Don, Samara, Volgograd, Saransk, Nizhny Novgorod, Kaliningrad and Yekaterinburg.

At the World Cup 2018, MTS together with Ericsson, Nokia and Samsung will deploy demo areas with the use of 5G technological solutions.

to achieve a record speed of data transmission up to 25 Gbps on a moving smartphone prototype. Previously, all tests of data transfer using this technology were conducted only between stationary devices. For comparison, this data transfer speed allows downloading a one-hour film in HD quality in less than 3 seconds.

In October, the partners signed another agreement, under which in 2017–2020 Ericsson will supply MTS the latest hardware and software for the core network and radio access network in several regions of Russia for a total amount of more than 400 million euro.

## Development of Internet of Things

MTS being a technology leader applies a comprehensive approach to selecting the best solution for the deployment of Internet of Things. The Company carries out analysis of IoT technologies, various scenarios of NB-IoT implementation, arranges test areas and pilot projects.

Now, addressing in IPv4 is mostly used for device identification in the Internet. The number of IP addresses for devices in this protocol worldwide is about 4.3 billion and is almost exhausted because of 32-bit length of the IP address. In the IPv6 protocol, 128 bits are used for addressing, thus making the number of addressable Internet devices almost unlimited.

### Expansion of areas for IoT

According to Statista.com statistical portal, the number of connected IoT devices in the world will exceed 30.7 billion by 2020 and will continue to grow at explosive rates.

Introduction of IPv6 in the MTS network removes natural constraints on further development of IoT services and the emergence in Russia of hundreds of millions of "smart devices" connected to the Internet. Thus, we create a basis for development of the IoT ecosystem for many years, making essential the quality of our networks and the Company's commitment to provide many clients with end-to-end innovative turnkey IT-solutions.



In June 2017, MTS switched to a new Internet protocol, IPv6, that will allow to connect to the global network an unlimited number of mobile devices of the Internet of Things and solve the problem of IP addresses exhaustion typical for the current IPv4 protocol.

Online control over production processes

### Joint project of MTS and Danfoss



M2M Manager



+40C°  
-40C°  
"Termo" SIM cards



MTS communicator



Cloud-control






We are confident that the new IoT-platform will help business to adapt more quickly to requirements of the digital economy, reduce costs and bring the enterprise to a new level, and will help the state to become a driver for the development of "smart cities".

## Private platform for industrial IoT

In December 2017, MTS launched an IoT platform to deploy solutions based on the Internet of Things for enterprises of Russia.

The platform for the industrial Internet of Things allows controlling any objects to monitor operational equipment parameters. The MTS IoT-platform has an open application programming interface (API) and supports operation with various types of data transmission networks. Therefore, the existing equipment and IT systems of an enterprise are directly connected with the up-to-date sensors, cameras, robots and software. Devices connected to the platform can be located in hard-to-communicate areas in different parts of the country but controlled from a single control center.

MTS' IoT platform can be used to control equipment of industrial enterprises, power supply and service companies. For example, to control the pressure in boiler plants, ventilation and air-conditioning systems, refrigerating chambers, power supply systems of transformer substations, diesel-driven generators, gas-powered generators, mini-CHPPs, and water supply systems

of pumping and compressor plants. MTS' platform also allows implementing solutions for the agriculture industry, logistics, commercial real estate and other applications.

## IoT laboratory

MTS under the auspices of the international GSMA association established the first IoT laboratory in Russia in December 2017, offering its clients and partners pilot solutions based on the Narrow Band IoT (NB-IoT) technology to be used in everyday life, security systems, urban infrastructure and utility service management, and ready-to-use commercial IoT services.

In the laboratory, customers, partners and suppliers can both learn about commercial IoT services and use joint efforts to create and test promising IoT-solutions. Stands of the MTS laboratory contain parts of IoT-networks with various sensors and equipment used to transmit parameters and data for their processing in cloud platforms and control through tablets and laptops with visualization of information about the state of systems on large screens.

Pilot NB-IoT developments, implemented by MTS in partnership with suppliers, will be available to customers for commercial operation after obtaining the necessary permissions for use of the NB-IoT radio interface in Russia.

# Innovation Promotion



MTS Innovation Center is engaged in the promising business development, implementing a completely new approach to research.

Currently, the Innovation Center is involved in five main businesses: Cloud technologies (Cloud), digital education (Smart Education), digital medicine (e-Health), cybersport (e-Sports) and artificial intelligence (AI).

The Innovation Center established a team of professionals with vast experience, ready to solve the extraordinary task of transforming the telecommunications business.

Even though MTS has established this new structure only one year ago, today we can confidently talk about the first results of its work – finished products, which already aroused great interest among users.

## Behind the cloud

Over the last years, cloud services penetrated many areas of life and business. They allow storing documents, photos, music and videos, without overloading memory of phones or computers. They are even more important for corporate users who have to deal with much more serious volumes of information and calculations. The first product, the virtual data center #CloudMTS, developed at the Innovation Center is designed for them. It has various components of cloud infrastructure such as servers, data storages, operating systems and network resources provided as a plug-in service. All this allows companies to reduce their costs for the IT infrastructure by three times. Large businesses will increasingly move into clouds with such obvious cost efficiency combined with the flexibility and ease of managing the cloud capacity.

### It is possible to speed up

The Innovation Center uses procedures of work on projects that are different from those practiced by others: instead of working on the product for a long time to a full shine, the Center focuses on solving key moments and in just three-four months gets its first version. After that, the user feedback is evaluated, and the product is adjusted according to their proposals. It helps to reduce the timing of projects and allows responding more quickly to new requests from the market.

Project teams of MTS Innovation Center



clouds



telemedicine



online learning



cybersport



artificial intelligence



"Our task is not just to study and search for new niches and patterns of future development, but also to create and develop new products. Which technologies and trends will be key to MTS tomorrow? We are working on it," says Vladimir Khrenkov, Director of the Innovation Center

Savings on hardware and faster launch of new products



Cloud.IaaS



150 processes



90 GB of the primary memory



25 thousand GB of data storage

**Cloud for banks**

The new service has already had active clients, such as British American Tobacco, First Freight Company, Sberbank and others.

In 2018, it is expected to achieve a steady growth of the client base in all regions of Russia and expand the range of services provided to meet the needs of large, small and medium-sized businesses. It is also planned to start developing cloud products for information security soon. Thus, MTS will occupy another niche on this promising market.

practitioners— a therapist or a pediatrician — as well as specialist doctors are available. Thus, the application becomes a simple and convenient meeting platform for patients and doctors.

The remote treatment project will be finally launched after legalization of the medical online consultations market in Russia.



### Education in the network

Online learning is one of the fastest-growing segments of the Internet economy abroad. In Russia, this direction is just beginning to win its audience. Therefore, it is very important for MTS to become an absolute leader in the field of online learning.

The Innovation Center managed to quickly establish a working team of linguists and web developers, UI/UX designers and voice actors, copywriters and illustrators, product managers and lawyers. In just three summer months this team managed to do a huge amount of work and create an online service for teaching English, which is already being tested inside MTS.

Now, its developers need to catch up and draw ahead of all active players on the distance English language learning market and to become the e-learning platform No. 1 in Russia by 2025.

### Ambulance in Ukraine

PrJSC VF Ukraine implements an Ambulance project, the purpose of which is to increase the quality and speed of the ambulance service operation. Contemporary telecommunication technologies are the backbone of the ambulance vehicle navigation system, monitoring and processing of calls, data transmission (cardiograms) from the patient's place or when the ambulance vehicle moves based on convergence (combination of various types of telecommunication technologies and services).

As a result of the convergent services and data transmission technologies use, the arrival time of ambulance upon the call reduced on average from 20 to 3 minutes. In case of emergency, when admission of a patient is required, the ambulance doctors transmit the data of initial diagnosis research on the way to the hospital, which allows to save time and make the necessary preparation activities for the patient admission.

In 2017, emergency medical services of Poltava and Zaporozhye joined the project. Earlier, the project was implemented in Kharkov (Kharkov Region) and Uzhgorod.

### Healthy future

Telemedicine is another important new industry with a huge potential in our country. It is developed at the Innovation Center in partnership with specialists of Medsi, the largest private medical network. Their joint efforts resulted in the development of a mobile application that provides patients with the opportunity to remotely communicate with doctors. General



Operator No. 1



One of the biggest networks of private clinics



2

thousand doctors



In the future, additional functionality will be added to the application. For example, synchronization with portable health monitoring devices or more serious medical equipment that will provide real time monitoring of the patient's state.

## More than a game

Since the e-sports was officially recognized in Russia, its status has grown significantly: everything is focused on the largest e-sports clubs, and the key market activities are broadcasts, team development, competition organization and merchandising. MTS is interested in this business since e-sports targets a young, active and sociable audience that is of value to the Company.



In January 2018, MTS announced the entry into the e-sports market based on one of the world's leading e-sports clubs Gambit Esports. MTS acquired Praliss Enterprises, which manages Gambit Esports, an organization that brings together four teams (16 players) in the most popular game disciplines – Counter Strike: Global Offensive, League of Legends, Dota 2 and FIFA.

MTS understands that it buys not just a successful business, but it goes into a big sport. The company will pay special attention to preservation and enhancement of success of the teams that are members of Gambit Esports.

## Artificial intelligence

In mid-August, a fifth area of interest was added to the existing four businesses of the Innovation Center, i.e. artificial intelligence. As part of this area, the team will work on the MTS process automation, for example, the introduction of chat bots in call centers and the creation of brand new solutions.

MTS began to hire employees with the help of a smart robot. A newly-made robot-HR manager is called Vera. Vera is not a universal robot, but what she can do, she makes better than a person. In 2017, MTS tested Vera for three months in real conditions. During the trial

period, Vera found and processed over 100,000 CVs in 50 cities.

In the long run, MTS is going to engage in virtual and augmented reality, drones, robots and smart security systems.

## Telecom Idea project accelerator

Telecom Idea open industry competition is a program for search and selection of innovative projects proposed by young people in the field of IT and telecommunications.

For the first time, the Telecom Idea contest started in 2011 in Russia, and since 2014 it has been held at the international level in India and Belarus. With the support of the Ministry of Communications and Mass Media of Russia, the Higher School of Economics and Sistema, we are looking for innovative projects and provide support to the talented youth.

Every year, Telecom Idea gives new opportunities for the development of projects: participants receive expert evaluation of their ideas, improve projects' quality and investment attractiveness. The best teams are invited to an innovative educational tour, during which Telecom Idea's partners share their experience with young innovators. Winners present their projects for consideration of professionals in the field of telecommunications, innovation and the venture capital market, partners of MTS PJSC, and get an opportunity to pass an internship with subsequent employment.

In 2017, regional selection stages were held in 9 regions of the country. More than 600 applications were received in ten main categories:

1. RetailTech (retail sector technologies);
2. TechTech (knowledge-based solutions, microelectronics);
3. FinTech (financial products and services);

Digital selection of employees



## Robot Vera

# 3

months

# >100

thousand CVs

# 50

cities

Telecom Idea won the independent award Time of Innovations — 2017 in the Best Project for Stimulation and Development of Innovation Activity nomination of the category Telecommunication Technologies.



- 4. EduTech (educational products and services);
- 5. MassTech (products and services for the mass market);
- 6. BusinessTech (cloud products and services for business);
- 7. iHR (HR process innovation and automation);
- 8. MedTech (innovative methods and telemedicine);
- 9. LogisticsTech (logistics services);
- 10. VR/AR & IoT (modern and innovative technologies of virtual and augmented reality, Internet of Things).

As a result, 29 out of 67 projects were accepted to take part into the acceleration program Telecom Idea, within the framework of which it was planned to simulate cases for piloting their decisions in MTS. Other partici-

pants, who were of interest for the experts, had special meetings appointed to study projects in more details.

As a result of the jury members voting, the main prize — a ticket to the leading European technology conference SLUSH in Helsinki — was given to teams of 12 projects:

- **Answer** is a smart messenger for teamwork, combining all the best features of the mail, messengers, and task management systems and increasing efficiency of daily communication (Moscow);
- **Bongo** is a vertical solution for services providers, allowing them to enter the market of Connected Home systems (Moscow) with minimal investments;
- **Teleport** is a platform for distributed delivery of stream video that can transfer up to 95% of traffic of a specific video stream from CDN to a distributed cloud (Perm);



- **Smart intercom** is an Internet-based IP intercom that allows a telecom company to become an exclusive provider of intercom services in a multi-apartment building (Kazan);
- **ChatFirst** is a virtual assistant helping to optimize operations of HR specialists to support employees (Moscow);
- **VR for Recovery after a Stroke** is an application with VR-games to restore the motor activity of extremities after a stroke (Moscow);
- **Hidbook** is a service that analyzes the quality of service, business processes on-site at the time of the visit and customer satisfaction (Moscow);
- **Kids' Way** is a service for professional accompaniment of children to schools, kindergartens and additional classes (Moscow);
- **Cyberspace** is a robotic order picking system for warehouses of online stores and fulfillment operators (Moscow);
- **DataFuel** is a service to improve predictive scoring models based on psychological profiling (Moscow);
- **Virtual Planetarium** is an application for premium virtual reality glasses that allows visiting the planetarium and watch entertaining educational films about space, stars, distant planets and galaxies (Moscow);
- **Smart Mirror** is an application that helps to improve the skin condition by daily quantitative monitoring of changes in skin condition (Moscow).

## StartUp Hub MTC

StartUp Hub MTS is an intensive development of technology projects in a profitable business, using the capabilities of the largest mobile operator in Eastern and Central Europe.

In 2017, with the Innovation Center support, MTS Corporate Accelerator was launched. In 2018, the first set of start-ups in six key business areas is to be established.

You can apply for participation on the official Accelerator's website <https://startup.mts.ru/>.

## Hackaton Social Spirit

In June 2017, Social Spirit, a 48-hour hackaton organized by MTS for authors of software products in the social area, was launched. The winner got 100 thousand rubles and a meeting with the President of MTS PJSC Andrei Dubovskov.

26 teams actively engaged in the development of their projects in the field of health, education, ecology, culture, and life quality improvement. The best MTS experts from different areas attended the site to assist and provide high-quality feedback to teams while working on their projects. Along with the adults, children also took part in the hackaton: their team included the children of employees of MTS and NVision Group of Companies aged 11 to 16 years.

Winning projects:

- **Carbon Calculator** is a calculator of the citizens' carbon footprint, which aims to neutralize the harm that we daily inflict on the environmental safety of the planet;
- **Health** is an application that helps the user to assess the need to visit a doctor based on the heartbeat analysis.

# MTS Corporate Accelerator

You have a project or even an operating business but don't have enough capacity for the growth and development?

## Our advantages



Intensive business learning



Funds for pilot and acceleration



MTS as the client and potential investor



Access to sales channels



Best experts in the field



Access to resources #CloudMTS



# People

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# HR Policy

Employees are the key to success of MTS. Dynamic development of business depends entirely on the professionalism, responsibility and honest conduct of our employees. We constantly strive to improve labor relations, create all conditions for the safe work of employees, and contribute to their career growth and social well-being.

## HR mission:

At MTS, we create opportunities to reveal the potential of each employee for a better future.

MTS Group's team is more than 65 people working in five countries, endowed with innovative thinking, capable of generating and implementing new ideas, going outside the ready-made work patterns and turning the most unusual and bold projects into reality.

Over the last few years, MTS has demonstrated a steady increase in personnel involvement, which reached a high-performance zone by metrics of many HR-consulting agencies already in 2015. Maintaining the dialog

between heads and employees, digitization of business processes, introduction of agile principles, reasonable construction of C&B remuneration and compensation system and corporate structure allowed us to improve the basic HR indicators.

MTS applies a functional HR management strategy. At each stage of employee's life cycle in the Company, we introduce new tools and amend the current tools for implementing our strategy and mission.

MTS HR policy is implemented in full compliance with the labor legislation and other regulations of MTS countries of presence. MTS employees earn fair remuneration and have a decent social protection. The Company has all necessary conditions for safe labor. Engaging highly skilled personnel and talented youth

## Functional HR management strategy



In the rating of TOP 100 employers of Russia - 2017, MTS took 11th place, retaining the leading positions among telecommunication companies for several years.

First place in the national ranking of the best companies for work and career Leadership Index - 2017, drawn up by Rabota.ru

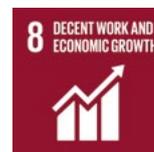
to MTS is an important component of the company's HR policy.

Transparent and honest relationship with employees form a basis of MTS HR policy. Social partnership implies equality, respect and consideration of mutual interests, as well as compliance by parties with existing laws and other normative acts. Furthermore, MTS has developed a benevolent corporate culture and created an atmosphere of gratitude, care and recognition of the achievements of each member of our friendly team.

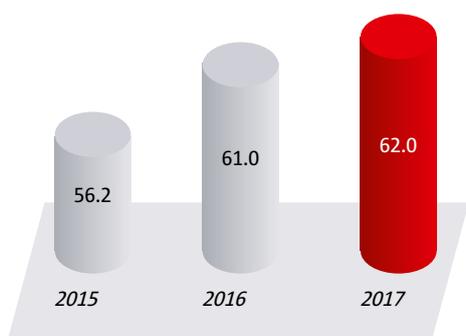
MTS concludes a labor contract individually with each employee and there is no practice of concluding collective agreements with the Company. All benefits, guarantees and compensations (including those benefits, guarantees and compensations in addition to those provided for by the labor laws) are stipulated in various local regulations of MTS PJSC. We strictly adhere to the

requirements of applicable labor laws and do our best to consider interests of staff and if work disputes arise we are committed to their fair and just resolution. In case of a change in the conditions of labor contract or its termination at the initiative of the Company, all MTS employees receive notice thereof two months in advance.

The Company has HR hotline hr@mts.ru. This hotline is created to receive and to process messages related to working conditions, payment of salaries, bonuses, registration of benefits and social package, intangible motivation, annual performance evaluation, as well as issues related to recruitment, staff transfer and rotation, participation in corporate campaigns and events, implementation of training programs, recognition and development of talents. In 2017, 167 messages were sent to the HR hotline. All messages were reviewed and inspected, and their authors received the feedback.



### Overall HR costs of MTS Group, bln RUB



In summer 2017, the first internal corporate study of eNPS indicator (readiness to recommend the company as the best place of work) was held in PrJSC VF Ukraine. 2,434 employees of all functional areas and regions took part in this study.

According to the results of the study, the eNPS indicator was 52%, that is, every second person who took part in the survey is ready to recommend Vodafone Ukraine as the best employer.

In 2017, MTS launched a pilot project to organize remote workplaces for its employees. The project is aimed at optimizing work processes, saving resources and motivating employees.

The number of remote working days in a working week is determined by the employee in cooperation with his/her head and depends on the schedule of meetings that require his/her personal presence.

# Personnel Structure



In 2017, the number of MTS Group employees was 2017 people.

Total headcount, people<sup>1</sup>

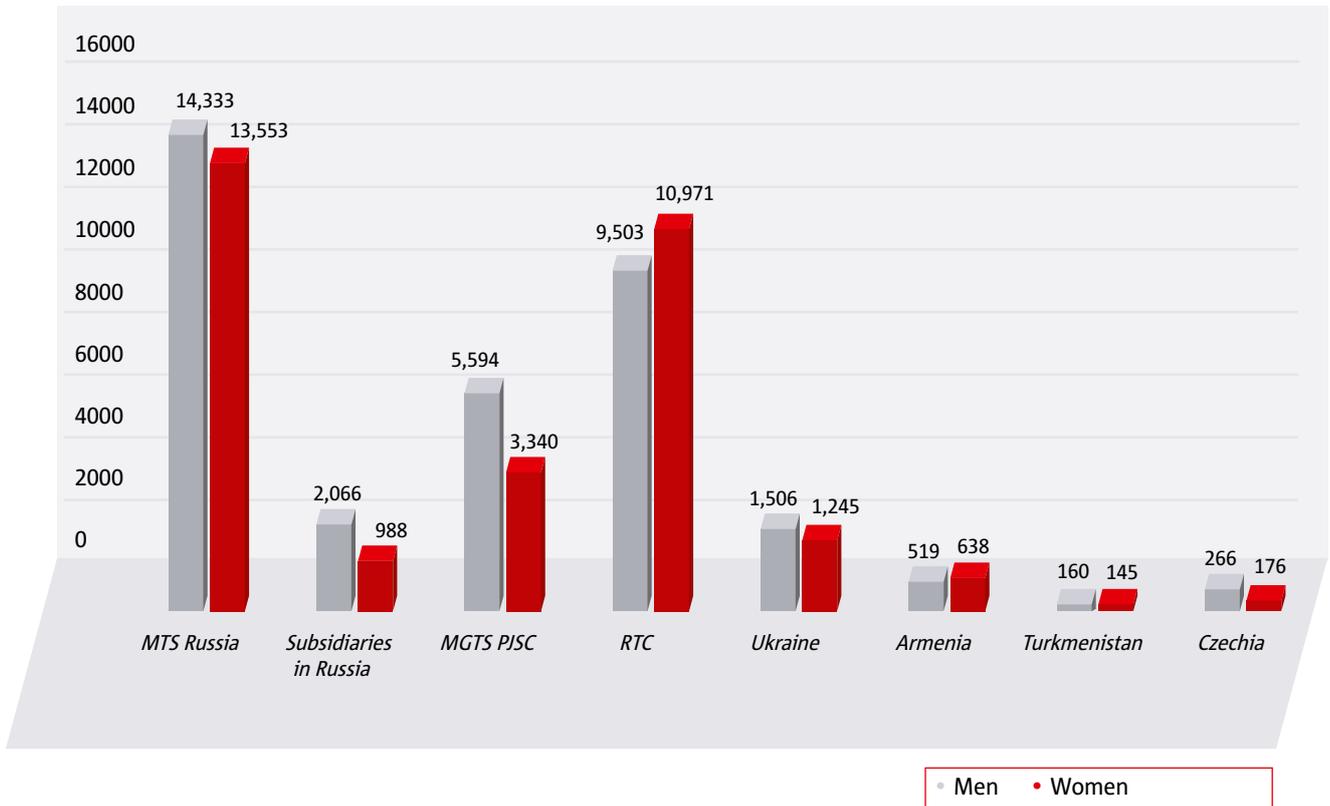
	2015	2016	2017
MTS Group	73,967	69,322	65,003
Including MTS PJSC	30,879	28,910	27,886

<sup>1</sup> Unless otherwise indicated, the number hereinafter given does not include the employees working under civil contracts and outstaffed ones.

MTS supports a gender- and age-balanced team structure. We are sure that this approach allows the Company to ensure the stability of staff, to support a healthy corporate morale and to maintain and share

professional experience. The male to female ratio in MTS Group is 50/50 with minor changes broken down by subsidiaries and host regions.

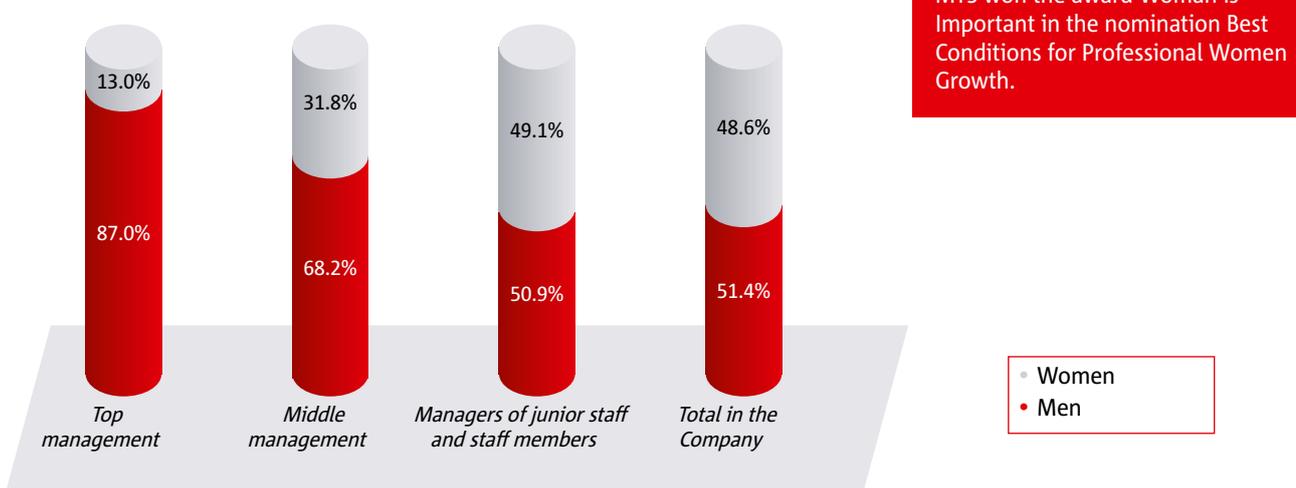
Number of MTS Group's employees in 2017, people



MTS PJSC staff structure in 2017 by age, %

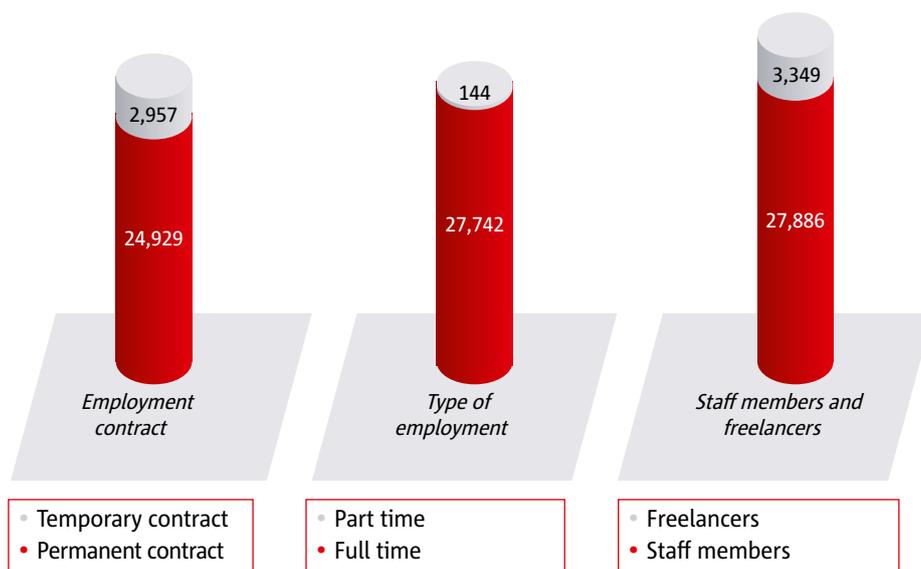


MTS PJSC staff structure in 2017 by gender, %



MTS won the award Woman is Important in the nomination Best Conditions for Professional Women Growth.

MTS PJSC staff structure in 2017 by type of employment, people



## Staff turnover

MTS implements a set of activities aimed at reducing the staff turnover: we regularly monitor and analyze the reasons for the quits, and respectively take measures to improve the situation. The Company also uses special adaptation programs for new employees, which have a positive impact on their relationship with the team, facilitate their introduction to the role and

help employees fulfill themselves at a professional and personal level.

Due to all these measures, MTS employees demonstrate high involvement and low staff turnover.

### Number of employees hired to MTS PJSC in 2017, people

≤ 30 years		30–50 years		> 50 years		Total	
m	w	m	w	m	w	m	w
1,440	2,142	806	1,014	50	19	2,296	3,175

### MTS PJSC staff turnover in 2017

≤ 30 years		30–50 years		> 50 years		Total	
m	w	m	w	m	w	m	w
39%	44%	12%	15%	5%	4%	20%	25%

# Staff Recruitment and Adaptation

MTS is continuously improving the HR selection tools, striving to hire the highest-class specialists and promising candidates. We are sure that the Company's strategic objectives can only be successfully achieved by the professionals.

MTS official website <https://rabota.ssl.mts.ru/> provides information about development, corporate ladder, and corporate culture of MTS Group. It also provides the information both for novices, experts and managers. Any job-seeker who wishes to become employed in the Company, can apply for a vacancy of interest in a convenient format.

MTS is committed to hiring the best professionals on the market. Besides, the Company invests a lot in professional training and skills development of its staff. We must be sure that the person fits the professional profile of his position and will be able to achieve significant results in work. The recruitment process at the Company is transparent to the greatest possible extent. The contest for the vacancy is open for both internal and external candidates.

## Recruitment of young professionals

The website of the Company contains special information on vacancies for young people <https://rabota.ssl.mts.ru/youth/>. The section contains the information on vacancies and internships for young specialists, interns' and employees' success stories, the MTS Success School program and it also provides a feedback channel.

MTS is a young Company with more than 30% of all employees under 30. Every year thousands of young people, including yesterday students, join our team. The Company is engaged in an active dialog with young talents and prefers non-standard, innovative ways of communication to a trivial approach: business games in leading Russian universities, personal development trainings, participation in the debates, MTS' master classes for managers, and collaborations with business schools.

MTS provides students and young professionals with the opportunity to get summer internships and practical training in various departments of the Company.

### Digital selection

In 2017, MTS launched a trial version of the robot - HR manager for the primary processing of applicants' CVs. For more details see the Innovative Promotion section.

### Teleport

Teleport project, developed by the HR team, allows employees of the MTS retail network to change their place of residence while staying inside the Company. To do this, an employee should apply to the project team in the MTS Life social network. Upon approval by the project's curator and after the settlement of logistical issues, an employee starts working in the selected city.

Successful implementation of the project allowed not only to continue it, but also to move to a new level. The new project, Teleport Capital, was created to support employees willing to move to Moscow or St. Petersburg.

In the second half of 2017, 313 applications were received, and 183 transfers were made.

## MTS Flash

In 2017, we launched an accelerated MTS Flash internship program for students and university graduates. Internships are open throughout Russia, young specialists can realize their potential in any field: IT, marketing, purchasing, customer service, HR, communications, security and technical direction.

Trainees quickly immerse themselves in the corporate life of the Company, and thanks to the MTS Corporate University they can rapidly improve their professional and personal skills. Yesterday graduates can qualify for internship positions, and they are taken to the startup vacancies in the Company's staff after the completion of the program. Each

trainee has a mentor who is responsible for rapid adaptation and helps to overcome any difficulties.

In 2017, we received more than 4,000 applications from students from 90 universities of Russia. 250 trainees joined MTS team, 30% of them joined IT business. Thanks to the program, we form a long-term relationship with talented young people and provide opportunities for a rapid career start.

MTS БЫСТРО,  
ЯРКО,  
НЕЗАБЫВАЕМО!  
**FLASH**

## Adaptation of new employees

For new employees, the Company implements an adaptation program. On the first working day, new employees receive "welcome packages", which is a welcome compliment and allows the new employee to feel the Company's care from the very beginning of his work and provide a personal history in MTS.

New MTS employees must take integrative courses:

- introduction to MTS, a basic training course for new employees that introduces to them the Company's business principles, history, organizational and corporate culture;
- distance course MTS Development: Data to Digital-Transformation, providing new employees with the information about the MTS digital-transformation, its content and conditions; and answers to the questions: why the Company starts to move in a new direction and why does each employee need to take part in its "digitalization";
- Personal Efficiency in the Digital Era video course.

New employees are introduced to the role, then they have an adaptation and probation period planning. In the end of the probation period, the managers assess the work of each employee and, in turn, receive comments and suggestions from the new employees. Further, HR department conducts an analysis of the opinions of new employees on the adaptation process. Newcomers to the Sales and Subscriber Service division are supported by mentors.

In the retail network of MTS, the Mentoring project is implemented. The project stipulates that each experienced employee can become a mentor for a less experienced one regardless of his/her position. For example, a specialist trains his/her assistant for a specialist position, a sales office manager trains a specialist to become a sales office manager, etc. Direct interaction of the employees continues in further work.

## Social HR

Social HR project is focused on support and arranging actions aimed at hiring and adaptation of senior employees and young professionals with disabilities, as well as at creation of an available and comfortable environment for all staff categories.

The Business Advisory Board on Disability that unites more than 40 major companies, has been operating in Russia for nine years already. Its work is aimed at employment of people with disabilities, and assistance in the developing of their professional skills. MTS is a member of the Board from 2013.

MTS supports corporate inclusion. The Company's policy guarantees that candidates with disabilities, fully complying with the relevant requirements, will be recruited.

In the reporting period, MTS traditionally supported a series of major socially significant events in this area:

- competition for young job seekers with disabilities, Road to a Career, that allows business to discover untapped resources of young, ambitious and talented professionals with disabilities, professionally trained in various fields, and that helps young resolute job seekers to get a chance of getting good career opportunities among the most attractive employers of the country. Coaches of MTS Corporate University and employees of Attraction

and Adaptation Department traditionally organize business trainings and test interviews for the contest participants;

- charitable beach volleyball tournament in support of inclusive sports. MTS corporate team in volleyball traditionally takes part in the competition with other business teams (Stream, Philips, DPD, Nestle, KPMG and Kaspersky). This year our sportsmen won a flawless victory and for the third time became the winners of the tournament and owners of the Gold Cup. All funds collected during the tournament are allocated to the organization and development of sports programs for children with disabilities;
- Cinema Without Barriers international film festival about life of people with disabilities. For our country this festival is unique as it does not just concern the problems or success of people with disabilities, but also shows the real stories of overcoming barriers inside and around us.

In 2018, it is planned to continue the development of the Social HR direction: to expand opportunities for internship, practice and recruitment for persons with disabilities and elderly people; to involve the Company's employees into socially significant activities aimed at socializing the disadvantaged social groups.

## MTS is a company for all ages

In the second half of 2017, a new project called MTS is a Company for All Ages was launched. It is aimed at engaging senior employees to retail MTS network, satellite and fixed-line communication networks, and call-center operators.

This project explores the specifics in hiring, adapting and retaining new employees aged above 40 years. Besides, the project analyzes the specifics of communication with senior clients and providing them with services.

The researches, advertising campaign and special trainings showed a number of advantages of hiring the employees aged over 40 years as compared to young applicants, as well as their willingness to active studies, thus raising the percentage of their involvement in MTS and increasing the Company's actual profit.



# Personnel Development and Training



A professional and strong team is a key to business success, thus investing in human capital is one of the most important tasks of the Company. High-quality and up-to-date training of employees is the cornerstone of the professional growth of MTS' personnel. We invest tremendous efforts in the career enhancement and education of our employees.

MTS has a training system based on the SIMPLE corporate values (see the Corporate Culture section), the Company's strategic goals, HR management targets and requirements for professional knowledge and skills of employees.

Goals of personnel training and career enhancement:

- Ensuring comprehensive development of employees on key competencies
- Professional development
- Training of personnel reserve and successors of key positionsa

- Integration training for new employees and when implementing a new regulatory document/process

The Company's employees participate annually in the performance evaluation procedure that includes both evaluation of key performance indicators and the competence development level. Managers during the evaluation process provide the employees with an extended feedback based on the annual performance. Besides, following the evaluation results a plan of developing measures is generated, and key employees, who are included in the MTS PJSC talent management program, are defined. In 2017, 95% of MTS employees have been officially evaluated for performance.

Thanks to the qualitatively built personnel development system, 66% of job openings in the company are filled from the in-house staff pool. The introduction of new advanced distance training platforms allows us to provide employees with a variety of opportunities for professional and personal development.

The Company has a Corporate University that sets the training standards and coordinates personnel training and development processes. The goals of the Corporate

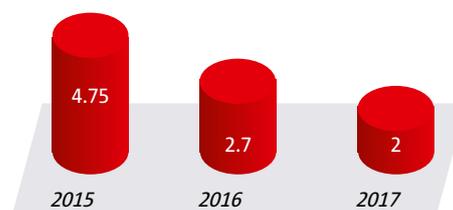
In 2017, the average number of training hours per employee was 16.5, including 9.4 hours of internal training and 7.1 hours of distance training.

Total amount of training in 2017 was 240,304 people/courses, which is 14.8% higher compared to the previous year.

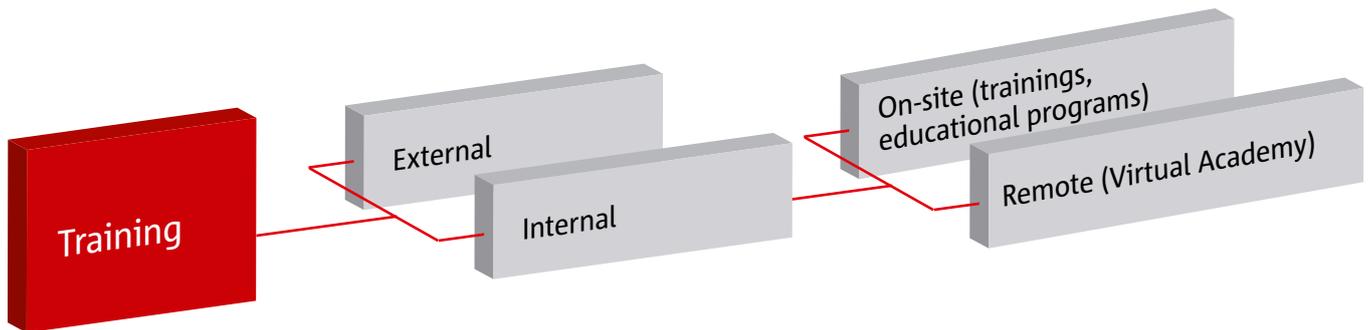
Number of trained employees of MTS PJSC, people/courses

Training type	2015	2016	2017
Internal (full-time) training	40,048	31,068	41,695
External (full-time) training	12,947	8,774	10,697
Distance training	155,924	168,408	187,912

Number of training days per employee



## Personnel training and career enhancement forms



University also include building training systems for various functional divisions of the company.

MTS took second place in the Crystal Pyramid – 2017 award in the nomination Corporate University of the Year – 2017.

MTS Corporate University offers mandatory and optional training for the employees, as well as materials for optional study for professional and personal development. Depending on the existing goals and objectives, various forms and methods of training can be selected. Mixed training significantly improves the quality of training and the level of staff competence.

## Internal training

### Training courses

At MTS, trainings are the most common and effective tool for developing internal changes. This format of intensive training is easily adapted to the specifics of the business and allows to actively use the Company's internal resources. The Academy of Coaching Mastery has been introduced into MTS training system with the aim of preparing its own coaches.

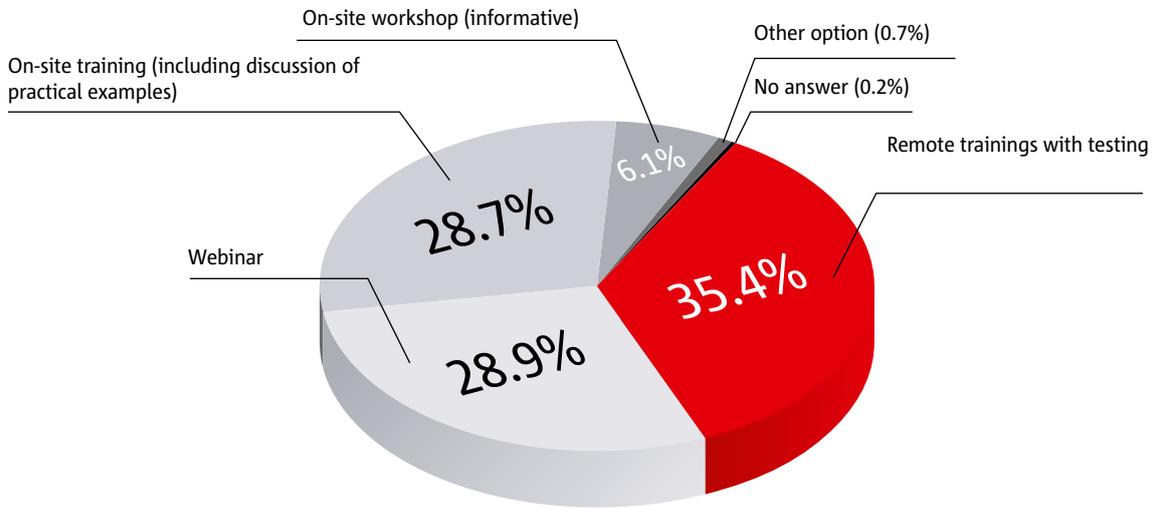
In 2017, 1,871 internal trainings for 8,235 employees were held by MTS coaches. In the reporting year, the most popular training courses were:

- training for employees System Thinking — a New Approach to Self-Development helped to understand the way the people around us think, their motives and how to use this knowledge every day;
- training for heads Nature of the Team: How to Create Conditions for Its Evolution allowed studying an organic approach to the team development and determine key aspects of building an effective team;

- training Agile. Flexible Thinking helped to understand the features of the Agile culture, new concepts and tools for the practical application of flexible methodologies;
- training Emotional Intelligence helped to realize what an emotional dictionary is and why it needs to be expanded, how to identify own emotions and emotions around us, and most importantly how to direct them to solving problems;
- training Working with Troubled Clients. Skills of Stress Management helped to work out the skills necessary for constructive resolution of conflict situations and the ability to cope with stress independently.

In 2017, within the framework of the new talent development program, PrJSC VF Ukraine conducted the first competitive recruitment to the camp of intensive development of the leadership potential for #VodafoneSpaceLeaders staff. The format of the corporate bootcamp is unique for the company and Ukrainian leading technologies market, as well as for the development of staff potential and product cross-functional teams.

Results of the survey of employees —  
Which form of training you consider to be the most productive? (%)



**Coach of the year 2017**

The competition was held in five categories: Best Trade Marketing Coach, Best B2B Coach, Best CSC Coach, Best Retail Network Coach, and Best Technical Coach. As part of the selection rounds, the participants conducted webinars and trainings, developed training materials, identified new approaches and digital tools that could make learning easier and more effective.

This year, another stage was added to the competition: The Super Final. The coaches, who took the first place in each of the nominations, competed among themselves. Three employees became the winners of the Super Final and received the title Best MTS Coach — 2017 and certificates for external training to enhance their professional expertise in the field of training.

**Sales Olympics — 2017**

From March to June this year, B2B sales divisions of MTS, MGTS and Satellite TV were guided by the spirit of competition and excitement. 653 applications for participation, regional selection, semifinal and final for the employees that are the most skillful in communications. Winners of the Olympics were invited to pass internship in Vodafone (London).

**Academy of Leadership**

In 2017, 250 MTS employees and subsidiaries from different regions of the country became its participants. 30 project teams were trained to develop corporate start-up projects. 10 teams got into the final, and the winners of the program went to a business tour abroad.

**Development programs**

MTS implements comprehensive development programs aimed at continuous improvement of the professional skills and knowledge of both employees and the Company's management.

In 2017, the Corporate University has implemented more than 20 development programs. In the reporting period, the target programs were:

- Talent Management — a program aimed at career growth of employees within the Company. In 2017, more than 200 events for the transfer of knowledge were held, 260 employees were trained. 30% of the program participants climbed the career ladder within the Company;
- Academy of Leadership — a program for the development of high-potential employees, which was transformed towards innovation and changed its name to Academy of Leadership. Business breakthrough. In 2017, 250 employees of MTS and subsidiaries from different regions of the country became participants of the program;
- HR Academy — a program aimed at increasing the professional skills of the HR management staff. In 2017, about 100 HR regional managers became its target audience;

- Leadership Development Program for MTS Heads was launched in cooperation with Skolkovo Moscow Management School and is aimed at training the leaders of a new type who are ready to develop corporate culture, business processes and strategic planning based on a digital approach in conditions of high economic turbulence and uncertainty and to conduct the necessary changes in the Company. In 2017, 57 people passed the training.

## Virtual Academy

We took the best world practices of distance learning as a basis, analyzed business demands and in 2016 developed an entirely new concept of the Virtual Academy training platform.

A survey conducted in 2017 showed that we are moving in the right direction — more than 64% of employees consider the form of webinars and distance learning to be the most productive.

Virtual Academy is a unique platform for individual staff development, which is a comprehensive solution that allows to:

- make an individual development plan;
- register for on-site events in one click;
- watch video courses from a computer, tablet or mobile phone.

The Virtual Academy creates opportunities for the formation of a self-learning organization, a single learning environment, a common entry point for all processes related to learning: from planning conferences to viewing a new video course.

The managers have an option to plan for the individual development of employees, assign them to master existing training programs and control their progress in training.

Furthermore, the system has a social network of its own, where everybody can share his/her professional knowledge or useful information.

Information on vacancies is published on the intercorporate portal [newportal.mts.ru](http://newportal.mts.ru)

"Every MTS employee has excellent opportunities for applying and developing his/her professional skills and career development. You may benefit job openings in different departments of the company, the description of which are available at the links.

Find a job of your dreams as soon as possible! Use your potential and skills to the greatest possible extent for your own and Company's benefit!"

MTS accumulated vast experience and is ready to share it not only with its employees, but also with third parties. Thus, in 2017 MTS officially established a legal entity MTS University. Among the first external customers there were large corporations and state universities.

The Virtual Academy makes available a comprehensive library of the video courses developed specifically for our company's employees with the use of the world's best training practices. The system also has direct access to Coursera – the global online education facility.

To ensure continuous development and training in any convenient place and at a convenient time, the Virtual Academy has a mobile app for iOS and Android.

In 2018, it is planned to conduct active training of staff on the most popular digital professions:

- Product Valley program for digital products management. The program introduces the user researches, product metrics, Agile, Scrum, Kanban and interface design;
- Fundamentals of Machine Learning program to be carried out by specialists of Big Data division;
- program Data Driven: How to Make Data-Based Decisions is for analysts and executives;
- a list of programs is being prepared on the most recent trends in the digital world for marketers, IT professionals and employees working in the B2B segment.

## Virtual Academy in figures

> 70 video courses

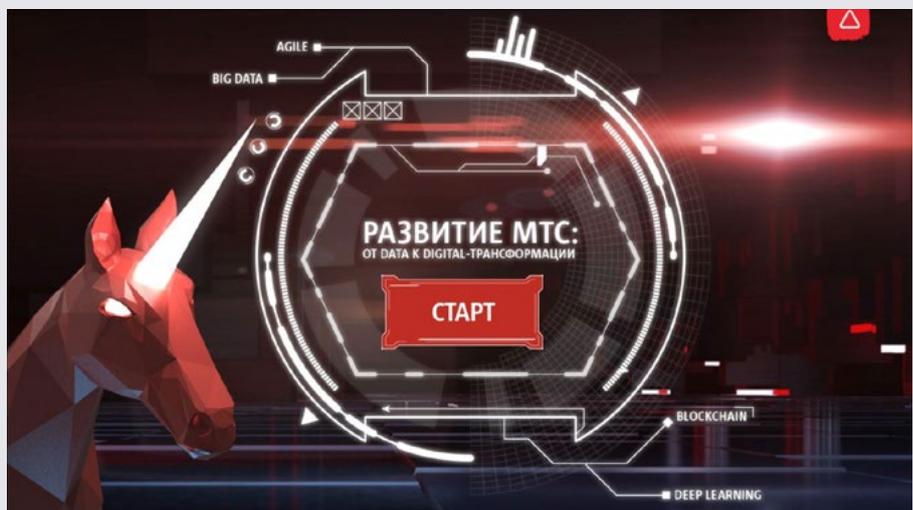
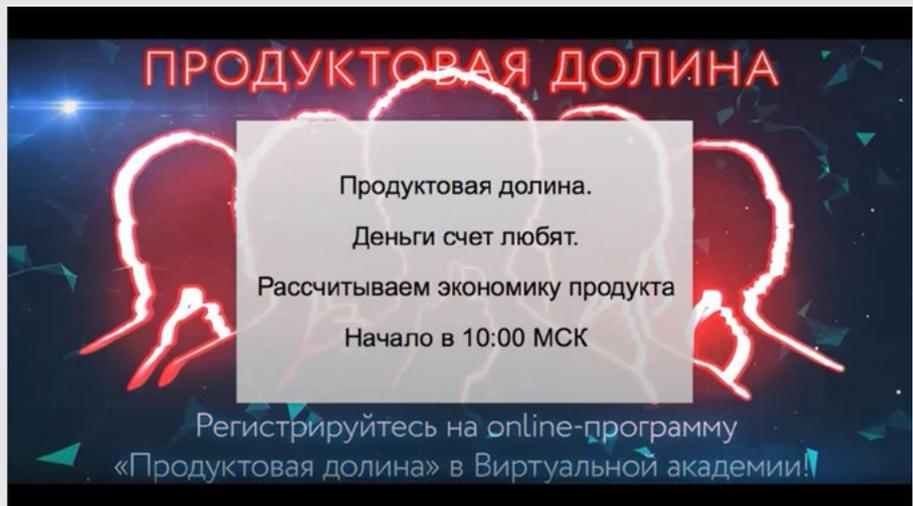
300 webinars

96% of employees passed training in the Virtual Academy at least once a year. Almost 60% of them passed two or more optional courses

470,153 visits for 2017

In 2017, the users passed courses and tests at the Virtual Academy and watched its webinar records 243,065 times

87% of the interviewed staff would recommend the Virtual Academy to their colleagues



## External training

Training program	Participants
Customized course on IFRS: IAS 39, IFRS 9, IAS 32, IAS 23, IAS 37	37 employees of the Finance and Investment Unit
Google Analytics 360 Suite training	60 employees of the Marketing Unit
Product Manager course	80 employees from seven units: IT Unit, Marketing Unit, Sales and Service Unit, Procurement Management Unit, Human Resources Unit, Finance and Investment Unit, Technical Unit
English Online project	300 employees from all regions of the country

### Corporate electronic library

The library contains more than 750 books: the masterpieces of business literature on marketing, public relations, sales skills, psychology, economics, personal development, a healthy lifestyle, child-parent relationship, etc.

At the end of 2017, the number of active users was 15,570, the number of downloads reached 659,031.

Since November 2017, MTS employees have access to the periodicals available on Public.ru website, where some of the best business magazines and newspapers (Forbes, Kommersant, RBC, Profile, Expert, Psychologies, Geo, Law, Computerworld Russia, etc.) are published.

### Third wave of iMBA

iMBA, the third wave of the distance learning program for regional employees, was launched in May. The geography of the project is wide. It involves both employees from 43 regions of Russia, as well as from Ukraine and Belarus.

The program is designed for 11 months of training and includes 10 basic educational modules that allow obtaining comprehensive knowledge about basic functions of telecom business. As a result of the program, participants who successfully pass the final work will receive diplomas on the course completion and take part in the graduation evening in Moscow.

### Online programs

In 2017, we actively used the format of online programs, which is a series of webinars followed by home tasks.

Excel course with 1,700 participants became the most popular one. As a result, an Excel competition was held, in which 100 most experienced analysts of the Company took part.

Another large-scale program introduced the employees to the most actual trends of the digital world: invited experts from successful digital companies talked about blockchain, artificial intelligence, neural networks, machine learning, etc.

Moreover, we launched two practical online labs in 2017, where employees studied basics of programming in Python and created chatbots in Telegram.

### Chatbot training

The most unusual format for MTS was a distance course on creativity, which was conducted with the help of a chat-bot. It was an intensive seven-day marathon, in which participants had to fulfill the tasks sent by the bot every day. If you do not fulfill the task, you leave the game. It is great that despite such tight schedule, more than 50% of the participants fulfilled all the tasks and reached the end.

# Motivation and Social Guarantees

A competitive payroll system consisting of fixed and variable parts is introduced in the Company. A compensation and benefit package, meeting the requirements existing on the labor market, is provided to the Company’s employees.

MTS personnel remuneration systems are based on salary competitiveness and remuneration fairness principles. The Company uses an integrated approach to the system of staff motivation and applies the best international practices of remuneration that ensure

objective evaluation of the performance of employees and MTS as a whole and allows to motivate the employees, thus increasing their efficiency. The principles of payroll competitiveness and fair reward underlie every system of MTS personnel remuneration.

## Financial incentives

The amount of a fixed part of the remuneration (official salary) is defined considering salary ranges established for each position category (grade) based on labor market analysis in the host region and the Company’s Positioning Policy in respect of the labor payment market.

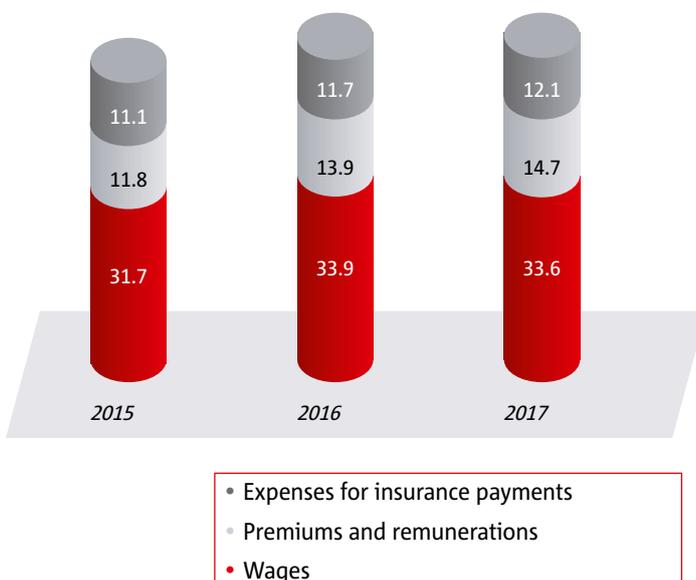
The variable premium part includes bonus payment according to clear and transparent principles of establishing the target bonus sizes and calculating its actual values based on key performance indicators and individual tasks stated in evaluation forms of each employee.

The ratio of variable and fixed parts of total income is balanced for each position in accordance with its potential impact on business results. The stronger is the influence, the higher is the proportion of the variable component.

In 2017, an average salary in MTS PJSC, including salary and bonuses, amounted to 71 thousand rubles. The Company has a system of bonuses for employees engaged in sales and subscriber services. Its basic principle is to motivate the employees to achieve their goals. A distinctive feature of this system is the income structure with a greater variable part and a different frequency of payments. For the Company’s employees responsible for direct sales, there is a commission bonus scheme (direct sales interest).

In 2017, labor costs for MTS Group amounted to 60.4 billion rubles (in 2015 and 2014 — 59.5 and 54.6 billion rubles respectively).

Payroll expenses structure in MTS Group, bln RUB



## Non-financial incentives

We pay great attention to non-financial incentives. An achievement recognition system, functioning in MTS, stipulates implementation of incentive programs of various orientations.

Production programs are aimed at increasing the labor productivity and the personal efficiency of the Company's employees. Every year, we select the best employees, managers and project teams. Successes and

achievements of MTS employees are regularly publicized in corporate print media and in the news feed of the corporate portal.

Non-production programs are aimed at strengthening the corporate culture and increasing the involvement of employees.

For more details see the [Corporate Culture](#) section.

## Social guarantees

The Company provides its employees with a broad compensations' and benefits' package aimed at social protection of employees. We believe that enhanced commitments are necessary to provide additional social protection measures for employees, allowing them to feel comfortable and confident in any situation. MTS provides its employees with the full range of social guarantees established by applicable legislation, but not limited to.

In the Company, all employee benefits fall into social and corporate ones.

Corporate benefits (including cars or compensation of costs for their usage, mobile communication with a high spending limit, and compensations of relocation for work in another region) are provided irrespective of the length of employment in the Company, work time duration or contract terms. The benefits are given based on the needs of the service.

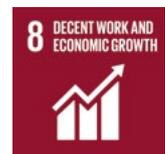
Social benefits including the voluntary medical insurance (VMI) and health and accident insurance, additional payment for the sick list or financial aid are given to all employees at their principal place of work except the employees hired under term labor contracts for periods of less than three months or working for less than one third of the standard work time.

The temporary disability-related additional payments are made regardless of the length of service in the Company, they do not depend on the work time or contract term.

In certain cases, any employee can be provided with material assistance. MTS makes additional payments in addition to the standard statutory benefits for temporary disability because of illness and industrial accident or occupational disease, in the period of maternity leave, etc. In some cases, the Company pays the hous-

ing rent for employees and compensates the expenses for relocation, thus supporting the desire of employees to move and develop.

In addition to the above compensations and benefits, MTS employees have opportunities for living a healthy life and going in for sports. All employees have an opportunity to participate in the Health Days, bike rides and sports competitions. For employees with a certain



MTS has participated in the Sistema Olympics for 15 years. In 2017, 60 athletes from MTS took part in the competition and, with the support of more than a hundred of their fans, took the 2nd place.

The Company holds regularly MTS Group Cup on indoor soccer, Day of Health family sporting feast, regional sports festivals, as well as soccer, beach volleyball, bowling, chess, carting, table tennis and other championships and tourist meetings.

### Evolution 2.0

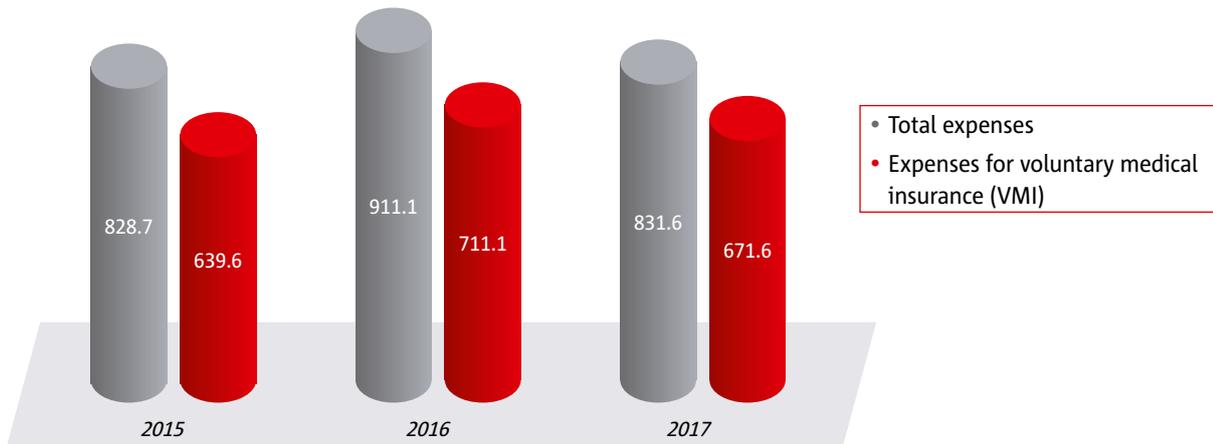
In October 2017, a new Evolution 2.0, a game for 20,000 employees of MTS Retail Network, was solemnly launched.

Every two weeks, employees of MTS sales offices receive a new business mission: heads of sales offices shall develop a big plan for the entire office, specialists shall develop their own personal plan and fulfill a task to fight for individual championship.

And it is not only missions, sales, points, tasks and ratings. Great victories are ahead, but now the participants can use the earned points to buy various products in the online Evolution store.

Evolution has no restrictions if you want to win: you can receive points for implementation of one mission, a trip for six missions, a car for thirty missions.

## Costs of MTS Group for providing personnel with social guarantees, mln RUB



length of service in the Company, we provide compensation of costs for swimming pools and fitness clubs.

The system of benefits for MTS employees does not differ by region, except for the Far North and equated localities, where employees are provided with additional compensation of travel expenses to the place of vacation.

Besides, employees can take part in the Cafeteria of Benefits Programme where based on employee's individual decision his/her set of benefits may be changed. Such approach enables to fully meet personal needs of the employees avoiding huge costs.

### Medical care

MTS gives additional social protection to all employees by providing them with medical and accident insurance. Every year we conclude voluntary medical insurance contracts with insurance companies, which

enable our employees to get medical aid in modern clinics. The voluntary medical insurance program covers the costs of ambulatory medicine, dental care, doctor calling and residential treatment.

### Corporate pension fund scheme

We strive to provide to our employees both stability and development in the present and maintenance of the quality of life in the future, after the completion of work activities. Pursuing the state pension reform, the Company is implementing a project of transferring the accumulative component of the labor pension from the RF Pension Foundation to the Bolshoi Non-State Pension Fund. As to supplementary corporate pension fund schemes, they are not implemented at MTS.

In 2017, the total costs of MTS Group for providing personnel with social guarantees amounted to 831.6 million rubles, of which the cost of voluntary medical insurance amounted to 671.6 million rubles.

### Single hotline

Employees can contact the Single Hotline to solve the issues related to compliance with the Code of Business Conduct and Ethics, resolution of corporate conflicts, assistance in cases when he (an employees) suffered from abuse of office, as well as to report violations of the requirements of the Policy for Compliance with Anti-Corruption Legislation or for Management of the Conflict of Interest in MTS PJSC (line of the internal control and audit unit control&audit@mts.ru).

When sending messages to the Single Hotline, employees may not specify their data (e-mail) for feedback. Claimants are provided with the Company's protection from any forms of persecution or discrimination.

# Occupational Health & Safety

MTS PJSC pays special attention to providing favorable and safe working conditions. Staff safety is a key component of the Company's corporate social responsibility. In the field of occupational health and safety MTS is guided by the laws of the Russian Federation, as well as international law and local regulations.



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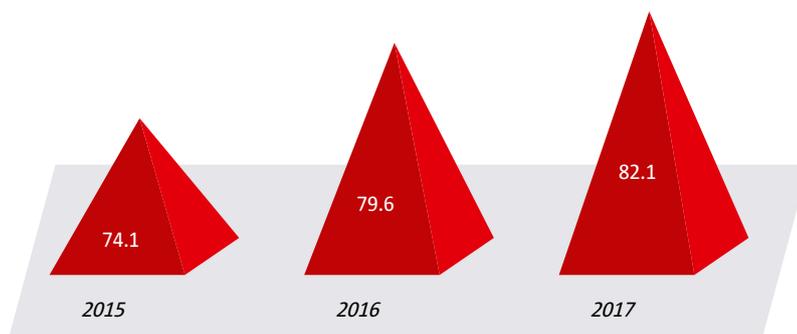
The Company operates a two-tier system of OHS management, focused on creating a safe working environment, prevention of occupational injuries and personnel training of safe work rules.

Key areas of labor protection work carried out in MTS PJSC:

- Ensuring the priority of preserving life and health in the workplace;
- Improving the OHS management system;
- Timely training of managers and specialists on labor protection;
- Organization of preventive and regular medical checks of employees;
- Timely provision of employees with special clothing, footwear and other personal protective equipment;
- Organization of the production control and evaluation of the special labor conditions;
- Ensuring the safety of production equipment and processes;
- Accounting and analysis of occupational injuries, organization of investigation of accidents and activities to prevent occupational injuries and diseases;
- Providing units with regulatory documents, communicating the existing laws and regulations on labor protection to the employees;
- Promotion of labor protection knowledge.

In 2017, 16,917 employees received external and internal training in occupational safety, among them managers, experts, members of commissions on health and safety and other. Various training systems are used for internal training on health and safety, including a

## MTS PJSC expenditures for labor protection activities, RUB million



In 2017, MTS PJSC spent a total of RUB 82.1 million for the labor protection activities, which comprised RUB 2,582.6 per person on average (vs RUB 2,562 in 2016).

Virtual Academy distance learning system of the MTS Corporate University.

The Company provides training on first aid to people injured at the production facility. The main objective of training is a practice of independent actions and behavior of employees focused on preserving life of injured, before the arrival of rescue services.

One of the major trends in the prevention of occupational injuries and diseases is a special assessment of working conditions. This process allows to fully identify and objectively evaluate the harmful and (or) dangerous production factors and risks in the workplace, to plan the activities to improve working conditions. As of December 31, 2017, 24,456 work places were evaluated in MTS PJSC (92% of a total number of work places). More information on the assessment findings is available on the website <https://moskva.mts.ru/about/socialnaya-otvetstvennost/novosti-i-otcheti/ocenka-us->

[loviy-truda](#). In 2018 the work on conducting the special assessment of the working conditions will continue.

Personal protective equipment (PPE) plays an important role in the prevention of employee's direct exposure to harmful and (or) hazardous production factors. MTS PJSC developed and approved standards of issuing free special clothing, footwear and other personal protective equipment to workers who are engaged in work with harmful and (or) dangerous working conditions. The certified PPE is timely purchased, the time of use and inspection of personal protective equipment is adhered to PPE storing and accounting is properly arranged.

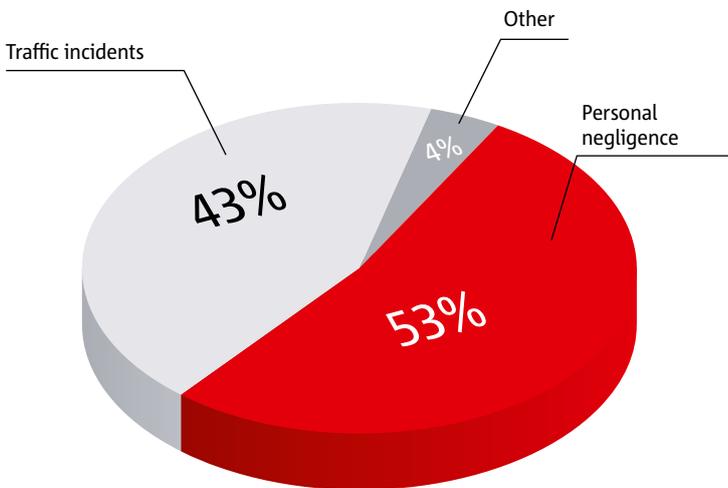
MTS employees engaged in work with harmful and (or) dangerous working conditions undergo preventive (at employment) and periodic (during work) medical examinations. The purpose of the periodic medical examination is a dynamic monitoring of the employee's health in the workplace, prevention and timely establishment of the signs of occupational and general diseases, and prevention of accidents. Preliminary and periodical medical examinations were organized in MTS PJSC for 3,021 and 8,301 people respectively within the reporting period. 35 employees needed a job change, 52 employees were recommended to have health resort treatment upon the results of the periodical medical examinations.

MTS pays particular attention to the organization of activities to prevent occupational injuries and diseases, to carry out preventative measures to manage occupational risks. For this purpose, various organizational and technical measures have been implemented for accidents prevention.

MTS PJSC has no official joint health and safety committees. The division managers of employees' representatives participate in monitoring and development of annual Plans of Labor Protection in Macro-Regions and Regions for the forthcoming year (10%) and in the development of the List of measures to improve conditions and protection of labor of the Employees, whose workplaces were put to a special assessment of working conditions.

In 2017, 7 accidents occurred in MTS PJSC, including 1 fatal accident (road accidents) and 1 major accident. In the reporting year, the employees did not have any occupational diseases.

**Causes of accidents, %**



**MTS PJSC injury indicators**

Indicator	2015	2016	2017
Accident Frequency Rate (Fr)	0.21	0.16	0.22
Accident severity rate (Sr)	16.28	51.57	21.3
Occupational injury and working time loss rate (OIR)	0.03	0.02	0.03
Lost day rate (LDR)	0.49	1.46	0.48
Workplace absenteeism rate (AR)	5.51	4.19	4.27

<sup>1</sup> Accident Frequency Rate determines the number of accidents during the reporting period per 1000 employees.

MTS PJSC observes the following agreements in the area of labor protection:

- Moscow tripartite agreement for 2016-2018 between Government of Moscow, Moscow Trade Union Association and Moscow Employers Association;
- Federal industrial agreement on communication and IT enterprises of the Russian Federation for 2015-2017.

Annually MTS PJSC cooperates with the Social Insurance Fund of the Russian Federation (RF SIF) for financial support of preventive measures to reduce accident injury rate and occupational diseases of employees and health resort treatment of employees working with hazardous and (or) dangerous production factors, as well as to obtain discounts on insurance tariff for compulsory social insurance against industrial accidents and occupational diseases. In 2017, the total effect of these activities amounted to 2.6 million rubles (in 2016 — 9.1 million rubles, in 2015 — 9.6 million rubles). The decrease in the amount of funds received is due to the fact that after the transformation of the MTS PJSC organizational structure, the names of certain branches were changed, and the FSS of the Russian Federation refused to provide discounts to the insurance tariff and financial support for preventive measures to reduce occupational injuries and occupational diseases of workers and health resort treatment of workers.

On account of the Russian Federation SIF funds:

- Medical examinations were performed;
- Overalls, safety shoes and other PPE were purchased;

- Special assessment of labor conditions was made;
- Health resort treatment was organized for MTS employees.

OSH management system in MTS PJSC has been recognized at the regional and district levels. In 2017, a number of MTS branches became winners of the city and regional contests for labor protection.

MTS pays special attention to promoting labor protection. In April, in anticipation of the Global Labor Protection Day, various actions are taken to improve the labor conditions and protection of the Company's employees, to prevent occupational injuries and diseases.

In the reporting period, the representatives of MTS and subsidiaries participated in the work of the third All-Russian Labor Protection Week in Sochi. The busy schedule made it possible to participate in professional discussions, to study best practices and experience of colleagues, to learn about the main directions of labor protection law improvement, to get recommendations and answers to practical questions.

Every year the Company assesses the effectiveness of OSH management system based on quantitative indicators that objectively assess the degree of implementation of the labor policy. As a result of evaluating the OSH management system effectiveness of every region, an action plan on the improvement of labor protection is approved.

In 2017, MTS's branch in the Lipetsk Region received an Employer's Certificate of Trust.

# Society

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# Charity



MTS keeps to socially oriented priorities. That is why charity is an important part of the corporate social responsibility of the Company.

Priority directions of MTS' charity activities:

- Gratuitous help for children with serious illnesses
- Support of the development of education and health care systems
- Promotion of physical education and sport
- Support of art and creative initiatives
- Preservation of social infrastructure facilities

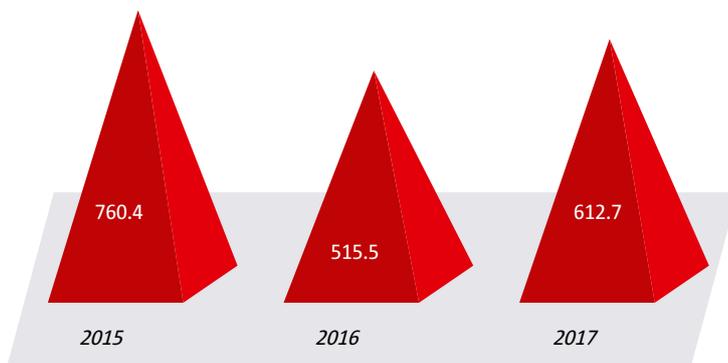
The Company's charity policy in this field is governed by the following principles:

- We are dedicated to implementing long-term charitable projects that are in line with the state's social policy priorities, contribute to solution of

acute social problems that impact broad population strata, and increase quality of life of the citizens;

- We are implementing projects focused on establishing equal conditions and opportunities for residents of far-away regions and large centers;
- We believe that today's innovative technologies make a material contribution to improvement of the quality of life, so our priorities are the charitable projects in which our technologies, products and services help solve this task;
- We believe that health-improving charitable projects and the projects contributing to harmonious development of the younger generation are highly desired by society;

Costs of MTS Group for charitable and social projects, mln RUB



As of 2017, the total expenses of MTS Group for charitable and social projects amounted to

**612.7** million rubles

- We are interested in projects which can be implemented as broadly as possible in the countries where MTS is active;
- We are ready to cooperate with the government authorities, non-profit organizations, business

community representatives in implementation of joint charitable projects compliant with MTS social policy and charity policy, performed on the equal partnership terms and subject to the condition that the legislative and other restrictions applicable to the Company are observed.

## Communication with regional communities

Since the end of 2016, MTS has been implementing a new type of charity activities: direct cooperation with regional communities. Within this direction, we interact with independent groups of people who are trying to use their own efforts to solve social problems that are important for their local environment. These local groups are specific for their social significance and selflessness of their activities, which are not related to any political, religious or commercial activity.

In 2017, MTS in cooperation with local communities implemented 290 projects in 33 regions of the country: we bought food and office supplies for families with many children and low-income families, helped to equip sports grounds, build cycling routes, restore local parks, provide search units with the necessary equipment for their work and young athletes with equipment and trips to competitions.

In relationship with the communities, MTS volunteers are involved in a significant part of activities - our employees participate in volunteer clean-ups, plant trees, collect things for the homeless. These social projects are not just corporate events, they become an important part of the Company's dialog with local communities. In 2017, 3,700 MTS employees took part in such volunteer initiatives.

We see our important social mission while working with local communities in the transfer of experience and professional expertise, implementing projects of mentoring and training for school, student and other youth associations.

Speaking directly on behalf of the Company and studying in detail the life of local groups, we receive an

**290** projects

**33** regions

**3,700** employees

In Vladivostok, MTS supplied uniform for children's team in rowing, in Tomsk it helped to restore a historic building and purchased loudspeakers for the amateur community of Penza guides.

In 2017, MTS Lecture Center project was launched, where employees conduct lectures on MTS' priority topics, for example, related to the development of smart technologies.

The first training projects were implemented in Odintsovo, the Moscow Region and in the Ivanovo Region.

active feedback and sincere gratitude. High involvement in activities initiated by MTS shows that people are ready to participate in the activities that are close to them. In 2018 it is planned to increase the number of projects up to 400, scale them up and expand their geography.

## Generation M

**15 mln** people online

**160** recognized masters in the creative group

**>200** master-classes on various creative directions

**240** children became winners and awardees

**15.5 mln** RUB collected

On virtual creative sites of the project, children from all over the country can show their talents by participating in contests, online master classes and interactive exercises from Russian stars in different directions.

MTS uses innovative tools of philanthropy, creating in Russia a mass movement of young charity providers. All activities on the site "Generations M", Vkontakte and Instagram are converted into real money.



[pokolenie.mts.ru](http://pokolenie.mts.ru)



[vk.com/pokoleniye\\_m](https://vk.com/pokoleniye_m)



[instagram.com/pokoleniye\\_m](https://instagram.com/pokoleniye_m)

The visitors receive points for viewing photos and videos, commenting, voting, as well as for "likes" and reposts in the social networks and, therefore, fill up the common charitable project's account, the balance of which is updated in real time on the portal's home page.

### Motto of the project: "Creativity for the sake of life"

The screenshot shows the website's navigation bar with links for 'MTS', 'ГЛАВНАЯ', 'КОНКУРСЫ', 'НОВОСТИ', 'ПАРТНЕРАМ', 'МАСТЕР-КЛАССЫ', and 'КОНТАКТЫ'. There are also social media icons for VK and Instagram, and a 'ДОЙТИ' button. The main content area features three cards for different age groups:

- 6-10 лет**: Для тех, кто делает первые шаги в творчестве. Перед тобой конкурсы с невероятными призами. Заходи — «Непоседы» и «Смешарики» ждут тебя в гости!
- 11-14 лет**: Для тех, кто увлекается творчеством. Прояви себя и выйди на новый уровень признания!
- 15-18 лет**: Для тех, кто выбрал творческую профессию. Учись у мэтров и преврати увлечение в призвание!

While developing charity through children creativity support we involve them in virtual and local activity, give them an opportunity to become familiar with "safe Internet" and accept universal human values.

In the end of the year MTS converts the accumulated points into actual money, which, just as the funds raised from selling the tickets to all performances within the framework of the Generation M project, are channeled to treatment of children.

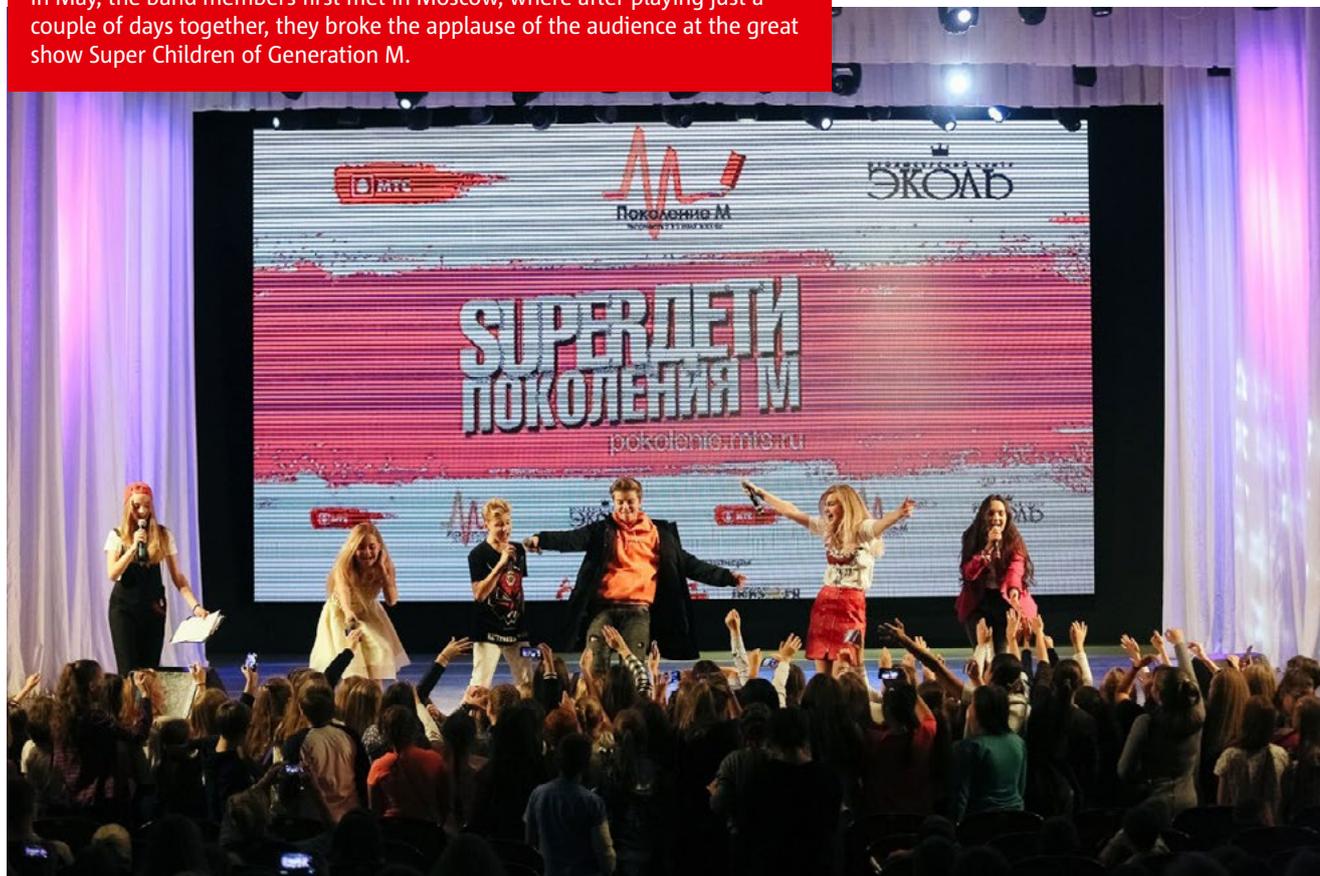
Generation M project collected more than 15.5 million rubles, which were allocated to 42 children's surgical treatments.

Since the start of Generation M project, 240 children from 60 regions of the country became its winners and awardees; for each of them the project became a very important step in their creative career. The project gives children a lot of opportunities: from the internships at the largest animation and film studios of Russia to entering the big stage with stars and joining the creative universities of the capital.



### MTS in partnership with Ecole producer center managed to do what no one else could do before

Within the framework of Generation M project, for the first time in history, a music group of talented children living in different parts of the country was created through the Internet. The online band consisted of five guys from four cities of the country who did not know each other before. Teachers of Ecole chose them from hundreds of candidates who posted their work on the site. In May, the band members first met in Moscow, where after playing just a couple of days together, they broke the applause of the audience at the great show Super Children of Generation M.



**Winner of the Digital Communications AWARDS — 2017 in the nomination Digital Projects and Strategies/CSR Communications**

**Winner of the Effie Awards Russia 2017 in the nomination Contribution to the Common Good. Social responsibility and sustainable development**



In 2017, MTS in cooperation with its partners conducted more than 150 events with a coverage of 500 thousand people. In particular, the concert tour Super Children of Generation M, a series of fashion shows by star designers Fashion Day of Generation M, an exhibition of World Press Photo laureates. 30 thousand creative works were published on the project Web site.

Among the invited culture and art stars were film directors Vladimir Khotinenko and Vladimir Grammatikov,

animator Konstantin Bronzit and Melnitsa animation studio, Neposedy studio, singer Polina Gagarina, fashion designers Vyacheslav Zaitsev, Igor Gulyaev, Dasha Gauser and others.

Together with new creative partners, MTS launched a contest and educational program in the field of art, blogging, journalism, and robotics. The winners of the art competition will have an opportunity to exhibit their works in the Tretyakov Gallery or become illustrators of the books published by Eksmo publishing house. The most talented engineers will come to Moscow to study at Roboschool, and young journalists and bloggers will be able to get to the shooting of the famous Russian TV show.

In the next creative season, MTS will continue implementing new directions, involving talented children and teenagers into the largest in Russia creative charitable movement – Generation M, as well as granting to the children of various country regions the opportunity to ascend the social ladder.



## Success stories of the Generation M winners

Nastya Kryukova (Moscow)	The youngest laureate of the Stanislavsky Prize, at the age of 15 she became a student using the MTS grant
Alisa Pozhidaeva (Vyborg)	She passed an internship in the legendary Neposedy studio and performed on a stage of the Kremlin palace
Vadim Fomin (Krasnodar), Nastya Sitdikova (Samara), Katya Buluyeva (Ulan-Ude)	Under the leadership of Vyacheslav Zaitsev, Igor Gulyaev and Dasha Gauser, they created their own collections of clothes and presented them at the main fashion week of the country Mercedes-Benz Fashion Week Russia in October 2017
Gleb Rusakov (Ishim, Tyumen Region), Leonid Borzov (Moscow)	Passed an internship at RFG film company and took part in shooting a commercial film
Lera Gonchar (Slavyansk-Na-Kubani), Nikita Zhorychev (Tula)	They acted in one of the series of the popular film Eralash
Danil Pluzhnikov (Sochi)	Became the winner of the first season of Voice. Children
Lisa Kachurak (Volgograd)	Became the winner of the fourth season of Voice. Children
Danil Musin (Chelyabinsk)	Became a finalist of the fourth season of Voice. Children



## Give Good!

Give Good! is an MTS targeted charity program, aimed at urgent help to gravely ill children.

Within the framework of the program, funds previously directed to purchase souvenirs are allocated to charitable support. For these purposes, MTS interacts only with federal charitable funds with an impeccable reputation, providing strict financial reporting. In 2017, MTS cooperated with the foundation Center for Human-

itarian Programs, CF A&F. Good Heart, CF Sunflower, and Creativity foundation.

In 2017, total budget of the MTS charitable program Give Good! amounted to 10 million rubles. The collected funds were allocated to treatment of 65 children from 40 regions of Russia.

## Inclusive community

At the end of 2017, Vodafone Ukraine was the first mobile operator in Ukraine to start servicing deaf customers in stores. In Ukraine, quite a large number of people who have hearing problems, experience difficulties in communication (about 10% according to WHO).

The Ukrainian company BeWarned, which specializes in the development of services that enable deaf and hearing-impaired people to cope with a number of domestic problems, became its partner. The ConnectPRO application developed by BeWarned is installed on tablets of employees in Vodafone stores and enables users to communicate with deaf people using an online sign language app or instant messaging.

The pilot project was implemented in five stores in Kiev, Kharkiv, Dnepr, Lviv and Odessa.

# Volunteering

## Corporate volunteer movement JUST Give Good!

MTS has been deploying the corporate volunteer movement JUST Give Good! for more than seven years and every year it is gaining ground. Today, more than 6.5 thousand employees of MTS take part in this movement, having an active lifestyle, desire to help and make the world kinder and better. In 2017, the

volunteers conducted over 600 events in the various Russian regions.

The corporate volunteer movement is a manifestation of the corporate social responsibility of business, which is becoming more and more popular with the employ-

### International Volunteer Day

In 1985, the UN General Assembly established International Volunteer Day. Since then, on December 5 those who unselfishly help people in different life situations and make the world kinder are celebrating their holiday. MTS can rightfully be proud of its volunteers. On December 5, 2017, more than 150 of the most active employees and projects thought leaders were awarded.

Winners in the nominations Best Social Projects of the Leader, Growing, Strong and Effective Clusters were the following projects:

We are together! comprehensive aid and support of the child care center (Ryazan);

Equal Opportunities inclusive bike ride (Yaroslavl);

Challenge of Good relay race of good deeds (Kirov);

Poplar of Victory: planting of seedlings from a long-liver tree that survived during the Battle of Stalingrad in 17 regions.

In the Moscow Region, Family Day was recognized as Best Social Project aimed at strengthening family values

Other nominations:

Intellectual Volunteering: Telecom Idea project;

Artistic Volunteering: the actors of the MTS Mobile Theater of Fairy Tales;

Creative Volunteering: It's in the Bag creative laboratory;

Sport Volunteering: MTS soccer and volleyball teams represented by their captains Aleksey Krasilnikov and Yuri Surkov;

Donorship: the work of Julia Doronina for coordinating and developing the donor movement in MTS is highly appreciated.

Winners of special nominations were noted: For the Development of Corporate Volunteering in MGTS, For the Creation of a Laboratory Complex in MTUSI, Partner, and Devotion

ees, enabling the Company to enhance the loyalty of its employees and boldly solve important social tasks, integrating them with the business tasks.

In 2017, Recognition Program for MTS employees in the field of volunteer activity was developed.

The Company's volunteers support the foster children of social institutions who find themselves in a difficult life situation, as well as veterans of the Great Patriotic War and veterans of telecommunication industry. The volunteers participate in the Company's activities related to the important dates and events: Victory Day, Children's Day, Knowledge Day, New Year celebration. Moreover, the MTS activists participate in the activities of Sistema Charitable foundation.

MTS pays special attention to vulnerable children. Our employees together with the Company's partners organize volunteering events on the federal level for the disabled children, MTS pays special attention to vulnerable children. Our employees together with the Company's partners organize volunteering events on the federal level for the disabled children.

## Mobile Fairytale Puppet Theater

In 2012, the most creative MTS volunteers created the MTS puppet theater Mobile Fairytale Puppet Theater. Today, there are 10 performances of different thematic focus in its repertoire: New Year, educational, and environmental. The actors of the theater are not invited stars, but MTS employees themselves, viewers are pupils of sponsored children's institutions, children from multi-child families of employees and partners, small patients of rehabilitation and oncology centers.

At the end of 2017, the theater troupe numbered more than 60 people who conducted 50 events for 4,500 spectators in 11 regions of Russia during the reporting period.

### Key events in 2017:

- holding the third Festival of corporate theaters for children of sponsored social institutions and large-scale employees of partner companies in the Modern theater (with the support of Detsky Mir PJSC and Charitable Funds Sistema, Detsky Kinomay, and Chistoe Nebo);



### Donor Day

Today, more than 800 employees joined MTS donor movement.

On March 29–30, 2017, together with the Federal Medical and Biological Agency and Give Life Charitable Foundation, donor initiatives, which have already become a tradition, were held in two Moscow offices of MTS PJSC.

116 employees of MTS took part in the event, about 52 liters of blood were collected to save many lives!

Besides, the donor initiative allowed to raise about 12 thousand rubles for the treatment of the care recipients of Give Life Foundation.

### Good deeds service

In 2015, a Good Deeds Service was created especially for MTS employees.

The service allowed to systematize the management of volunteer projects within the Company and provided the necessary tools for coordinating a large-scale volunteer movement in different regions of MTS presence.

- participation in the eco-festival Solony-2017, which covered seven cities of the Republic of Karelia. The festival was organized by Sistema Charitable Foundation with the support of MTS Group, Detsky Mir, Segezhe Group and the Government of the Republic;
- participation in the annual International Festival of Performing Arts High Fest in Armenia.

### Awards of the Mobile Fairytale Puppet Theater in the BestinCSR 2017 contest

- the winner in a special category Leader of Social Responsibility in the Telecommunications Industry in Russia;
- third in the category Social Responsibility for Employees of the Organization. Socially Responsible Management.

We are proud that our performances give children joy, good mood, and new knowledge, and MTS provides opportunities for creative self-realization of employees. Next year we plan to continue developing creative volunteering and supporting federal projects and regional theaters.

The theater has a website: [puppet-mts.ru](http://puppet-mts.ru), where you can give feedback about the festival or the performance, as well as learn about other events of the interesting, useful and amazing life of MTS volunteers.

### Repertoire of the Mobile Fairytale Puppet Theater

- The story of one Prince;
- Saving the Earth;
- The Adventures of Econeshka;
- New Year Detective;
- New Year TV Show;
- Jack Frost;
- The Magic Mirror;
- Simple rules;
- Kids Online;
- Lessons for Grandma.





## MTS Green Express

The "MTS Green Express" is an annual federal volunteer project aimed at the targeted support of the social institutions for the children who found themselves in a difficult life situation.

In 2017, the geography of the project covered almost all regions of the Company's presence: over 30 MTS branches took part in the campaign.

The participants of the project are MTS employees and their immediate family, as well as the Company's partners, including RTC, Stream, Detsky Mir charity fund and MGTS.

The key purpose of the project is to bring joy and warmth into the lives of the deprived children, as well as to attract attention of the public to the issues of protecting the childhood and social development of the regions.

In the beginning of the school year, our volunteers go to the orphanages, give presents (stationery, clothes, books, etc.), give master-classes, organize cultural events, educational quizzes and quests, career orientation lessons, sports competitions and just communicate with children, which is priceless.

This year, the MTS Green Express campaign was held for the seventh time, and the main line of field events was environmental issues.

### MTS Green Express stopped in Volgograd

On September 20, 2017, MTS volunteers conducted the action together with the charitable foundation Children in Trouble. Employees of the Volgograd branch brought joy to children from 22 families who found themselves in a difficult life situation.

For children, an "environmental quest" was organized, which was filled with interesting puzzles and "green" tasks. Each is associated with an environmental problem: deforestation, disappearance of rare species of animals, depletion of world freshwater supplies, accumulation of harmful debris, forest fires.

Together we made an imaginary journey along the ecological path — a route in the forest where a person studies nature, learns to protect animals, birds, trees and grass. The kids turned into environmentalists, divided into three teams: Defenders of the Forest, Beavers, Forest Glade — and began a difficult but exciting journey. Having gone through all the stages, our little guests were able to plant their own forest, study the problem of water and air pollution and save the endangered species of birds and animals.

The kids and volunteers got a great pleasure from communicating with each other and are looking forward to new meetings!

The federal volunteer project MTS Green Express received the Champions of Good Deeds award established by the Association of Managers of Russia.

MTS provides volunteer and financial assistance to the Festival of Restoration of the Historical Environment Tom Sawyer Fest, which takes place in cities of Russia since 2015. MTS volunteers are working on restoring historical and cultural attractions, conducting master classes for children. In 2017, MTS volunteers from Tomsk, Kazan, Samara, Saratov, Orenburg, and Buzuluk took part in the project.



## Tango of Victory campaign

In 2017, the federal MTS volunteer campaign Tango of Victory went far beyond Moscow and walked through a series of festive events around the cities of the Company's presence, in which the largest number of veterans of the Great Patriotic War are concentrated.

The events dedicated to the 72nd anniversary of the Great Victory took place in St. Petersburg, Yekaterinburg, Vladivostok, Nizhny Novgorod, and Belaya Kalitva (Rostov Region).

Each of these events took place according to the original scenario. For example, in St. Petersburg, a literary musical performance called *When We Did Not Have Time to Become Children* was presented to the attention of the audience on the *Book of Memory: Life During the War* <http://vov.mts.ru/>. MTS employees went on stage and read monologues on behalf of girls and boys who lived in hunger, devastation, and blockade. We all know that during the war it was hard, but only after dismantling this faceless "hard" you can wake up love and support. The MTS company has chosen a theatrical performance as a trigger for our humanity.

And for the veterans of Vladivostok, a film made by the MTS branch employees was a pleasant gift, in which the residents of the city wished veterans health, longevity, happiness, family well-being. A series of events was held in Nizhny Novgorod, timed to coincide with the Victory Day. During one of them, grandmothers and grandfathers of MTS branch employees were watching a performance based on the story of Boris Vasilyev, *The Dawns Here Are Quiet*, and eating delicious treats.

In the end of the Tango of Victory campaign there was a big concert in Moscow in the Central Museum of the Great Patriotic War on Poklonnaya Hill.



## Poplar of Victory

The history of Volgograd poplar has been a subject for discussion for a long time: the poplar became a real symbol of life, it alone survived the bloody and devastating Stalingrad battle, during which the city was almost wiped off the face of the earth. The tree has endured the enemy fire: its entire trunk is literally strewn with "scars" and "grazes" from bullets and shell fragments. But in the spring of 1943, after the liberation of the city, the tree blossomed again, symbolizing the victory of life over death and war.

In 2017, MTS conducted the Poplar of Victory event aimed at preserving the genotype of poplar as a military historical heritage of the country. Saplings from the long-liver tree were planted in 17 regions of the Russian Federation. More than 1,000 people took part in the event: MTS employees, veterans, representatives of government bodies, mass media, public organizations. For 2018 it is planned to carry out the event in 15 more regions.



## Christmas Trees for Children! campaign

Christmas Trees for Children federal level project is one of the most popular MTS volunteer actions. Following a New Year tradition, our volunteers come to children living in sponsored children institutions and make a feast to those who cannot have it in a family.

On the New Year's Eve, everyone waits for wonders and fulfillment of dreams, so the volunteers from MTS branches all over Russia briefly turned into magicians for kids from sponsored children's social institutions. They organize various master-classes on how to make Christmas Tree decorations and souvenirs, hold sports competitions, quests, arrange various contests,

perform puppet theater plays act as Santa Clause and Mrs. Clause, give the children gifts and unforgettable impressions.

In December 2017, a record number of social events took place: 42 regions took part in the Christmas Trees for Children! event. Throughout the month, MTS volunteers charged children with New Year's mood, shared warmth and smiles with them. It's nice to finish the year with good deeds and just doing good!

### Rostov

Employees of the Rostov branch of MTS with the support of the Ministry of Education, Administration of the Kirov district, and Children's Support Center No. 4 organized a charitable Christmas tree in the Musical Theater. Little guests took pictures with the Grandfather Frost and Snow Maiden, with life-size puppets of cartoon characters Fiksiki and Barboskiny, Spider-man, took part in master-classes and bubble show, watched a fantastic detective history, and in the end got sweet holiday gifts from the partners of the event: Sberbank and Mishkino confectionary factory.

### Kemerovo

Volunteers of the MTS branch arranged a holiday for pupils of the boarding school No. 27 and children's home No. 1. During the interactive, organized near the Christmas tree, they went into space together with Belka and Strelka, where they met aliens who do not know what the New Year is and who are Grandfather Frost and Snow Maiden. During the second part of the event, the children were shown the New Year performance called The Boy-Star.

### Ulyanovsk

500 children from orphanages and shelters, as well as children from low-income families, visited I.A. Goncharov Ulyanovsk Drama Theater together with volunteers of the MTS branch. The children saw the production of the Snow Queen play.

### Yaroslavl

For employees of the Yaroslavl branch of MTS, a large Christmas celebration in the First Russian Theater named after Fyodor Volkov became its debut: 650 orphans, children from low-income, large families and foster families, children with disabilities came to be inspired with the New Year mood. Before the performance of Ivan Tsarevich, the guests of the holiday were entertained by MTS volunteers. In the foyer, a photo zone with a huge banner of eight wonders of the world and a corner of creativity were installed. With face painting, anyone could turn into a storybook character, in just a few minutes to learn how to make a magic wand or a snowflake at the master class of creative teachers, which in this day and became MTS' employees. And, of course, none of the holiday guests left without a sweet gift.

### Moscow

The biggest event of December was the performance in Circus on Tsvetnoy Boulevard for 2,000 pupils of the patronized institutions of MTS, Detsky Mir, and BF Sistema. And the most enchanting was the charitable Christmas tree in the MIIT Palace of Culture, where the highlight of the program was the musical production of the New Year's TV show, performed by MTS volunteer actors. More than 700 children in the hall, invited theater and cinema stars, as if being fascinated, watched the reincarnation of Baba Yaga into the Super Star, the machinations of Leshiy and Crow against Grandfather Frost's granddaughter with snowmen, and waited for the climax.



# Social projects



## MTS Mobile Academy

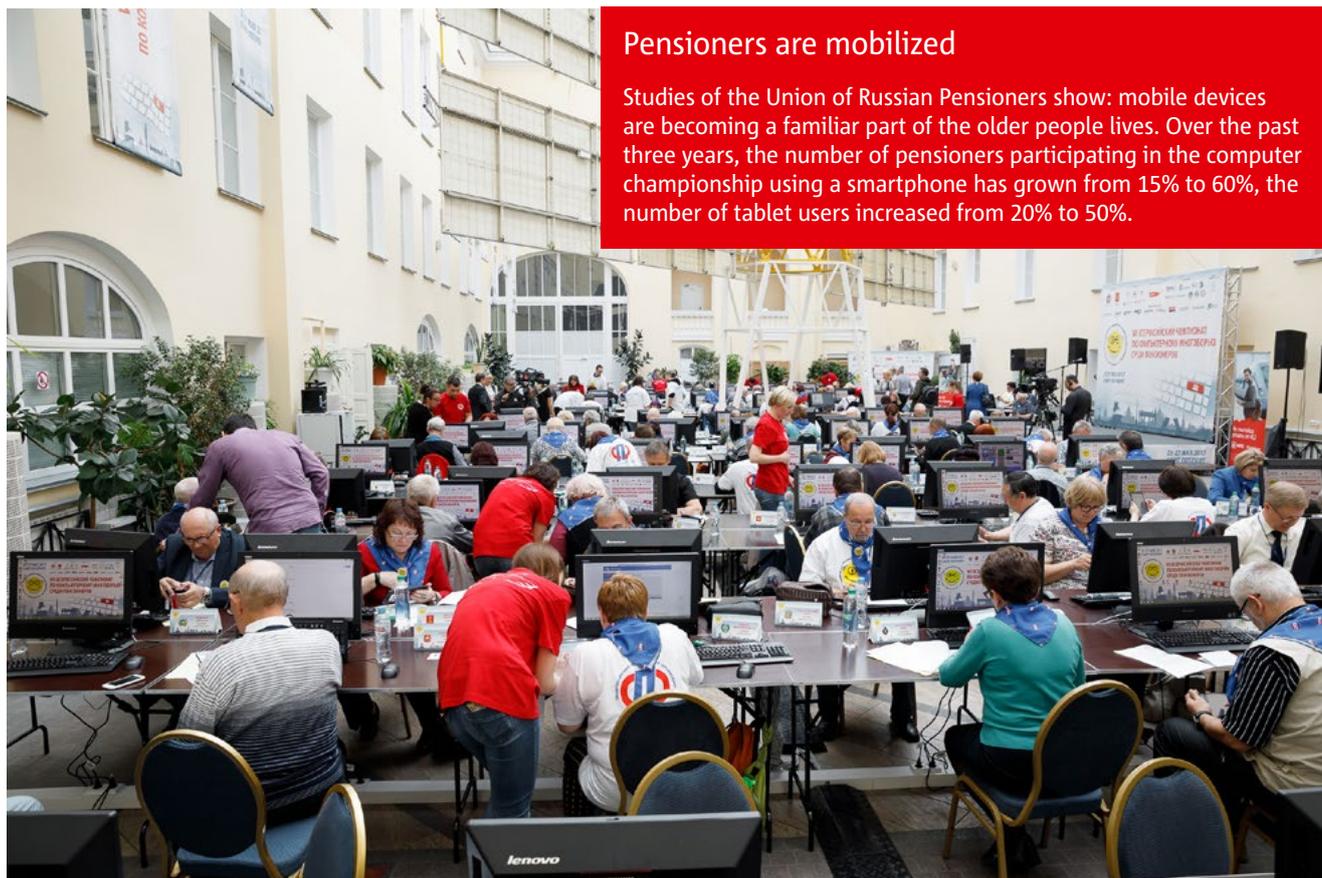
In 2016, MTS has developed MTS Mobile Academy special educational course aimed at people aged over 50 years. The aim of the project is to make mobile devices truly understandable and accessible to elderly people, to raise their self-esteem and integrate them into the modern rhythm of life.

Since 2012, MTS has been educating pensioners. Earlier, in the framework of the social project To Web All Ages Yield Surrender, elderly people acquired practical skills in using the Internet on stationary computers. Today, MTS Mobile Academy allows retirees to be advanced online in smartphones and tablets.

We teach the audience of the Academy confident work with Internet services: to do shopping in any place at any time with the help of a smartphone or tablet, to sign up for an appointment with a doctor, to communicate with family and friends. Pensioners learn in practice how to remotely pay for communication services and housing and communal services, receive public services. All this makes their life more comfortable and full. Lessons are available for download and view on the project website <http://baba-deda.ru/uroki>.

In 2016–2017 academic year, the Mobile Academy courses were attended by around 2,000 people in Moscow, the Oryol, Kurgan, Novosibirsk, Amur, Saratov





## Pensioners are mobilized

Studies of the Union of Russian Pensioners show: mobile devices are becoming a familiar part of the older people lives. Over the past three years, the number of pensioners participating in the computer championship using a smartphone has grown from 15% to 60%, the number of tablet users increased from 20% to 50%.

regions, Krasnodar, and the Altai Territory, the Republics of Adygea and Dagestan. And in September 2017 already, the classes of the MTS Mobile Academy were opened in 10 regions: Belgorod, Tambov, Penza, Kirov, Rostov, Samara, Irkutsk, and Nizhniy Novgorod; the republics of Bashkortostan and Tatarstan, Stavropol and Baykal.

## Championship

The graduates of MTS Mobile Academy defended the honor of their regions at VII All-Russian Computer Championship among pensioners.

In 2017, the championship was held in May in St. Petersburg and became the largest in its history: 74 subjects of the Russian Federation sent teams to the competition. All participants passed regional qualifying stages. Men and women of retirement age take part in the championship. This year, 15% of them are over 70 years old, and two "multiathlonsists" celebrate the 80th anniversary. Carrying out the tasks of the "mobile"

## Pensioners about MTS Mobile Academy

According to the results of the survey, 98% of the trainees assessed the course as very useful. The main difficulties were caused by working with government service portals, as well as with messengers. Priority areas for further study are:

- payment for goods and services via the Internet;
- ways to make money using the Internet;
- downloading movies and books;
- basics of safe work on the Internet.

stage, the "sportsmen" passed the online quest in the search engines, downloaded mobile applications, published selfies and made posts in social networks, searched for videos on YouTube, demonstrated skills of Internet shopping. The participants of the championship proved: age is not an obstacle for the use of new technologies, development, and travel!

## Children Online

Children Online project is aimed at fostering digital competence and a culture of safe use of modern technologies.

It is no longer possible to imagine a modern child without gadgets. Children actively use smartphones and mobile Internet. At that, every third child communicates with new virtual friends, one in five sends personal information to strangers, and every second faces negative information and aggression in the Internet. The task of MTS as a leading telecom operator is not only to demonstrate the capabilities of the worldwide network but also to warn children, parents, and educators about the potential risks when using the Internet by younger students.

*"We are responsible for those whom we connected"*

To protect young users, MTS together with the Internet Development Fund and the Faculty of Psychology of Lomonosov Moscow State University developed a lesson Useful and Secure Internet in 2011, which became the basis of the federal educational MTS project Children on the Internet. The methodology of the lesson is published by the Federal Institute for the Development of Education.

In 2017, the lesson program was updated in accordance with the current trends in education and the world of

digital technologies. The section about useful sites now includes more interesting resources that children can learn together with their parents, developing their creativity and mastering the skills of ecological behavior. The lesson is designed in such a way as to give students the most complete idea of both the positive and negative aspects of using the Internet. Seven safety rules are shown through seven stories. Each story reveals one of the dangers of the Internet environment and teaches the child to get out of the crisis. After the lesson, children reinforce their knowledge in a game and active manner as an entertaining quest. The interactive format of the exhibition suggests that you can and even have to touch the exhibits with your hands, play with them, and give vent to your imagination using unique art objects.

The first updated lesson was presented in the framework of the international forum Education of Russia / EDU Russia in March 2017 in Kazan. In the same year, exhibitions and lessons were held in eight cities of Russia: Kazan, Voronezh, Irkutsk, Chita, Perm, Tchaikovsky, Solikamsk, and Balakovo (Saratov Region). The city libraries, museums, and youth centers, which became the project's full partners and participants, provided their sites for educational exhibitions and lessons. In each region, at least 2000 junior schoolchildren became participants in the Kids Online project. For six years, about 400,000 pupils in more than 40 regions of Russia completed the training, and during this time,



the program has established itself as a reliable and effective means of improving the digital competence of elementary school students. The class is interesting for both children and teachers.

In 2017, active support to Children Online project was provided by the regional Ministries of Education, Ministries of Culture and public organizations.

Adults – parents and teachers – play the leading role in involving younger generation in the culture of information society. It is them who are an example for young Internet users. In 2017, we developed an online training course specially for teachers and parents.

[http://www.safety.mts.ru/ru/deti\\_v\\_inete/for\\_adults/lessons/](http://www.safety.mts.ru/ru/deti_v_inete/for_adults/lessons/). It was presented in September in Irkutsk.

MTS and Internet Development Fund conducted several master classes for teachers in Kazan, Voronezh, and Perm.

In 2017, the number of downloads of the lesson methodology increased by almost 50%, and the number of visits to the project page on the Internet was 290,000 times (<http://detionline.com/>). More than 100 publications about the MTS project were published in regional mass media.

2018 objectives:

- organizing and holding an interactive educational exhibition Children Online and conducting open

## IT-courses for Belarusian schoolchildren

In 2017, MTS Belarus together with the Ministry of Education organized an "IT camp" for schoolchildren. The goal of the joint project is to teach children to use modern technologies competently and profitably because this is our future. In the IT Camp, schoolchildren not only got an idea of programming but also learned to solve non-standard logical problems.

Within the framework of the pilot project in Na Rostanyakh children's health camp, Programming Games in Scratch Language courses were organized. During the lessons, children learned how to create their own animated and interactive stories, presentations, models, and games. A total of 16 lessons for children aged 7–14 were conducted. Schoolchildren were attending the lessons for free, and at the end of the course, they received certificates of the Educational Center of PVT and gifts.

lessons of a useful and safe Internet for children in the cities of the Far East: Khabarovsk, Komso-molsk-on-Amur, Yuzhno-Sakhalinsk, Vladivostok, Petropavlovsk-Kamchatsky, and Magadan;

- conducting master classes and lectures for teachers and webinars for educators and the parent community of Russia;
- development of research and methodology base and support of the Internet project resource.

## How to set up your child's smartphone for safe surfing the network

Internet Control is a real find for modern parents. The service makes staying on the Internet useful and safe for children of all ages.

The service assumes five security regimes for each age. There are options from the strictest "To 7 years" with access to a very limited list of children's sites and safe search, to "Adult", where the list of allowed sites is significantly expanded, but sites of dangerous categories are still blocked.



Limited access to undesirable websites



Schedule setting



Website traffic statistics

## Educational project MTS/Media

MTS Company implements its own unique media resource <https://media.ssl.mts.ru/>. MTS/Media in its essence is an educational project with explanatory, teaching and helping content.

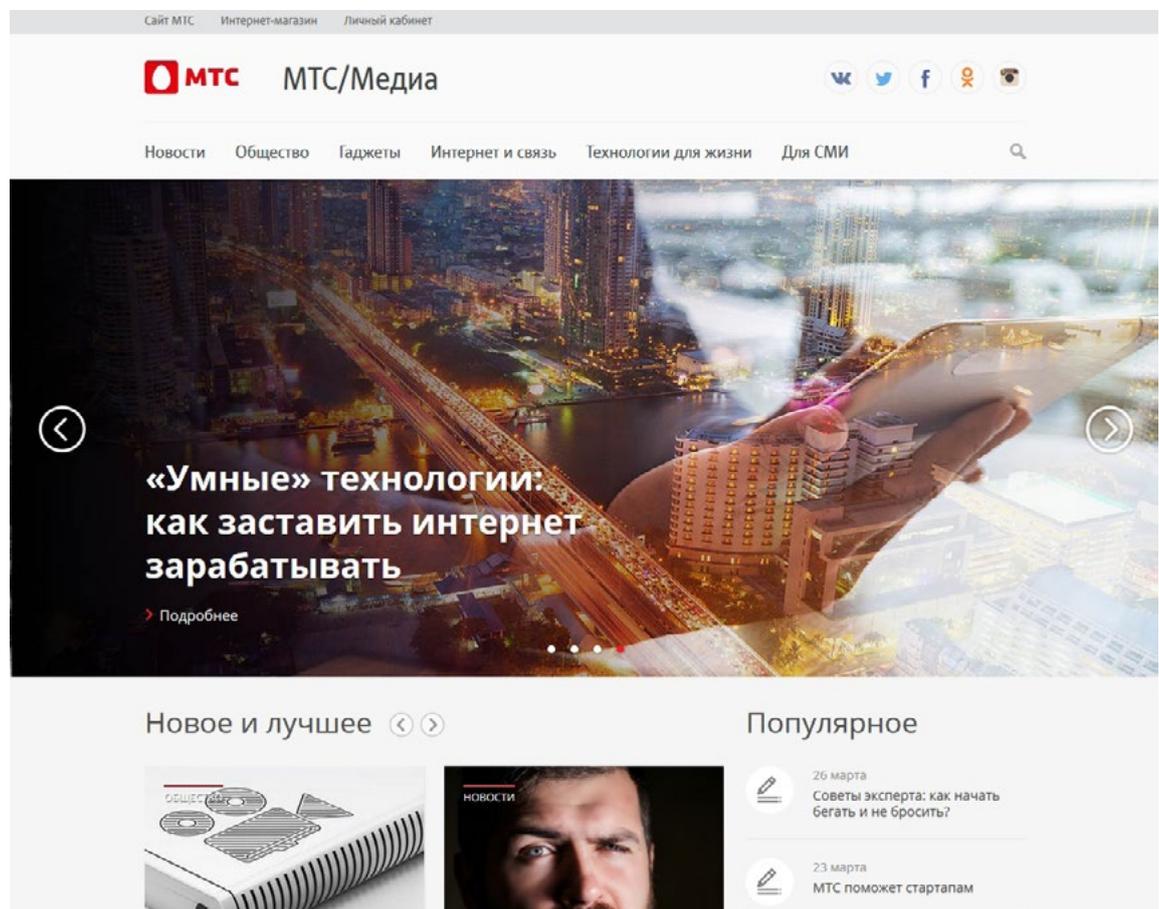
MTS/Media publications written in a simple and understandable language highlight the high-demanded issues in society related to the use of high technologies. MTS/Media takes on the function of education, as well as creation and systematization of content, which helps users to face everyday issues — from making the public transport easier to creating a safe internet-environment for kids.

MTS/Media publications rely on federal and regional campaigns in social networks, links to site materials are embedded in the company's email and SMS communications. In 2017, more than 850 thousand people read MTS / Media materials in social networks. In some cas-

es, the percent preferred informative materials to SMS exceeded 25% of the general distribution audience, which significantly exceeds the average information mailings on the market. People read publications for quite a long time, which indicates that the majority of those who follow the links read the materials to the end. In general, the monthly audience of the site is about 300,000 people.

Since 2017, materials have begun to be published on two major topics: Savings and State Services. The first one is devoted to ways to save using the Internet, smartphones, and applications, the second one explains how to get state services online.

As of 2018, MTS / Media plans to expand the subject matter of materials, in particular, to focus on the promotion of applications and IT-services for a wide range of users.



## MTS Laboratories

MTS actively interacts with the student community in various cities of the country, supporting educational and social events in universities, thereby contributing to the quality of training of young professionals and the formation of a personnel reserve.

We support student hackathons, meetups, master classes and scientific conferences in regional universities. In specialized universities, MTS opens the MTS Laboratories, where students of technical specialties have an opportunity to practice modern telecom equipment in practice, study new communication standards and advanced IT technologies. In 2017, MTS launched innovative laboratories in Irkutsk National Research Technical University, Tambov Technical University, Transbaikal State University.

In 2018, MTS in cooperation with higher educational establishments across the country plans to develop educational, innovative and research activities to

improve the quality of training of the students of the relevant specialties. MTS plans to exercise expert and resource support of the students' telecom projects, organize master classes, business laboratories, as well as training, work and pre-diploma internships for the students. Technical specialists of the Company developed methodological materials for the successful inclusion of MTS Laboratories in the curricula of higher educational establishments.



### MTS School

The MTS School project is aimed at stimulating the use of mobile data transmission for subscribers of voice services. Subscribers receive links in SMS to MTS/Media educational materials about how mobile Internet simplifies everyday life. The potential effect of the training project implementation is more than 1.1 billion rubles a year.



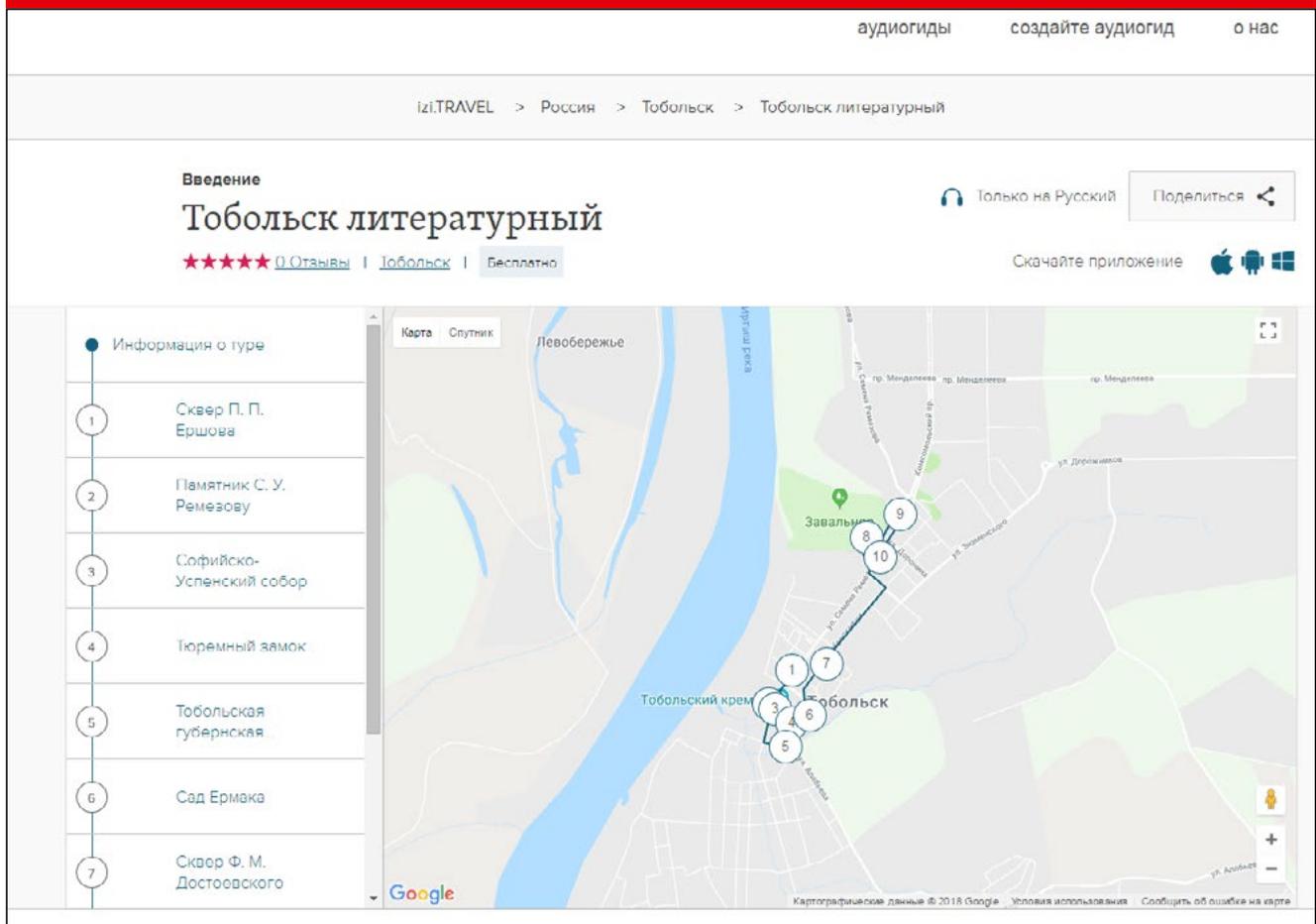
## MTS Mobile Guide

Any of those who wish may listen to the personal audio excursion with the help of MTS Mobile Guide innovative cultural project. It is enough to install a special application izi.travel from the store and scan QR code on the information stand with the help of a smartphone or tablet, and the excursion will commence automatically.

The service allows to every town resident or visitor to obtain additional information on a specific subject:

view photographs, listen to audio recordings and read more information. Furthermore, the service allows saving recordings from the application to the gadget, as well as publish them in social networks. Mobile Guide information is available in four languages: Russian, English, German, and French. MTS places the information stands with QR codes in various Russian cities.

In 2017, MTS continued the development of the project. In particular, the historical and cultural project Tobolsk Literary Mobile Guide was launched in Tobolsk. MTS guide includes historical and architectural monuments of federal and regional importance, with which biographies of outstanding writers are connected. Guests of the tourist hiking route will be able not only to see the main sights of Tobolsk, but also read about them, and listen to the audio version of the guide. The objects of the Mobile Guide are located on a compact territory near the Tobolsk Kremlin. The route map includes the Square of P.P. Ershov, Red Square, Tobolsk Province Boys' Gymnasium, Ermak's Garden, F.M. Dostoevsky Square, Zavalnoe cemetery, Decembrists Square, Robinson Crusoe Square.



## MTS Mobile Library

MTS Mobile Library is a virtual bookshelf located in the most popular places in the cities of Russia. Virtual "book" stands of MTS are located in popular places of leisure of citizens and are an excellent alternative to traditional purchase in a bookstore: the reader receives a demanded book in a convenient format right on his mobile device. To download a book the reader likes, he/she just need to point the camera of a smartphone or tablet to the QR-code on its "spine" and download it for free in one of three popular formats — epub, fb2 or txt.

To make Mobile Libraries as attractive and accessible to all as possible, MTS uses various formats: sets pedestals in city parks and squares, special constructions in city libraries, literary benches with templates of the Mobile Library, and posters in museums and art spaces.

Thanks to such a convenient mobile format, art publications of great Russian and foreign writers and poets become more accessible to readers and attract primarily the youth audience, which certainly allows increasing the interest in reading and shaping the reader's taste for good literature.

MTS is implementing the Mobile Library project in general education institutions separately. Virtual book stands are installed everywhere in schools of the regions. Literature on school programs in Russian and English can be also found on the shelves of such MTS libraries: Jules Verne, Franco, Gogol, Yesenin and many others.



In 2017, MTS Belarus supported the art project NAMES, dedicated to the topic of inclusion. Within the framework of the project, the presentation of the Navigator application was organized, which allows to help a blind person to navigate through situation at a distance. It transmits video and audio information in real time from a smartphone of a person with visual impairments to the volunteer's smartphone, which, based on this data, works as the "eyes" of the blind man and tells him what to do.

For example, volunteers can help to move around the city, shop at the store, take medicine, read signs, prepare food, and even conduct museum excursions. All video sessions are saved in the application archive and can be restored if necessary. The records are strictly confidential. To get help, a subscriber with visual impairments needs to launch the mobile application Navigator, press the call button, and the application will select a navigator ready to help remotely in real time.

In 2017, MTS Belarus signed a second cooperation agreement with the Ministry of Education of the Republic of Belarus. Within the framework of the agreement, the following projects were implemented in May–June 2017: Kids Online, Teachers' Responsible Behavior in the Network, Innovative School of MTS, Republican Competition of Innovative Projects, and IT Camp.

# Environment

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# Management of Environmental Activities



The social responsibility of MTS business is based on the principle of careful approach towards nature, and the Company strives to minimize its environmental impact as much as possible.

MTS' management and employees share completely sustainable development principles, in the framework of which the business is responsible for consequences of made decisions and their impact on the society's quality of life.

2017 was declared the Year of Ecology in Russia, in this regard, MTS with attention approached the implementation of internal and external activities aimed at improving the environment, increasing environmental awareness of the society, and raising the eco-responsible generation.

To secure the requirements of environmental legislation and ensure environmental safety at MTS' facilities, in 2017, the Company developed a policy of environmental safety and protection, the basic principles of which are:

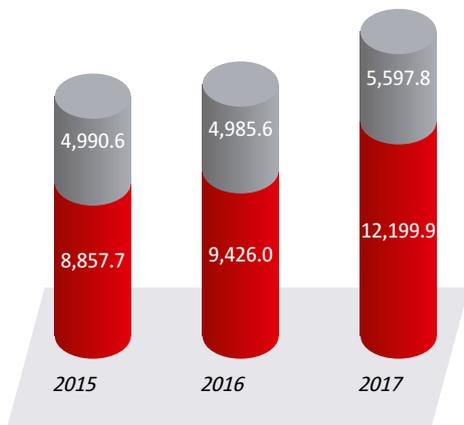
- compliance with environmental legislation requirements of the Russian Federation;
- compliance with requirements of national and international standards in the field of environmental protection;
- increase the level of environmental awareness and education of all Company employees;
- implementation of environmental socially significant projects;
- openness and accessibility of environmental information;
- continuous improvement of MTS environmental management system;
- a decrease in the level of negative impact on the environment and the desire for sustainable development.

A unified approach to ensuring compliance with and accomplishment of the environmental regulations and requirements is being formed through the introduction of a unified environmental management system in the MTS branches.

MTS implements a system of measures in the area of Environment, guided by the recommendations of ISO 26000. The Company strives not only to attract the employees' attention toward responsible attitude to nature but also enable them to help it with real deeds.

Every Company's supplier shall comply with the requirements of MTS PJSC supplier Business Conduct Code that implies presence of efficient environmental policy at the supplier, and his observance of the existing environmental legislation and regulations. Whenever possible, the Suppliers shall practice a proactive approach to environmental matters, undertake initiatives focused on improving environmental responsibility and facilitate propagation of environment-friendly technologies and the use of efficient methods of product life cycle implementation. The MTS procurement procedure participants shall confirm their consent to abide by the Code to submit their commercial offer. As of 2016, the MTS PJSC procurement procedure participant questionnaire includes labor and environment protection questions.

MTS PJSC total environmental expenses, RUB thousand



- Expenses for prevention of environmental impact and the environmental management system
- Expenses related to waste management and emission treatment, in line with the elimination of the environmental damage

In 2017, MTS PJSC total environmental expenses increased by 23.5% up to **RUB 17.8 million**

Objects of MTS PJSC are mainly related to objects that do not have a negative impact on the environment, and there are several objects of III and IV categories that have little or no negative impact on the environment. The design of the network objects provides for the List of Measures for Environmental Protection, the development of which is carried out in accordance with requirements of GOST R 21.1101-2013. The requirement to implement such measures is a stop factor for contractors. Examination of environmental activities execution is performed at the commissioning stage.

When starting to design a radio access network facility, its sanitary certificate is developed and submitted to Rospotrebnadzor accredited organization to be reviewed for SanPiN (Sanitary Codes and Regulations) compliance. Then the certificate is submitted to Rospotrebnadzor which issues an opinion on whether the design documentation is SanPiN-compliant.

Upon completion of a facility construction, Rospotrebnadzor accredited organization performs measurements at the facility, issues its opinion and a measurement report, which are submitted to Rospotrebnadzor. As a result, MTS obtains a sanitary/epidemiological opinion on SanPiN compliance of the functioning facility.

Monetary value of material fines and total non-financial penalties of MTS PJSC for non-observance of environmental laws and regulatory requirements

	2015	2016	2017
Fines, RUB thousand.	100.0	20.0	100.0
Non-financial penalties, cases	0.0	0.0	0.0

During the smartphone and accessory procurement procedure, MTS performs their testing and the products of questionable quality are not allowed to be tendered. In particular, it is possible to give examples when samples of smartphones were excluded due to the sharp chemical smell and fragility of shell materials.

All customized subscriber equipment models (smartphones, USB modems, routers, TV consoles) carry the EAC certificate. Moreover, packages and components are marked with the Dispose Separately from the Domestic Waste symbol.

# Environmental Impact



As a telecommunications operator, MTS objectively understands that its activities have practically no negative impact on the environment. At the same time, the Company considers environmental protection activities as an integral part of the business and works towards maintaining ecological balance and stability. In an effort to minimize its impact on nature, MTS competently manages those insignificant sources of negative environmental impact that exist now.

## Energy

Our work does not directly affect the environment, but all our facilities, including cell phone towers, office buildings, sales offices and contact centers consume electric power. Most of the generating stations in Russia operate on gas and coal and emit carbon dioxide. We are aware that the more traffic grows and the faster the subscriber base expands, the more we consume energy, which inevitably leads to an increase in the load on generating stations and thereby harms the environment.

Since 2010, Energy Saving and Energy Efficiency Strategy has been implemented in MTS. It is aimed at the restriction of growth and reduction of consumption of electric power. All MTS regional branches implement their own power saving and power efficiency programs.

More detail on the Energy Saving and Energy Efficiency Strategy is available on Page 125 of the Taking Care of Environment/Energy Saving section of MTS Group's 2014 Sustainable Development Report.

Power consumption growth is caused by the expansion of our network (commissioning of additional base stations and the Company's other infrastructures (data processing centers, call centers, etc.)) and data traffic growth. Traffic increase and installation of additional equipment result in the growth of power consumption by the basic station sites. The growth of the electric power tariffs causes the cost of the power consumed to grow.

We implement new energy-efficient equipment and power efficiency programs; without these measures, considering the network growth, power consumption would be significantly higher.

When purchasing stand-by power supply sources for our base stations, we are guided by energy efficiency criterion. To provide power back up for its major facilities, the Company uses diesel power plants of the leading European manufacturers (Wilson, SDMO, Geko, Inmesol), which have extremely stringent requirements on fuel consumption efficiency and CO<sub>2</sub> emissions.

The overwhelming majority of HVAC systems installed in the MTS Moscow buildings use controllers capable of maintaining indoor temperature and switch off ventilation systems in the off hours. These and some other arrangements at the Moscow Region facilities allow us to save hundreds of kilowatts of electric power every year.

### MGTS PJSC activities on energy efficiency increasing implemented in 2017:

- partial installation of shut-off and control valves and energy efficient radiators (at four sites);
- the replacement of window units (at five sites);
- reconstruction of heating and ventilation system, replacing the equipment with a more energy efficient one (at one site).

## Power consumption by MTS Group's companies in regions of operation, mln kW/h

	2015	2016	2017
Russia	937.0	1,052.5	1,140.7
Ukraine	255.4	264.5	259.6
Belarus	94.5	98.1	92.0
Armenia	33.8	34.4	34.7
Total for MTS Group	1,349.8 <sup>1</sup>	1,477.0 <sup>1</sup>	1527.0

<sup>1</sup> Including the amount of energy consumed in Turkmenistan.

## Energy resources consumed by MTS PJSC in 2017

Resource	In physical terms		In monetary terms, RUB, VAT excluded
	Quantity	Unit of measurement	
Heat	48,947.57	Gcal	72,853,119.65
Water supply	233,517.02	cubic meters	10,301,600.18
Gas supply	933,173.65	cubic meters	6,132,299.31
Gasoline	3,872,336.02	liters	122,695,921.4
Diesel fuel	3,202,382.88	liters	104,519,849.13

## Water

MTS PJSC operations do not significantly impact water intake, nevertheless, we seek to reduce water consumption. In 2017, the volume of consumed water reduced by 18%.

The key source of water intake is water treatment plant. Most of wastewater is transferred to the third parties for purification.

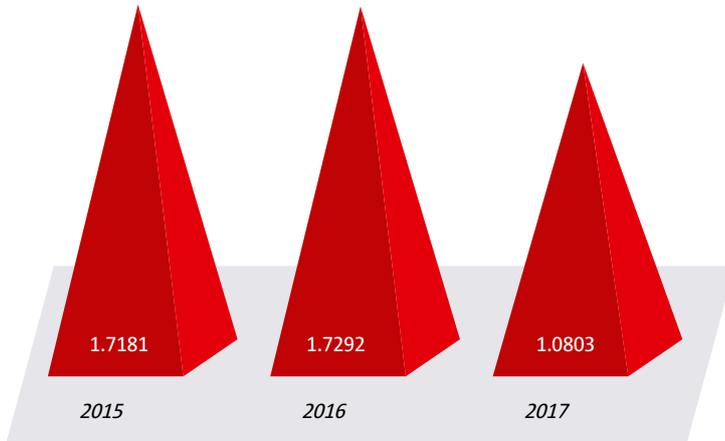
MTS PJSC water consumption, thou m<sup>3</sup>

Water consumption, 2015 thou cubic meters	2016	2017	
Total:	349.98	272.70	223.09
Including:			
natural sources	2.01	3.98	1.16
water treatment plant	347.97 <sup>1</sup>	268.73	222.93
recycled water	0.00	0.00	0.00

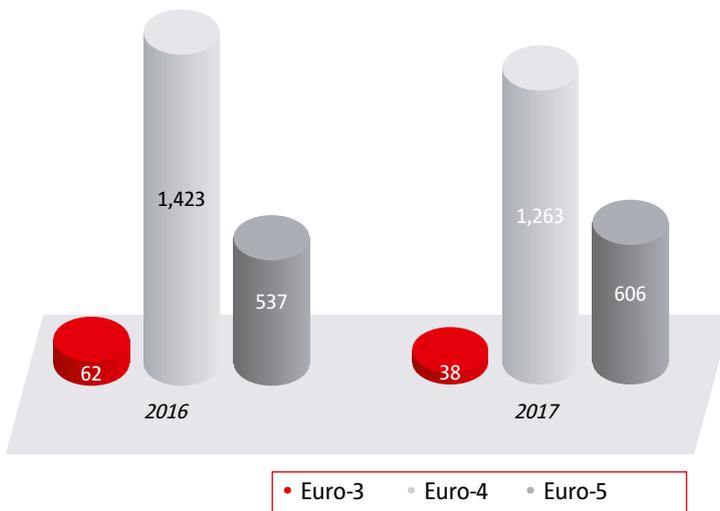
MTS PJSC waste water discharge, thou m<sup>3</sup>

The total volume of discharges of used water, thousand cubic meters	2015	2016	2017
Total:	345.81	267.88	223.09
Including:			
purified water	343.87	267.81	223.09
transferred for purification to the third parties (waste- water disposal)			

### MTS PJSC direct emission of greenhouse gases, thou tons



### Environmental class of MTS PJSC vehicles as of December 31, 2017, pcs.



### Total mass of waste according to circulation methods, tons

	2015	2016	2017
Reuse	32.40	283.84	5.10
Repeated use	0.00	0.00	0.00
Composting	73.28	0.00	0.00
Isolation of valuable components, including energy release	0.41	0.00	21.75
Bulk burning	15.10	13.15	28.59
Dumping at the landfill	6,417.95	6,129.84	5,206.32
On-site storage	0.00	7.00	0.00
Other method of removal	198.18	189.46	169.46

## Emissions

There are no substantial emissions of greenhouse gas resulted from MTS PJSC operation. As MTS PJSC does not have own production, there is no need to implement Program of Emission Reducing. However, the Project of Maximum Permissible Contaminant Emissions to the Environment was developed for every MTS PJSC division, which has stationary sources of contaminant emissions (diesel generator plants, boiler rooms, etc.). Basing on the Project, a business unit receives Authorization for emission of the contaminants to the atmosphere.

## Transport

Owing to the nature of our business, our direct environmental impact is limited to emissions from our car fleet. Total in 2017 MTS PJSC used 1,907 cars (6% less than a year earlier). When purchasing vehicles, we take account of ecological standards (Euro-3, 4, 5). The share of Euro-3 standard vehicles reduces because of their replacement with the ones compliant with Euro-4, 5 standards.

## Waste

We promote a responsible attitude towards waste management, that is why one of the key requirements for cooperation with the companies providing services of domestic waste removal is the performance of a full cycle operation for waste, which is removed from our offices: sorting and producing of secondary raw material, providing of reporting and supporting documentation, possibility to check course and quality of the provided services of domestic waste removal.

In 2017, the total volume of waste formed in the course of MTS PJSC operation comprised 5,418.7 tons, 98.0% of it is the non-hazardous waste of classes IV-V. That waste was transferred to the third parties for further use and recovery, the small part of waste was re-used.

## Disposal of telecommunication equipment

When disposing telecommunication equipment, we usually sell spent devices back to the manufacturer, a third party which won a respective tender or contract specialized waste disposal companies. We deliver spent equipment to a specialized contractor, which dismantles it, and then sorts and weights the resulting scrap metal. The scrap is then checked for compliance with relevant GOST, examined by a pyrotechnician, neutralized, classified as intrinsically safe and cleared for processing and melting. We sell the resulting scrap metal to the recycling contractor for further processing.

Our main contractor – LLC Ekoutilizatsiya – has a respective license for class I-IV waste collection and recovery and operates in compliance with the RF legislation, observing all environmental standards.

MGTS PJSC accepts telecommunication equipment (modems) that lost its consumer properties from the population.

Equipment is stored in the collection points until the shipment quantity is accumulated and then transferred for disposal under the contract to specialized enterprises that have proper licenses.

In 2017, MGTS has sold 288,035 kg of scrap metal, including 12,347 kg of non-ferrous metal scrap.

In 2017, RTC JSC recycled 9.95 tons of IT equipment (PCs, monitors, laptops, MFPs, etc.) with a degree of contamination of ~ 70%, of which 3,053 kg is ferrous scrap, 21 kg is non-ferrous metal scrap.

### Disposal of MTS' equipment in 2017, kg

Region	Ferrous metal scrap	Non-ferrous metal scrap
Moscow	28,719.9	3,527.2
Center	231,678.0	111,242.0
Volga Region	9,383.0	5,327.8
Far East	8,754.5	23,013.2
Siberia	48,188.1	89,211.0
South	39,447.0	11,868.5
Urals	10,716.6	58,464.9
North West	15,874.1	28,524.5
Total	392,761.3	331,179.0

# Environmental Initiatives



MTS evaluates, in the framework of ecological activities, the impact on the environment on all stages of its performance: starting from construction of base stations to the production and packaging of SIM cards. We strive to ensure that the entire MTS team and each of its employees, in particular, are maximally involved in the process of implementing environmental projects and objectively assess their responsibility towards nature.

## Eco-Telecom

The Eco-Telecom area is focused on forming environmentally responsible culture among the MTS employees and promotes the increase of personal responsibility for saving water, saving forest resources, collection and proper recycling of batteries and old telephones, caring attitude towards the environment.

Since 2013, the Eco-Telecom line has been being approved by the MTS PJSC Board of Directors as one of the top priorities in the field of corporate social responsibility. Support and implementation of the environmental projects involving the Company employees was approved as a part of MTS Human Resources unit strategy.

## Eco-Office

As of 2012, we have been implementing an Eco-office project, which provides for the maximum involvement of the MTS employees in our environmental protection program, including waste collection actions, environmentally-friendly recycling and sound use of energy. The project aims are to promote environmental awareness and upgrade the environmental culture of employees.

MTS offices are decorated with posters on environmental topics, bright design and highlights of which attract employees' attention and allow them to learn more about the ways to protect the environment.



## Save a Tree

As of 2011, MTS is a permanent participant of Save a Tree environmental project on the collection of waste paper, the purpose of which is to help in solving the issue of waste collection and excessive consumption of the planet resources.

Waste paper is collected in the administrative offices on the quarterly basis. In 2017, employees of MTS PJSC handled 1,520 kg of waste paper for recycling. This allowed saving 15 trees, 1,520 kW of electricity, and 30,400 liters of water and preventing the release of 2,584 kg of CO<sub>2</sub>. Days of Fruits and Vitamins are held quarterly for the employees of the most active waste paper collection office.

In the Year of Ecology, a series of eco-webinars devoted to the most urgent topics was held for MTS employees: Food and Drinks Four Commandments of Nutrition: Code of Youth and Health; Water in Human Body, in Bottle, in Tap, on Earth; Cosmetics and Health; Ecology and Fashion.

In September 2017, this action was held at the end of the European Mobility Week in Moscow. MTS employees supported the initiative to change the usual types of urban/personal transport for bicycles for one day. On the day of the action, ten "energy points" were organized in the city, where cyclists could get free water, fruit and other treats, as well as souvenirs. There they also had an opportunity to communicate with the organizers, recharge themselves with positive emotions and, perhaps, give an interview to the media.

## Printing procedure optimization

In two Moscow offices of MTS — on the Road Passage and in Smolenskaya-Sennaya Square — united print-zones are organized instead of numerous printers scattered around the offices. Each of the powerful multi-functional devices (MFD) serves the demands of much more employees than before. The situation when one needs to go to the printing zone to pick up the document makes him think twice about whether this printing is necessary.

In the future, MTS employees will be able to obtain the document sent to the printer from their devices in any MTS office just placing their MTS employee pass next to the reading device.

**MGTS protects forests**

MGTS PJSC, together with the World Wildlife Fund (WWF), is implementing a program to conserve Russian forest resources. Since 2015, MGTS has been urging Moscow residents to reduce the amount of consumed paper by switching to electronic bills for communication services. By the end of 2017, about half a million of MGTS subscribers joined the program, so the Company saved 10% of funds to produce paper accounts in the reporting period. Over two years of the program, more than 400 trees have been saved from logging.

In 2018, continuing to support the initiative of the clients, MGTS plans to donate to WWF in the amount of 5% of the funds saved on the issue of paper accounts.

## Electronic document management

BOSS-Referent electronic document flow system (EDS) has been implemented in MTS since 2004 and within this period was subject to many innovative changes to correspond to changing business requirements.

Details on the evolution of the EDS are given in the Sustainability Report of the MTS Group for 2016, section Environmental Care/Environmental Impact, p. 121.

**Since 2017, MGTS has been transmitting tires and inlet tubes for recycling**

The term of the natural destruction of tires reaches 100 years. Tires are incredibly flammable and, when ignited, they release dangerous carcinogens and chemical compounds that pose a serious threat not only to human health but also to their life. When only one ton of tires are burned, about 270 kg of soot and about half a ton of toxic gases enter the air.

Passing tires for recycling, MGTS PJSC reduces the negative impact on the environment.

## Cycling to work

Cycling to work event is held in Russia three times a year. It shows that riding a bike in terms of daily business can be easy and convenient, it does not require special clothing or training.

In 2017, MGTS PJSC transferred 7.8 tons of waste paper for processing, which allowed to save 78 trees, 7,800 kW of electricity, 15,600 liters of water and prevent the release of 13,260 kg of CO<sub>2</sub>.

## Spring clean-ups

MTS has been conducting environmental spring clean-ups for several years in a row. Places of their holding are different city sites: parks, museums, socially significant sites in the regions of MTS presence.

Most employees are engaged in socially-useful work with great pleasure, and the Company management sees in corporate spring clean-ups one of the key components of ecological team building.

In 2017, within the framework of spent spring clean-ups, about 30,000 trees were planted in 30 regions of Russia, more than 53 tons of garbage were collected.

### Republic of Khakassia

In May 2017, MTS employees took part in the city spring clean-up, during which they cleaned the territory of Chernogorsky city park, collected garbage near the administrative building of the MTS branch and sowed a lawn.

In June, an eco-bike ride was held: employees combined a bicycle ride with the cleaning of the right bank of the Abakan River.

MTS employees also took part in Tourist Day city competitions.

### Pskov

Within the framework of the Tourism of Good Deeds project, the employees of the Pskov branch cleared the Kamenets stream, which runs along the Pskov-Pechersky Monastery, and the ravine from garbage, bushes, fallen trees and dry grass.

### Zabaykalsky Krai

In May 2017, within the framework of the Eco-Bomb project, MTS employees planted more than 100 trees in the park of the Chernovsky District of the city of Chita.

The Yard Assault Party event allowed in just a couple of hours to put in order the children's playground near the office and turn it from a dull corner into a bright place for games.

Employees who took part in A Gardener for Oneself event in May and June planted bright flowering flower beds near two offices of MTS.

Clean HERE spring clean-ups, held in April and October, helped to take out twice by 30 bags of garbage from one of the most polluted areas of Chita.

### Vologda

In the spring of 2017, a spring clean-up was held to clean the Osanovo Grove from thickets of bushes, dry fallen trees, and small household garbage. In October, 40 pine and maple trees were planted — this was the beginning of the Communications Alley.

## New technologies to protect the forest from fire

In 2015, MTS expanded its partnership for 2017–2026 as part of a state program of the Moscow Region Ecology and the Environment of the Moscow Region. The Company increased to 85 the number of sites for installing video cameras on towers of cellular communications and provided data transmission from the video cameras through protected dedicated channels at speeds up to 4 Mbps. As a result, the regional dispatch service based on high-quality video online monitors the state of the fire situation, analyzes the information and, if necessary, attracts the required forces and means to extinguish fires. This solution allows optimizing expenditures for land and air patrolling of the territory.

In total, 115 base stations of MTS are involved in the project. The same video cameras are installed in Nizhny Novgorod, Belgorod, Bryansk and Pskov.

**They say that schoolchildren spend much time in their smartphones and tablets. Let us do this fancy beneficial!**

My name is Econeshka, I am MTS environmental female character. I'd love to tell children how to help nature with modern gadgets, mobile applications and internet-technologies. How to plant trees, report environmental disruptions, locate parking for bicycles and recyclables drop-off points and much more!

The lesson is conducted at MTS instigation and with support of Russian Green Movement ECA.

Children will be able to apply all the knowledge they got during the lesson in their daily lives! Catch the Spirit!



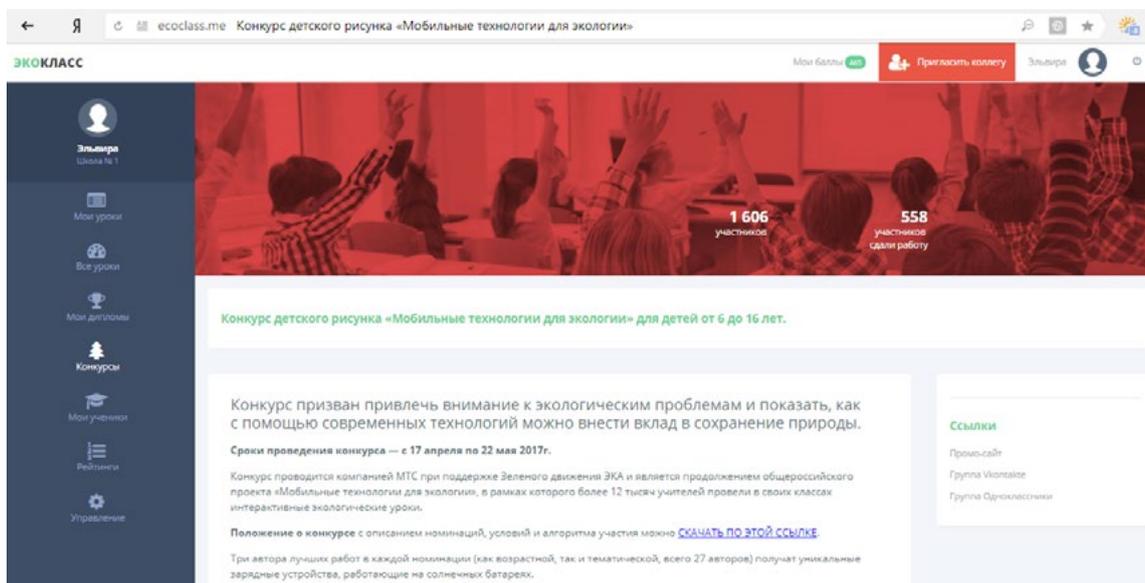
## Mobile technologies for the environment

Over the past three years, more than 12,000 teachers conducted interactive environmental lessons in their classes within the framework of the all-Russian educational project Mobile Technologies for the Environment of MTS. Students learned how modern mobile technologies help preserve nature, save lives, extinguish forest fires, and take care of birds and animals. Students met Econeshka – a female character created by MTS, who is a friend of Interneshka, another MTS character responsible for the environment and protecting nature.

In spring 2017, MTS supported by EKA Green Movement conducted a contest of children's drawing Mobile Technologies for the Environment for children from 6 to 16 years old. Participants were offered three main topics:

- technologies of the present and future for the help of nature;
- how to contribute to the fight against climate change;
- how I can help nature today with technologies.

More than 1,000 children registered on the portal Ecoclass, and 500 of them created their own drawings and took part in the contest. As a result of the selection, 46 children from 17 regions became winners of the contest.



## Eco-plays



### Story of one Prince eco-play

Our main character, Prince, faces the nature, its inhabitants and ordinary peasants, who have long been trying to combat deforestation, dumps, and pollution caused by the waste of the fairytale castle.

At the beginning of the story, the Prince, sitting by the castle, suddenly catches himself thinking that it would be nice to walk through the forest and see how people live in the nearest village. Then the fun begins... On the way to the countryside, the Prince is faced with various obstacles, thanks to which he understands what harm to the nature is brought by his castle and how do the forest inhabitants suffer from it.



### Saving the Earth play

The protagonist of the fairy tale is a modern urban boy Misha, an active user of fashionable gadgets and a fan of fast food. Unexpectedly, Misha finds himself in the epicenter of unprecedented events in the fairy forest. Without his intervention, the forest and the whole Earth are facing an ecological catastrophe. Together with Misha and other characters of the interactive fairy-tale, children will save animals, learn how to properly dispose of garbage, and understand how important it is to eat useful foods. Thanks to the help of small spectators, evil heroes will necessarily be re-educated, and the good ones will receive a well-deserved reward.



### Adventures of Econeshka play

A story about good and brave defenders of nature. The heroes of the play tell young audiences in the form of an interactive game about the careful attitude to nature, about how to make the world around us cleaner and lighter with the help of gadgets and modern technologies.

The play introduces the kids not only with the capabilities of mobile applications but teaches friendship and mutual assistance in different life stories.

## Ecological packaging

As part of implementing overall strategy for the environment-friendly business development in 2013, we decided to use environment-friendly SIM card packaging. The first commercial shipments started in 2015. Since 2016, all MTS SIM cards are sold solely in environment-friendly packaging. The volume of implementation of eco-packaging in 2016–2017 amounted to 20.1 million units. In 2018 the company is planning to continue to use eco-friendly packaging for SIM cards.

Packaging is made of highly economical two-layer natural cardboard without synthetic additives and easily

decomposes in nature. The safety of MTS packaging is approved by Environmental Compliance Certificate.

Furthermore, the carrier, a leaflet with marketing information for a customer, which SIM card is glued on, has been re-worked. Its plate (paint filling) was removed, which allowed using less paint for printing and it was produced for the old packaging.



### Environmental initiatives in Armenia

Since 2006, VivaCell-MTS (Armenia) has been cooperating with Foundation for the Preservation of Wildlife and Cultural Assets of Armenia (FPWC, <http://www.fpwc.org/>). The Foundation operates at the junction of the protection of wildlife, environmental education, and sustainable development.

One of the joint projects of the Foundation and VivaCell-MTS is the Alternative Energy project, aimed at protecting the environment. The project is implemented in remote villages of Armenia and involves the installation of solar heating and water heating and LED street lighting. In addition to the positive environmental effect, the project contributes to reducing the financial costs of local communities: solar heaters and water heaters reduce costs by 50–60% and energy-efficient lighting — by 80%.

Another project of the Foundation and VivaCell-MTS is the support of the Caucasus Wildlife Refuge. In 2017, the Ranger Campus forestry was opened in the Wildlife Refuge, the purpose of which is to promote educational and scientific research in the field of ecology. The building itself is built entirely of environmentally friendly materials and is equipped with advanced "green" technologies. VivaCell-MTS together with the Netherlands Committee of the International Union for Conservation of Nature financed its construction.

### Plant a forest with MTS

As part of the project PosadiLes.ru, MTS' employees and activists of the EKA movement held a regional action in the Kochenevsky District of the Novosibirsk Region in September 2017. The action is aimed at the restoration of lost forests after large-scale fires that blazed in 2010.

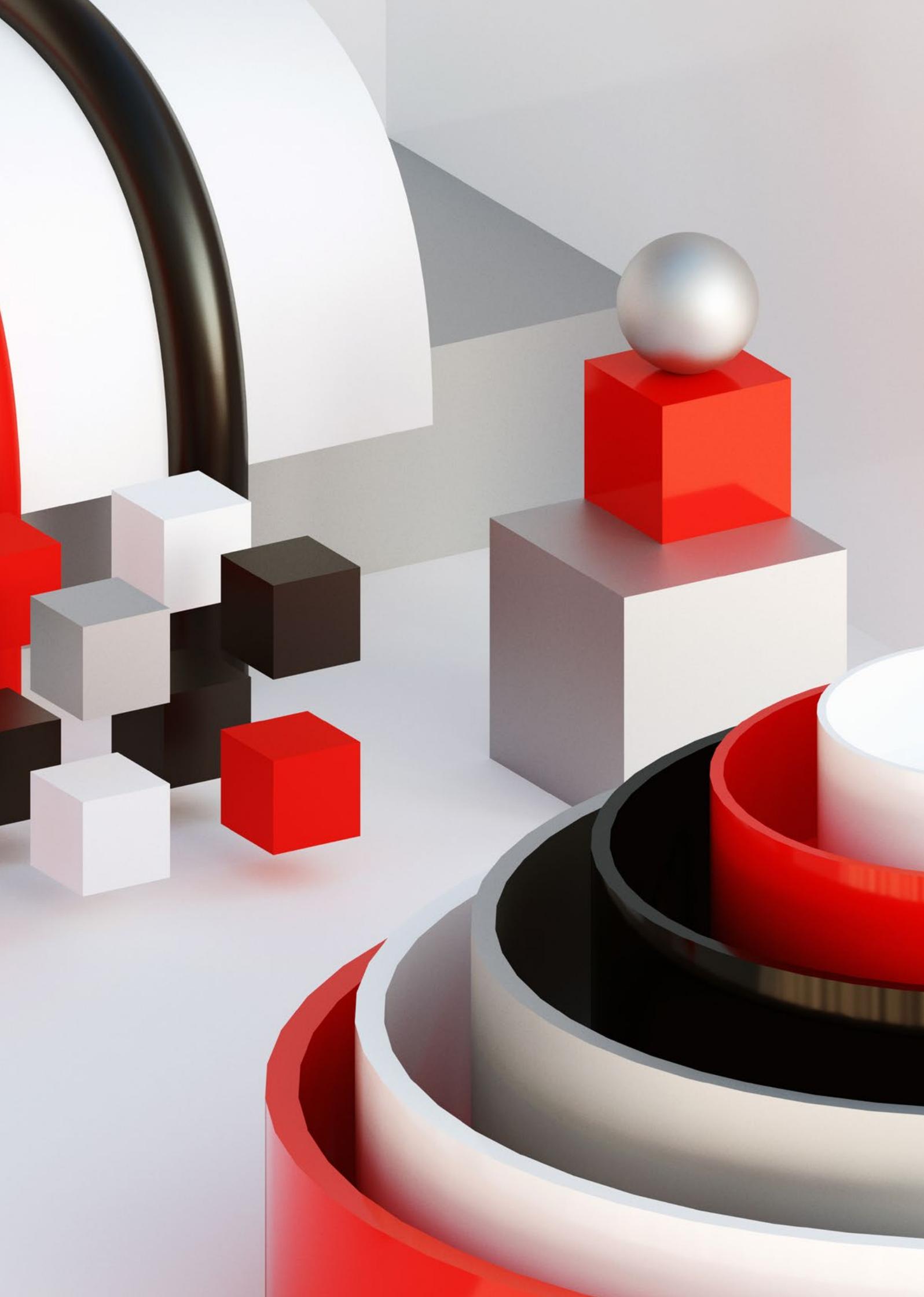
Participants of the action (and there were more than 120 people!) planted 22,000 pine seedlings in the territory affected by forest fires with an area of 7.7 hectares.





# Additional information

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# 2017 Achievement Calendar

February	March	April	May	June
<p>MTS entered the Rating of the most expensive telecommunications brands Telecoms 500 2017 by Brand Finance</p>	<p>Winning in Best Corporate Video — 2017 contest of the Russian Association of Communication Directors and Corporate Publishing in the PR-Video nomination</p>	<p>MTS entered Russia 50-2017, the rating of the most expensive brands in Russia prepared by Brand Finance. The company took 9th place and first place among telecommunication brands</p>	<p>Receiving the international Global Telecom Business Innovation Award in the nomination Innovation Awards 2017 for the Virtual PBX service</p>	<p>2nd place of Vice-President of MTS for Procurement and Administration Valery Shorzhin in the first all-Russian rating of procurement directors of AK&amp;M Advertising Agency</p>
<p>Winning of Generation M project and My MTS application in Digital Communications AWARDS-2017</p>	<p>Winning in Leader Company in the Promotion of Environmental Safety nomination of Eco Best Award — 2017</p>	<p>Winning of MTS in four nominations of Effie Awards Russia 2017 national award with the project on promotion of Smart Unlimited tariff plan, My MTS application and Generation M project (in 2 nominations)</p>	<p>Winning of MTS' Mobile Volunteer Fairytale Puppet Theater project in the special nomination Leader of Social Responsibility in Russian Telecommunications Industry organized in terms of the BestinCSR - 2016 contest by Sustainable Business magazine</p>	<p>Winning in the Safety Leaders Awards competition in Comprehensive Information Security and Safety of Children and Adolescents nominations</p>
	<p>Entering the Top 5 rating of employers in Russia. MTS is the leader among telecommunications companies</p>	<p>Julia Romashkina, MTS Compliance Director, is the best chief compliance officer in Europe and the Middle East and Africa regions</p>		<p>Top 5 places in the TOP-COMM rating of 2017 All-Russian rating of directors and departments for corporate communications and corporate relations. Elena Kokhanovskaya, MTS Public Relations Director, heads the Top 100 Directors for Corporate Communications and Relations in Russia</p>
		<p>MTS Corporate University received the award of GlobalCCU Awards 2017 in the Best Innovative Corporate University nomination</p>		
		<p>Winning in the nomination Confidence Index of the best companies for work and career according to the Rabota.ru project</p>		

July	September	October	November	December
<p>Winning the Magazine Russia &amp; CIS Awards in the Grand Prix for the Best General Investor Relations and Tulgan Joshua's corporate nomination; winning the Best Manager for Investor Relations in Telecommunications Segment personal nomination</p>	<p>MTS top managers entered all categories of the 18th annual rating, Top 1,000 Russian Managers, according to the version of the Association of Managers of Russia and the Kommersant Publishing House. Victory in seven key rating categories</p>	<p>MTS entered the list of top 5 companies of CCM Index with the best practice of corporate governance (according to the National Association of Corporate Directors)</p>	<p>Prize-winning place in the nomination Best Corporate Social Responsibility and Sustainable Development Report at the XX Annual Contest of Annual Reports of the Moscow Exchange and RZB.</p>	<p>Victory of MTS in the Services and Facilities category of the Mark No. 1 in Russia 2017 award.</p>
	<p>Winning the World Branding Awards in the Telecommunications nomination of the National category. MTS is the best telecommunication brand in Russia</p>	<p>Victory of Valery Shorzhin, Vice-President of MTS for Procurement and Administration, in the Professional Competitive Procurement nomination of the Corporate Procurement Leader award</p>		<p>Receiving the High Transparency certificate of the National transparency rating of purchases by the MTS Purchasing Unit</p>
		<p>Getting the Leader of Competitive Procurement award in the nomination Leader of Innovations in Trade and Procurement Activities for the project of outsourcing of procurement services for companies of the AFK Sistema group on the example of MTS Bank</p>		
		<p>2nd place of the MTS Corporate University in the Corporate University of the Year – 2017 nomination of the Crystal Pyramid award</p>		

# About the report

MTS Group presents the 10th Sustainable Development Report. The previous report was published in 2017.

With this Report we aim to inform a wide range of stakeholders about the principles, objectives, practical results and plans of MTS Group in the area of sustainable development and corporate social responsibility.

## Principles of reporting

The Report is prepared in accordance with GRI Sustainability Reporting Standards (the main compliance option), the best domestic and international practices, and a pilot version of the industry-specific Appendix for the telecommunications sector.

In addition, comments and recommendations of the Council on Non-Financial Reporting of the Russian Union of Industrialists and Entrepreneurs obtained in the framework of public certification of the Report for 2016 were used during the preparation of the Report.

### Materiality defining procedure

Stage 1. Determination of significant topics (aspects)  
**A list of 35 possible significant topics was drawn up**

Stage 2. Determination of the significance of topics by stakeholders  
**Questioning of 29 representatives of external stakeholders**

Stage 3. Determining the degree of influence of MTS on aspects  
**Questioning of 11 representatives of internal stakeholders (MTS management)**

Stage 4. Construction of the matrix of significance  
**The use of significant topics in the preparation of the text of the Report and the disclosure of indicators**

### Identification of significant topics (aspects) for disclosure in the Report

In preparing this Report, MTS Group has updated the significance of disclosed aspects: a list of significant topics was formed from the list of significant aspects of the previous year, supplemented with important in 2017 specific topics related to activities of MTS and topics identified in benchmarking of comparable companies.

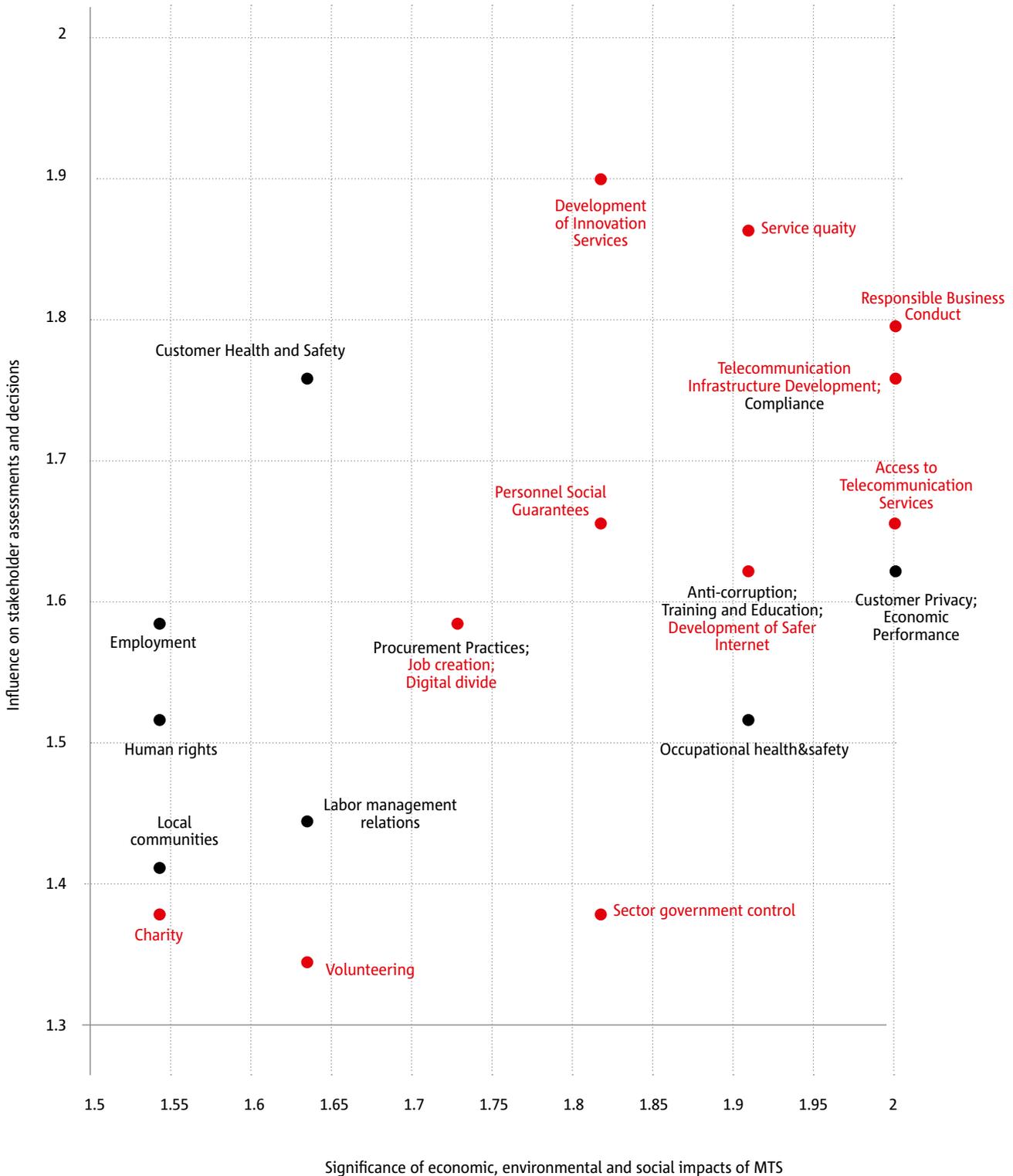
In the framework of the questionnaire, stakeholders were invited to evaluate (from 0 to 2 points) the significance of each of proposed 35 topics for disclosure in the Report. Respondents also had the opportunity to

### Engagement with stakeholders while preparing this Report

In addition to the stakeholder questioning procedure, an extended meeting of the CSR Committee was held on February 8, 2018 to approve the concept of the 2017 Sustainable Development Report of MTS Group.

Representatives of internal and external stakeholders were invited to discuss the concept of the Report. Participants of the discussion before the meeting were presented copies of the printed version of the 2016 Sustainable Development Report of MTS Group and presentations to the report The Concept of the 2017 Sustainable Development Report of MTS Group. After the presentation on the concept of the Report, the participants could ask the questions regarding the disclosure of information in the Report. The stakeholders expressed constructive comments and suggestions on the reflection of information that was considered in the preparation of this Report.

MTS PJSC Materiality Matrix<sup>1</sup>



<sup>1</sup> The matrix reflects only the most material subjects. MTS specific subjects, which do not have equivalents in the GRI Standards, are highlighted red.

offer additional topics. In total, 40 questionnaires were completed, of which 29 were received from external stakeholders and 11 from internal ones. Involvement of stakeholders in the preparation of the Report increased by 38% compared to the previous year.

Based on the survey results, a matrix of significance was constructed. The importance of the topics De-

velopment of Innovative services, Social Guarantees of Employees, and Telecommunication Infrastructure increased, and the topics Local Communities, Human Rights, Staff-Management Relations and State Regulation of the Industry were added in 2017.

## Reporting boundaries

MTS Group is preparing a non-financial report at the corporate level. The 2017 Report includes activities of MTS PJSC and its subsidiaries in all regions and countries of presence. This Report summarizes all aspects of social activities of the Company as of January 1 to December 31, 2017.

This Report contains no restatements of information provided in previous reports, as well as no reasons for such restatements, changes in reporting periods, nature of business and assessment methods. Compared with the previous periods' reports, no significant changes occurred in the 2017 Report in the area of boundaries and coverage (disclosure of economic, social and environmental aspects).

## Report Endorsement

The 2017 Sustainable Development Report of MTS Group passed the procedure of public assurances of an independent party in the face of non-financial reporting Council the Russian Union of Industrialists and Entrepreneurs.

We will do our best to consider all public endorsement-based comments in respect of MTS Group and incorporate them in the next cycles of our non-financial reporting.



## Stakeholders

MTS considers itself responsible to all stakeholders: shareholders and investors, employees, consumers, partners and suppliers, government agencies and local communities. The Company aims to understand needs and expectations of each of them. When engaging with these groups, we strive to comply with the balance of interests and build dialog and cooperation based on mutual respect, partnership, and fairness. We seek to

build on our stakeholder engagement practice and keep it at a high level. We have an ongoing dialog with stakeholders and provide all the information about our social activities.

We are building a CSR system which would meet requirements of stakeholders and striving to use all our potential to realize and anticipate their expectations.

Stakeholders group	Significance for us	Stakeholder interests	Methods of interaction
Clients	<p>We respect and value our clients and believe that the progress of our business in today's highly competitive environment is possible only if the highest quality of our goods and services is secured.</p> <p>We seek to improve the quality of service and make the interactions with clients easier, in particular, by deploying new methods of connecting services and paying for them, as well as by launching new services.</p> <p>We also pay great attention to ensuring security and confidentiality of personal data, fighting fraudulent SMS messages, respecting content copyrights, as well as running responsible marketing campaigns.</p>	<ul style="list-style-type: none"> <li>• Cost of service;</li> <li>• Quality of service;</li> <li>• Easier interaction with the Company;</li> <li>• Privacy of personal data.</li> </ul>	<p>Most of our communications are via contact centers and the Internet. By calling the contact center, any of our subscribers can obtain detailed information about MTS services, new tariffs, and provide feedback on the quality of the connection, client service, etc. We also conduct special surveys to assess client satisfaction. Any MTS client can easily provide feedback on the quality of our services by sending an e-mail to our website <a href="http://www.mts.ru">www.mts.ru</a>.</p>
Shareholders and investors	<p>MTS is a joint-stock company; therefore, our main goal is to ensure the growth of business value and optimize the return on investment to our shareholders. We also strive to ensure the highest level of information disclosure to give our shareholders a true and fair view of the state of affairs of the company. We adhere to the highest standards of corporate governance and build up efficient communication between all parties involved in this process.</p>	<ul style="list-style-type: none"> <li>• Financial results;</li> <li>• Dividend policy;</li> <li>• Risks and opportunities;</li> <li>• Efficient governance;</li> <li>• Transparency;</li> <li>• Long-term sustainability.</li> </ul>	<p>Our Department for Corporate Finances and Investor Relations is the main link to connect the Company and its investors. We use various formats for direct communication with our investors and shareholders in all major financial centers around the world, regularly publish information on our financial results and key corporate events, as well as analyze the opinion of investors and shareholders on the Company's business.</p> <p>Any shareholder or investor can ask a question or express a wish by contacting the Department for Investor Relations.</p> <p>All relevant information about MTS activities is publicly available on our website in the Investor Relations section <a href="http://ir.mts.ru">http://ir.mts.ru</a>.</p>

<b>Employees</b>	<p>Human resources are our main value. Caring for employees is one of our key priorities on which the success of our business in today's market depends. We are constantly improving social and labor relations in the following areas: occupational safety and health, social support, opportunities for career and personal growth.</p>	<ul style="list-style-type: none"> <li>• Career opportunities;</li> <li>• Remuneration and social guarantees;</li> <li>• Skills development opportunities;</li> <li>• Volunteering.</li> </ul>	<p>For efficient communication with personnel we have provided to our employees a number of ways to efficiently communicate with the Company's management, expressing opinions on MTS development prospects and plans, submitting proposals on how to optimize business-processes and services, introduce new services.</p> <p>We regularly carry out sociological studies to evaluate the Company's moral climate. These studies allow us to verify our HR strategy and tactics against actual expectations of employees.</p>
<b>Local communities</b>	<p>MTS operates in all regions of Russia, CIS and foreign countries. We are committed to long-term and sustainable development, which combines successful business with human values and national development priorities.</p>	<ul style="list-style-type: none"> <li>• Creating new jobs;</li> <li>• Investments in communities;</li> <li>• Charity</li> <li>• educational and cultural programs;</li> <li>• Volunteering.</li> </ul>	<p>MTS is actively engaged with local communities (population, public organizations and associations, health authorities, trade unions and the media) of the host regions.</p>
<b>Authorities</b>	<p>We are confident that the development of the Russian economy and the implementation of nation-wide projects need concerted efforts of the government and the business community. We are caring for the social and economic development of the host regions, knowing that high performance in this area is a key factor contributing to our successful business in the long run.</p>	<ul style="list-style-type: none"> <li>• Socio-economic growth;</li> <li>• Consumer protection;</li> <li>• Creating new jobs;</li> <li>• Tax deductions.</li> </ul>	<p>We actively participate in the work of regional consultative bodies and working groups. This helps us better understand the expectations of the state and be its reliable partner.</p>
<b>Business partners and contractors</b>	<p>We strive to build long-term relationships with our business partners. Effective engagement with them helps MTS to use new market opportunities, provide better quality of client service and improve our technologies. The transparency of relations with suppliers and partners, especially in the field of procurements, is a most critical aspect of our corporate social responsibility.</p>	<ul style="list-style-type: none"> <li>• Transparent procurements;</li> <li>• Long-term sustainability.</li> </ul>	<p>Our procurements processes adhere to a special policy developed by the Company to comply with regulatory requirements. This policy ensures the efficient use of funds, increases the competition and makes us more transparent. The equal access to the procurement procedure is ensured by preemptively using equal competitive opportunities and unified rules for all participants of the procedure.</p> <p>Every year, we conduct a Voice of Supplier opinion poll. As a part of our anti-corruption policy, we conduct training and certification of MTS contractors on topics relating to the applicable anti-corruption laws.</p>

## GRI content index

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omission
GRI 101: Foundation 2016			
General Disclosures			
GRI 102: General Disclosures 2016	102-1 Name of the organization	<u>0</u>	
	102-2 Activities, brands, products, and services	<u>8, 28</u>	
	102-3 Location of headquarters	<u>173</u>	
	102-4 Location of operations	<u>12</u>	
	102-5 Ownership and legal form	<u>0</u>	
	102-6 Markets served	<u>12</u>	
	102-7 Scale of the organization	<u>12</u> , MTS PJSC Annual Report 2017, section «Management Report»	
	102-8 Information on employees and other workers	<u>96–97</u>	
	102-9 Supply chain	<u>61–65</u>	
	102-10 Significant changes to the organization and its supply chain	In September, 2017 as a result of loss-of-license for using allotted radio spectrum and several others resources client service delivery in Turkmenistan was stopped.	
	102-11 Precautionary Principle or approach	According to precautionary principle MTS strives to avoid environmental damage, even if some cause and effect relationships are not fully established scientifically.	
	102-12 External initiatives	<u>15, 53, 122, 147</u>	
	102-13 Membership of associations	MTS is a member of GMSA.	
	102-14 Statement from senior decision-maker	<u>2–3</u>	
	102-15 Key impacts, risks, and opportunities	MTS PJSC Annual Report 2017, section «Management Report»	
	102-16 Values, principles, standards, and norms of behavior	<u>22, 50</u>	
102-17 Mechanisms for advice and concerns about ethics	<u>51, 110</u>		
102-18 Governance structure	<u>44</u>		
102-40 List of stakeholder groups	<u>159–160</u>		
102-41 Collective bargaining agreements	There are no collective bargaining agreements in the Company.		
102-42 Identifying and selecting stakeholders	<u>156, 159</u>		
102-43 Approach to stakeholder engagement	<u>156</u>		
102-44 Key topics and concerns raised	<u>157</u>		

102-45 Entities included in the consolidated financial statements	<a href="https://moskva.mts.ru/upload/contents/10677/MTS_IFRS_Cons_FS_16_17_rus.pdf">https://moskva.mts.ru/upload/contents/10677/MTS_IFRS_Cons_FS_16_17_rus.pdf</a>
102-46 Defining report content and topic Boundaries	<a href="#">156</a> , <a href="#">158</a>
102-47 List of material topics	<a href="#">157</a>
102-48 Restatements of information	None
102-49 Changes in reporting	None
102-50 Reporting period	<a href="#">156</a>
102-51 Date of most recent report	<a href="#">156</a>
102-52 Reporting cycle	<a href="#">156</a>
102-53 Contact point for questions regarding the report	<a href="#">173</a>
102-54 Claims of reporting in accordance with the GRI Standards	<a href="#">156</a>
102-55 GRI content index	<a href="#">161</a>
102-56 External assurance	None

#### Material topics

#### Economic Performance

GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	MTS PJSC Annual Report 2017, section «Management Report»
	103-2 The management approach and its components	MTS PJSC Annual Report 2017, section «Management Report»
	103-3 Evaluation of the management approach	MTS PJSC Annual Report 2017, section «Management Report»
GRI 201: Economic Performance 2016	201-4 Financial assistance received from government	In the reporting period MTS PJSC did not receive financial assistance from government.

#### Procurement Practices

GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	<a href="#">61–65</a>
	103-2 The management approach and its components	<a href="#">61–65</a>
	103-3 Evaluation of the management approach	<a href="#">61–65</a>
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers	<a href="#">62</a>

#### Anti-corruption

GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	<a href="#">53–54</a>
	103-2 The management approach and its components	<a href="#">53–54</a>
	103-3 Evaluation of the management approach	<a href="#">53–54</a>

GRI 205: Anti-corruption 2016	205-2 Communication and training about anti-corruption policies and procedures	<a href="#">54</a>	Breakdown by region and employee categories is omitted.
	205-3 Confirmed incidents of corruption and actions taken	<a href="#">54</a>	
<b>Environmental Compliance (compliance with legal requirements)</b>			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	<a href="#">60, 140–151</a>	
	103-2 The management approach and its components	<a href="#">60, 140–151</a>	
	103-3 Evaluation of the management approach	<a href="#">60, 140–151</a>	
GRI 307: Environmental Compliance 2016	307-1 Non-compliance with environmental laws and regulations	<a href="#">60, 140</a>	
<b>Employment</b>			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	<a href="#">94–95</a>	
	103-2 The management approach and its components	<a href="#">94–95</a>	
	103-3 Evaluation of the management approach	<a href="#">94–95</a>	
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	<a href="#">98</a>	Breakdown by region is omitted.
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	<a href="#">108–110</a>	
<b>Labor management relations</b>			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	<a href="#">94–95</a>	
	103-2 The management approach and its components	<a href="#">94–95</a>	
	103-3 Evaluation of the management approach	<a href="#">94–95</a>	
GRI 402: Labor management relations 2016	402-1 Minimum notice periods regarding operational changes	<a href="#">95</a>	
<b>Occupational Health and Safety</b>			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	<a href="#">111–113</a>	
	103-2 The management approach and its components	<a href="#">111–113</a>	
	103-3 Evaluation of the management approach	<a href="#">111–113</a>	
GRI 403: Occupational Health and Safety 2016	403-1 Workers representation in formal joint management–worker health and safety committees	<a href="#">113</a>	Breakdown by region and gender is omitted.
	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	<a href="#">112–113</a>	
	403-3 Workers with high incidence or high risk of diseases related to their occupation	<a href="#">113</a>	

Training and Education			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	<a href="#">102–107</a>	
	103-2 The management approach and its components	<a href="#">102–107</a>	
	103-3 Evaluation of the management approach	<a href="#">102–107</a>	
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	<a href="#">102</a>	Information is disclosed in days, broken down by gender and employee category is omitted.
	404-3 Percentage of employees receiving regular performance and career development reviews	<a href="#">102</a>	
Human rights			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	<a href="#">59–60</a>	
	103-2 The management approach and its components	<a href="#">59–60</a>	
	103-3 Evaluation of the management approach	<a href="#">59–60</a>	
GRI 412: Human rights assessment 2016	412-2 Employee training on human rights policies or procedures		In 2017 an independent audit was conducted: it covered 100% MTS internal processes on activities, response and elimination of possible disputable situations concerning human rights.
Local communities			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	<a href="#">117</a>	
	103-2 The management approach and its components	<a href="#">117</a>	
	103-3 Evaluation of the management approach	<a href="#">117</a>	
GRI 413: Local communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	<a href="#">117</a>	
	413-2 Operations with significant actual and potential negative impacts on local communities	None	
Customer Health and Safety			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	<a href="#">140–151</a>	
	103-2 The management approach and its components	<a href="#">140–151</a>	
	103-3 Evaluation of the management approach	<a href="#">140–151</a>	
GRI 416: Customer Health and Safety 2016	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	None	

Customer Privacy			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	<a href="#">40–41</a>	
	103-2 The management approach and its components	<a href="#">40–41</a>	
	103-3 Evaluation of the management approach	<a href="#">40–41</a>	
GRI 418: Customer Privacy 2016	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	<a href="#">40</a>	Information is disclosed on all complaints without breakdown by substantiated and non-substantiated.
Socioeconomic Compliance (compliance with legal requirements)			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	<a href="#">40–41, 50–60, 94–95</a>	
	103-2 The management approach and its components	<a href="#">40–41, 50–60, 94–95</a>	
	103-3 Evaluation of the management approach	<a href="#">40–41, 50–60, 94–95</a>	
GRI 419: Socioeconomic Compliance 2016	419-1 Non-compliance with laws and regulations in the social and economic area	None	
Access to Telecommunication Services			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	<a href="#">34–37</a>	
	103-2 The management approach and its components	<a href="#">34–37</a>	
	103-3 Evaluation of the management approach	<a href="#">34–37</a>	
Providing Access	PA2 Policies and practices to overcome barriers for access and use of telecommunication products and services including: language, culture, illiteracy, and lack of education, income, disabilities, and age	<a href="#">29, 39, 130–135</a>	
	PA4 Quantify the level of availability of telecommunications products and services in areas where the organisation operates	<a href="#">12</a>	
	PA6 Programmes to provide and maintain telecommunication products and services in emergency situations and for disaster relief	<a href="#">151</a>	
Development of Innovation Services			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	<a href="#">68–70</a>	
	103-2 The management approach and its components	<a href="#">68–70</a>	
	103-3 Evaluation of the management approach	<a href="#">68–70</a>	
Technology Applications (development of innovation services)	TA2 Examples of telecommunication products, services and applications that have the potential to replace physical objects	<a href="#">71–81</a>	

Development of Safer Internet		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	<a href="#">40–41, 132–133</a>
	103-2 The management approach and its components	<a href="#">40–41, 132–133</a>
	103-3 Evaluation of the management approach	<a href="#">40–41, 132–133</a>
Personnel Social Guarantees		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	<a href="#">108–110</a>
	103-2 The management approach and its components	<a href="#">108–110</a>
	103-3 Evaluation of the management approach	<a href="#">108–110</a>
-	Total costs for providing personnel with social guarantees	<a href="#">110</a>
Job Creation		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	<a href="#">99–101</a>
	103-2 The management approach and its components	<a href="#">99–101</a>
	103-3 Evaluation of the management approach	<a href="#">99–101</a>
Digital divide		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	<a href="#">28–36</a>
	103-2 The management approach and its components	<a href="#">28–36</a>
	103-3 Evaluation of the management approach	<a href="#">28–36</a>
Telecommunication Infrastructure Development		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	<a href="#">82–85</a>
	103-2 The management approach and its components	<a href="#">82–85</a>
	103-3 Evaluation of the management approach	<a href="#">82–85</a>
-	Capital expenditures	<a href="#">31</a>
-	Number of base stations	<a href="#">29</a>
Responsible Business Conduct		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	<a href="#">44–50</a>
	103-2 The management approach and its components	<a href="#">44–50</a>
	103-3 Evaluation of the management approach	<a href="#">44–50</a>

Sector government control		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	<a href="#">70</a> , <a href="#">40–41</a>
	103-2 The management approach and its components	<a href="#">70</a> , <a href="#">40–41</a>
	103-3 Evaluation of the management approach	<a href="#">70</a> , <a href="#">40–41</a>
-	Company's engagement in development of regulatory documents and their impact assessment	<a href="#">70</a>
-	Compliance with Russian legislation on personal data	<a href="#">40–41</a>
Service quality		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	<a href="#">38–39</a>
	103-2 The management approach and its components	<a href="#">38–39</a>
	103-3 Evaluation of the management approach	<a href="#">38–39</a>
Charity		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	<a href="#">116–121</a>
	103-2 The management approach and its components	<a href="#">116–121</a>
	103-3 Evaluation of the management approach	<a href="#">116–121</a>
-	Total expenditures for charity and social projects	<a href="#">116</a>
Volunteering		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	<a href="#">122–129</a>
	103-2 The management approach and its components	<a href="#">122–129</a>
	103-3 Evaluation of the management approach	<a href="#">122–129</a>
-	Total number of Company's volunteers	<a href="#">122</a>
-	Number of volunteering events	<a href="#">122</a>

# Glossary

**3G, the third generation** – a set of services that combines both high-speed mobile access to the Internet services and radio communication technology. Mobile communication of the third generation is built on the basis of packet data transfer. 3G networks UHF frequencies, typically in the range of about 2 GHz, transmitting data at up to 3.6 Mbit/s offering conferencing, watching of movies and TV on the mobile phone, etc.

**4G (LTE)** – the 4th generation of mobile telecommunications technology featuring high data rates and improved voice communication quality. As 4G is commonly referred to cutting-edge technologies that enable data speeds of up to 10 Mbit/s for mobile subscribers.

**5G** – the fifth generation of mobile communication, the data transfer speed in mobile networks of the 'fifth generation' should reach 10 Gb/s.

**ADR, American Depositary Receipt** stands for freely circulating in the US stock market derivative securities for shares of a foreign company deposited in an American depositary bank.

**Agile** – flexible approaches to software development, focused on the use of iterative development, the dynamic formation of requirements and ensuring their implementation as a result of constant interaction within self-organizing working groups, consisting of specialists of various profiles.

**API (application programming interface)** is a set of ready classes, procedures, functions, structures, and constants provided by the application (library, service) or operating system for use in external software products.

**B2B (Business to Business)** is a term defining the type of information and economic interaction classified according to the type of interacting entities. In this case, they are legal entities that work not for the ultimate ordinary consumer, but for the same companies, that is, for another business.

**B2C (Business to Consumer)** is a term designating the commercial relationship between an organization and a private, so-called "final" consumer.

**Blog** is a website whose main content is regularly added posts containing text, images or multimedia. The people who operate a blog are called bloggers.

**Big data** is a series of approaches to handle huge data volumes and a significant diversity in order to get the perceived results.

**Bot** is a special program that performs automatically and/or according to a predefined schedule any actions through interfaces intended for people.

**Broadband** – a high-speed Internet access that is much faster than traditional dial-up access and does not monopolize the phone line. In addition to its high speed, broadband is always on and ensures a so-called bidirectional communication, i.e. the ability to both receive and transmit data at high speeds.

**Charity** – voluntary transfer to people or legal entities on non-commercial basis (free of charge or on favorable terms) of assets, including cash, performance of work, provision of services and other support free of charge.

**C&B (Compensation and Benefits)** is a system of remuneration and compensation of personnel.

**Competences** – knowledge, skills, abilities and behavioral characteristics necessary for a job.

**Compliance (agreement, correspondence, comes from the verb to comply - to fulfill)** is an agreement with any internal or external requirements or standards.

**Convergence** is the process of an approach of diverse electronic technologies as a result of their rapid development and interaction.

**Corporate culture** – a system of standards, values, attitudes and commitments that predetermine the company's way of addressing the issues of internal integration and external adaptation, and guiding and motivating day-to-day behavior of organization's members while also being affected by this behavior.

**Corporate social responsibility (CSR)** – the company's responsibility to stakeholders, which means that business decisions are taken with due regard to the interests of stakeholders. It is a part of the company's ongoing strategy to increase its presence in society and to develop its business; it is also a chance to make a positive impact on the community in which the company operates.

**Corporate volunteering** – voluntary activities of employees for the good of society, based on the Company's CSR strategy. Corporate volunteering is supported and encouraged by the Company.

**Corporate values** – corporate culture components that have special emphasis in the minds of the Company's employees thus governing their social behavior.

**Customer Journey Maps** is the so-called "consumer travel map", a history of the customer's experience, starting with the first contact, through the process of involvement, and ending with long-term relationships with the company.

**Factoring (derived from "factor"— intermediary, sales agent)** is a set of financial services for producers and suppliers making sales on a deferred payment basis.

**Femtocell** is a low-power and miniature cellular communication station, designed to serve a small area.

**Fiber-optic communication line (FOCL)** – a type of data transfer system based on using optical dielectric waveguides, known as 'optical fiber'.

**Global Reporting Initiative (GRI)** – a non-governmental organization that cooperates with all stakeholders. The GRI was established in the US in 1997 by CERES (Coalition for Environmentally Responsible Economies) and the Governing Council of the United Nations Environment Program (UNEP). GRI coordinates the work program of regional offices in Australia, Brazil, China, India and the United States. The entire network of stakeholders includes 30,000 people.

**GPON (GigabitPON)** means Passive Optical Network that providing multifunctional high-quality reliable broadband Internet access at unprecedented high speeds of up to 1 Gbps. The subscriber uses a single fiber optic line fed directly in his/her apartment to receive telephony, Ethernet data, or video services with guaranteed quality.

**GPRS (General Packet Radio Service)** is an add-on over GSM mobile communication technology (global standard for digital mobile cellular communication) which performs packet data transfer.

**GTO** – "ready for work and defense" (complex of sports standards). GTO complex provides preparation for the implementation and direct implementation by the population of different age groups of the established regulatory requirements for the three levels of difficulty corresponding to GTO gold, silver and bronze pins.

**Hackathon** is a forum for developers, during which experts from different areas of software development (programmers, designers, managers) are working together to solve a problem.

**High-Definition Television, HDTV** – a set of high-quality TV broadcasting standards based on modern standards of image scanning that provide a greater resolution compared to standard-definition TV and uses the latest digital video and audio coding standards.

**HR management process** – an end-to-end integrated human resource management system, which covers all stages of a company's interaction with employees, from attraction and hiring to the retirement and post-retirement support.

**IFRS** – International Financial Reporting Standards.

**Inclusive environment** – an integrated approach that promotes social integration of persons with disabilities and is based on the principles of social and cultural rehabilitation.

**Intellectual volunteering** – a kind of volunteering that includes arranging and conducting intellectual activities.

**Internet** – a global system of integrated computer networks that uses IP protocol and the packet routing technology. The Internet forms a global information space and is the physical basis for the World Wide Web (WWW), and many other data transfer systems (protocols).

**Internet of Things (Internet of Things, IoT)** is the concept of a computer network of physical entities ("things") equipped with built-in technologies for interaction with each other or with the external environment and according to which the organization of such networks is a phenomenon capable of restructuring economic and social processes without the participation of a human.

**LAA (License Assisted Access)** is a solution that demonstrates the possibility of simultaneous use of the licensed and non-licensed spectrum.

**M2M (Machine to Machine)** is the common name of the technologies enabling various devices to exchange information between each other or to transmit it in one direction. There are wired and wireless systems to monitor sensors or some device parameters (temperature, inventory level, location).

**Marketplace (online marketplace, online e-commerce marketplace)** is an e-commerce platform that provides information about the product or service of third parties whose operations are processed by the marketplace operator.

**Massive MIMO** is a technology in which the number of user terminals is much less than the number of antennas of the base station (mobile station).

**Material Aspects** – aspects that reflect the organization's significant economic, environmental and social impacts; or substantively influence the assessments and decisions of stakeholders.

**M&A (Mergers and acquisitions)** is the class of economic business and capital consolidation processes occurring at the macro and microeconomic levels, as a result of which larger companies appear on the market.

**Mission** – the purpose of an organization, the meaning of its existence, that makes it different from other similar organizations.

**Mobile traffic** is a transition to a site made with a mobile device (smartphone, communicator, tablet, computer connected to the Internet using a modem).

**Motivation** – a mechanism to enhance performance and efficiency, the process of providing incentives to an employee or staff group for engaging in activities that serve the company's purpose.

**NB-IoT (NarrowBand Internet of Things)** is a standard for cellular telemetry devices with low data exchange rates.

**Occupational safety** – a system of ensuring safety of life and health of employees in the process of their labor activity, including legal, social and economic, organizational and technical, sanitary and hygienic, therapeutic and preventive, rehabilitation and other measures.

**OEBS (Oracle E-Business Suite)** is a replicable integrated software application complex from Oracle.

**OTT, OTT technology (Over the Top)** is a method of providing video services via the Internet without a physical connection to the operator's networks.

**Personnel development** – a system of activities implemented by the Company with the purpose of recruitment, adaptation, and retention of employees and contributing to the fulfillment of their professional and creative potential.

**Quality of life** – a set of socio-economic and other criteria that reflect the level and extent of the achieved well-being of a person and society in various spheres: education, employment, health, human rights, income, security, infrastructure, culture and leisure.

**Retail** is the sale of goods (services) in small quantities, per item.

**Reverse** is an accounting term meaning such a reverse book entry (article), which is taken to correct an error in the recorded entry.

**Roaming** – a special communication (mobile telephony, Wi-Fi) service offered to subscribers outside of their 'domestic' mobile operator's coverage area by using resources of other network operators. The subscribers are not required to enter into an agreement with the "hosting" operator and the service fee is charged to their accounts. When using the voice roaming service, the subscriber usually retains his/her existing mobile telephone number.

**Safe working conditions** – elimination of the impact of harmful and hazardous working conditions or keeping them within the hygienic standards.

**Social partnership** – constructive and mutually beneficial cooperation between three sectors of society: government agencies, commercial enterprises and nonprofit organizations in order to address the social issues for the benefit of the entire population or local communities.

**Social program** – activities that the Company voluntarily engages in to develop and stimulate personnel, create favorable working conditions, develop corporate culture and support the local community and charity; such activities have systemic nature, are associated with the Company's business strategy and aim at meeting the balanced needs of various stakeholders. From the management point of view, a social program is a complex of measures streamlined in terms of resources, action parties, and timelines that ensure efficient addressing of internal (internal corporate program) or external corporate social tasks (external corporate program).

**Social report (sustainable development report)** – a document offering a well-balanced analysis of the company's impact on the economic, environmental and social spheres.

**Software by Subscription, SaaS Sales Pattern** is a new business model, which became technically possible due to huge development of the network infrastructure over the last few years and which offers only temporary subscription for the product unlike models for sale of software with eternal license, which have already become traditional.

**Stakeholders** – natural and legal persons or groups that have an impact on the company's activities or are affected by them and have the right, in accordance with the law and international conventions, to directly initiate legal proceedings against the company. Stakeholders include company's shareholders, investors, employees, suppliers, contractors, consumers, trade unions, mass media, people who live on the territory where the company operates, and etc.

**Stakeholder engagement** – company's activities to understand the expectations and concerns of stakeholders and to involve them in the decision-making process.

**Sustainable business development** – a consistent system of economic and social activities based on ongoing interaction with stakeholders. That implies that the use of materials and human resources, the vector of investment and technology development are well harmonized and focused on strengthening the current and future business potential.

**System integration** is a complex solution for automating business processes of an enterprise, including the creation of new and unification of existing disparate information systems into a single information space.

**tNPS (Transactional net promoter score)** is the index of determining the adherence of consumers to a product or company (the willingness index to recommend) is used to assess the readiness for repeated purchases.

**VAS (Value Added Services)** is a term popular in the telecommunications industry for designation of services provided not by the core of the network, but by additional platforms.

**Vendor** is a company supplying/manufacturing goods and services under own widely promoted trademark.

**VoD (Video on Demand)** is the system of individual delivery of TV programs and films to a subscriber via digital cable, satellite or terrestrial television network from a multimedia server in various multimedia containers (for example, MPEG, AVI, FLV, MKV or QuickTime).

**Young specialists** – graduates of higher or vocational educational institutions whose employment experience after graduation does not exceed three years.

**WFM (Workforce Management)** is the system of automation of labor resources management.

# Contacts

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