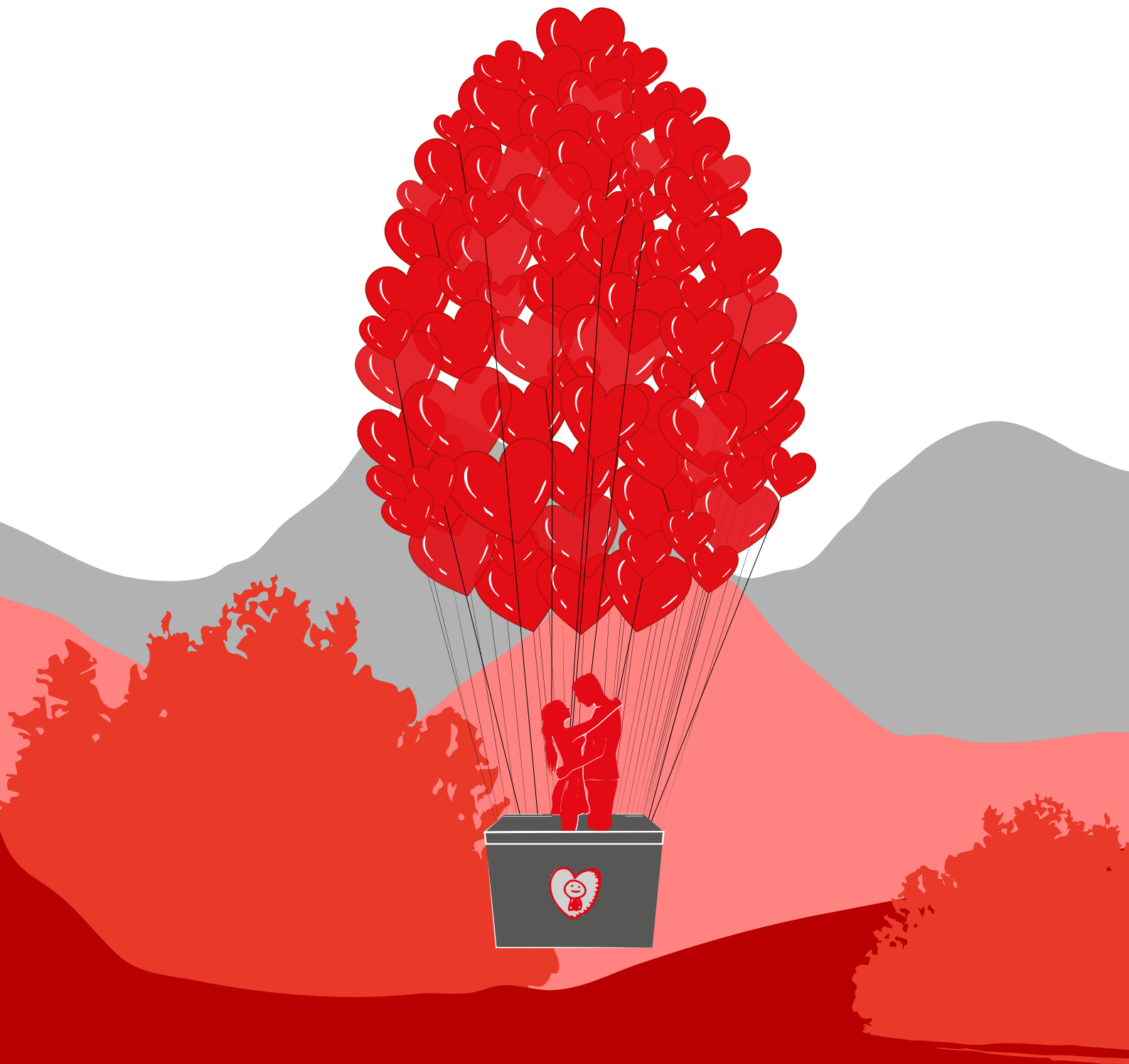
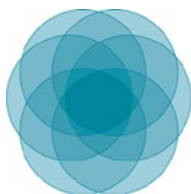


*Improving the quality of life
is a cornerstone of sustainable future*





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

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

The Annual Report of MTS PJSC for 2016 is available for downloading from report2016.mts.ru.

The interactive version of Sustainable Development Report of MTS Group for 2016 is available for downloading from our2016.mts.ru.

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Message from the President



Dear friends,

Please find hereby 2016 Sustainable Development Report of MTS Group. In this document, we traditionally share our achievements in improving the quality of life of our subscribers and society as a whole.

About MTS Group

In 2016, we set a new strategic goal for MTS – our transformation into a Digital company, which is now reflected in our refined strategic focus on "3D: Data. Digitalization. Dividends".

The adoption of the Company's first ever corporate social responsibility strategy was a significant event during the reporting year. By developing innovative technologies and providing a wide range of services to our clients, we will be able to meet our ambition to improve quality of life and enhance society.

110

million
MTS subscribers
in the host
countries

80

million
subscribers
in Russia

83.6

billion RUB —
capital investments
to the infrastructure

Telecommunication Services

Digitalization is the biggest global trend in the contemporary world and affects all areas of human activity, ranging from high-tech and traditional industries, scientific research and medicine, to the arts and daily life.

IT and telecommunications are unquestionably the most important factors when it comes to the development of information in modern society. We understand that the expansion of telecommunications infrastructure along with the development of technologies and the introduction of new innovations contributes to the country's technological and economic development, improves the quality of life and enhances opportunities for all people.

Innovation

Rapid scientific and technological advances lead to new technologies and the develop-

ment of new types of products and services in new markets.

The Internet of Things (IoT) market in Russia is growing due to the emergence of many IoT-devices used in everyday activities and that directly improve the quality of life.

In September 2016, as part of our transition to a digital company, a new structure – MTS Innovation Center – was officially approved to create a dedicated team for each business line, consisting of MTS Group employees both from the MTS Head Office and its subsidiaries – MGTs, NVision Group, MTS Bank and others. Since 2011, we have held an annual “Telecom Idea” contest for young people, aimed at supporting their innovative projects.

Maintaining good relationships with our partners is important for the Company: MTS has signed cooperation agreements for the development and implementation of 5G technologies with three leading manufac-

turers of telecommunications equipment: Ericsson, Nokia, and Samsung. The partnerships will result in the testing of 5G solutions and scenarios, including the arrangement of test zones at the 2018 FIFA World Cup Russia.

Education

The development of information technologies and their rapid integration into everyday life significantly contributed to the digital generation gap. To increase Internet literacy among the older generation, MTS implements social and educational projects, including its “Mobile Academy of MTS” and the “Children Teaching Adults” program.

Our mission is not limited to creating safe and convenient services for Internet surfing – we shall also instill in children a sense of responsibility for what they do on the Internet and demonstrate the benefits and performance capabilities of the global network. To

The Internet of Things in Russia:

300
billion RUB

10
million SIM cards

46%
MTS share

this end, we are actively implementing the “Children on the Internet” project.

High-quality and up-to-date training for employees is the cornerstone of the professional development of MTS personnel. In 2016, MTS' personnel training and development systems were recognized as the best in Russia, receiving three national HR-awards.

Charity and Volunteering

In our charity activities, we focus on long-term projects that cover a broad spectrum of the population, aimed at improving their quality of life and contributing to acute social challenges.

“Generation M” is one of MTS' key charity projects: supporting children's creativity, we involve them in unique virtual and real-life activities, and at the same time we raise funds for the treatment of critically ill children.

Over six years, MTS has been developing the Corporate Volunteer Movement “JUST Give Good!”. Our corporate volunteer puppet shows, “Mobile Theater of MTS Tales” continuously gives annual educational and environmental performances.

Traditions

On the eve of Victory Day MTS employees traditionally hold various events across Russia. In 2015, our employees issued an MTS Memory Book titled “Life during War. 1941–1945”. We decided to continue this social and awareness-building project so that all interested employees of MTS Group could take part in it. The Memory Book will continue to be enriched with new stories.

MTS also implements innovative cultural projects. The “Mobile Library” and “Mobile Guide” projects offer an easy, quick and free way to download a favorite book or listen to a personal audio-tour using a QR code.

Health Care

The Company supports its employees in leading a healthy lifestyle. Our comprehensive program, Go in for Sports with MTS, encourages participation in our football, basketball and volleyball teams, the MTS Running movement and our newest # VeloMTS club, which was established in 2016. We also focus on providing favorable and safe working conditions, in particular, we hold health & safety and first aid training.

Environment Protection

MTS' business rests upon the principle of protecting our nature and accordingly the Company strives to minimize its environmental impact as much as possible. We apply this principle to our suppliers and partners as well - the amended Code of Business Conduct of the MTS PJSC Supplier contains the appropriate recommendations.

515.5
million RUB —
charity costs

6,000
volunteers

500
events

As part of the implementation of the overall strategy for MTS to be an environmentally friendly business, we decided to use eco-friendly packaging for our SIM cards. The first commercial shipments started in 2015. Since 2016, all MTS SIM cards are sold in eco-friendly packaging.

The active development of MTS' network contributes to both improving the quality of mobile Internet and voice services and allows the launch of innovative IoT services on its network. In 2016, MTS partnered with Tsentrleskhov to implement a project to arrange video monitoring of the forest fire situation in the territory of the Moscow Region Forestry.

Responsibility

We are always improving our corporate governance systems, monitoring their efficiency

and implementing best practices. In 2016, MTS launched an e-voting service that allowed its shareholders to vote online.

MTS is actively developing a uniform compliance system in line with applicable legislation, the recommendations of regulatory authorities, and relevant best practices. In 2016, MTS adopted the Compliance Policy of MTS PJSC.

In the last five years, MTS has seen a steady increase in staff engagement. Maintaining dialog between managers and employees, the digitization of business processes, the introduction of agile principles, the construction of remuneration and compensations systems and corporate organization structure allowed us to improve basic HR indicators and to be awarded the status of the best employer [in Russia] for the second year in a row.

We believe that these commitments, together with enhanced compensation packages and benefits, are necessary to provide additional social protection measures for our employees, allowing them to feel comfortable and confident in any situation.

Plans for the Future

Moving towards the digital future means that there will be new challenges that we are prepared to meet, with our qualified people and new innovations.

We are confident in the success of our CSR projects based on the sustainable development philosophy: we plan to further expand them by attracting more employees and partners, as well as continuing to offer bold ideas and solutions.

Yours faithfully,
Andrei Dubovskov
President of MTS PJSC

11

million people —
the Internet
audience
of Generation M

100%

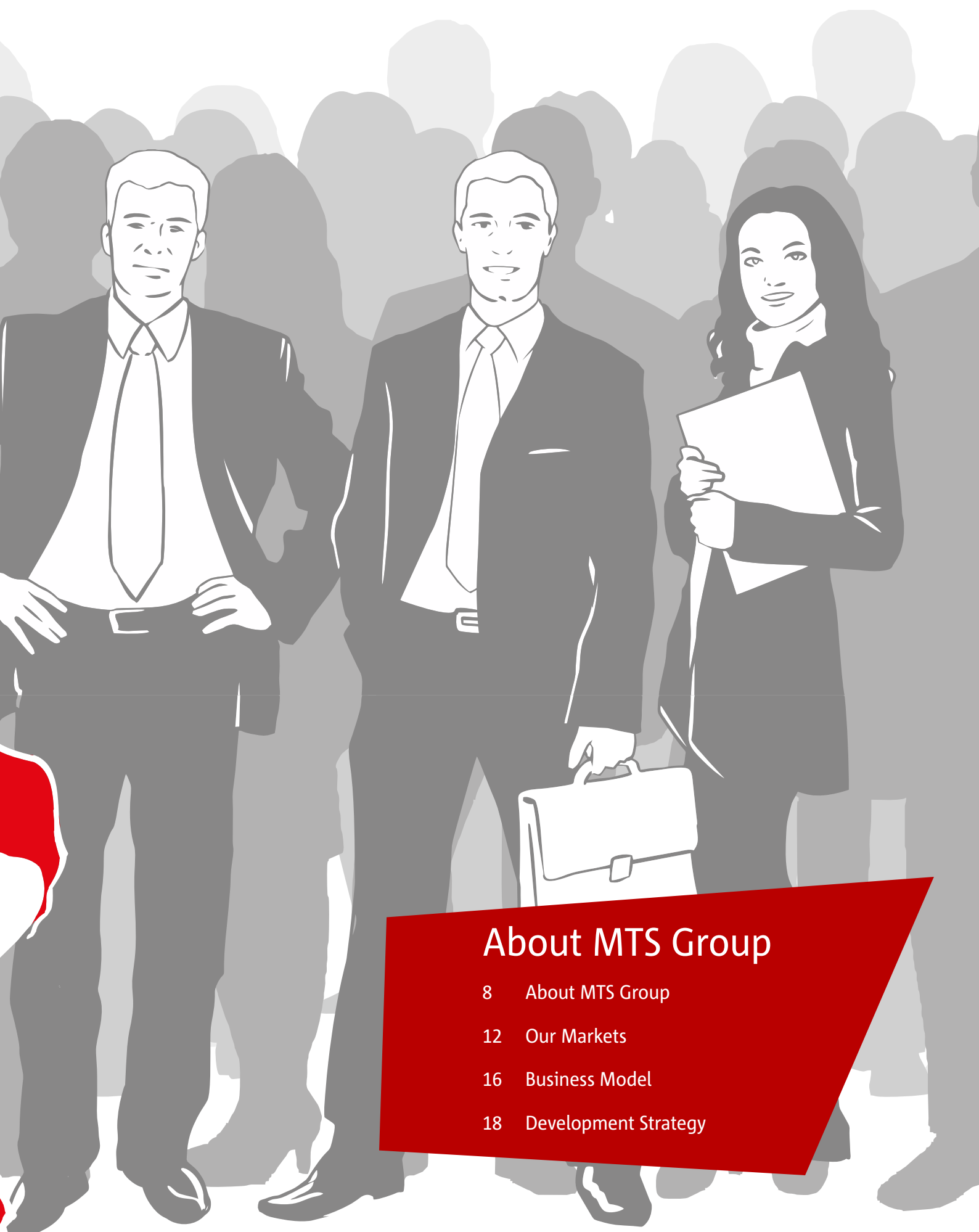
SIM cards
in eco-friendly
packaging

60

billion RUB —
total personnel
costs of MTS

*Improving the quality of life
is a cornerstone of sustainable future*





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About MTS Group



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

2016

The Annual Report of MTS PJSC for 2016 is available at http://www.company.mts.ru/comp/ir/control/data/annual_reports/66/.

Today, MTS¹ is the leading telecommunications operator in Russia and the CIS. The company offers integrated mobile and fixed telephony, long-distance and international communications services, cable television, data transmission based on wireless and wireline solutions, including fiber-optic access technology and 3G and 4G networks, as well as financial services.

In 2016, MTS Group operated in 83 regions of Russia and four CIS countries.

MTS PJSC holds the required licenses to operate in the entire territory of the Russian Federation. In the reporting year, subsidiaries of MTS PJSC continued to carry out their activity in the territory of Ukraine (MTS UKRAINE PJSC), the Republic of Armenia (K-Telecom CJSC), the Republic of Turkmenistan (MTS-Turkmenistan ES), as well as the Republic of Belarus (Mobile TeleSystems JLLC). The total population in the area covered by MTS PJSC services exceeds 230 million people.

Clusters

MTS new management structure was completed in mid-2016. The revised structure includes two levels instead of original three – the Corporate Center and the regions. In the Corporate Center there are new units – clusters – aimed at meeting the standards of corporate governance and efficient management of the regions. They are formed according to economic and not geographical approach. The directors for regional development are appointed heads of the clusters. We've identified two strategic

regions – Moscow and St. Petersburg; the remaining regions are grouped into four clusters. The criterion for attributing the region to a particular cluster is not the location but MTS market position. Cluster membership is not permanent and may change along with changes in the Company's goals. This structure is more flexible and allows us to respond quickly to any changes. In addition, it has simplified the structure and provided faster communication between the Corporate Center and the regions.

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Our Brand

MTS invests significant resources in the development and visibility of its brand, which has a direct impact on the Company's capitalization and reputation.

In February 2016, the MTS brand became the only Russian telecommunications brand included in the rating of the top-500 most expensive brands in the world issued by Brand Finance agency.

In 2016, the MTS brand became the best in the Telecommunications and National Brands

categories. The award methodology is based on both expert judgment and consumer voting for the best brands in the world (the latter makes 70% of points). Consequently, winning the award confirms the high level of public confidence in the MTS brand.

The award is organized by the World Branding Forum, a global non-profit organization that seeks to improve the level of branding standards for the benefit of the branding community and consumers.

MTS received a patent for the red color

In early 2016, MTS registered its brand color – MTS red (Pantone 485) in Rospatent as a trademark on the mobile communications market.

Registration of the corporate red color of a certain shade as a trademark of MTS in the field of mobile communication is a follow-up of our brand protection strategy.

Color is an important means of individualizing the brand. It is perceived by consumers as an integral part of the trademark.

Key Results

In 2016, MTS retained its leadership in terms of subscribers - as of December 31, 2016, the total number of subscribers in the host countries was 109.9 million people, 77.3 million of them living in Russia.

MTS's subscriber base in Russia increased by 3.5% year over year, proving loyalty to the

MTS brand, its leadership in key segments such as business services and growing M2M market, and the overall impact of our strategy on a mono-brand retail network.

Revenue of MTS Group for 2016 amounted to RUB 435.7 billion (+ 2.1% compared to



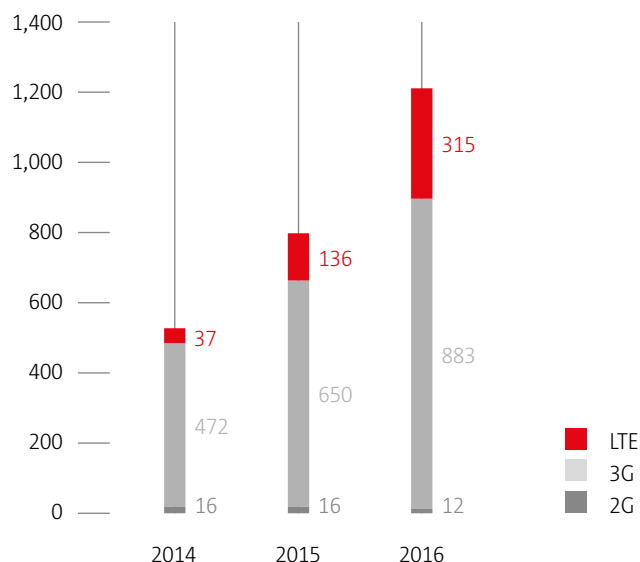
Andrey Dubovskov, MTS President, was elected to the Council of the GSM Association

In autumn 2016, Andrey Dubovskov, MTS President, became a member of the Council of the World Association of GSM (GSMA).

The GSM Association Council consists of 25 representatives of the world's largest telecommunications operators, as well as the Chairman of the Council and the General Director of the GSM Association. The council includes top managers of such operators as AT&T, China Mobile, Deutsche Telekom, Orange Group, Verizon, TURKCELL and others.

The GSM Association represents the interests of mobile operators around the world and unites about 800 operators, as well as nearly 300 companies on the global telecom market, including manufacturers of mobile devices and software, equipment suppliers, organizations in related industries.

Figure 1. Mobile traffic in MTS network, PB



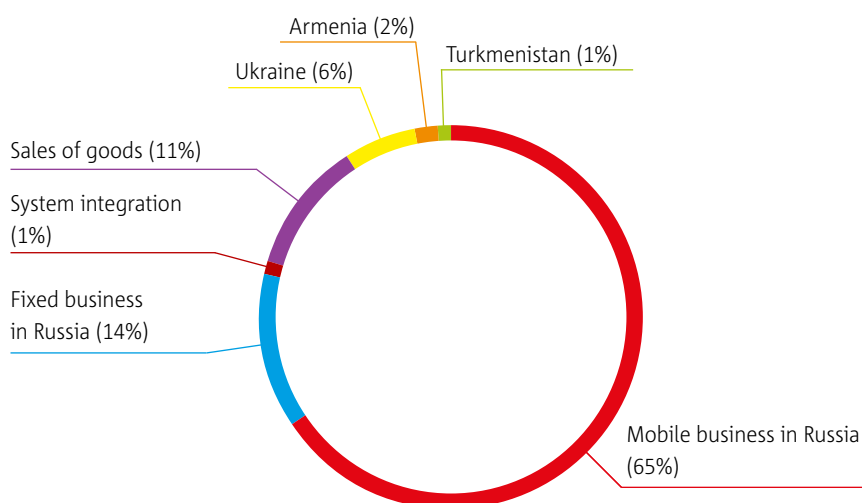
2015). Net profit for 2016 amounted to RUB 48.45 billion.

The total revenue of MTS in Russia has grown to RUB 400.6 billion. A slight decrease in revenues from mobile and fixed businesses was offset by a 23% annual increase in the

revenue from sales of goods. In addition, the growth in revenues from systems integration services supported the Company's solid performance.

In 2016, MTS Group paid about RUB 11.7 billion of Income Tax, 21.2% more than in 2015.

Figure 2. Structure of MTS Group's revenue in 2016¹, %



¹ Excluding intercompany transactions. JLLC MTS is not consolidated into financial statements of MTS Group.

Table 1. Paid Income Tax by MTS Group, RUB thousand

| | 2014 | 2015 | 2016 |
|----------------|------------------|------------------|-------------------|
| Russia | 8,332,991 | 7,146,921 | 10,603,890 |
| Ukraine | 758,588 | 1,449,819 | 37,219 |
| Armenia | 103,258 | 381,788 | 379,234 |
| Turkmenistan | 107,914 | 177,561 | 228,680 |
| Czech Republic | | | 77,956 |
| Uzbekistan | — | — | 7,033 |
| Belarus | 1,441 | 14,422 | 1,958 |
| Foreign SPV | 601,582 | 472,755 | 351,386 |
| Total | 9,905,774 | 9,643,265 | 11,687,357 |

MTS is the leader of TOP-1000 Russian managers ranking by the number of the first places (7 top awards) in all categories and the only telecommunication company whose top-managers were included in all 11 categories.



The best managers in the Telecommunication industry work in MTS:

► Best CEO

Andrei Dubovskov, MTS PJSC President took first place in category "Chief Executive Officer"

► Best CFO

Vice President for Finance and Investment, Mergers and Acquisitions **Aleksey Kornya** took first place in category "Chief Financial Officer"

► Best CMO

Vice President for Strategy and Marketing **Vasily Latsanich** took first place in category "Chief Marketing Officer"

► Best Legal Director

Vice President, Corporate and Legal Issues **Ruslan Ibragimov** took first place in category "Legal Director"

► Best IT Director

Vice President, Engineering and IT **Andrey Ushatskiy** took first place in category "IT Director"

► Best CCO

CEO of MTS Retail **Alexander Mosyakin** took first place in category "Chief Commercial Officer"

► Best Corporate Governance Director

Director for Corporate Governance **Maxim Kalinin** took first place in category "Corporate Governance Director"



The following MTS top-managers were also included in the rating:

- Vice President, Human Resources **Mikhail Arkhipov** took second place in category "HR Director"
- Vice President, Procurement and Administration **Valeriy Shorzhin** took second place in category «Logistics Director»
- Director of Public Relations **Elena Kokhanovskaya** took second place in category "PR Director"
- Director, Regulatory Risk Management, **Andrey Rego** took second place in category «GR Director»

Our Markets



Republic of Belarus

| | |
|---|---------------------------|
| Company | Mobile TeleSystems msPJSC |
| Share of ownership, % | 49 |
| Brand | MTS |
| Population, mln | 9.5 |
| Subscriber base by the end of 2016, mln | 5.2 |
| Mobile penetration, % | 124 |
| Market share, % | 44.4 |



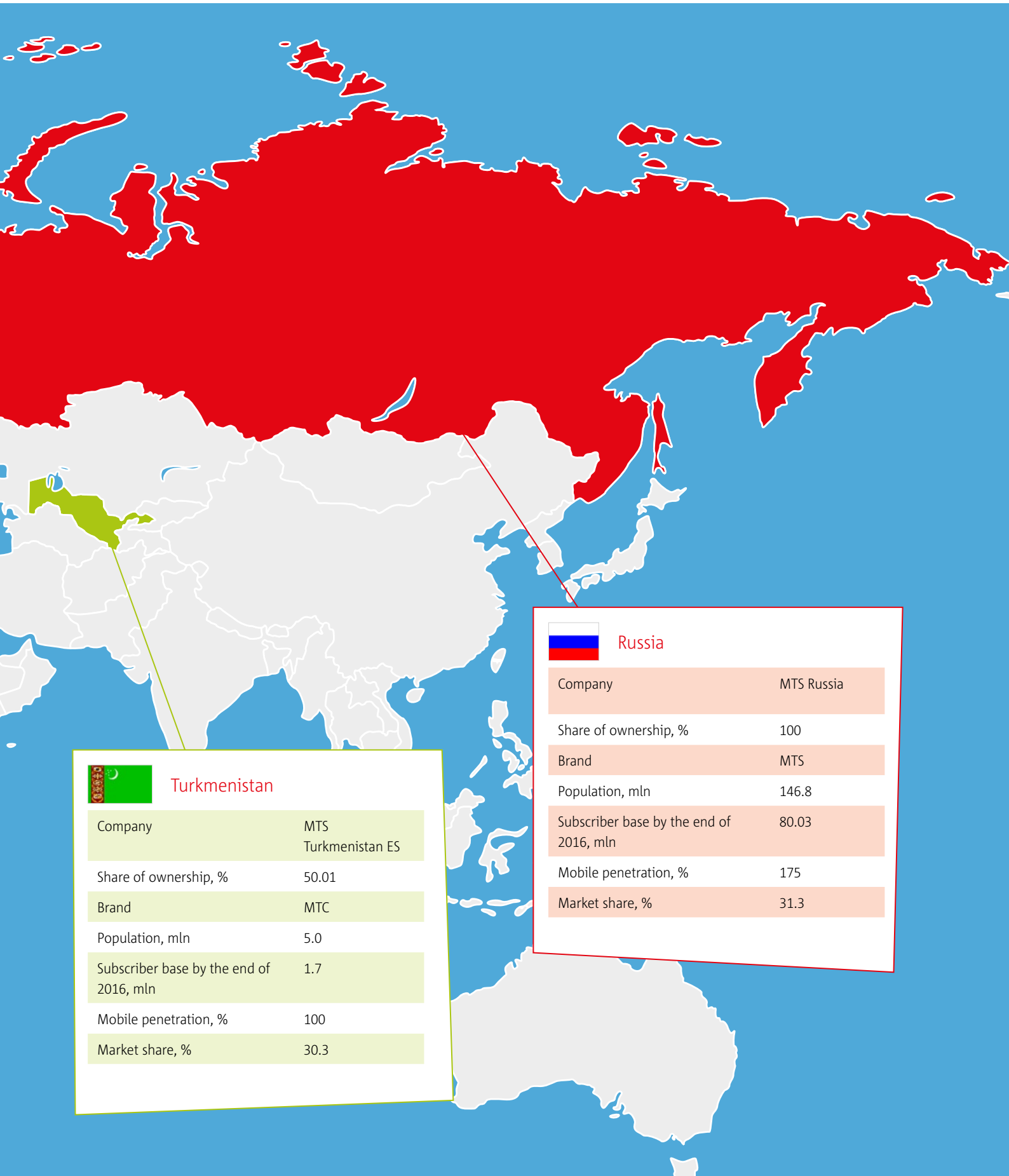
Ukraine

| | |
|---|------------------|
| Company | MTS Ukraine PJSC |
| Share of ownership, % | 100 |
| Brand | Vodafone |
| Population, mln | 42.6 |
| Subscriber base by the end of 2016, mln | 20.9 |
| Mobile penetration, % | 133.2 |
| Market share, % | 37.3 |



Republic of Armenia

| | |
|---|----------------|
| Company | K-Telecom CJSC |
| Share of ownership, % | 100 |
| Brand | VivaCell-MTS |
| Population, mln | 3.0 |
| Subscriber base by the end of 2016, mln | 2.1 |
| Mobile penetration, % | 119 |
| Market share, % | 59 |



Turkmenistan

| | |
|---|------------------------|
| Company | MTS Turkmenistan ES |
| Share of ownership, % | 50.01 |
| Brand | MTC |
| Population, mln | 5.0 |
| Subscriber base by the end of 2016, mln | 1.7 |
| Mobile penetration, % | 100 |
| Market share, % | 30.3 |



Russia

| | |
|---|------------|
| Company | MTS Russia |
| Share of ownership, % | 100 |
| Brand | MTS |
| Population, mln | 146.8 |
| Subscriber base by the end of 2016, mln | 80.03 |
| Mobile penetration, % | 175 |
| Market share, % | 31.3 |

Mobile Internet is gaining momentum in the mobile markets of Russia and the CIS countries. The basis for the qualitative growth of mobile Internet consumption is the 3G and 4G (LTE) networks development.

The MTS' 3G network covers all federal districts of Russia, Armenia, Belarus, Turkmenistan, and Ukraine. LTE networks were launched in all host regions of Russia (except for the Republic of Crimea). MTS Group was the first Russian telecom operator to provide international roaming access to LTE networks.

The Economic and Market Development Overview

In 2016, 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).

At the end of 2016, the level of mobile penetration exceeded 175% securing the position of Russia among the most advanced

telecommunication markets in the world.

In Russia, we face the growing number of regular users of data transmission services: at the end of 2016, their share achieved 49% of the total number of subscribers. Data consumption by mobile Internet users increased 50% year over year. LTE penetration among mobile Internet users doubled compared to 2015 and reached 25%.

Figure 3. The shares of the Russian market mobile operators by the number of subscribers in 2016, % ¹

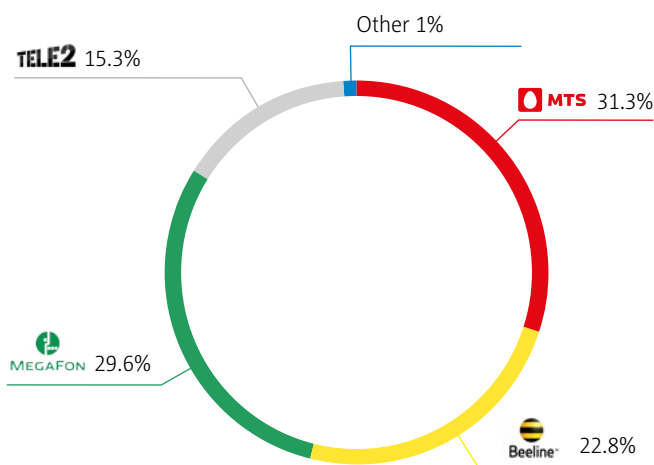
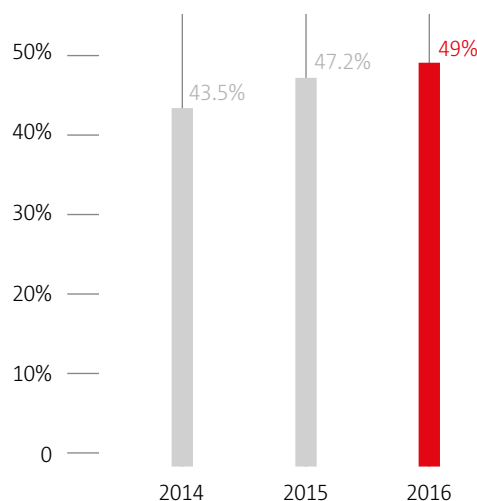


Figure 4. Share of regular users of data transmission services, %



¹ According to AC&M agency

Global Trends in the Telecommunications Sector

Digitalization in all spheres of human activity is the brightest global trend of the contemporary world: high-tech and traditional industries, scientific research and medicine, as well as arts and daily life. This trend creates new opportunities, stimulates the creation and development of new businesses and entire industries, and significantly improves the quality of life.

Moving towards a digital future stipulates new requirements to the Company's positioning in the economic environment, management style and corporate culture. In addition, telecommunications are the basis for digitalization processes and a mandatory condition for their existence.

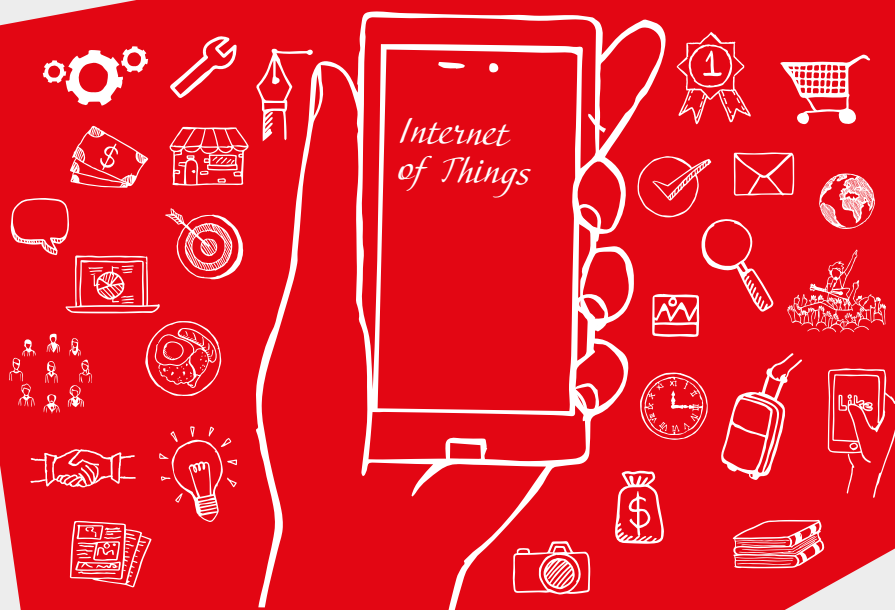
Currently, there are two key areas of development in the telecommunications industry.

The first one involves preparation for the commercial launch of networks under the new standards, as well as the introduction of the new network technologies: specialized IoT networks (Narrow Band IoT (NB-IoT) and LTE-Machine (LTE-M)) in the short term, and 5G in the medium term. They are expected to lead to increased demand for mobile operators.

The second area involves the emergence of telecom companies in new markets or even their creation. It is stipulated by the desire of traditional market players to return the status of fast-growing and innovative companies, to eventually move to a qualitatively different level of development.



More information on MTS Group, its position in the industry, as well as the forecasted markets' development in 2017 and in the midterm outlook can be found in the 2016 Annual report of MTS PJSC, Looking into the Future section.



The Internet of Things is one of 15 global trends until 2030

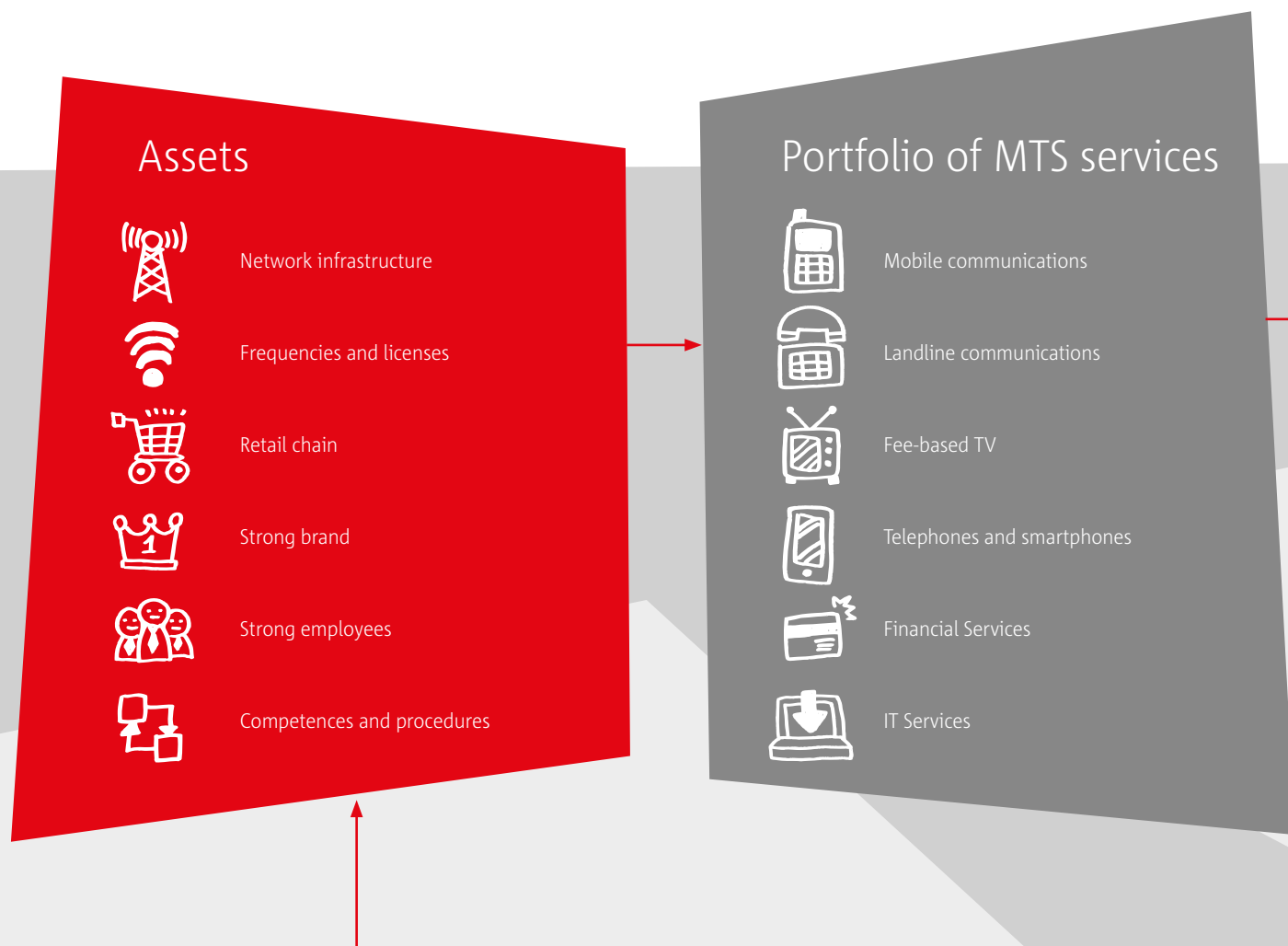
According to the survey of the UN Global Compact and DNV GL, IoT is one of the mega trends that will have a significant impact on the global business landscape in the next 15 years.

By 2020, more than 50 billion devices will be connected to the Internet. This will dramatically change many areas of human life, including production, use of resources, intelligent networks and health care.

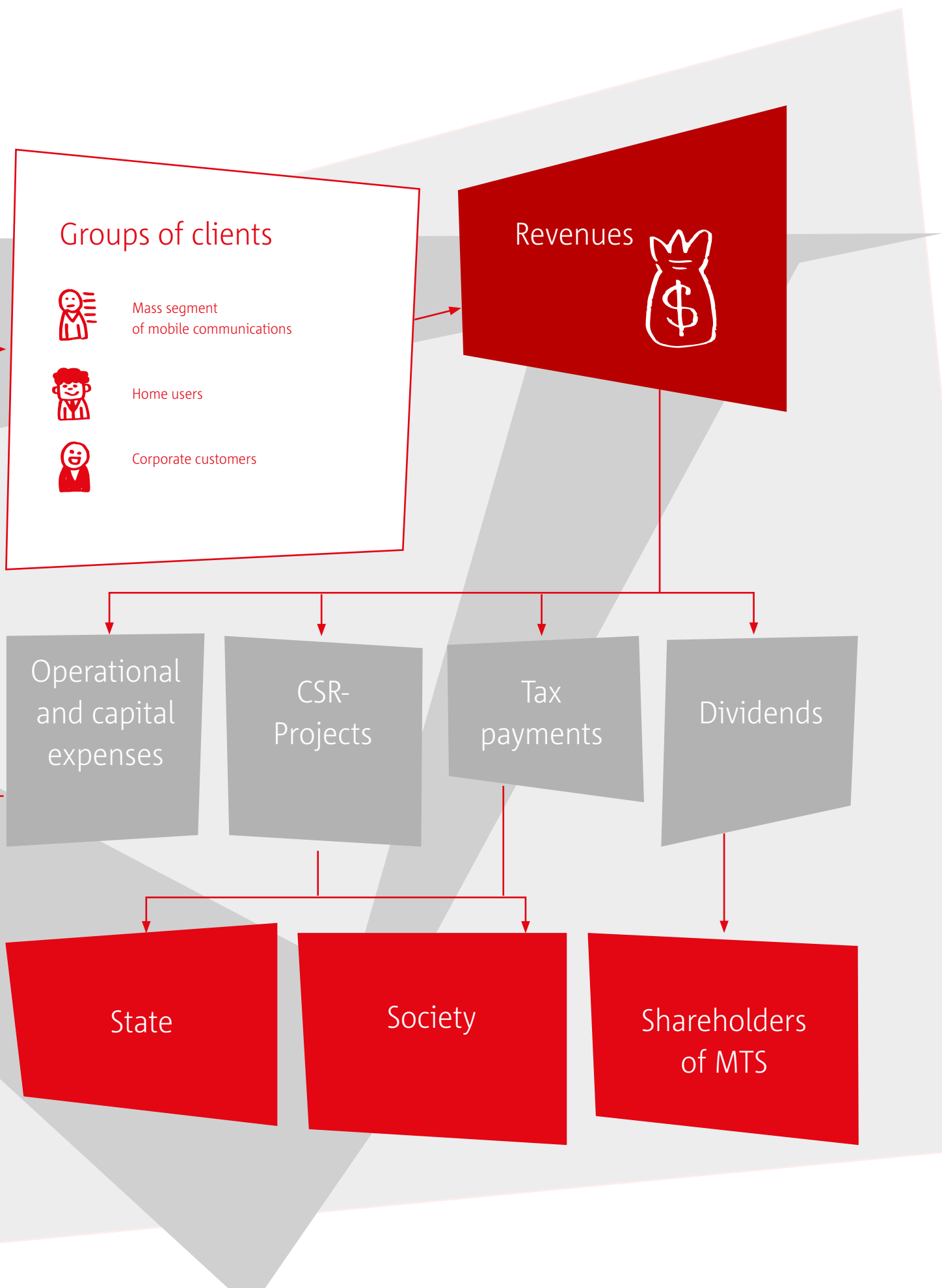


More details on MTS's activities in this area are available in the [Innovation chapter](#).

Business Model



MTS as a totality of interrelated assets creates and promotes portfolio of MTS services provided to various groups of clients for a fee that combines into MTS revenues used for operational and capital expenses, CSR-projects, tax payments and dividends for shareholders.



Development Strategy

Business Strategy

In 2016, we decided to transform the strategic concept “3D: Data, Differentiation, Dividends” into the new form – “3D: Data. Digital. Dividends”. We set a new strategic goal – transformation into a Digital company.

The Digital Transformation is aimed at creating an organizational environment with a high degree of process automation, solid speed of projects and ideas implementation, flexibility in forming functional units and project teams, and the use of new methods of teamwork.

We have already achieved certain results:

- ▶ Completed projects as part of transformation of organizational culture: The “Virtual Academy” training platform is functioning, remote working mechanisms and new formats of teamwork interaction between employees are introduced. For more details, see the [Personnel Development and Training section](#).
- ▶ The Company created the Innovation Center, a unique unit searching for the most promising areas of development, launching pilot projects and their further translating into the Company's operating divisions. For more details, see the [Innovation Development section](#).
- ▶ A new IT environment is formed to meet the information needs of internal departments and external partners.
- ▶ Agile approach is introduced and actively used in the IT departments. For more details, see the [Innovation Development section](#).

CSR Strategy

In 2016, MTS approved its first strategy in the field of corporate social responsibility .

Our strategy in the field of corporate social responsibility and sustainable development (hereinafter – CSR) serves as an extension of the Company's business strategy.



http://www.company.mts.ru/comp/social_responsibility/strategy/principles/

While developing CSR strategy, we took into account the accumulated experience of our Company and the best world practices in the field of corporate social responsibility. Being aware of our responsibility to our stakeholders and considering social and environmental problems on a global scale, we took into account primary areas of the strategic documents of the Russian Federation and the countries of the Company's presence as well as the UNO's sustainable development goals for the period up to 2030.

Our key goal is to improve the quality of life and safety for humans and society by developing innovations and providing a wide range of services to our clients. We pay significant attention to building the Company's corporate culture that boosts the development of innovations and enabled us to continuously develop our services and technologies, which improves the quality of life not only for our subscribers but for the entire society.

17 Goals

Transform Our World

Sustainable Development Goals (SDGs) officially known as Transforming our world: The 2030 Agenda for Sustainable Development Transforming our world – a set of goals for future international cooperation that substituted the Millennium Development Goals from January 1, 2016.

SUSTAINABLE DEVELOPMENT GOALS



MTS is committed to the implementation of the projects related to 13 UN Sustainable Development Goals most relevant for the Company. These goals as well as the information on MTS's activities on achieving these global goals are indicated in respective sections of the Report.

The quality of life is the main condition for the sustainable social development of civil society and an individual.

It includes a set of socio-economic or other criteria that reflect the level and degree of the person's well-being achieved in various spheres of his life.

MTS activities that improve the quality of life are indicated in the Report with a pictogram



Our CSR activities cover social, economic and ecological spheres and imply efforts in nine principal areas (fig. 5).

At the core of MTS CSR-activities are the principles of socially responsible business, aimed at ensuring sustainable development, increasing the efficiency of the Company's activities, shaping a competitive economy, improving the quality of life and prosperity of society. These principles were articulated with the participation of all stakeholders and taking into account their expectations and were specified in the Corporate Social Responsibility Policy. The policy "MTS Activity in the Field of Corporate Social Responsibility" is an internal document that regulates the implementation of CSR projects.

The Board of Directors and the Management Board of MTS are the main authorities to control our CSR activities. Their competencies include approval of the CSR strategy and social programs, supervising the implemen-

tation of the programs, and evaluating the progress of social projects. Planning, implementation and consolidation of CSR activities are the responsibility of the Vice President for Human Resources and the Corporate Social Responsibility Department which is a part of our Human Resources Unit. Our social initiatives in the regions are planned and implemented by employees of the Human Resources, Marketing and PR Department who are appointed in the regions.

Since 2014, CSR Committee has been operating within the Company. It is an advisory body under the President, its members' efforts are aimed at attracting partner's programs, broadcasting the Company's CSR policy within and outside of MTS, creating CSR environment inside and around of the Company, consolidating and efficient use of Company's resources in integrated CSR projects, preparing the Sustainable Development Reports, approval of action plans of MTS Corporate Center and Clusters.

Figure 5. Principal areas of MTS's CSR strategy

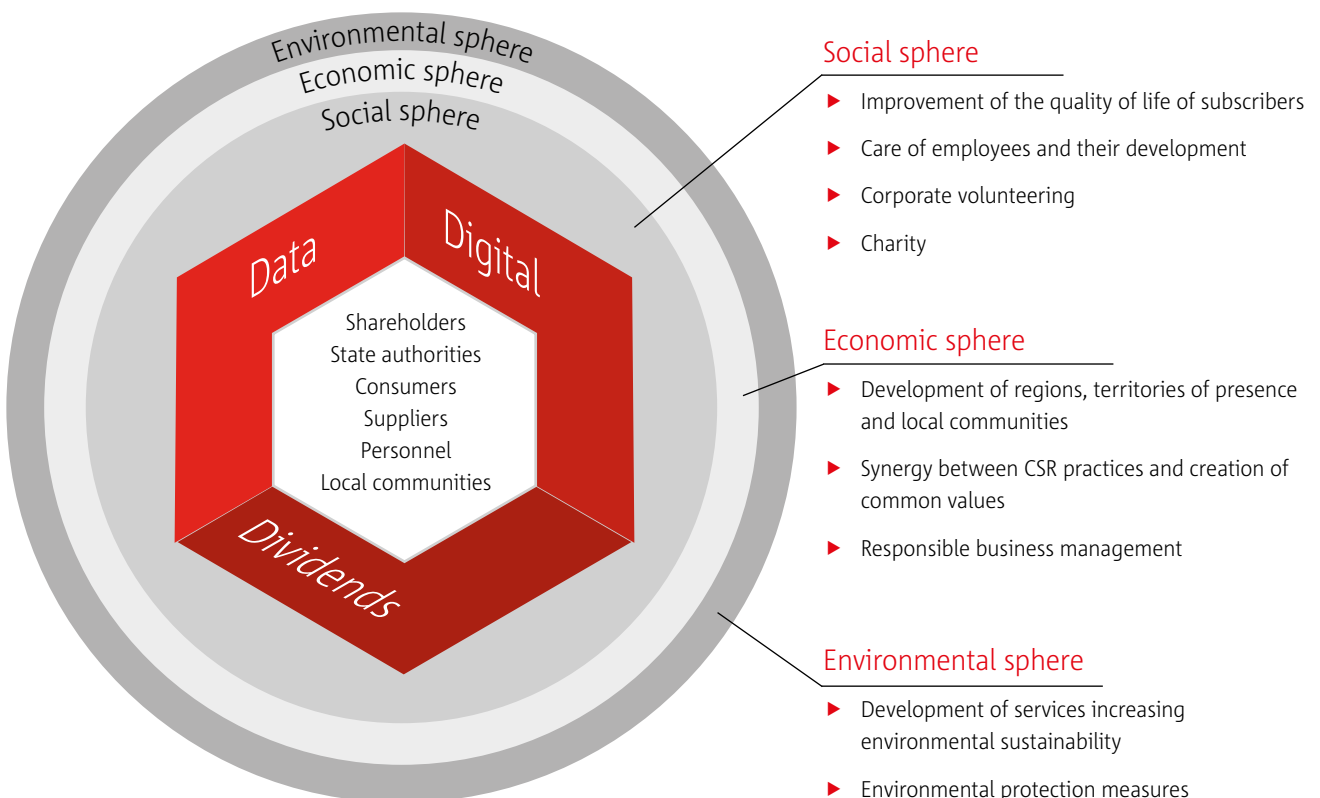



Figure 7. MTS's CSR principles



On our official website  you can find reports on sustainable development of MTS Group, the key charitable projects being implemented by the Company, and also the contacts for feedback. We have an ongoing dialogue with our stakeholders and provide all the information about our social activities.

Internet", "Network for All Ages", "MTS Mobile Academy", "Telecom Idea", volunteering and creative project "Mobile Theater of MTS Tales";

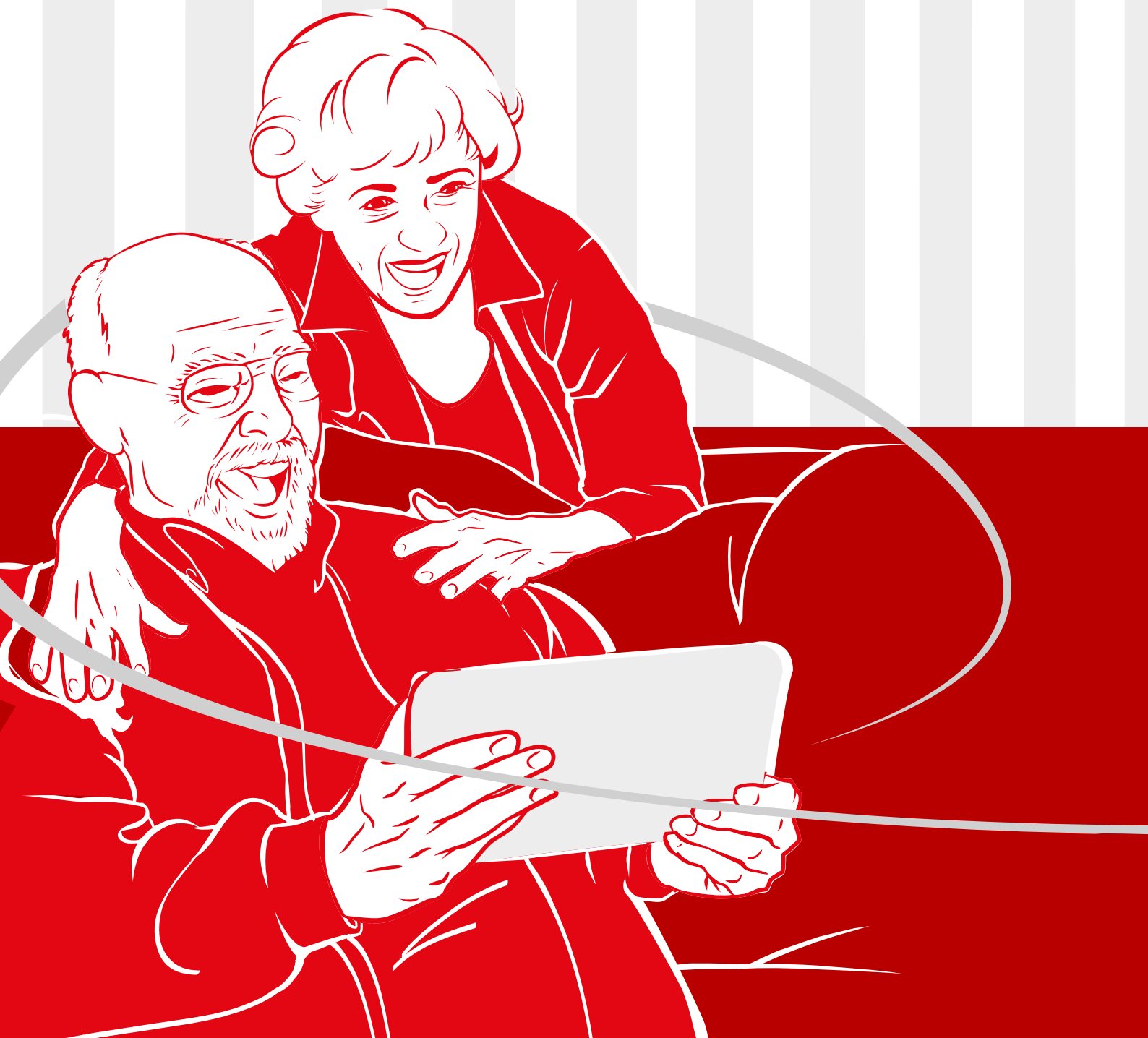


http://www.company.mts.ru/comp/social_responsibility/soc_report/

Plans for 2017:

- ▶ Improve the quality of life of subscribers by promoting the use of mobile Internet in the society;
- ▶ Improve the quality of non-financial reporting in accordance with international standards and guidance: Applying GRI Standards when preparing the 2016 report will enable to focus on material aspects of MTS Group sustainable development;
- ▶ Continue to involve the regions in the implementation of key CSR projects in the regions and countries of MTS's presence: "Generation M", "Children on the Internet", "Network for All Ages", "MTS Mobile Academy", "Telecom Idea", volunteering and creative project "Mobile Theater of MTS Tales";
- ▶ Continue to develop the "Social HR" aspect: extending opportunities for internship, practice and hiring for persons with disabilities and of old age; active participation and involvement of the Company's employees in socially significant activities aimed to foster the integration of young persons with disabilities in society;
- ▶ Continue to perform the "Eco-Telecom" activities: promote environmentally responsible lifestyle and attitudes towards natural resources, provide support to the federal and international eco-activities;
- ▶ Continue to work with MTS functional divisions in terms of implementation of ISO 26000:2010 Guidance on Social Responsibility.

*We improve the quality of life
by offering affordable
telecommunication services*





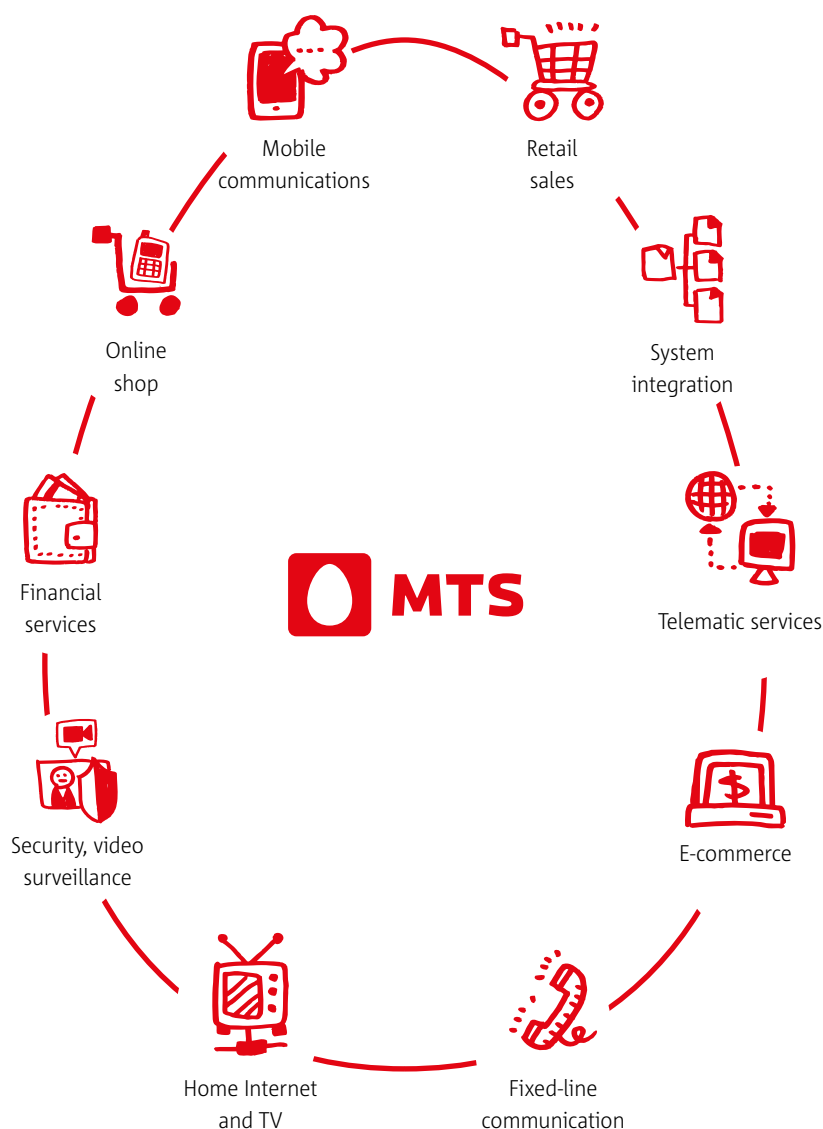
Telecommunication Services

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MTS Group's Key Services

Today MTS continues to maintain its flagship position in the development and implementation of innovative, socially significant technologies in Russia. Information technologies and telecommunications make information and knowledge commonly available, thus acting as the major drivers of information society development. The expansion of telecommunications infrastructure along with the development of technologies and introduction of innovations contribute to the country's technological and economic development, improves the quality of life and expands opportunities for people.

MTS Group's Key Services



Telecommunication Infrastructure

The development of telecommunication infrastructure continues to be the primary component of MTS's strategy. It is an essential condition for development of the Company's business and fulfillment of its social responsibilities. The development of high-speed wireless data transmission networks and corresponding backbone infrastructure will be our primary goal in the coming years.



As of year-end 2016, the number of MTS's Russian mobile subscribers increased by 3.5% to 80 million people.

Expansion and Upgrade of Mobile Communication Infrastructure

For the development of the mobile communication infrastructure, MTS continues to build base stations. We strive to maximize the mobile communication coverage in the countries and regions of MTS's presence to cover the needs of our clients and take an integrated approach to data network development: while actively developing 4G networks, we continue investing into the development of 3G network infrastructure.

more base stations, including nearly 10 thousand LTE stations. Continuing to invest in the development of infrastructure, we see the possibility of a gradual reduction of its capital costs while maintaining the quality of services provided and increasing cash flows.



The 2G and 3G networks cover 98% of the populated area of Russia. Belushiya Guba in Novaya Zemlya is the northernmost point, Lavrentiya Settlement in Chukotka – the easternmost point, Baltiysk in the Kaliningrad Region – the westernmost point and Mikrakh Village in Dagestan – the southernmost point where MTS network operates.

Investments in Infrastructure

In 2016, MTS Group's capital expenditures amounted to RUB 83.6 billion, 19.2% of the revenue. At the end of 2016, MTS accomplished its Fiber-Optic Network Development Program and launched LTE networks in all regions of its presence in Russia.

In 2016, MTS commissioned about 10,000 base stations, including 6,300 stations of LTE standard, bringing the total number of base stations in Russia to 139,600. In 2017, it is planned to build 15 thousand

Table2. MTS Group's Capital Expenditures

| Capital Expenditures | 2015 | 2016 |
|--------------------------------------|-------|-------|
| Russia ¹ , RUB billion | 79.6 | 73.8 |
| in % of revenue | 20.4% | 18.4% |
| Ukraine ² , RUB billion | 12.4 | 7.5 |
| in % of revenue | 44.1% | 25.6% |
| Armenia, RUB billion | 1.4 | 1.0 |
| in % of revenue | 15.2% | 11.8% |
| Turkmenistan, RUB billion | 0.5 | 0.4 |
| in % of revenue | 9.8% | 9.0% |
| MTS Group ³ , RUB billion | 96.1 | 83.6 |
| in % of revenue | 22.5% | 19.2 |

¹ Excluding expenses for 4G license acquisition.

² Excluding expenses for 3G license acquisition.

³ Including capital expenditures in Uzbekistan reflected in cash flow from discontinuing operations.



MTS entered a tower infrastructure rental market

MTS is one of the biggest operators of tower infrastructure and antenna mast structures in Russia. In 2016, we entered a tower infrastructure rental market.

In addition to the rental of space on towers and antenna mast structures, MTS, being also one of the largest owners of fiber-optic communication lines, offers the potential lessees of tower infrastructure to rent corresponding communication channels.

The objects offered for rent are ready for installation of telecommunication and other equipment of any potential partners. At the first stage, we prepared more than 5,5 thousand towers and antenna-mast structures for leasing, and our further actions in this direction will be determined by the demand from potential partners and our technical capabilities.

Local fixed line phone providers, broadband Internet and cable television providers can become our clients. Different institutional structures need to have their equipment networked at the height. Space on the towers might serve for security and video surveillance. It is also possible to place meteorological sensors or radio broadcasters for state needs.

MTS's obvious advantage over its competitors is the fact that we are able to provide a comprehensive ready-made solution for business, connect infrastructure via our own fiber-optic channels and communication lines. In this case, territorial coverage depends only on the needs of the customer. In addition, we can provide data processing opportunities for the received data in our data centers.

In 2017, MTS plans to cut capital expenditures to RUB 80 billion and also considers their further reduction in 2018–2019, based on the following factors:

- ▶ Launching LTE networks by the mid 2016 in all regions of Russia;
- ▶ Completion of broad-scale construction of optic networks in the key Russian regions;
- ▶ Follow-up activities on LTE network development;
- ▶ Implementation of projects on sharing infrastructure and spectrum with other operators;
- ▶ Completion of major construction of 3G network in Ukraine and further construction of LTE networks;
- ▶ Introduction of 5G evolutionary solutions on the Russian market;
- ▶ Investments in digital products.

Upgrade of 3G

We continue to upgrade 3G networks since the 3G standard is still on demand today. The share of 3G devices among our subscribers is 38%, around 68% of the total data traffic accrues to 3G.

In spring of 2016, we successfully tested the aggregation of three frequency bands on the operating commercial network of the 3G, MTS in Ufa (the Republic of Bashkortostan), in the course of which the peak data rates increased by one third, to 63 Mbit/s – comparable to the speed of the 4G networks.

Aggregation of three 3G carriers with a width of 5 MHz each was carried out in the 2.1 GHz band on the active MTS network, with data transmission by one stream to one mobile device using the HSDPA Multi-Carrier 3 Carriers technology.

Today more than 90% of MTS 3G base stations operate using DC-HSDPA+ technology using two carrier frequencies, providing a peak data transfer rate up to 42 Mbit/s. 64% of DC-HSDPA+ base stations in 83 regions of the Russian Federation include a third carrier,

which can be used to increase the network capacity by one-third or to increase access speed to 63 Mbit/s. The rest of 3G base stations with one carrier operate on HSPA+ technology with a maximum speed up to 21 Mbit/s.

LTE Network Development

The ongoing mobile Internet expansion becomes increasingly important for the mobile communication markets in Russia and the CIS countries. While 3G network development continues to be the basis for a tangible growth of the consumption of mobile communication services, the LTE technology takes the primary role in digital service development and makes it possible to offer more advanced services to demanding clients.



The LTE allows to comfortably watch a high-definition streaming video, remotely handle “bulky” files, and participate in webinars and video conferences, which require high speeds, impeccable connections and much more. The transition to 4G enables to increase the wireless data transmission speed up to 1 Gbit/s for fixed-line communication and up to 100 Mbit/s for data exchange with mobile devices.

The LTE network was built in the 800, 1800 and 2600 MHz bands. The priority was given to LTE 1800 (56% of the total number of new LTE base stations). Aggregating several bands enables to increase the mobile Internet speed and optimize the network performance by combining broad coverage with high capacity. LTE-1800 base stations are responsible for the coverage area, this indicator for the stations is three to four times higher than usual, and LTE-2600 allows to achieve high capacity in points of high traffic concentration.

For the development of LTE 1800, frequencies are refarmed¹ from 2G to LTE (the refarming band width varies from 5 to 15 MHz from region to region). The voice traffic is transferred from 2G to 3G and the data traffic is transferred from 3G to LTE. As of year-end 2016, 52% of LTE websites operate with LTE base stations (in 2015 – 33%), in 2017 the share of these websites will grow to 70%. LTE 1800 networks are more efficient

in terms of coverage and capacity compared to LTE 800 and LTE 2600.

At the end of 2015, MTS was the first Russian operator to have launched LTE networks in all 83 regions of its presence. MTS provides peak speeds of up to 75 Mbit/s in single-band LTE networks, with aggregation of two carrier frequencies of 1,800 MHz and 2,600 MHz – peak speeds of up to 150 Mbit/s, and in some places up to 187 Mbit/s.

As a technological leader of the telecom industry in Russia MTS stays ahead and makes its network ready for technological shift from 4G to 5G. Today, shortly before the introduction of 4.5G subscriber devices on the market, we launch the first commercial LTE Advanced Pro network of transitional standard in Russia and the world's first network with FDD² + TDD³ frequency aggregation with data transmission speed of up to 700 Mbit/s. These parameters give our subscribers a significant increase in the speed of the Internet access in the conditions of rapid growth of traffic loads and traffic consumption and enable the Company to effectively use TDD LTE spectrum in 2,600 MHz band that was purchased at the auction this year.

In December 2016, we launched the country's fastest sections with the peak data rates of up to 700 Mbit/s at the existing networks of the 4G. 4.5G high-speed commercial networks from MTS have already started operating in Moscow, St. Petersburg, Ufa and Yakutsk in the places of active mobile Internet consumption.

The throughput performance of 700 Mbit/s will enable to transmit simultaneously over 40 different videos in 4K ultra-high definition format (3,840×2,160 pixels) in the coverage area of a base station. This data download speed is ensured by the aggregation of frequencies (1,800 MHz + 2,600 MHz) used in LTE-Advanced Pro, multidimensional MIMO 4x4 antennas and 256-QAM modulation.



We constantly work on improving quality and availability of LTE services for our subscribers. Even now, more than a half of the entire mobile Internet traffic of MTS subscribers in Moscow accrues to LTE network, and this share is growing. In these conditions, the aggregation of FDD and TDD frequencies, which is unique for the Russian market, will allow us

to increase the effective coverage area of TDD network by 2.5 times, and the average mobile broadband access speed for the latest smartphone models – by 1.5 to 2 times. Today, MTS is ready to provide data transmission from base stations in Ufa with speeds of up to 700 Mbit/s, in Yakutsk – up to 500 Mbit/s, in St. Petersburg – over 400 Mbit/s, in Moscow – over 300 Mbit/s.

Network Enhancement

MTS aggressively enhances the capacity of the LTE and 3G networks, focusing on places with high concentration of people. Furthermore, to improve communication at hot spots (traffic jams, malls, etc.), the Company launched a project focused on deploying an outdoor small-cell network and comprehensive indoor solutions. MTS combines implementation of these solutions with the construction of standard base stations to enhance coverage and deliver premium services.

Today, about 30–40% of voice calls and Internet traffic consumed by subscribers on the go. That is why, while building and developing communication networks in Moscow and the Moscow Region, MTS primarily focuses on transport hubs: highways, subways, railway stations, and airports.

Metro



In 2016, MTS and MaximaTelecom JSC, the largest company in the field of creation and commercialization of Wi-Fi networks in Russia, signed a strategic agreement, under which the companies will install MTS femtocells by the end of Q1 2017 in each metro car. The equipment will be connected to the network of MaximaTelecom JSC, which will provide passengers with stable voice communication and mobile access to the network using 3G technology in all tunnels of the Moscow metro. The speed will be sufficient to ensure a stable mobile Internet access and usage of social networks and messengers during peak.

Currently, MTS provides voice communication service at all stations of the Moscow metro. 3G mobile Internet is available at all stations inside the Garden Ring, at the stations and sections between the stations of

In February 2016, MTS won the federal bid of 2,595-2,620 MHz frequencies at the first Russian auction held by Roskomnadzor for a provision of data transmission services in the LTE TDD standard in all regions of the presence (except for existing LTE TDD band in Moscow and the Moscow Region).

MTS launched LTE-1800 technology networks in 56 regions, and LTE-Advanced networks with aggregation of two frequencies (1,800 + 2,600 MHz or LTE800 + 2,600 MHz) – in 57 regions of the country.



¹ **Frequency refarming** is the procedure of replacement of the radio technology used at the radio frequencies assigned to the telecom operator.

² **FDD (Frequency Division Duplex)** — frequency separation of the channels of data reception and transmission in different bands of the range.

³ **TDD (Time Division Duplex)** — time diversity of channels for receiving and transmitting data alternately in the same frequency band.

Cosmodrome

In 2016 a network was built at the Vostochny cosmodrome. In a very short time, additional base stations of the 3G network were launched, which allowed to satisfy the needs for mobile data transfer services not only for the corporate client, Roscosmos State Corporation for Space Activities but also for all those who live and work at the cosmodrome and in Tsiolkovsky town.



Sokolniki, Tagansko-Krasnopresnenskaya and Koltsevaya lines, as well as at 13 stations of other lines.

In 2016, MTS increased the number of stations in the Moscow metro from 8 to 15, where high-speed LTE Internet is available. Expansion of LTE technology in the metro will be continued alongside the implementation of the project on the provision of communication services in the sections between the stations.

Rail roads



In June 2016, MTS PJSC and RZD JSC signed a memorandum on the development of communication networks along the railway line Moscow – St. Petersburg. MTS's total investments under the project will comprise RUB 500 million.

Cooperation between MTS and Russian Railways will provide a high-speed access to the Internet and high-quality voice communication to all passengers on the Moscow-Saint Petersburg railway section. MTS uses a hybrid architecture for the installation during 2016-2017 of base stations along the routes of trains on the territory of the Moscow, Tver, Novgorod and Leningrad Regions. It is planned to equip the railcars in Sapsan trains with special indoor solutions – multi-range (900/1800/2100 MHz) repeaters, which will

be connected to standard radiating feeders. Such approach will allow to organize a stable coating inside the train and to exclude signal losses that occur as a result of its reflection from the train surface and when driving at high speed.

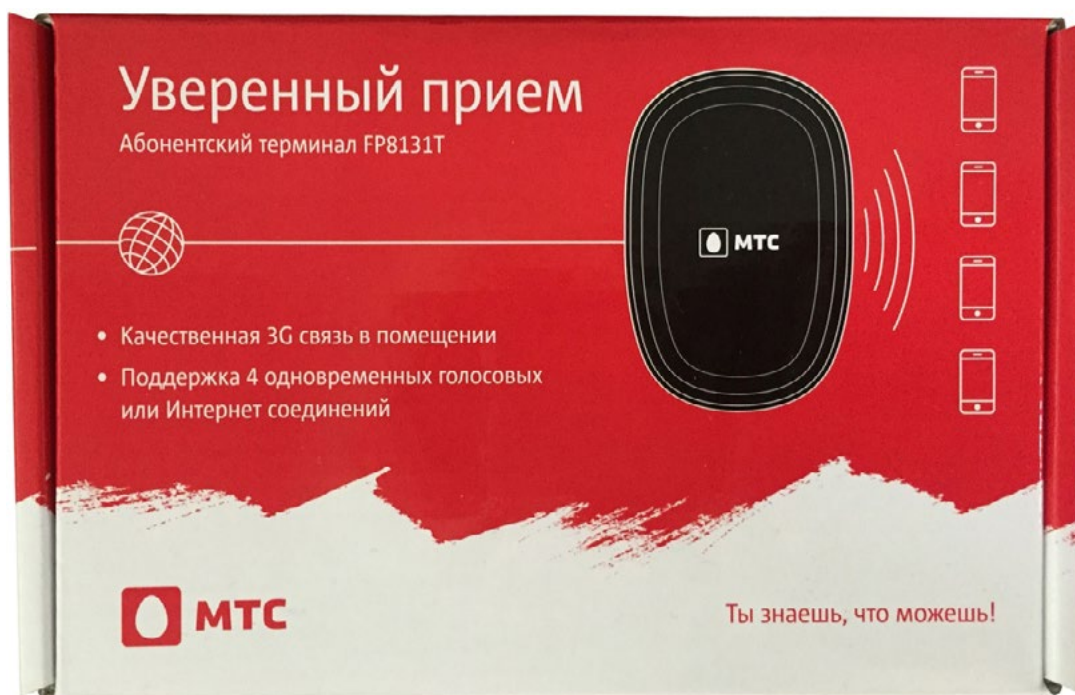
Also, as part of preparations for the 2018 FIFA World Cup, MTS plans to improve the quality of communication along the railway lines leading to the cities where matches will be held. MTS will install additional 2G/3G base stations, expand LTE coverage and introduce 5G network technologies in railway stations, on platforms and squares near railway stations in Moscow, Yekaterinburg, Nizhny Novgorod, St. Petersburg, Sochi and other cities.

The Moscow Central Circle

In 2016, MTS provided the Moscow Central Circle (MCC) with 100% coverage of communications networks. Within the framework of the project, MTS carried out large-scale works on setting up the network, building and upgrading the existing base stations in the area of the MCC trains route. Currently, 145 standard 2G base stations, 140 3G stations, and 130 LTE stations are used in MCC.

Personal base stations

In 2016, MTS PJSC was the pioneer among Russian operators to launch mass sales of



femtocells – personal base stations to enhance the signal of the cellular network.

The mini-base station allows private and corporate clients of MTS to organize or improve the indoor coverage of the cellular network in new buildings, premises with complex architecture, on the basement and top floors of buildings, in country cottages, apartments and houses, in design of which shielding elements are used, including light and heat reflective coatings of windows. The device is connected to an existing Internet channel and provides broadcasting of a third generation cellular network in the 2100 MHz band, to which up to four devices can be automatically connected.

The standard femtocell NEC can provide a mobile communication and the Internet for a room with an area of 300-400 square meters. MTS corporate customers will also be able to purchase industrial femtocells that will provide connection for up to 16 people in an area of up to 10,000 square meters. Such solutions are suitable for providing communication on the territory of warehouses and industrial premises, in garages, technological premises on the upper or underground floors.

Joint operation of LTE networks

In 2016, PJSC MTS and VimpelCom (Beeline brand) started the decisive stage of implementing a large-scale project for the joint construction and operation of LTE networks in more than 30 regions of the Russian Federation. The Vologda Region became the first region where two operators combined their frequency bands.

In 2016-2017, operators plan to combine their frequency resources in the Kaluga, Kemerovo, Kirov, Murmansk, Nizhny Novgorod, Novgorod, Omsk, Oryol, Penza, Sakhalin, Tomsk, Tula, Ulyanovsk, Chelyabinsk, Yaroslavl Regions; the Republics of Altai, Dagestan, Ingushetia, Kabardino-Balkaria, Kalmykia, Karachay-Cherkessia, Mordovia, North Ossetia-Alania, Udmurtia, Chuvashia; The Chechen Republic; in the Kamchatka, Krasnoyarsk, Magadan and Khabarovsk Territories.

launch of networks, we provide to our subscribers a significant increase in mobile Internet speeds in modern LTE networks, in some cases up to two times. The combination of 10 MHz bands belonging to the operators in the 2600 MHz band will allow increasing data transfer rates in LTE networks in various regions of the country up to peak 150 Mbit/s.

The development of the project was possible due to the adoption of amendments to the law "On Communications", which legislatively secured the operators' rights of the joint use of the radio-frequency spectrum.

Development of Infrastructure of the Moscow Region



In 2016, MTS PJSC and the Ministry of State Administration, Information Technologies and

Communications of the Moscow Region signed a Cooperation Agreement on development of telecommunications infrastructure and improving the quality of communication services for the population. In 2016 MTS investments in the development of communication infrastructure of the Moscow Region amounted to RUB 4 billion.

Priority areas for the development of networks in the Moscow Region in 2016:

- ▶ Increase of coverage of 3G and 4G networks by MTS;
- ▶ Development of communication infrastructure in large cities and remote areas;
- ▶ Construction of fiber-optic communication lines (FOCLs).

Since 2015, MTS provides high rates of construction of telecommunications infrastructure in the Moscow Region, setting an average of four base stations per day. This is facilitated by changes in regional legislation introduced at the initiative of the Ministry of State Administration, Information Technologies and Communications of the Moscow Region:

- ▶ The need to obtain a permit for the construction of antenna-mast structures of operators is excluded, since at the pres-

The population of the Moscow Region – about 7.5 million residents - is the third largest group of consumers of modern communication services (after Moscow and St. Petersburg) (40% of the Company's subscribers in the Moscow Region are residents of the region).

In the first half of 2016, the total volume of the Internet traffic of MTS subscribers in the Moscow Region increased by 40% as compared to the same period of the last year. Traffic in 4G network grew by 96%. On average, in the Moscow Region, the subscriber in the 4G mobile network consumes 2.5 times more traffic than in 3G network. And the consumption of the Internet services in the summer season increases by 45-50% in comparison with the winter period.



In addition to saving costs for the construction and operation of base stations, speeding up the

ent moment they are easily constructed standard structures, which leads to a significant reduction in the commissioning time of new base stations;

- ▶ The submission of documents as 'one-stop service' from communications and infrastructure operators for the allocation of land and obtaining permits for the deployment of communication equipment has been implemented;
- ▶ The procedure for placing equipment for mobile operators on buildings and structures owned by the Moscow Region and the municipal property has been simplified.

In 2016 the number of base stations in the Moscow Region (Moscow + Moscow region) amounts to 26 thousand units, and the number of stations with LTE support is more than 9 thousand units. The voice communication network of MTS covers more than 45.5 thousand square kilometers or almost 100% of the territory of the region. Mobile Internet of 3G standard covers 85% of the populated territory. By the end of 2016, MTS increased coverage of 4G network in the Moscow Region up to 70%.

Fixed Broadband Access and Cable Television

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

We continue to systematically pursue the strategy of improving the quality of our fixed-line products by upgrading our networks, launching digital and interactive TV services, increasing the throughput performance of our backbone channels to increase speeds for the subscribers.

Broadband Internet access

The growth rates of the Russian broadband Internet market are declining. The service is developed mainly due to the growth in the number of private users but with 56% penetration at the end of 2016, the market is saturated not only in large but in most medium-sized cities. The penetration of services in the vast majority of cities with a

population of more than 50 thousand people exceeds 50%, and usually the competitive situation in these cities is quite intense: the service is provided by at least three operators, both federal and local. Opportunities for extensive growth for operators have already been exhausted, and the migration of subscribers from operator to operator does not bring long-term benefits to companies.

Expansion of capacity and modernization of MTS BBA networks made it possible to change the service by doubling the average speed for the existing BBA subscribers by more than 40%. All new connections are made at speeds from 50 to 100 Mbit/s.

The number of MTS fixed broadband subscribers¹ for 2016 grew by 9% and amounted to 2.8 million people (the whole growth on the market was 4%).

Cable television

In 2016, the Company significantly increased the attractiveness of digital TV (DTV) – the channel offer has grown by more than 30% (up to 170 channels), the number of HD channels has grown by more than 50% (up to 40). The basic package includes an average of 130 channels, including 24 HD channels. It is the biggest regional-market Basic Package which was also included in all package proposals incorporating BBA and telephony.



In 2016, MTS continued to develop a hybrid platform that enhances the capabilities of traditional

digital and satellite TV with interactive components. The hybrid TV solution will connect cable television of IPTV standard at the software level on the basis of the MGTS network in Moscow and DVB-C in the regions of Russia, as well as MTS satellite TV with on-line services – web services with access via TV screen, a program guide with advanced functions, Video on demand and a timeshift. The final stage of the project was the launch of a hybrid platform on the mobile service of MTS TV.

At the end of 2016, MTS began selling a new product, "Interactive TV", a service with the help of which the subscriber accesses a large number of channels, including in HD quality,



MGTS won in the annual Professional Comnews Awards 2016 in the nomination **"The Fastest Growing Operator in Terms of Revenues from Fixed and Wireless Broadband Access"**, for success in connecting Moscow residents to modern telecom services and services based on a broadband Internet access.



¹ Including MGTS subscribers.

access to premium packages and advanced interactive services.

The number of fee-based TV subscribers at the end of 2016 was 2.8 million (+ 0.4%). In 2016 Satellite TV was used by 120 thousand customers of MTS.

The detailed information on the development of fixed-line BBA and cable television is set forth in the Business Overview/Fixed-Line Communication section of the 2016 Annual Report.

Development of Backbone Networks

We pay special attention to backbone infrastructure expansion since having its own backbone network enables MTS to cut the operating expenses, which, in turn, reduces the service costs for the end users. The availability of own backbone networks also allows the Company to provide the maximum level of redundancy of the network infrastructure, which leads to increased reliability of communication, especially with regard to long distance and international calls and roaming services, and to increase the network capacity which enables to provide both mobile and fixed Internet with higher speeds to subscribers.

At the present moment MTS has the longest network of its own optic lines among all operators of the Big Three. The length of MTS

fiber-optic lines is four times the length of all the main Russian highways.

In 2016, the length of fiber-optic communication lines of MTS Group in Russia amounted to 213 thousand kilometers. The length of the MTS fiber-optic line increased due to the launch of a new communication line in the Far East, the construction of zonal networks, including the development of the GPON project in Moscow. In 2016, MTS continued to implement the projects on construction of FOCLs in hard-to-reach places: on the Tynda-Yakutsk section and on the Sakhalin island. The construction and launch of new networks in the East of Russia allowed MTS to create the largest own optic network among the operators of the Big Three in all federal districts of presence and provide a reliable transit channel for traffic on the route Europe-Asia.

In 2016, MTS PJSC and ECI, a global provider of next-generation network solutions, successfully tested the data transmission technology, which allows increasing the data transfer speed in MTS backbone networks up to 400 Gbit/s.

Using ECI solutions based on the Apollo platform will allow MTS to optimize the network infrastructure without significant time and money resources, and to quickly increase the capacity of the backbone network, while lowering the operating costs for renting premises and paying for electricity.



MTS is the only satellite TV operator in Russia that provides reliable coverage in Russia's populated areas, from Kaliningrad to Vladivostok due to the location of the satellite's standing point just above the center of Eurasia, unlike most satellites located in the eastern or western part of the continent. The free package of equipment offered by MTS makes high-quality television in the country not only geographically possible but also affordable for every resident of the country.



Further information on the telecommunication infrastructure is set forth in the Business Overview section of the 2016 Annual Report.

Quality of Service



According to the expert council of the award, Consumer Rights and Quality of Service, MTS has the **highest quality of voice communications and mobile Internet in Russia and Moscow**. This is not the first achievement of MTS in relation to communications quality. In March 2016, Roskomnadzor acknowledged that MTS had the best quality of voice communications and mobile Internet in Moscow.

Our Company deals with the issue of consumer rights protection and client service not as with a formal requirement of legislation but considers it to be a basic principle of doing business. Provision of reliable communication and quality service are the key principles of observing the rights and interests of subscribers. Cellular communications and telecom services have long become one of the main social services, so we strive for continuous improvement of our work. We consider focus on the customer to be of most importance to our business.

We are regularly introducing advanced solutions and improving the technical component of client services, opening new offices and striving to improve our services. In many respects, the attitude of clients to the Company relates to the presence of certain experience of communication with employees of the front office. Therefore, MTS pays special attention to the training of its employees and makes every effort to make the lives of our clients better and more exciting.

Developing new products and services, we set ourselves the task of opening to our customers all the possibilities of the digital world that can make their life more comfortable. The ecosystem of MTS applications includes more than 20 solutions that allow to use a smartphone to listen to music, read books and newspapers, pay for services and save money making purchases. In our plans, the creation of several new useful applications.

The main techniques to check client service quality are as follows:

- ▶ Conducting of IVR-polls on all channels of interaction between the client and the Company (retail network shops, contact center, online shop, after connection of fixed communication services, after considering customer complaint, etc.) in order to obtain feedback about service and evaluation of loyalty level at the contact point (tNPS¹); on the basis

of the information received, programs for the systematic improvement of the quality of service and motivation of retail employees, as well as management are developed;

- ▶ Application of 'closing the loop' of service after visiting the MTS shop in order to settle the client's problem, if it was not solved during the visit;
- ▶ The assessment of the quality of service by the method of MSI (Mystery Shopper);
- ▶ Auditing of processes of sale and service in RTK shops.

Our retail chain is one of the main channels of MTS interaction with its subscribers. All MTS large and leading shops have comfortable waiting places for our visitors. Understanding the needs of our clients with disabilities, we equip the entrance areas of our offices with ramps whenever it is structurally possible.

During 2016, the key index of NSAT (net satisfaction) was used to determine satisfaction on all service levels, satisfaction with the services of employees of the shop or MTS contact center. Over 70% of customers who visited the shop and more than 80% of the clients who contacted the contact center rated their satisfaction level as 'excellent'.

¹ tNPS — Transactional net promoter score.



We put our customers in the center of attention

In 2016, a pilot project was successfully implemented. It was aimed at transfer of the solution of client single incidents, for which IT Block is responsible, for 24/7 service mode.

Previously, this service was carried out only during working hours, which provided processing of 95% of calls within the set time. Lack of active actions for resolving of incidents at night and on weekends led to long waiting, repeated calls and a potential decrease in customer loyalty to the Company.

The optimized changes made it possible, to improve the quality of operational support and to shorten the time for solving incidents without increasing the cost. With the introduction of round-the-clock service, the establishment of a regulatory deadline for resolving the incident within 24 hours means that it will be resolved within 1 day, i.e. the deadline for eliminating the problem has been significantly reduced and it has become

clear to both the contact center employee and the subscriber.

The project covered all client single incidents, except for incidents of charging and fixed communication. In the future, they will also be transferred into a round-the-clock problem solving.



SMS Sorry

A pilot project SMS Sorry was launched in 2015, and in 2016 it was expanded to the entire operation territory of MTS networks. This project allows informing the clients who have lodged a complaint because of mass incident, that serviceability is restored.

Due to the implementation of SMS Sorry project the client does not need to call the contact center or go to the sales and service office. When first contacting the Company, the client is notified that he will receive an SMS soon where a time period needed for resolving his problem will be specified.

The launch of the project positively affected the decrease in repeated appeals of clients involved in this project: From 2015 to 2016, this share in fixed-line business decreased by 9%, and in mobile business by 2%. The share of incident reporting for the mobile segment increased from 16 to 95%, for the fixed segment – from 23 to 94%.

In the SMS Sorry project we managed to combine the expertise of the customer service departments regarding customer expectations and PR expertise in communications. As a result, after a few pilot launches, we created a flexible scheme due to which the Company received tools for clear and prompt feedback, the ability to take care of the client in difficult situations, efficiently free the call center from extra work and improve the perception of MTS by subscribers.





My MTS app

My MTS mobile app performs remote client servicing without using a stationary computer, visiting an office or contacting the Company's call-center.

App options:

- ▶ Information on the account balance;
- ▶ Balance inquiry for minutes, SMS and the Internet packages;
- ▶ Information on the tariff, connected services and subscriptions;
- ▶ Account replenishment;
- ▶ Tariff change;
- ▶ Connection of services;
- ▶ Multi accounts (ability to manage expenses of relatives);
- ▶ MTS Bonus program management;
- ▶ Test the connection speed and participate in automated surveys about the quality of services.

My MTS app became the winner in the Transparency of Settlements nomination of Loyalty Awards Russia - 2016 by the International Association of Client Experience Management Specialists.

My MTS has 10 million downloads and 1.1 million users with daily activity.

In order to improve the quality of customer service in 2016, several key projects have been implemented that cover the main contact points between the client and the Company:

- ▶ tNPS – a key indicator of customer loyalty to the Company was introduced, characterizing the level of customer loyalty to the Company. The value of the indicator is determined based on customer surveys. The client is asked the question: How likely is it that you will recommend MTS company after visiting the shop / call the contact center / order in the on-line shop? Rate from 0 to 10;
- ▶ “Closing the Loop” project has been implemented. The project involves the following: if the client, after contacting the shop put a negative evaluation mark in the IVR survey in response to tNPS question, then within 24 hours he is called back by the employees of loyalty group and they help to solve the problem. “Closing the Loop” project makes it

possible to change NPS at the point of contact from – 100% to + 70%;

- ▶ The process of researching the service 'through the eyes of the client', Customer Journey, was introduced. On a regular basis, the most problematic business processes are determined, research scenarios are developed for them, then testing is conducted with the participation of the Company's employees acting as clients. The next stage is the development of the Customer Journey map, a technological map that reflects the strengths and weaknesses of the business process under research;
- ▶ An automatic investigation of the quality of service in the online shop has been developed and implemented at all stages of the purchase (order, delivery of goods or cancellation of the order). After receiving the order or canceling it, the customer automatically receives a question about satisfaction with the quality of service.

Information Support of Clients

MTS adheres to the principle of transparency and availability of any data on the tariffs and service conditions, being the cornerstone of our client information policy. All information on MTS tariffs and services is available on our website www.mts.ru. Furthermore, the Company's clients regularly receive both information on new tariffs and services and useful prompts such as optimization of tariff, adjustment of the connected options, enabling/disabling of services, methods for replenishing the account in roaming, zero balance capabilities, locations of the nearest MTS shops, no-commission account replenishment, etc.

MTS subscribers in Russia can get information about the terms of service, new promotions, services and unique offers in the MTS 24/7 contact center in any convenient way: By calling a common phone number, writing an e-mail or using chat. The information on the Company's services and products is also available on the MTS channel on the YouTube site. The Video Manual section contains the information on self-servicing, on

how to set up the Internet on the computer and telephone and how to use a modem and router.

The specialists of seven contact centers pooled into a multisite provide 24/7 information and technical support to the MTS clients. The new products, tariff plans and client actions are continuously added to the list of available information.

Rendering routine services, the sales office employees show the clients how to use My MTS app, which further allows them to manage services independently, control the account, replenish the balance or choose the optimal tariff plan.

In 2016, 66 million clients contacted the call centers, 500,000 clients used chat and 930,000 clients used the feedback form on our website. Remote self-servicing becomes more and more popular among MTS subscribers: in the reporting year, the number of it users has grown by 40%.

Feedback from the Subscribers

MTS has a practice that any client can lodge a communication quality or service claim by any convenient method: by sending it by e-mail or ordinary mail or by completing a feedback form on our official website or via the contact center and shop.

Working with customer applications is one of the most important service processes. To make this process as transparent as possible, after registering an application in the Company's CRM-systems, the client receives an SMS message with the date and the number of his request. When the life cycle of an application is completed, the client is informed of the decision deadlines and about the decision itself.

MTS has implemented a VoiceCallBack procedure enabling the clients to order a callback (if the client does not want to wait, he leaves a request and the operator calls back) and a paid service scheme with the option of choosing different variants of connecting with a specialist (paid/free/call back).

In 2016, the client service centers continued showing a stable decrease of the line waiting time, fewer recalls, and a considerable sales growth in response to the client's incoming applications.

Annual Office Descent Event

On the eve of the New Year, employees of the back office of the retail network go to retail shops to help sellers in the shops with the pre-holiday queues.

In 2016, 247 employees from different regions took part in the action.

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 is constantly developing more convenient tariff plans for subscribers, taking into account their requests, and also expands the line of quality branded communication devices at reasonable prices.

Thus, we solve an essential social task. People living in different regions have equal opportunities due to the available communication. Information technology, the Internet and mobile applications help to smooth social inequality.

Tariffs

MTS makes fairly priced tariff proposals to its clients, regularly and timely informs of any changes in the connection conditions and tariff plans. We have always striven to satisfy our clients: MTS systematically issues new tariff proposals, taking into account the demands and wishes of clients, as well as allowing them to save on communication.

The 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.

Modems and tablets owners are offered tariff plans targeted at mobile Internet users, including unlimited access to MTS mobile TV.

The voice traffic mostly accounts for the conversations between network subscribers. Free calls within the home network provided for expanding communication of subscribers and increase the loyalty of the subscriber base.



In 2016, we were the first to bring to the mass market the “Smart Device” tariff for the Internet of Things with an annual subscription, which corresponds to the consumption profile of this segment. The “Smart Device” tariff is designed for SIM cards installed in security and fire alarms, smart clocks, heating systems, smart house sensors, heating boilers, car alarms, on-board computers, payment terminals, ATMs and many other gadgets requiring constant access to data transmission services with small amounts of traffic consumed.



For more information, see [Innovative Services section](#).



Smart: Voice&Data package proposals



For mobile Internet users



Special tariffs

Roaming



We believe that a trip to another region of Russia or abroad should not lead to a significant increase in the cost of mobile communications. In 2016, MTS continued to implement the policy "Trips All Over Russia at Home Tariff". We offer to choose one of the tariffs: Smart, Smart Unlimited, Smart Nonstop, Smart +, Smart Top or ULTRA allowing you to make calls, send SMS and use the Internet during trips in Russia on the same terms as at home.

For subscribers not using Smart tariff rates, we recommend using the option "Everywhere as at Home" to save during trips in Russia. This option offers free incoming calls outside the home region for a small daily fee. The Internet users can choose various-size packets of traffic, effective both at "home" and outside the "home network."

We continue the policy of ensuring 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 with information about roaming offers in accordance with the host country.

We offer our clients a number of options to the basic tariff plan, which greatly optimizes the cost of voice communication in roaming by making incoming calls free. Since 2015, the clients using the "Zero without Borders" option accounted for a considerable share of the international roaming traffic. For mobile Internet users in most popular tourist countries, we offer an updated option, BIT Abroad, with unlimited Internet access.

Services for Corporate Users

MTS traditionally holds leading positions on the Russian corporate communications market. According to the AC&M-Consulting survey held in mid-2016, MTS is the leader on the corporate market in Russia – 44% of large and medium-sized enterprises use the Company's services.

In the first six months of 2016, MTS has connected more than 500 corporate clients in Russia, more than 40% of new connections in the B2B segment accounts for large and medium-sized businesses. MTS attracted the large Russian enterprises from various industries, government agencies, financial and other institutions as new customers and expanded cooperation with them.

The best growth dynamics of the mobile services subscriber base is shown by the large business segment: in 2016, the number of new connections therein increased by a quarter YOY. In general, in the reporting period, MTS corporate clients connected by 15% more SIM cards than a year ago. The quantity of connections among the Moscow clients in the B2B segment grew by 20%.

The complex servicing of corporate clients, helps to optimize operations of an enterprise, including by automating business processes, became one of our growth drivers. Penetration of special business services in the reporting period exceeded 75% in the structure of new connections.





The most popular solutions were targeted at internal business processes optimization. In particular, the number of "free 8-800" and "Auto Attendant" services connections, allowing to combine all telephone numbers of the company into a single multi-channel number using the cloud infrastructure has increased. Also, the top-three connected services included "Mobile Employees" and "M2M-Manager" services for remote online coordination of employees and technological machines.

MTS's B2B-segment is also growing due to the expansion of the convergent subscriber base. In 2016, the number of companies that simultaneously use the mobile and fixed-line services of MTS, increased by 20% YOY. The most popular converged solution of MTS is the FMC service, offering to combine short numbers of fixed office telephony and mobile numbers of employees into the general network; the demand for this service has doubled over the year. Also, the TOP-3 services include "Virtual Private Network" (VPN) and "Confident Reception".

The corporate segment also demonstrates a strong demand for integrated solutions, combining telecom services and system integration services. The synergy of assets and competencies of MTS and NVision Group offered the clients tailored solutions for IT business support, including M2M solutions, cloud computing, and Big Data. In 2016, in the B2B-segment, MTS completed about 200 projects on developing and implementing services at the junction of telecommunications and information technologies.

As the number of users of data services and additional business services grows rapidly, the volume of traffic in the B2B segment of MTS has almost doubled during the year. Mobile Internet consumption in the public sector, whose representatives in 2016 generated 2.5 times more data than a year earlier showed the best dynamics. Mobile traffic consumption in medium and large business segments is also rapidly increasing.

Electronic Document Flow



In 2016, MTS PJSC received a passport of the trusted electronic document flow operator of the Federal Tax Service and launched a service for corporate clients on electronic transfer of documents. Electronic document flow services are in high demand on the Russian market.

Corporate clients of the Company can quickly transfer their document flow with partners in an electronic form while preserving its legal status. Documents exchange with counterparts through MTS secure communication channels reduces transaction costs for the documents issue and transportation, and significantly speeds up business processes.

An average enterprise spends about 30 rubles for manufacturing, signing and transferring one paper set of documents. The electronic set usually costs from 4 to 7 rubles, depending on the volume of document papers. Such a company draws up about 1-1.5 million documents during the year. Electronic documents management service by MTS helps corporate clients to cut costs for document circulation up to seven times. Real savings from turning to electronic document flow makes millions of rubles per year.

Electronic documents management system by MTS is available to all corporate clients, since it does not require an installation of any special software. Documents exchange, in particular, invoices, is performed via universal web-interface through secure communication channels. In addition, electronic documents will be protected from unauthorized changes by means of an electronic signature (ES), which can also be executed and received at MTS.

We offer MTS corporate clients an effective tool for transitioning to a completely paperless office work, which speeds up receiving and sending documents tenfold, and by several times reduces expenses for printing, processing, logistics, and maintaining a paper archive.

Determining the Subscribers Location

In early 2016, MTS PJSC and PJSC MegaFon PJSC announced a partnership in the market of corporate user services, and for the first time provided services on determining the location of MTS and MegaFon subscribers in all host regions of Russia. Corporate customers will be able to optimize the logistics of the enterprise, improve the efficiency of employees and reduce the cost of transportation owing to the location services, regardless of the communications service provider.

With the help of “Mobile Employees” service from MTS or “Personnel Control” from MegaFon, corporate clients can monitor the location of their employees using the electronic map of Russia. The service also allows you to receive warnings on violation of zone control conditions, send SMS from the service website, receive automatic reports on all movements for a day, a week or month, ac-

count working hours of employees, working outside the office and much more. Location determination is also available using GPS / GLONASS signals, when using special mobile applications.

The new cross-monitoring function enables the companies to connect to the unified monitoring system both corporate and personal numbers of employees, as well as SIM cards of corporate clients, using the services of several telecom operators. Owing to the shared technology, clients of these communication service providers can determine the location of both smartphones and ordinary mobile phones owners. The service is provided upon written permission of the identified subscribers only. No extra cost for determining the subscriber of another network is charged.

For more information on M2M services see [Innovative Products and Services section](#).

The most popular services in the business segment in one package



In August 2016, MTS launched a package offer for corporate clients, which included up to 50 GB of space in the cloud storage along with mobile Internet, as well as an antivirus for computer or mobile device.

Cloud solutions, including remote data storage and processing services, are in great demand among MTS clients. In some segments, the growing number of connections to such services increased six-fold during the year. MTS provides users with not just a place in the cloud but a service package, including transmission channel, storage and data protection in one window. Such service package both provides the client with a user-friendly service and personal servicing and saves costs in comparison with the separate acquisition of such services.

MTS Mono-Brand Retail Chain

The main share of connections carried out by MTS subscribers being more than 60% is taken by selling via our own mono-brand retail chain actively developed in Russia in 2009-2010. Our own sales channel allows increasing the number of connections by monitoring their quality and reducing the level of subscriber churn.

In 2016, the distribution geography was broadened and the number of outlets increased by 20%. MTS is the largest non-food retailer in Russia with 6,194 shops at the end of 2016, including 1,840 points of sales operating under the franchise model. About 2 thousand sales offices are equipped for people with mobility impairments.


In MTS offices our subscribers can always receive a full range of services provided by the operator, including of services of the broadband access to the Internet and television. Any new service produced by the Company automatically becomes available for sale in the retail network offices. Furthermore,

our retail clients are offered an extensive range of financial services, such as consumer crediting, money transfers, insurance and MTS Money cards. The mono-brand chain also enables us to exclusively offer favorably priced telephones and other gadgets to our subscribers.

Big Data for Retail Chain Development

In October 2016, MTS launched a pilot project on anonymous analysis of large amounts of data for the development of a branded retail network. By the end of 2016, 10 MTS shops were opened in Moscow, their location and format were determined with the help of the Big Data technology.

The multifactor analysis system created by MTS specialists helps to determine the most advantageous location, the format of the communication shop and the range of goods. Using Big Data for retail develop-



Big Data technology provides for data processing in the amount exceeding the capabilities of the conventional software products for data collection and storage, database analysis and management.

ment, MTS has the opportunity to examine pedestrian traffic in the area of the potential shops and impersonally analyze it for a variety of indicators, including:

- ▶ Social and demographic characteristics;
- ▶ Types of subscriber devices and operating systems used;
- ▶ Points of financial activity of subscribers;
- ▶ Time spent by the subscribers in the area of the potential shop opening;
- ▶ Volumes of voice and mobile Internet traffic;
- ▶ Concentration of the digital environment, the most popular Internet resources.

Based on such data analysis, MTS specialists make a decision on the shop location area, the required number of consultants, specifically select the range of gadgets and accessories, plan promotions and sales, and determine the priority list of mobile, fixed and banking services.

As a result of tailoring the sales offices operations, the customer servicing time and employees' labor costs were reduced, which led to the reduced queue time and increased level of satisfaction with the service.

Operating Results of the Retail Chain in 2016

At the end of 2016, the volume of connections sold in mono-brand chain increased by 14%. The share of the mono-brand in the service provider's connections increased to 68% (vs 62% in 2015).

In 2016, sales of smartphones in MTS's own retail chain grew by 35% YOY, which is three times higher than the growth rate of the Russian market as a whole. Smartphone sales revenue in MTS shops increased by more than 60% p.a. in 2016 outpacing the average values of the Russian market.

The high demand for LTE devices became the main driver of smartphone sales in 2016: LTE share in smartphone sales in MTS retail chain was about 60%. In volume terms, the sales of LTE-smartphones in MTS shops showed a three-digit growth.

In 2016, the proportion of visitors to the MTS retail chain for connecting TV (satellite TV and home TV) has doubled.

Along with the growth in gadget sales, MTS retail chain increased revenue from financial services and commercial projects. Penetration of the subscriber base by financial services increased by 5 percentage points and reached 20% as of the end 2016. Life insurance (VMI) and insurance of goods, sales of air and railway tickets, booking tour packages, connecting wired and satellite TV, adjusting gadgets and selling iTunes cards in 2016 showed a 45% revenue growth. Financial services – repayment of loans, money transfers and bank cards processing – has become leaders among the additional projects in terms of growth rates. The volume of requests for MTS-Bank's credit products grew by 1.5 times.

MTS Branded Devices



MTS continues to aggressively develop its branded device line, striving to increase communication availability and convenience for the clients. The consumer properties of the MTS branded smartphones and tablets are in no way inferior to those of similar gadgets of well-known world-class manufacturers while they are less expensive. In 2016, MTS branded devices were presented in all popular market segments. In 2016, branded MTS smartphones accounted for 7.7% of the retail share.

Client satisfaction is assessed in respect to each of the MTS-branded smartphones, the assessment findings are used to make conclusions and correct the specifications for new devices. Up to the present, there were no cases of clients' dissatisfaction with health and safety effects of the MTS devices.



Online shop

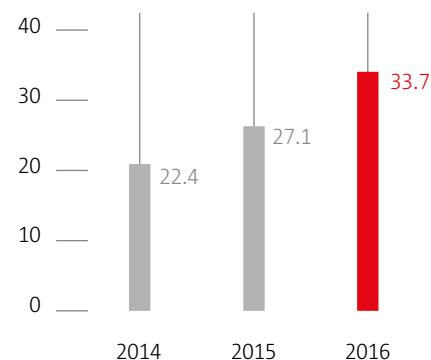
In 2016, MTS continued to develop its own online shop <http://www.shop.mts.ru/>, the number of Russian regions supporting courier delivery of orders, increased from 30 to 41. In most of the cities where we deliver orders, the clients are offered an option of paying with bank card upon receipt.

The MTS online shop functionality makes shopping process very convenient for users. It incorporates buying tips, which are based on opinions of other buyers who bought similar products. Furthermore, the shop uses a product filter with an ample choice of options; by using it you can pick up a selection of products that exactly match your needs.

The user-friendly interface makes the choice easy thus saving the buyers' time.


In the reporting period, the rating of the MTS online shop has grown significantly: the number of online visitors increased by 24.4% compared to 2015 and exceeded 33.7 million unique users. The number of accepted online orders increased by 37.2% during the year to make 81.1 million (including orders picked-up by buyers). Our online shop is ranked first among Russian telecom operators (E-commerce Index TOP-100, 2016 ) and provides more than 10% of the Company's retail revenue or RUB 4.4 billion in monetary terms.

Figure 8. Number of online visitors of MTS online shop, million people




<http://www.ruward.ru/e-commerce-index-2016/>

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Главная > Смартфоны > смартфоны MTC в Москве и Подмоскowie

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Не откладывайте покупки
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Цена

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Производитель

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4good Alcatel
Apple Archos

Сортировать: по цене по популярности

Показано 1-21 товаров из 23

ЭКСКЛЮЗИВ



Смартфон MTC Smart Turbo 4G
sim lock White

★★★★★ Отзывы (1)

Другие цвета:

- Android 6.0 Marshmallow
- Экран 5.5"
- Камера 5 Мпикс
- Поддержка 4G
- Объем карты памяти max 32 Гб

5990 р.
4990 р.

Купить

+ 170 баллов

Subscribers Protection



We pay great attention to the protection of confidential data of our clients. When processing the personal data, the Company protects them in accordance with the international and Russian laws. The personal data disclosed to MTS are treated as classified information and are subject to protection in accordance with the Russian laws.

To protect the rights of personal data subjects, the Company uses a personal data protection system; a work team for processing of such data has been established and employees entrusted with responsibilities for processing and protecting the personal data have been appointed. We perform regular audits to check the observance of personal data security requirements.

Created as part of the restructuring of MTS PJSC, the Department for Protecting the

Secrecy of Communication and Security of Information of the Integrated Safety and Security Center conducts monitoring of user requests for information relating to the secrecy of communication. If there are cases of unlawful treatment of information relating to the secret of communication, beyond the employee's official duties, an internal investigation is initiated with subsequent transfer of materials to law enforcement agencies.

User security is our common task

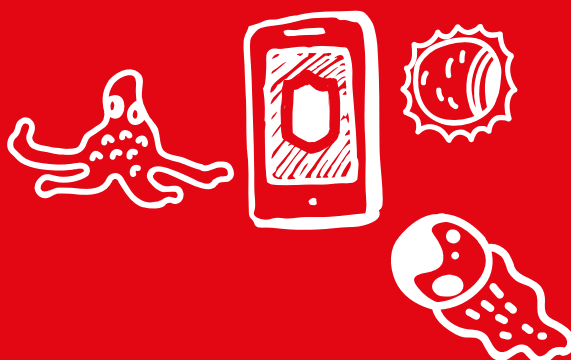
The number of viruses for the most widespread and rapidly growing Android mobile platform grows avalanche-like. Viruses can either just show ads, or try to steal money or data.

In 2016, MTS offered an operator antivirus application developed in cooperation with Kaspersky Lab to secure its clients.

We chose an unusual mode of subscribing to the antivirus. Standard payment for using the anti-virus application is annual and is debited from the bank card. Kaspersky Anti-Virus for MTS app for Android enables its users to pay a monthly subscription from the cell phone account. MTS subscribers can choose one of the three versions of the antivirus: trial, free or commercial.

Based on the traffic analysis, it can be assumed that the subscriber's device falls into a "risk group". For such risk group, targeted informing is provided to warn the subscribers of the danger and offer them to download the antivirus by reference.

We plan to install a free version of Kaspersky Anti-Virus for MTS on branded MTS smartphones. Pre-installation will allow subscribers to get a protected device immediately out of the box, and also increase the number of those who want to upgrade it to a paid version and further secure their device and personal data.



The regulatory framework of personal data processing with changes which became effective in 2016:

- ▶ Federal Law No. 152-FZ of July 27, 2006, "On Personal Data", including amendments relating to localization of processing of the RF citizens' personal data in Russia;
- ▶ Decree of the Government of the Russian Federation No. 119 of November 1, 2012, "On the approval of the requirements for personal data protection when processing them in information systems of personal data";
- ▶ Company's 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 subscribers' personal data is described in the Company's Rules of Provision of Communication Services, which are 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 web-site. MTS partners that are engaged in 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. In 2016, the legislation of the Russian Federation was amended with regard to sanctions under Article 13.11 of the Code of Administrative Offences of the Russian Federation for violations of the legislation on personal data (come into effect on July 1, 2017), and the requirements of

Table 3. Decrease in the number of complaints concerning violations of consumer privacy

| Indicator | 2015 | 2016 |
|--|------|------|
| The number of complaints received from the third parties concerning violations of the privacy of consumers | 112 | 78 |
| The number of complaints received from the supervisory authorities concerning violations of the privacy of consumers | 35 | 16 |

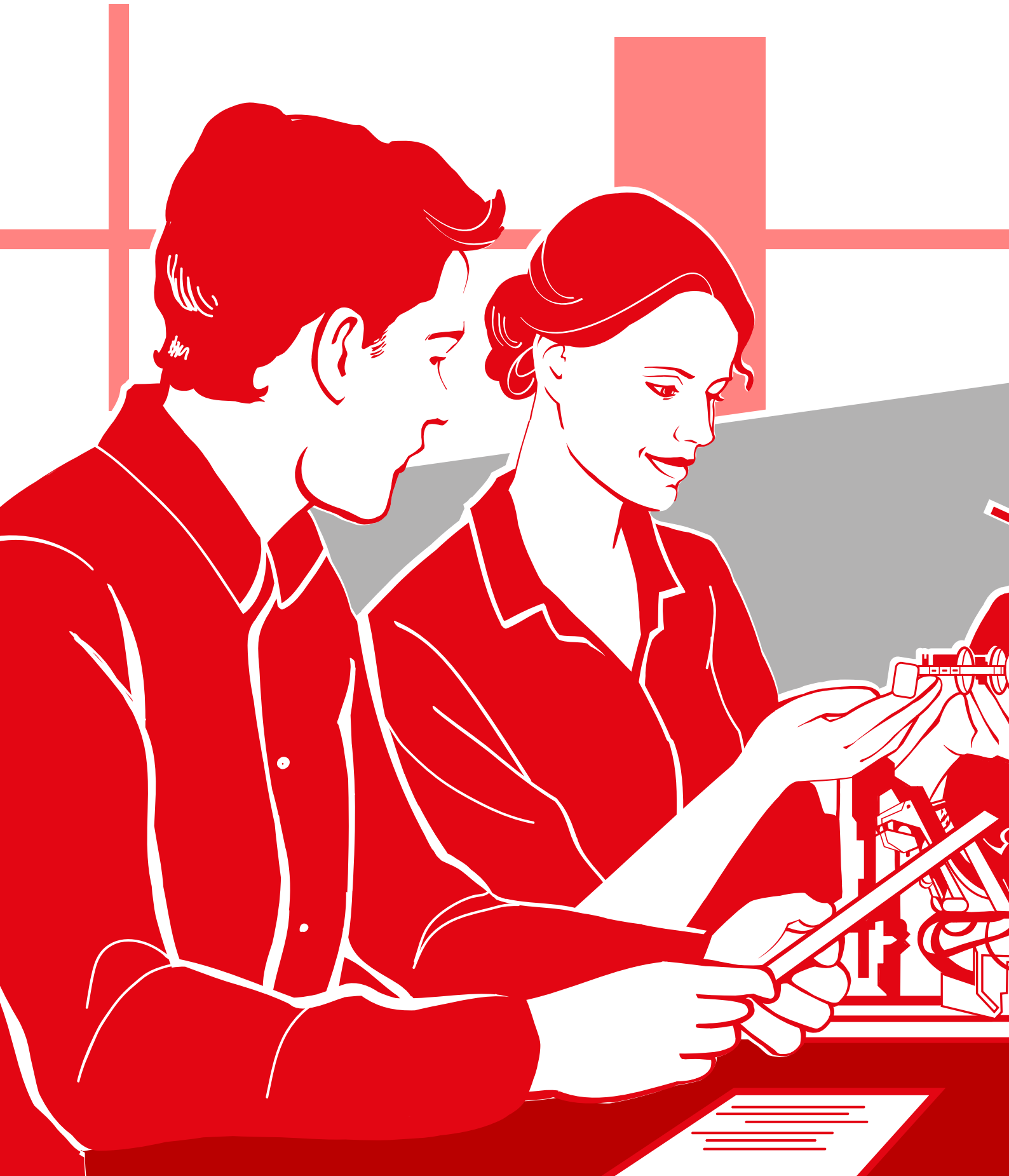
FSFEC for firewall protection classes were changed.

The Company's representative is a member of the Advisory Board under the of Roskomnadzor's authorized body for protecting the rights of the personal data owners. In its working groups a discussion of new initiatives is held to assess the regulatory impact of legislative acts. In 2016, the Advisory Council submitted proposals on a risk-oriented approach to state control and supervision over the implementation of legislative requirements on personal data by communication service providers, as well as proposals for the development of industry standards for personal data processing. MTS representatives take part in the work of the Interim Commission under the Council of the Federation on the Information Society Development, which develops amendments to the personal data protection laws and analyzes the subordinate regulatory acts.

In 2016, we continued developing our privacy protection system:

- ▶ A security gateway and a virtualization environment protection system are being implemented;
- ▶ Firewall certification is in progress, as required by RF Federal Service for Technical and Export Control's Order No.9 of Feb.9, 2016.

*We improve the quality of life
by supporting innovation*





Innovation

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Innovation in MTS



Alliance of the world's leading communication service providers

In 2016, nine leading global communications service providers: MTS, British Telecom, Deutsche Telekom, JIO Infocomm, Millicom, Orange, Rogers, TeliaSonera, and TIM established an alliance to quickly and efficiently promote the products and services of innovative partner companies.

The total potential client base of all the alliance members covers about one billion people in more than 80 countries.

The Alliance is an open platform for communications service providers from different countries, complementing each other's geographic coverage. The alliance focuses on the joint launch of new commercially successful products of innovative partners, as well as the exchange of best practices in the field of market promotion of services, information about the market, current trends and services. The Alliance's routine operations cover all relevant categories of products offered by cellular operators: cellular and fixed-line communications, B2C and B2B services.

Partner services are provided together with such innovative companies as Airbnb, Celltick, Disconnect, Idoomoo, Magisto, Mojio and Spotify.

Rapid scientific and technological advances lead to the appearance of new technologies and respective development of new types of products and services, and the new emerging markets. MTS's evolution from a communications service provider to a digital company is impossible without the efficient management of changes and innovation.



Striving to provide our clients with the most convenient services, MTS is systematically developing innovative client 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 current MTS activities related to innovation development and implementation are designed to cover all the needs of our clients in terms of products and services and are not focused on a single area. The company launches new and upgrades existing products and services in response to clients' changing needs and the emergence of new technological opportunities. The company pays great attention to improving the quality of existing services and user features, increasing the convenience for its clients. A significant number of projects are being implemented to improve the quality of data services.

MTS Committee on launching new products and services — the main governing body for the launch of new products — operates in the Company. Any idea having passed the expert "sieve" and the calculation of its commercial appeal is considered by committee members, including representatives of the

Company's various departments and units. The launch of services is carried out only after a general discussion and upon a positive resolution by the Committee Chairman. MTS managers, responsible for new products and services, possess extensive expertise in various fields and participate in telecommunications exhibitions and forums. They are constantly reviewing the ideas for improving the existing services, submitted by suppliers and customers, analyzing their feasibility and launching new services.

We are facing dramatic changes in the world: The 5G standard will give impetus to the development of devices supporting augmented and virtual reality of the entire market of the Internet of Things and M2M solutions. New technologies will lead to a significant increase in traffic, which will require a multiple increase in bandwidth and will become a new challenge for communication service providers.

The IoT segment is rapidly growing. According to experts, by 2021 the IoT market will account for more than 16 billion devices. Cellular networks are a universal environment for IoT, as they provide universal access, reliability and security of connections in the licensed frequency range.

Technological Development Strategy in the Moscow Region for 2017–2020



Today we are developing a solution that will allow MGTS to retain technological leadership for the decades and to lay the basis for the introducing innovative services in the Moscow Region as soon as possible.

In 2015, the compatibility tests of GPON and XG-PON technologies showed a positive result: The standards coexist within the same distribution network. The maximum data transfer speed to the subscriber, achieved during testing, made 8.5 Gbit/s.

Joint operations with MGTS on network development in the Moscow Region gives us a lot of advantages both in terms of the speed and quality of infrastructure development, and in terms of optimizing capital costs.

By the end of 2017, MTS intends to increase the number of base stations connected via

GPON technology up to 40-45% from the existing 25%. This solution will provide for maximum use of mobile infrastructure resources and improve the quality and consistency of services for subscribers.

MGTS, in turn, will start mass introduction of XG-PON (10GPON) technology within its network in 2017. This will allow MGTS to become a digital platform for mobile operators transiting to 5G. The first test zones of 10GPON will appear in 2017–2018 on the busiest parts of the network. In 2017, MGTS will test the compatibility of 10 GPON and 5G-technologies from Nokia. MTS and Nokia have already successfully tested the 5G technology (for more details see 5G Development Cooperation section). The transition to 10GPON technology is to be completed by 2020.



Innovative Network Development



SON Intelligent Network

MTS is the first communication operator in Russia, which began to use and fully deployed the SON (Self-Organized / Optimized Network) solution.

In February 2016, MTS and Cisco announced the implementation of the first phase of the project to deploy the Cisco SON network optimization solution within the MTS network to automatically optimize the performance in real time, which improves the quality of data and voice services.

The Cisco SON software and hardware system automatically analyzes the loading of network elements and performs on-line proactive adjustment of network parameters and dynamic adaptation of its bandwidth, depending on changes in the traffic profile of subscribers.

In February 2014, as a part of pilot project, the SON technology was tested in the process of maintaining proper Sochi network performance during the winter Olympics. Starting from September 2015, the SON technology on a 3G network was implemented in Moscow and its close vicinity. We recognized the experiment as successful and in 2016

deployed the Cisco SON solution on the LTE network in the Moscow Region. In the future, it is planned to start optimization of the heterogeneous network, including small cells, and also to introduce similar systems in other regions of Russia.

Application of the Cisco SON solution in a high-load environment significantly improves network performance and demonstrates:

- ▶ Increase in the data transfer speed by 20% in average;
- ▶ Growth of network availability by 25%;
- ▶ Reduction in the number of connection faults by about 10%.

This gives MTS the opportunity not only to improve the quality of services provided but also to reduce costs in the process of network construction by optimizing the operation of base stations without interference.

The SON makes it possible to improve not only voice communication but also high-speed data transmission: it makes mobile Internet faster and more stable even in the places of high concentration of users and in the peak load hours.

Figure 9. SON

AUTOMATED 3D NETWORK

Automated

Response to the challenges of evolving network

Multi-level

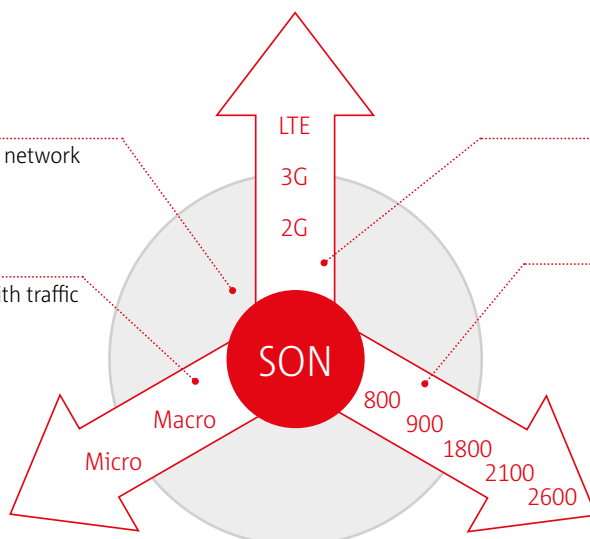
Efficient increase of capacity to cope with traffic growth

Multi-standard

Coverage and high transmission rates for all subscribers

Multi-band

Higher transmission rates and elimination of the MF band advantage



5G Development Cooperation

MTS has signed cooperation agreements for the development and implementation of 5G technologies in Russia with three leading manufacturers of telecommunications equipment: Ericsson, Nokia, and Samsung. The partnership will result in testing of 5G solutions and scenarios, including the arrangement of test zones at the 2018 FIFA World Cup Russia.

5G Development Plans:

- ▶ Implementation of LTE-Advanced Pro functions in the field of extended aggregation of carrier frequencies and LTE Broadcast multimedia broadcasting;
- ▶ Expansion of coverage and increase of capacity using an unlicensed frequency band based on LTE-Unlicensed (LTE-U) and Licensed Assisted Access (LAA) technologies;
- ▶ Innovative IoT projects using NB-IoT, LTE-M, and Extended Coverage GSM technologies;
- ▶ Demonstration of 5G networks and dual connection of LTE and 5G in the centimeter range;
- ▶ Deployment of the test 5G network at international sports competitions in Russia.



The results of 5G development demonstrated by MTS networks will help to work out the possibilities and various scenarios for application of technical solutions that will improve the quality of our daily life in the coming years and be in great demand in various spheres of activity: in transmission of huge data sets and broadband television, in distance medicine and training, in robotics and in motor vehicle driving.

MTS and Ericsson

In December 2015, MTS and Ericsson agreed to conduct a research and develop technical requirements for 5G technology. As part of the agreement to supply software for upgrading the MTS network until 2019, the companies plan to implement technological solutions for the Internet of Things and fifth-generation networks (5G). It is referred to the extended GSM technology (EC-GSM-IoT), which provides the operation of M2M-devices within existing networks of MTS.

In summer 2016, MTS and Ericsson successfully tested LTE-U (LTE-Unlicensed) fifth generation mobile technology, demonstrating the aggregation of two frequency bands – 10 MHz in the 1800 MHz band of LTE and 20 MHz in the unlicensed 5 GHz band at Wi-Fi access points. During the tests, the data transfer rate reached 200 Mbit/s.

Combining the resources of two networks – the LTE cellular radio interface with a free unlicensed Wi-Fi range – increases the speed of data transmission within buildings and the network capacity, improves the coverage and quality of mobile Internet services. The tests demonstrated that the new technology both provides a significant increase in capacity and throughput and works well in the 4G network.

We proved that even now in Russia it is possible to combine the elements of 5G networks with the resources of networks of previous generations. In a few years, together with the appearance of the first fragments of



LTE-U technology provides more efficient use of the 5 GHz spectrum. By combining channels of licensed and non-licensed spectrums, it is possible to increase the bandwidth and capacity of the network, as well as provide higher data rates for users. Our tests proved the full operational capability of this technology in the 4G-network. Commercial introduction of LTE-U guarantees the maximum return on investment for the operator and improved quality of communication within buildings.

EC-GSM-IoT technology significantly accelerates and reduces the cost of the Internet of things implementation. Due to the more effective use of the frequency spectrum, the new radio interface helps to multiply the number of M2M devices operating in the network, and due to better sensitivity of the radio modules, the range of operation and power consumption of these devices are increased sevenfold. The use of EC-GSM-IoT technology does not require a large-scale replacement of communication equipment, in most cases, you just need to update the software at the radio network units. This technology can also be used for devices that do not need a high data transmission rate but for which the reliability of the connection is critical. Such devices include different kinds of sensors, sensors, and meters for monitoring systems both in rooms and in open spaces operating in challenging signal transmission conditions.

5G networks, we will be fully prepared to aggregate the licensed ranges of the MTS backbone network with unlicensed bandwidths, currently taken by Wi-Fi. In places of mass concentration of users, as well as in premises with a Wi-Fi coverage, such aggregation will give our subscribers a multiple increase in the speed of mobile access, and for us – network unloading and capacity growth.

MTS and Nokia

Within the cooperation agreement on development of 5G communication technologies signed in May 2016, MTS and Nokia are developing a strategic plan for implementing 5G and the "Internet of Things" solutions.

Over the next few years, it is planned to expand coverage and increase the capacity of the MTS network using LTE-Unlicensed technologies, demonstrate the functions of 5G networks and LTE dual-connection in S-band. The test segment of a 5G network will be deployed at international sports competitions in Russia in 2018.

In September 2016, MTS together with Nokia conducted tests of 5G, having achieved mobile data rates which were the highest for Russia at that time (4.5 Gbit / s in the band 200 MHz). Tests were carried out on the basis of a commercially available equipment: Nokia AirFame and AirScale. The signal was transmitted in 4.65-4.85 GHz band over two aggregated radio channels with a bandwidth of 100 MHz between the transceivers simulating the operation of the base station and the mobile terminal.

During the tests, MIMO 8x8 technology was used for the first time in Russia. It used eight antennas on each device and multi-stream video transmission. This solution magnifies four times the transmission speed of data in comparison to the one which is currently used in the standard with LTE technology MIMO 2x2.

The maximum download speed (downlink) of 4.5 Gb/s achieved during the tests means that a 1 GB file can be transmitted in less than two seconds.

MTS and Nokia have tested an innovative solution for the Internet of Things

In November 2016, the tests of the integrated solution of the Internet of Things (IoT), conducted by MTS jointly with Nokia, were successfully completed.

Using the existing operator network in the LTE 1800 MHz band MTS and Nokia demonstrated an innovative NB-IoT radio interface to which broadband and narrowband devices can be connected via a new radio chip. Due to the greater network capacity, energy efficiency and high sensitivity of radio modules the new standard allows to connect tens of thousands of devices to one base station even if there are some difficulties with signal transmission without replacing the batteries on devices for several years.

The new infrastructure provides fast, cost-effective and secure connection, as well as integration, management and maintenance on a single operator platform of any devices with different technical requirements – gauges, sensors, counters, video cameras, etc.

The implementation of this solution in the ready-made M2M products of the communication operator will allow users to automate a wide range of production and business processes by expanding and decreasing the scope of the IoT application, which will eventually reduce the operational costs of enterprises.

As the leader of the Russian M2M solutions market, MTS is actively developing the system integration market and striving to offer its customers the widest range of complex IT and telecom services on a turnkey basis, where a variety of solutions for the Internet of Things will be at the center.

This demonstration on the basis of commercial equipment showed possible scenarios of using IoT technologies to improve the quality of our everyday life, they can be implemented in the operator's network and available to subscribers in the very near future.

5G vs 4G

1. 5G-Internet will be more flexible. It will be easily adapted to a variety of conditions and any user requests.



2. 5G-Internet will be more capacious to cope with a large number of connections.

3. 5G-Internet will be faster than today's 4G, which will ensure a significant reduction in data transfer delays.

4. 5G-Internet will be ten times faster than 4G, the data transfer speed in mobile networks of the "fifth generation" should reach 10 Gb/s.

To provide such outstanding bandwidth, 5G-Internet will use wider frequency bands. Instead of tens of megahertz, which are used today, the next-generation Internet will use the bands of hundreds of megahertz. To achieve this, we will have to significantly increase the frequencies at which the 5G equipment operates: instead of today's 2100 MHz and 2600 MHz, it will operate at frequencies from 3 to 100 GHz.

The development of new, higher frequency bands is one of the main technical tasks that we will have to solve in the process of developing 5G-Internet.





Internet of Things

The M2M market and the Internet of Things is one of the areas of growth of telecommunications companies in the short term. MTS has developed and systematically promotes a portfolio of products based on M2M at the federal level.

According to MTS, the volume of the Russian M2M / IoT market has increased by more than 30% in value terms compared to 2015, the physical volume grew by 50% and reached 10 million SIM cards. The number of M2M SIM cards in MTS network grew by 800 thousand in 2016 and amounted to 4.4 million SIM cards making up 46% of the total number of M2M SIM cards in Russia. In 2016, the total M2M traffic in MTS network doubled, as compared with 2015.

The market growth in monetary terms is caused by the increased demand for Big Data technologies: sales of devices and applications for the analysis of large amounts of data, software for data analysis, as well as platforms for intelligent management of SIM cards has become a driver. While the revenue from the simple access of M2M SIM cards to the networks of operators showed zero dynamics and the revenue share of operators in the M2M / IoT market amounted only to 1%.

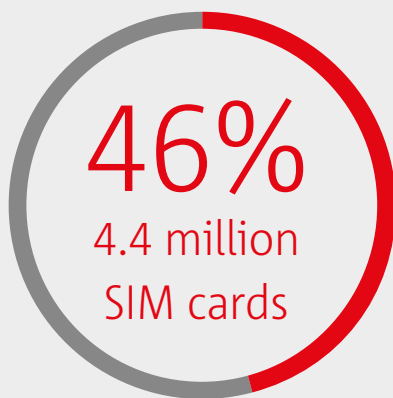
The Internet of Things market in Russia is growing due to the emergence of a large number of IoT-devices used in everyday life

of ordinary people. SIM cards installed in such devices directly improve the quality of life. Clients need not just the connection of sensors, accounting devices in the enterprise, transport and video surveillance systems to the network, data collection from them and the ability to perform basic operations for device management. Business needs tools for online management of the entire online infrastructure in the familiar interface on smartphones and pads, as well as automatic analytical processing of large amounts of data.

Transport in 2016 remains the most mass industry of application of M2M-devices, 43% of all M2M SIM cards are installed in transport. This industry has also shown the largest growth in the number of M2M terminals; it increased by 26% for the year due to large state projects, as well as the consumer segment: anti-theft services, smart insurance, connected to the Internet head units of premium cars.

In 2016, the share of M2M solutions in medicine and consumer electronics grew from 2% to 3%. Growth was due to wearable gadgets,

Figure 10. MTS share in the IoT market in Russia in 2016, %



Source: corporate data

The 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 as a phenomenon is capable of restructuring economic and social processes without the participation of a man.

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.

Figure 11. Structure of revenues in the IoT segment in 2016 in Russia, %

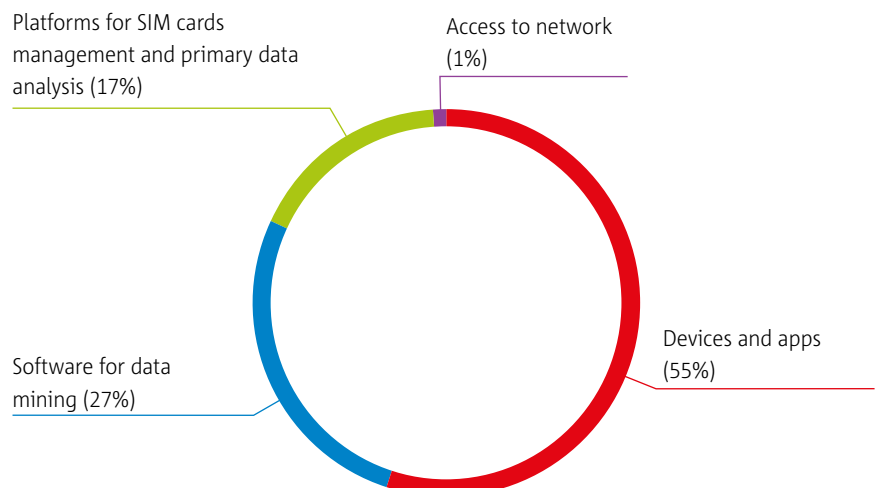
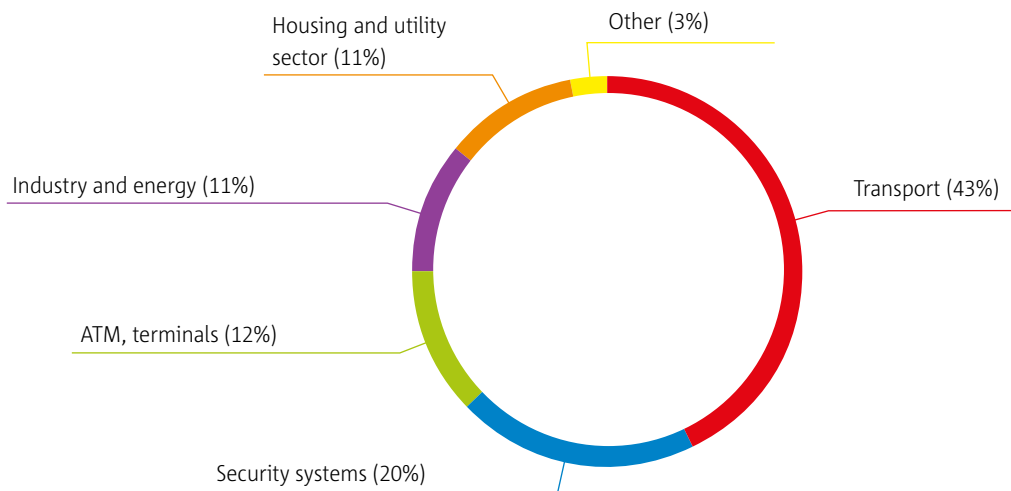


Figure 12. Areas of use of M2M of MTS in Russia in 2016, %



projects in telemedicine, the development of smart house systems (inventory devices, lighting and irrigation control) and consumer electronics.

The Forecast of Market Development

According to MTS, the Russian market of the Internet of Things will grow up to 40% annually under the influence of two drivers: state programs and business demands. State projects and regional initiatives related to 'smart city' and 'smart home' are already being implemented in Moscow, St. Petersburg, Kazan, Ulyanovsk, Yekaterinburg, Ufa and other cities. The authorities use IoT solutions to manage transport and municipal services, organize a safe city and implement other projects. The biggest leap in the development of M2M / IoT will relate to the main state projects related to emergency response in case of accidents on transportation systems, the implementation of housing and utility bills and the installation of smart meters, the development of a national platform and national standards for electronics and software in the field of IoT.

In the future, the main customer needs will be related to integrated industry solutions, including equipment, platforms for device management, data warehouses, software and mobile applications for their analysis. According to the estimates of MTS, the share of the M2M / IoT market in Russia from the sale of devices, the development and sale of applications, and software for analyzing large amounts of data will grow from 55% in 2016 to 65% by 2020. At the same time, revenue from data transmission services for IoT-devices will be reduced and by 2020 will be tenths of percent of total revenue.

Being the leader in the number of corporate clients in Russia and well aware of the needs of companies, MTS considers digital solutions based on inter-machine information exchange technology and means for analyzing large amounts of data as one of the potential areas for business growth in the near future. Intelligent M2M-devices connected to high-speed networks will serve as a key link in a single ecosystem of a modern digital enterprise. Such an ecosystem binds (including using social networks) cars and mobile smart gadgets, partners, customers and the market environment into a single whole.

Innovative Services



M2M-manager

The “M2M Manager” service provides MTS clients with broad capabilities to monitor remote M2M devices in real time. For instance, the service makes it possible to alter the SIM card status and set the limits on their real-time functioning, perform individual and group SIM card operations (locking/unlocking, setting of limits, generation of reports and statistics), notify on the SIM card status: limits exceeded, SMS-locked, etc.

can save up to 20% from KASKO insurance cost.

In 2016 new products were also developed in cooperation with Tinkoff Insurance JSC and the Renaissance Insurance Group.

In 2017, it is planned to launch the program Clever Kilometers which will allow car owners who seldom get behind a wheel (summer residents, weekend drivers, owners of several cars and those who leave the car on the intercepting parking lot on their way to work), save up to 25% of the cost of KASKO insurance.

Smart Car Insurance



Insurance with M2M services is an example of how high technologies bring tangible benefits to ordinary car owners. Partnership in the area of the 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 – the driving style and frequency of car use.

Since September 2014, MTS and Intouch Insurance have been implementing the Smart Insurance program, in which the cost of the KASKO insurance is calculated using the Internet of Things technology and takes into account the individual style of driving. An M2M sensor which is installed free of charge measures the behavior of the car owner at the wheel and creates an accurate portrait of the client of the insurance company. Analysis of statistics on the quality of driving (how hardly a car starts and brakes, how smoothly it enters a turn and switches lanes, to what average distance it travels and at what speed) allows you to evaluate the individual manner of customer's driving and make a decision about the provision of discounts.

Smart vehicle insurance makes it possible to customize the insurance cost regarding the client's driving performance: careful drivers

Smart House



In 2016, we launched an integrated Smart House project. It consists of a set of tools to convert any apartment or cottage into an intelligent living environment which the user will be able to customize to suit his/her own needs. Simple and intuitive control will be implemented through integration with the Personal Account and MTS Service application.

The Smart House package supports the following functions:

- ▶ Detection of motion in a surveillance area;
- ▶ Temperature control;
- ▶ Detection of the opening of a door / window;
- ▶ Detection of water leakage;
- ▶ Smoke detection;
- ▶ SMS, MMS and e-mail notification of events;



SMART CITY

MTS UKRAINE PrJSC provides SMS-service free of charge in the project on the organization of SMS-informing of Kiev residents about emergency situations: closing of roads, failures of urban electric grids, changing of metro schedule, emergency situations, urgent search for blood donors.

Each resident of the city can choose what kind of information he wants to receive from the city authorities and by filling out an electronic form on the city administration's website subscribe to the SMS-mailing.

- ▶ Voice call alert (when receiving a signal from an alarm sensor);
- ▶ Management via SMS and Android-applications;
- ▶ Remote listening to the environment;
- ▶ Shooting in total darkness with use of built-in infrared diode illumination;
- ▶ Autonomous operation of the battery;
- ▶ Support of connection of wireless sensors to the camera.

Remote Data Reading for Housing and Communal Services



Remote Data Reading is a solution, which makes it possible to take readings of housing utility meters, other metering devices and industrial sensors of the housing/utility companies, industrial facilities or other organizations where data is gathered and registered periodically. The service enables selling companies (providing electric power, gas and water supply services) to automate reception of consumer meters' readings quickly and inexpensively.

Consumers can transmit meter readings in the simplest and usual ways: using a mobile application, SMS-messages or via the Internet.

The service will improve control of readings and automate the process of data recording for the companies involved in the periodic taking of readings and recording of data.

Remote Data Reading for housing and communal services checks the correctness of meter readings, sends SMS receipt to the sender confirming receipt of the data and saves them for later use.

Wi-Fi Calling



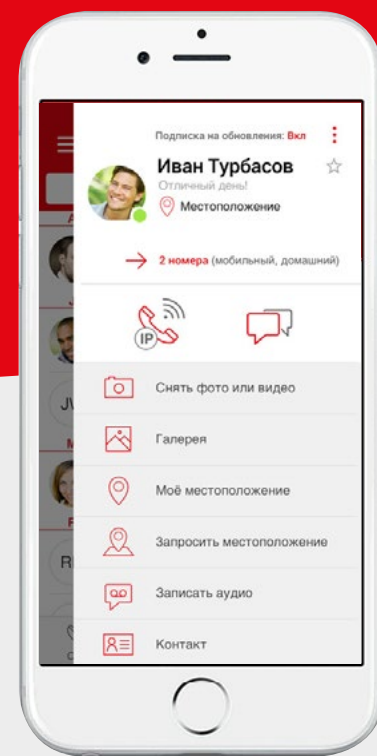
In November 2016, MTS and Samsung Electronics announced the launch of the Wi-Fi Calling service in Russia, which allows subscribers to use MTS voice services in any available Wi-Fi network (Voice over Wi-Fi).

Wi-Fi Calling is a new step in the development of telecom operators' infrastructure. This is one of the most promising technological solutions aimed at improving the quality of communications and expanding the territory of providing services to subscribers.

In order to make a call using Wi-Fi Calling technology, it is not needed to install a special application, it is enough just to activate the corresponding function on your smartphone once and call as usual. If you have a connection to a Wi-Fi network, the call is automatically made in the Voice over Wi-Fi format. The main difference between Wi-Fi Calling and existing OTT-services is that the call is performed with the use of mobile operator's network and is an ordinary telephone call from the subscriber's mobile number to the number of another subscriber of any network. The Wi-Fi network in this case acts as the operator's base station.

Using Wi-Fi Calling technology, MTS customers can call even where cellular signaling is difficult but there is a stable Wi-Fi connection: in new shopping centers, shops and cafes located in basements and basement floors, in long-distance trains, in railcars and metro stations, as well as in other locations where it is complicated to provide mobile network coverage. And services are paid at the usual 'home' tariffs of the subscriber.

The first who could assess the benefits of making calls using Wi-Fi-connection were MTS subscribers in Moscow and the Moscow region, users of Samsung Galaxy S7 and S7 edge smartphones. During 2017, it is



MTS Connect

This free mobile application is available in the App Store and Play Store for any smartphone based on iOS and Android. Unlike other messengers, MTS Connect can connect with any subscribers, regardless of whether they have installed this application or not. You can take a call to MTS Connect even from a landline phone.

MTS Connect can be used both via mobile Internet, and via Wi-Fi.

The application is advantageous to use abroad, since all calls via Wi-Fi are charged at the tariff of the home region. In MTS network, mobile traffic generated by MTS Connect is reset.

planned to expand the list of devices that will enable the connection of the MTS Wi-Fi Calling service and the geography of the service.

Mobile Insurance



In 2016, MTS and Absolute Insurance launched an innovative service for Russia on remote sale of insurances from a mobile phone for travelers traveling abroad. Mobile insurances are accepted by all consulates of foreign countries on the territory of Russia.

This new mobile insurance service is our next step in turning any mobile device into a convenient and efficient payment tool for solving a wide range of tasks. Now MTS subscribers will be the first in Russia who will be able to obtain insurances for traveling abroad without insurance agents. To obtain an insurance a smartphone and even access to the mobile Internet are not needed, the client can use the usual push-button mobile phone.

For registration of the insurance, it is enough to dial a combination * 380 * 111 # on the mobile phone and press the call button. Then the client needs to select the insurance program in the menu, fill in the information about the insured and the dates of the trip and make a payment from the personal account on the mobile phone. After that, the insurance will be sent to the e-mail specified by the customer who just needs to print it out.

MTS also offers insurance services in its retail network, where visitors can purchase voluntary medical insurance policies, insure housing and equipment purchased in MTS shops.

Electronic Signature

In the spring of 2016, MTS and a subsidiary of RZD JSC – JSC NIIAS launched the Electronic Signature service on SIM cards for cargo carriers on Russian railways.

The partners provided transportation companies that transport cargo by Russian railways with an opportunity to perform legally sig-

nificant operations remotely when preparing and issuing the transportation documents in electronic form. In 2016 within this project about ten thousand companies received electronic signatures on SIM cards.

The electronic signature formed on the SIM card is, from a legal point of view, analogous to the handwritten signature of the document on paper. It protects electronic documents from unauthorized changes and allows to identify the author of the document unequivocally.

Users can sign electronic documents without special software at their workplace and even without using a computer. This is especially useful for small and medium shippers, whose employees often do not have access to a stationary computer.

The flagship project with RZD brings closer the prospects of electronic signature on SIM cards entering the mass market. In the near future, electronic signature will become indispensable for individuals, it will greatly simplify the solution of everyday problems of ordinary people. With its help, it will be possible to issue a loan or insurance, open a deposit and receive other banking or legal services.

Second Memory

Second Memory is a smartphone application and an MTS Personal Account interface which makes it possible to use the cloud technology to handle the content and contacts and have access from several gadgets. The Second Memory service is integrated with most of the Company's services which request the cloud data through the Personal Account: Black List, SMSPro, Voice Mail, SMS/MMS Sending from Personal Account

Second memory fully meets to the best world practices of OTT (Dropbox, Google Drive). This modern cloud allows you to upload photos, videos, music, create back-up copies of documents, exchange files. It is convenient to manage content using smart galleries, share folders, share files with colleagues, and work with your data through the MTS Personal Account in cloud storage. Entering the cloud is possible from

The advantages of an electronic signature on a SIM card



simplicity and convenience:

- no additional devices and special software are required;
- there is no need to store on a separate device and remember logins and passwords;
- operations management is made in a special sim-menu appearing on the screen of a mobile device that a person uses daily.



security:

- the service uses a secure communication channel,
- the signature is fully consistent with GOST and certified by the Federal Security Service, which significantly reduces the potential fraud risks. It is impossible to replace the cryptoapplet on the SIM card remotely.



the decrease in the cost of paper turnover by five times on the average.

any device connected to the Internet, both in a mobile network and in a Wi-Fi network anywhere in the world. Offline mode allows to listen to music or work with files, even where there is no network, for example, in an airplane.

Second memory allows you to transfer contacts from the notebook to a new smartphone, including when changing the operating system. This service protects the subscribers from loss of valuable information in the event of a breakdown or loss of the phone and all necessary data is available always and everywhere.

MTS offers a number of favorable options, ranging from a free option for beginners to 1 TB at a good price for experienced users.

Carsharing

In 2016, MTS and Delimobil expanded their cooperation. From July 14, 2016, it has been made possible to enter into the contract on the use of the Delimobil service in any MTS shop in Moscow. After the procedure which takes a few minutes, the client can use the service of short-term car rental. In 2016, the number of vehicles monitored by MTS M2M-services increased five-fold.

Within the system of carsharing in Moscow, MTS provides the entire range of telecommunication services: A car monitoring system, office telephony, a customer-free number, as well as an SMS-service MTS Communicator, which is used to register and inform users about the rental status and the expansion of service capabilities. Each car has a GPS tracker with an MTS SIM card, with which information about the location of the car gets on the server and then is displayed on the map in the user application.

The high quality of the coating allows us to guarantee the accuracy of the M2M services on the territory of Moscow and provide customers with accurate information about the location of cars. The most developed branded retail network among the communication operators in the capital ensures that we can provide Delimobil customers with additional comfort in processing the required documents.

Financial Services

Special attention in the development of the financial services segment is paid to innovations. MTS became the first company in Russia, which implemented the payment procedure from the personal account of a mobile phone in traditional retail. In addition, projects on payment by bank cards of MTS Bank through Apple Pay / Samsung Pay have been launched.

In June 2016, the MTS Smart Money bank card was issued, demonstrating the synergy of the mobile operator and the bank. A distinctive feature of the card is a free connection for MTS subscribers on Smart tariff plans and subscribers using the MTS Tablet tariff option under the terms of the agreement.

Speed and ability to adjust to market demands were the two main reasons prompting confectionery giant Nestlé to create its online research group Nestlé Conversations four years ago. Although for big brands cooperation with specialized research agencies is a norm, Nestlé decided to accelerate the process and rely less on the agency, using existing internal resources. MTS Money application complies with the international security MasterCard and PCI DSS standards, as well as with the requirements of the Russian legislation.

In order to issue MTS Money virtual card a subscriber does not need to contact MTS Bank or MTS communication center, it is enough to indicate in the application the name, surname, phone number and e-mail. The card after its replenishment through the application from other bank cards, from the account of the MTS phone or through the MTS payment terminals will be immediately available for one-touch shopping at any sales point around the world equipped with POS terminals with contactless readers.

At the end of 2016, the flagship financial product, MTS Money Wallet, was launched. Payment service MTS Money Wallet allows you to make payments within the application MTS Money, provides mobile banking services and the ability to make money transfers between users of this service by phone number. The main difference between the new service is the use of a telephone number as

In the sphere of OTT (Over the Top) we are developing a unique digital ecosystem of MTS, aimed at enriching the client experience and intensifying the interaction between the Company and users.

As of the end of 2016, 24 MTS applications were launched with a monthly user base of 7.3 million.



Делимобиль

Short-term lease (carsharing) service under the Delimobil brand is a new type of public transport, which allows Moscow citizens and guests of the capital to make car trips with a per-minute payment.

Using a mobile application, each registered user can rent the nearest free vehicle. By the end of 2016, the number of Delimobil customers exceeded 100 thousand people, and the number of cars – 1,100 (until the end of 2017 the fleet will be 2,000 cars).

MTS Money application allows you to upload a Troika transport card with either E-wallet or 90 Minutes tariffs for contactless payment of travel in public transport in Moscow: buses, trams, trolleybuses, as well as in the Moscow metro and Aeroexpress trains. For this, the MTS subscriber will need to replace the SIM card with the NFC SIM card in any MTS shop in Moscow and the Moscow region.

a single identifier. Access is implemented through a mobile application, a website, by SMS and USSD, which allows you to use the service regardless of whether the subscriber's device is a button phone, smartphone, pad or computer. In the future, the subscriber of any mobile operator will be able to connect to the service.

MGTS Services

MGTS is a multi-service universal operator: its packages include television, the Internet, fixed-line telephony and mobile telephony. In addition, MGTS offers its customers such services as video surveillance, security alarm and virtual ATX. And since 2016 the list has been supplemented with domestic services.

For the project on the transformation from a telephone operator to a multiservice company, MGTS was awarded the First National Business Communications Prize for the Best Marketing Strategy in Telecommunications.

Video Surveillance



Starting from 2015, the subscribers of the MGTS GPON network are offered a service of remote video surveillance of their homes. The service makes it possible to watch streaming video on their computers or smartphones. Clients can also use a cloud video archive which stores the records for 30 days; the video can be also downloaded into the computer.

The project to transform the CCTV service from a professional, highly specialized service into a mass service Home Video Surveillance became the best product of the year and brought MGTS a victory:

- ▶ In the "Telecommunications and IT" category of the "Time of Innovations-2016" All-Russian Award;
- ▶ In the "Best Product of the Year" nomination in the "Protection of Property and Facilities" category of the Safety Leaders All-Russian Awards 2016, which reveals the best solutions in security.

Domestic Services



In 2016, the idea of creating a multiservice operator appeared. It has no analogs so far. The multiservice operator should provide the Moscow citizens with a full range of services, both telecommunication and domestic, i.e. satisfy all the basic daily needs of residents.

We provide the client with the opportunity to order necessary personal services in the 'one-stop-shop' mode. The project Home Operator presents small household repairs, electrical and plumbing works, furniture assembly, installation of large household appliances and cleaning.

In order to use the service, the subscriber can choose any convenient way: to apply in the Personal Account or through the mobile application, call the contact center or contact the sales center. The application is forwarded to the qualified specialists, who are represented both by MGTS staff and employees of the partner companies.

E-Commerce

Starting from April 2014, MTS is a co-owner of the Ozon online shop <https://www.ozon.ru/>. Special Ozon order collection points were opened in MTS shops. The MTS subscribers can also save and spend MTS bonus points when purchasing from Ozon.

Currently, the project for pre-loading Ozon.ru app on branded and co-branded devices is ongoing (in the application of MTS AppGuide).

In the reporting period, the sale and promotion of MTS services and devices on Ozon.ru was launched with the allocation of the MTS brand zone, where visitors can purchase:

- ▶ Sets of SIM cards;
- ▶ Home Internet and TV;
- ▶ MTS devices (phones and modems);
- ▶ Satellite TV package.

System Integration Components

In 2015, MTS merged with Envision Group, one of Russia's major system integrators.

Today, MTS offers its 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, service and warranty servicing.

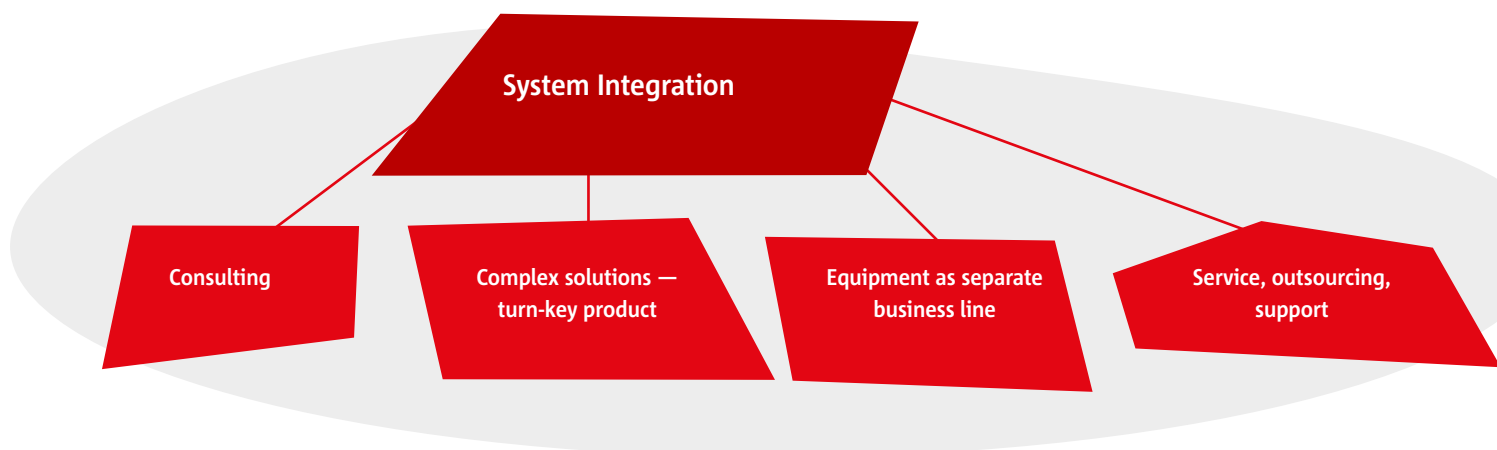
At the end of 2016, the revenue from system integration amounted to RUB 5.6 billion.

At the present moment, Big Data is a product aimed primarily at using within the Company for such purposes as geoanalysis, optimization of sales and service channels, targeting and advertising, network monitoring. At the end of 2016, the cumulative effect amounted to RUB 536 million, in the future its scale will only increase.



System integration is the development of comprehensive solutions for automation of enterprise technological and business processes. Its ultimate objective is to manage a process, production facility, the entire organization as effectively as possible. The system integrator's work always results in that a company gets a unique comprehensive IT solution, which will enable the client to promptly cope with the current business tasks and enhance its business performance.

Figure13. System Integration Components



Innovative Development in MTS



In 2016 MTS has created a new structural unit, which is engaged in research of promising areas of business and the accelerated launch of innovative products. The first projects are implemented in such priority areas for MTS as cloud technologies, e-Health, Smart Education and e-Sports.

A team of the existing employees of MTS Group (not only MTS but also subsidiaries such as MGTS, NVision Group, MTS Bank and others) is formed for each sphere. For the efficient work of teams, all business processes are simplified. Teams working on the creation of innovative products, 100% of their time are engaged exclusively in one project and work together in the same office, so as not to waste time on letters and meetings, and at the same time be constantly aware of what is happening with all the participants in the process.


MTS approach to the development of innovative services is based on the idea that the product should be constantly updated taking into account the feedback from clients, so at the stage of the service launch we do not consider our work to be over and we do not start to seek for new ideas and markets. We work differently: we simultaneously study several potentially interesting niches, develop new products and constantly improve previously launched ones.

Teams create a solution with basic characteristics, launch a pilot option, receive feedback and invest in its development only if the service is in demand and has the potential to increase the number of customers. If we see that the product does not arouse the interest of users, we boldly abandon it, and do not

stubbornly move within the framework of plans and budgets agreed for several years. This allows you to increase the speed of launching products and the efficiency of work on their development.

In just three months we managed to implement a major project in the field of cloud services: For this time, we have created a fault-tolerant solution for customers, conducted purchases, successfully implemented this solution in one of the subsidiaries, finalized the original concept taking into account the requests and recommendations, and connected a new service to a large federal client.

Now the key task from the point of view of innovative development of MTS is to build an ecosystem that will be constantly filled with new ideas and solutions from four sides: internal innovations of all company employees, innovations of partner start-ups, solutions of the scientific environment and the student community and breakthrough technologies of large vendors and IT companies. Due to the fact that we manage to interest all participants of this ecosystem to work with MTS, a chain reaction arises, and we can make an innovative breakthrough, the results of which will be used by our customers.



Agile software development, a flexible development methodology is iterative software development by full-featured working groups consisting of specialists of different profiles. It allows you to focus on creating a business value in a rapidly changing world.

R&D Laboratory

The main task of the R&D laboratory, established in 2010, is to direct the development of advanced digital technologies in the Company.

In the laboratory, methods and tools have been developed, with the help of which any idea bearing practical value can be brought to implementation. Thanks to this, any employee of the Company who has creative potential has the opportunity to take a direct part in the implementation of the innovative strategy of MTS.

The coordinating body of the R&D laboratory is the committee. Acting similarly to scientific and technical councils, it makes decisions on the implementation of new projects and initiatives, helps to adjust and supplement the goals of the project, tells the initiators the best way of implementation, provides practical assistance. The committee consists of the most knowledgeable and technically savvy employees of the Company who have experience in the successful implementation of R&D projects.



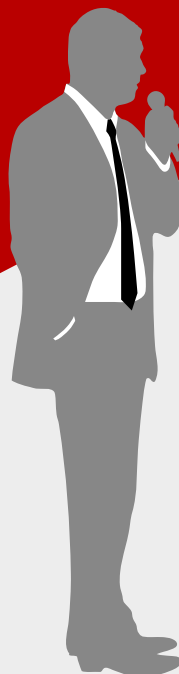
Accelerator (from the Latin word *accelero* - speed up) is an organization in which start-ups help to realize their ideas:

- ▶ give start-up investments
- ▶ educate, introduce with mentors and key industry experts.

For this, the accelerator will have a stake in the company if the project is successfully implemented.

Innovation workshop

In 2016, the Corporate University jointly with the Innovation Center presented a new program. The Innovation Workshop is an accelerating program to develop employee ideas and turn these ideas into business projects. The program consists of three stages: selection of applications, training, project protection.





Telecom Idea



The open industry competition Telecom Idea (<http://telecomideas.com>) has been held in Russia and the CIS countries since 2011. The competition is focused on searching, supporting and marketing the youth's innovative projects of use of information and communication technologies in the commercial, social and public spheres and contributing to the improvement of the quality of social life.

The Telecom Idea competition was organized by MTS PJSC with the support of the Ministry of Communications and Mass Media of the Russian Federation, the Ministry of Economic Development of the Russian Federation, the Higher School of Economics (HSE), the Ministry of Industry and Trade of the Russian Federation, Sistema JSFC.

- ▶ BusinessTech (cloud products / services for business);
- ▶ Telemedicine;
- ▶ IMusem (projects in culture and art);
- ▶ NeuroNet (projects in neuronet);
- ▶ CSRTech (social start-up).

In 2014, the event became an international one in which representatives of 40 Indian higher educational establishments took part in it. In 2015, the most talented young developers of the Republic of Belarus joined them. During the five years of Telecom Idea existence, more than 900 start-ups took part in the competition.

In 2016 the competition expanded its borders: events were held in 18 cities of Russia, collected more than 500 projects, 96 of which were in the semi-finals and 42 reached the final.

In 2016, the competition included the following nominations:

- ▶ TechTech (knowledge-intensive solutions);
- ▶ FinTech (financial products / services);
- ▶ EduTech (educational products / services);
- ▶ MassTech (products / services for the mass market);
- ▶ RetailTech (products / services for retail and e-commerce);

The major award was an invitation to visit on an innovative educational tour to South Korea and to submit their projects for review by the MTS experts and partners. The authors of the projects which were most compliant with MTS business goals could participate in a unique acceleration program in collaboration with the Company's employees to finalize the projects for further implementation.

Telecom-tour

From October 16 to October 21, 2016, the sixth telecom tour was held, the purpose of which was to introduce participants to the best practices and share the achievements with foreign colleagues. In the reporting year, the tour participants became the guests of South Korea, a country that has long been recognized worldwide as the cradle of innovations.

Over 40 people visited South Korea: experts and winners of the VI International competition of innovative youth projects "Telecom Idea", as well as the leaders of corporate

Hackathon

In June 2016, MTS and IBM brought together more than 70 programmers, designers, testers and product specialists at the IBM

Client Center at Hackathon. Within two days the teams participating in this event had to come up and implement a prototype of the IT project in the MTS for the client format using the IBM Bluemix platform.

The format of the event allows to master modern technologies within a short period and use them to create own original solutions. The practical experience of quick development of prototypes helps in a new way to look at traditional problems and colleagues.

The goals of our Hackathon are the generation of new ideas that are valuable for the MTS client, mastering of new technologies, immersing ourselves in product thinking and teamwork, experimenting and quickly translating ideas into IT solutions, and getting feedback from businesses and customers online.



competitions: “Managerial Duels” and “Eight Rules of Leaders”.

The main partner of the telecom-tour was Samsung – one of the world's innovative leaders in the telecom. Participants visited the exhibition center Samsung D'Light, in which all the advanced technologies were gathered, the company headquarters and Samsung Innovation Museum. Another partner of the telecom-tour-2016 was Nokia. Telecom-tourists visited the office and Advanced Technology Center of this brand. The third participant was mobile operator LG U. In this part of the program innovators presented their projects.

Corporate Accelerator

The MTS corporate accelerator is a week-long program, the participants of which were the winners of youth innovation contest Telecom Idea 2016 arranged by MTS, projects selected by internal experts and partners of MTS, as well as residents of the Skolkovo Foundation.

The goal of the accelerating program is the maximum adaptation of innovative projects to the tasks of MTS and the companies belonging to JSFC Sistema. During the program the participants got acquainted with the leading specialists of MTS and representatives of marketing, IT, Product Development, Sales & Services, Retail, and PR.

According to the results of the acceleration program, twelve innovative projects were selected for pilot implementation



*We improve the quality of life
by investing in education*





Education

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Social Education Programs



Network for All Ages

The development of information technologies and their rapid integration into everyday life significantly contributed to the digital generation gap. Today, every fourth citizen of Russia has crossed the threshold of retirement age, and the importance of education activities in adapting the old age population to modern digital trends and technologies is increasing every day.

We see an increasing interest in smartphones among older people. According to MTS and the Russian Union of Pensioners, over the past two years the number of pensioners who use smartphones has grown from 15% to 45%, tablets – from 20% to 34%.

In 2012, to increase the Internet literacy among the older generation, MTS Group launched the federal social and educational project Network for All Ages.

Key goals of the project:

- ▶ Improve the Internet literacy;
- ▶ Popularize modern information technologies and useful online services among people over 50;

- ▶ Assist them in acquiring practical skills of the Internet use for solving everyday tasks.

The training is based on the educational program Whatever Your Age, You'll Master the Internet, developed by the specialists of MTS, Foundation for the Internet Development and Psychology Faculty of the Lomonosov Moscow State University, taking into account the needs and social-psychological features of senior people and based on skill transfer from the experienced Internet users to the beginners.

The training course consists of seven lessons covering such subjects, as navigation and information search on the Global network, e-mail, messenger and social networks, Internet banking and commerce, governmental and social services, leisure and multimedia entertainment, mobile Internet and useful smart- phone and tablet applets, network security rules. Training is conducted by volunteers and the seniors who have been trained under the program, wish and are trained well enough to teach what they themselves have mastered to their age mates.

In 2013, the Russian experience was replicated in the CIS countries. Starting from October 2014, the trainings are attended by pensioners in all regional centers of Belarus. For four years, the training under Network for All Ages program was received by a total of 17,000 persons.

We are convinced that mobile Internet opens up new opportunities for the older generation to obtain information, communicate, solve everyday problems and improve the quality of life.



Mobile Academy



In 2015, MTS PJSC developed a free training course, “Mobile Academy”, being a continuation of the basic training program for seniors. The training course is focused on people over 50 who are new to smartphones and tablets.

The goal of the “Mobile Academy” project is to make mobile devices truly understandable and accessible to older people, to raise their self-esteem and integrate them into the modern rhythm of life.

The course will teach them to use mobile Android devices, to download and use mobile applets, to connect to the mobile Internet, use the mobile browser. The students will also learn how to make electronic purchases, make an appointment at the doctor's, use the Internet to communicate with their relatives and friends. Lessons are available for download and view on the project website (<http://baba-deda.ru/news/categorie/14>).

MTS and Russian Union of Pensioners organized “Mobile Academy”, special mobile Internet trainings for citizens of retirement age, in 10 regions of the Russian Federation on the basis of the Universities of Third Age at the premises of local educational institutions. In 2016, four sites for mobile Internet training for pensioners were launched in Moscow (including the one at the premises of MGTS PJSC), two sites – in Belarus.

Each course is designed for four 1.5-hour on-site sessions for two days. Upon completion of the course, all participants receive the “Mobile Academy” certificates and a special Internet tariff that provides an affordable price for the Internet connection.

In 2016–2017 academic year, the “Mobile Academy” courses will be done by around 1,000 pensioners in Moscow, the Oryol, Kurgan, Novosibirsk, Amur, Saratov Regions, Krasnodar and the Altai Territory, the Republics of Adygea and Dagestan.

All-Russian Championship on Computer Decathlon among Retirees

MTS is a permanent long-term partner of the All-Russian championship on computer decathlon among retirees, which is held for the sixth time.

In 2016, the championship was held in Novosibirsk on June 15–17. More than 130 pensioners from 61 regions of Russia participated in the competitions – from the Kaliningrad Region to Sakhalin. Each region was represented by two participants who had won in the municipal computer decathlon and the regional championship. Among the tournament participants were also compatriots from Israel, Belarus, Belgium, Poland, Slovenia and Finland, as well as the teams of the All-Russian Society of Disabled People, the Regional Quality of Life Foundation and, of course, MTS Group team.

In 2016, at the initiative of MTS, the stage “Using mobile Internet on a tablet” was included in the official program of the competition for the first time in the history of the championship. To conduct the new stage of the competition, MTS provided 130 tablets, after the Championship they were transferred to 10 federal districts to equip the Mobile Academy classes.



MTS Laboratory

The specialized MTS Laboratory enables technical students to actually control modern telecom equipment in the high educational institution. The MTS Laboratory is a hardware package of a base station, base station controllers and communication lines that can be used to make a model of a mobile network segment and illustrate voice and data package transmission.

MTS in cooperation with higher educational establishments plans to develop educational, innovative and research activities to improve the quality of training of the students of the relevant specialties. Under the agreement 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 practices for the students. Technical specialists of the Company developed methodological materials for the successful inclusion of MTS Laboratories in the curricula of universities.

In 2015, MTS launched its Laboratories in Bryansk, Smolensk and Oryol. In 2016, the Laboratory was opened in the Ryazan State Radio Engineering University and Tula State Lev Tolstoy Pedagogical University.

We are confident that the development of cooperation between MTS and universities will have a productive impact on the student training level, will enable the most successful and determined students to enter the Company's personnel reserve.

Children Teaching Adults

“Children Teaching Adults” Project:

- helps children get occupational guidance and understand whether they would like to devote themselves to IT technologies;
- teaches the users of all ages how to use mobile services;
- establishes communication between children and adults.

The “Children Teaching Adults” social and educational project is being implemented by MTS since 2013; it focuses on solving an important social goal of building modern information society in Russia, bringing generations closer to each other. The key idea of the project is that teenagers who have excellent Internet skills share their knowledge with adults. In addition, the project uses online technology in charity: For every downloaded video, “like” or “repost” MTS transfers money for the treatment of seriously ill children.

“Children Teaching Adults” project is run in schools of more than 50 cities among the schoolchildren of grades 7 to 10. Throughout this project, the number of participants reached 300 thousand people.

In many respects, the project solves the national problems – elimination of digital inequality and introduction of innovative methods in education, and we see how willingly the authorities and educational institutions get involved in our program.

The format, when children teach their parents and grandparents to work on the Internet, becomes the most effective. Parents are involved in the process of even more than their

children, since such a pastime develops the former and allows to get closer to children. At the same time, high-school students attain responsible attitude for using online resources.

Under the project, coaches conduct extra-curricular classes for high school students, tell them about existing useful applications, services and websites and motivate them to be creative. After that teenagers, by consulting with coaches online, tell their parents, grandparents, capture classes on video, assemble video clips on attracting adults to the world of mobile Internet and post them in “Children Teach Adults” group in VKontakte social network. Videos get through two stages of online voting: regional and federal stages where the team of the best Russian “young teachers”. For the victory in the regional stage, the children receive various gadgets. Developing trip is the prize for the final stage.

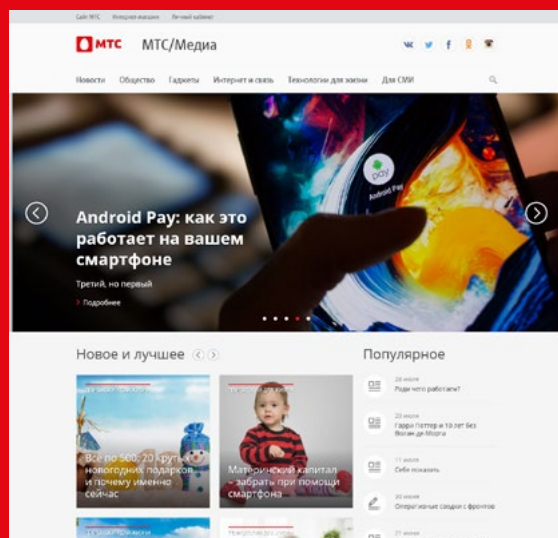
In 2016, within the project, more than seven thousand schoolchildren independently prepared and conducted “lessons inversely” for adults on useful and convenient features of mobile technologies. The main prize for the winning team of the federal stage was a trip to the concert “SUPER Children of Generation M” in Stadium Live in Moscow.

MTS/Media educational portal

Our MTS/Media portal, www.media.mts.ru is an online portal for a broad audience about technologies for life. It highlights consumer topics in the field of high technologies with elements of entertainment and learning. MTS/Media presents news, events and scientific developments as well as the latest gadgets and mobile Internet products. The target audience of reviews, tests, and articles are newcomers to the world of smartphones, mobile Internet and the Internet-based services, as well as those who seek a deeper understanding of the high-tech and gadgets.

MTS/Media takes on the function of education, as well as creation and systematization of content, which helps our clients to face everyday issues — from making the public transport easier to use to create a safe Internet-environment for your kids at home.

In 2016, the audience of the portal was about 350 thousand people a month. The sales volume of the online shop grew by 3.2 times upon launching MTS/Media.



Children on the Internet

According to the research of the Foundation for the Internet Development, 90% of children go to the World Wide Web each day, and every second child uses mobile Internet using a smartphone or tablet. This means that it is getting more and more difficult for parents to control their children and their behavior on the network, so with the growth in modern gadgets' popularity, the problem of safety of the younger generation on the Internet is becoming more urgent.

MTS assign high priority to child protection from negative content, fraud services and the sites that are harmful to child mind. Our clients have access to the services, which make it possible to arrange an effective and safe Internet use by the younger generation.

We are convinced, however, that our mission is not limited to creating safe and convenient services for World Wide Web surfing – we shall also cultivate in children the responsibility for what they do on the Internet and demonstrate the benefits and performance capabilities of the global network to develop and broaden their horizons, as well as warn parents and teachers on potential risks of using the Internet by junior schoolchildren.

Despite their young age, Russian students are quite advanced Internet users. Many of them have already registered in social networks and actively use the network's resources for studying and communicating with friends. Along with this, schoolchildren had to deal with such unpleasant aspects of the Internet as: viruses, identity and money theft, insults and offence in social networks. That is why today the rules of useful and safe Internet for children are as important as traffic rules.

MTS has been implementing "Children on the Internet" Program (<http://detionline.com/>) since 2011 with the support of the Ministry of Communications and Mass Media of the Russian Federation, the Ministry of Education and Science of the Russian Federation, Safe Internet League and other partners. The program is focused on popularizing the rules of the useful and safe Internet use among children, parents and educators, improving the digital competence of primary school children.

The project includes a series of interactive events that combines lessons on the Internet security for junior students "Useful and Safe Internet", interactive thematic exhibition,

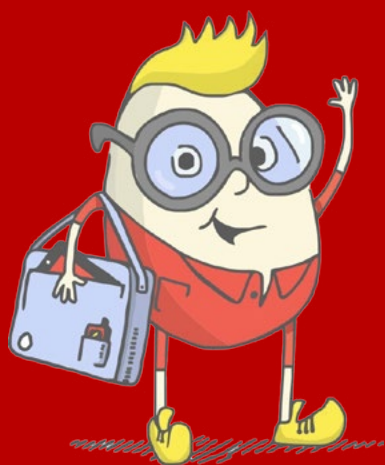


MTS received the Grand Prix of the national contest "Brand of 2016" as a socially responsible brand in Belarus.

This was facilitated by joint projects with the Ministry of Education performed under Cooperation Agreement signed on June 28, 2016:

- ▶ Introduction and expansion of MTS Innovative School project in 10 secondary schools in Minsk, applications for participation were received from more than 30 gymnasiums and schools. Downloads of Dzyonnik [Дзённік] application has exceeded 12,000 for the year. More than 5,600 students and about 700 teachers are involved in using this application and the electronic version of school journal.
- ▶ The rapid scaling of the "Children on the Internet" educational project – more than 700 volunteers announced about their participation in the project throughout the country. For the period from October to December 2016 only, with their assistance MTS has performed trainings on safe and ethical behavior in the network for more than 2,000 junior schoolchildren.
- ▶ The Republic Competition "Information and mobile technologies in the educational process" was held, it attracted more than 50 projects of talented youth. Teams with the best projects received prizes and can have professional advice in future and assistance in improving and promoting their projects.
- ▶ The special teacher course "Teachers' Responsible Behavior in the Network" was developed, which passed the expertise of the Ministry of Education of the Republic of Belarus and approved for use by employees of secondary educational institutions.





Interneshka

Interneshka, the 8th International child online contest www.interneshka.org, dedicated to helpful and safe use of the Internet and mobile communication, was held from November 3, 2015, to February 9, 2016.

Young users from Russia, as well as Belarus, Kazakhstan, Turkmenistan sent 3,000 works. More than 140,000 people visited the contest's page, 33,000 people registered for the events, more than 70 people became the winners of the competition.

workshops and webinars for teachers and parents. The class is interesting for both children and teachers. Learning while playing allows children to study the rules of the safe use of the Internet very easily.

For five years, more than 340,000 students in more than 30 regions of the Russian Federation have passed the training under the project. In 2016, the project page views were growing steadily. For the reporting period, the website has been visited 232,000 times, the class methodology has had 2,726 downloads.

Also, the All-Russian Children on the Internet Helpline has been operating for seven years, where children and parents can address any issue or problem related to the use of the Internet and other digital technologies.

The issues of children's safety on the Internet are given special attention at the state level, the protection measures are actively discussed and taken. In 2016, active support to "Children on the Internet" project was provided by the regional Ministries of Education, Ministries of Culture and public organizations.

2016 Events

In 2016, exhibitions and classes under "Children on the Internet" project were held in eight cities of Russia: Krasnoyarsk, Saratov, Kemerovo, Omsk, Orenburg, Orsk, Kurgan and Izhevsk, as well as in children's camps in the Samara Region. The cities' libraries, museums and youth centers provided their sites for educational events, which became the project's full partners and participants. For 2016, about 30,000 children visited the exhibition.

The main area of the exhibition is a special educational class where lessons on useful and safe Internet are taught. After the lesson, children reinforce their knowledge in a game and active manner. The exhibition is divided into six thematic colorful areas, where young visitors explore the boundless world of the global network, fight against viruses, draw their avatars, write letters to Interneshka. The main activity of the exhibition is to pass the entertaining quest, its goal is to repeat simple and useful rules of behavior in the network.

KidZania

KidZania is a worldwide network of educational parks where children receive skills of real professions in the form of a game. Its partners are the largest companies and global brands – they are associated with all professions in the mini-city. KidZania today is the fastest growing brand of game training in the world, uniting 21 parks in 18 countries.

KidZania is a socially significant international project based on the principle of game training. Each park is a mini-city where children try themselves in various professions, get practical skills and knowledge about the surrounding world. That is why everything in the city is as close as possible to real life. There are hospitals, schools, airports, television channels, beauty salons, restaurants, shops, various transport models and much more.

On January 28, 2016, KidZania was opened in Moscow in the Aviapark mall. MTS launched the network control center at its site in KidZania. The duties of future engineers after a technical briefing include monitoring the quality of communication in the country and installing new

equipment to expand the network capacity and coverage. Children from 4 to 14 years can learn all the secrets of new technologies in an exciting format — how conversations and photos are transmitted without wires, what the speed of the mobile Internet depends on and how many generations of mobile networks have already been changed.

Our goal is to show on practical examples how the world is arranged, how knowledge of physics and other exact sciences can change it, and ultimately, to instill love not only for consumption but also for studying high technologies. Partnership with KidZania organically supplements existing MTS projects on professional orientation and creative development of children.

Moscow KidZania occupies an area of 10,000 m² and is currently the largest and the most high-tech complex in Europe. Under the partnership with KidZania, MTS installed additional equipment on the territory of Aviapark mall to provide high speeds of 3G and 4G mobile Internet and high-quality voice transmission.

Workshops for Adults

The leading role in involving younger generation in the culture of the information society is played by adults – parents and teachers – it is from them that young Internet users model themselves on. Unfortunately, according to surveys, adults do not always realize their role in the process of digital socialization of children and adolescents, and do not have the necessary set of digital and pedagogical competencies to cope with this goal.

The main goal of workshops is to help adults to organize a useful and safe space for the development of children in the digital world, and also to establish cordial and trust-based relationship with them.

In 2016, MTS and the Foundation for the Internet Development conducted a series of workshops for teachers and parents in Omsk, Kurgan and Orsk, during which the students got acquainted with the latest research of Foundation for the Internet Development and the Department of Psychology of Lomonosov Moscow State University, as well as the unique experience of the “Children on the Internet” Helpline.

Project Development

Activities under “Children on the Internet” project are being constantly developed. In 2017, MTS will present a new format of the project with updated lesson and exhibition with even more interactivity and new modern means of communication with children and adults.

Plans for 2017:

- ▶ Project Update: new interactive communication tools, new design, updating the content of the lesson;
- ▶ Organizing and holding educational interactive exhibition “Children on the Internet”;
- ▶ Demonstration lessons of useful and safe Internet for children in Kazan, Voronezh, Perm, Irkutsk, Chita and Balakovo (Saratov Region);
- ▶ Conducting master classes and lectures for teachers and webinars for educators and the parent community;
- ▶ Development of research and methodology base and support of the Internet project resource.

Journey through the digital world

Stream company, part of MTS Group, acted as a pioneer and a leader in professional orientation tours and meetings for schoolchildren in Moscow and the Moscow Region, including children with disabilities.

In 2016, the company's employees conducted Travels in the Digital World of Stream and Digital Spheres for approximately 180 children and adolescents. Excursions and meetings took place both at the Company's office and in schools, summer camps and the schools of participants of the Elevator to the Future program of the Sistema Charitable Foundation. Volunteers from the technical department told about the Company's operations to children and adolescents, showed mobile apps developed by Stream, demonstrated the operation of various services provided by Stream, for example, GOOD'OK service for MTS subscribers.

Serious discussion was devoted to the qualifications and professions that are currently in demand in a multimedia technology company or that may be required tomorrow. A distinctive feature of such meetings is that the conversation is held from the first person – the employees of the technical or the content and license department describe the particularity of their work and their professional journey. High school students receive information directly from those who work as programmers, software developers, technical architects, engineers and can get answers to the questions of interest.

Stream employees are very responsive to such meetings. At a meeting with persons under care of NGO Perspektiva, attended by 15 teenagers with disabilities, including the visually impaired ones, the opportunities and advantages of distant work in the IT industry, the need to create specialized mobile applications for blind people were discussed.

Personnel Development and Training



In 2016, the average number of training hours per employee was 21.6, including 15.2 hours of internal training and 6.4 hours of distance training.

In 2016, MTS's personnel training and development system was recognized the best in Russia and got three national HR-awards.

1 The Crystal Pyramid award was given for the digital technologies used in staff training in the Technological Solution of the Year nomination. The won award confirms the innovative approach of MTS in working with personnel and adherence to modern global trends of Internetization.

2 The Corporate University team won the **Trainings-2016 award** as the best division in the field of personnel development and investment in human capital.

3 MTS won the **Efficient Business Education award** in the Best Personnel Development System nomination, which confirms the Company's effective and comprehensive approach to the staff training, creating professional, personal and business qualities, as well as the Company's attention to investment in the human capital.

A strong team of professionals is the cornerstone of business victories, therefore investments in human capital are 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 the Company's 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.

The main objectives of corporate training in the Company:

- ▶ Overall development by the employees of the key competences of MTS;
- ▶ Generate required knowledge, skills and attitudes required for employees and managers for raising efficiency at the existing position;
- ▶ Create a tool for the development of candidate pool and successors to key positions;
- ▶ Assure succession of unique knowledge and experience.

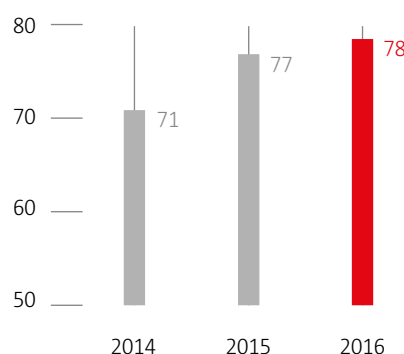
According to AoN Hewitt's poll, the 2016 level of involvement by the Training and

Development factor was 78% (+7 p.p. for two years).

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 an extended feedback based on the annual performance, besides, following the evaluation results a plan of developing measures is generated for employees, and key employees are defined, who are included in the MTS talent management program. In 2016, 95% of our employees have been officially evaluated for performance.

Thanks to the qualitatively built personnel development system, 4 out of 5 manager 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.

Figure 14. Involvement level by the Training and Development factor



Corporate University

The Company has a Corporate University that sets the training standards and coordinates personnel training and development processes. The goals of the Corporate University also include building training systems for various functional divisions of the company.

MTS Corporate University offers mandatory and optional training for the Company's employees, as well as materials for optional study for professional and personal development. Personnel training and career enhancement are of the following three types: internal training, external training and distance training. Depending on the existing goals and objectives, various forms and methods of training can be selected. The introduction of mixed training in the Company significantly improves the quality of training and development of employees.

The training and development processes at the Corporate University are provided by several departments.

Training Program Department is engaged in the management of internal training using our own resources (development of soft-skills programs, training of internal coaches).

- ▶ In 2016, the trainers of the department launched two targeted training programs: Systems Thinking – a New Approach to Self-Development for employees and Nature of the Team: How to Create Conditions for Its Evolution for managers.
- ▶ A pool of workshops has been updated and supplemented. Workshops mean four-hour sessions of mini-trainings. The target of a workshop is to provide employees with knowledge and practical tools for successful professional growth in a short period of time.

Figure 15. Goals of personnel training and career enhancement

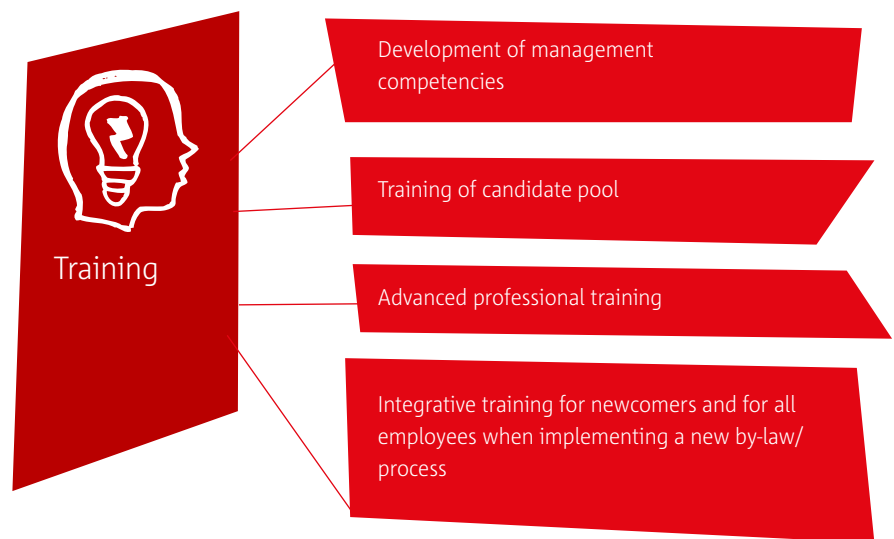
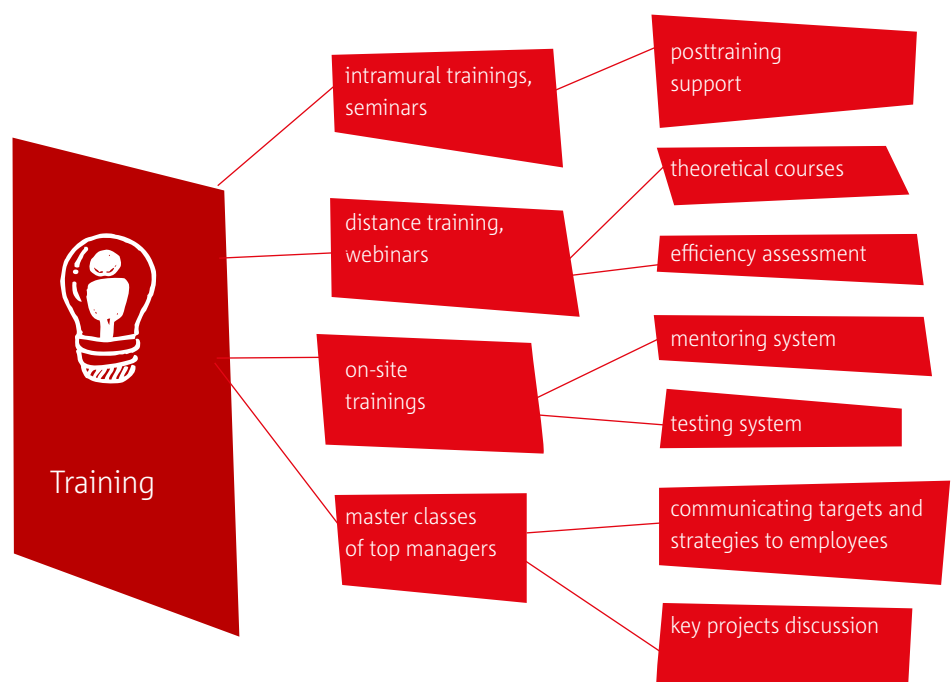


Figure 16. Personnel training and career enhancement forms



“Talent Management” Comprehensive Development Program

The program differentiates three categories: manager successors, high-potential (Hi-Po) employees) and highly professional (Hi-Pro) unique-knowledge employees. A specific development plan has been prepared for each of the categories.

Based on the annual performance assessment findings, the immediate superior recommends the employee for participation in the program or the employee himself/herself submits his/her application. Since 2016, MTS employees have an opportunity to independently apply for participation in the program via Virtual Academy. The application can be submitted into one of the categories only.

Traditionally the program involves 4% of the headcount of the Company/Unit/Region, the successors accounting for 15%, Hi-Pos – 65%, Hi-Pros – 20%. Training and professional development under the program is carried out through internal and external training, coaching, mentoring and self-education.

Since 2016, the assessment of management capacity for Hi-Po-nominated employees and successors has been added to the selection stages. The potential is assessed by the immediate head of the employee and the heads of the adjacent units, which allows to form an aggregate picture of the nominees at the selection stage and to thoroughly plan the further development.

Since 2012, the program has involved more than 2,300 people, one-third of them have moved up the career ladder.

- ▶ A large-scale competition for the leaders, 8 Rules Olympics, was held to support the concept of 8 rules for the leader. As part of the competition, managers demonstrated their management talents, received feedback from colleagues; exchanged the best practices with the leaders of various business directions throughout Russia in the application of the 8 Rules.
- ▶ We held the Sales Olympics competition, a traditional challenge for agents and sales managers. The Olympics gives an opportunity to prove yourself as a high-class professional and get recognition from colleagues from all regions of Russia, as well as from Ukraine, Armenia, and Belarus; show yourself, your experience, your knowledge and get feedback from experts, coaches and colleagues; get acquainted with the best practices of the colleagues from different regions.
- ▶ The Coach of the Year competition was held by the direction for internal coaching development. This competition helps to choose the best internal trainer of the company, demonstrating coaching skills, and exchanging experience with colleagues.

Training and Development Department

is responsible for the working out and implementation of integrated development programs:

- ▶ In September 2016, we started a new cycle of the Talent Management comprehensive development program. The program cycle will be held from 2016 to 2018. Targeted training programs have been developed for each talent group, including the individual development plan, feedback assessment from 360 and Hogan, internal training, external training, competitions, coaching, mentoring and self-education. 704 employees were selected for participation out of 1,398 applications. The 'talents' include 110 successors to leadership positions, 394 Hi-Po and 200 Hi-Pro. In 2016, 190 talents took new positions.

- ▶ The corporate e-library has been updated and supplemented, now, in addition to electronic books, it has audiobooks for personal and professional development. In total, the library has more than 500 books. Employees have access to a selection of articles by Grebennikov Publishing House and Harvard Business Review.
- ▶ Non-classic formats of employees' development have been implemented: Managerial Battles tournament, Elocutionary club for the development of presentation skills, "Woman in Business" program, "Negotiating Fights" club.
- ▶ In accordance with the Company's HR-strategy, new functional academies were developed and launched:
 - "Coach Mastery Academy" for the development of the MTS Group coaches. The Academy is focused on professional development of the corporate and staff coaches of MTS Group and translation of the uniform philosophy/policy/principles of training in the Company;
 - "Leadership Academy 2.0" for graduates of development programs of 2012–2015. The Academy's key tasks are to develop the management and communication skills in high-potential specialists;
 - "HR Academy" for the HR Management Unit employees;
 - iMBA for employees in the remote regions.
 - "Marketing Academy";
 - "Procurement Academy".

The Remote Training Development Group supervises the activities devoted to the development and launch of new remote projects.

Virtual Academy

In 2015, MTS Corporate University revised the strategy of distance training for the Company's employees. To form its basis, we took the world's best practices, focuses and subjects, proceeding from the analytical reviews of the past periods and from business requests. As a result, we developed an entirely new concept for launching the Virtual Academy training platform in January 2016.

Virtual Academy is a unique platform for the individual development of personnel. This is the educational environment where all the formats of training types are combined: internal (full-time and distance) and external training.

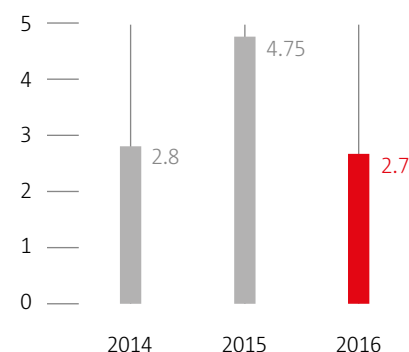
Virtual Academy is a complex solution that enables to:

- ▶ Make an individual development plan;
- ▶ Register for on-site events in one click;
- ▶ Watch video courses from a computer, tablet or mobile phone.

The managers have an option to make a 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.

Figure 17. Number of training days per employee



The total scope of training in 2016 was about
209,000
man/courses.

Table 4. Number of trained employees of MTS PJSC, man-courses

| Training type | 2014 | 2015 | 2016 |
|-------------------------------|--------|---------|---------|
| Internal (full-time) training | 44,391 | 40,048 | 31,068 |
| External (full-time) training | 10,230 | 12,947 | 8,774 |
| Distance training | 76,920 | 155,924 | 168,408 |

TOP-3 internal programs in 2016

- ▶ “Systems Thinking – a New Approach to Self-Development” training
- ▶ “Nature of a Team: How to Create an Environment for Its Evolution” training
- ▶ “Products and Services of Landline Communication” workshop

TOP-3 distance courses 2016

- ▶ “Antifragility” video course
- ▶ “Kaizen Ideas: Development of Operations Efficiency” video course
- ▶ Introduction to MTS



Regional Director program

In February 2016, MTS Corporate University launched a new project for regional directors aimed at the managerial skills development. Within 7 months, the participants studied and integrated into their personal practices the new tools for working with targets and projects, and mastered managerial efficiency skills.

The Regional Director program is based on modular training, management workshops and individual coaching.

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 2016, 4,373 employees installed the Virtual Academy mobile app.

In 2016, 26,890 people (about 93% of the employees of MTS PJSC) were trained at the Virtual Academy. For a year we have launched 60 new video courses and posted more than a thousand records of webinars, workshops and other useful things. The catalog of online courses has grown by 45%.

To promote the Virtual Academy, the new training formats are used: edutainment (a combination of educational and entertainment components), online programs, webinar marathons and special educational projects.

The projects launched by the Virtual Academy in 2016 include:

1. MTS Total Dictation, attended by 3,600 employees.
2. Webinar Marathons – a new format of online events, actively supported by our employees in 2016. The marathon includes from 3 to 6 webinars, united by a single topic:
 - ▶ SIMPLE values: 6 webinars, 2,190 participants;
 - ▶ Parents and Children event devoted to the Children's Day: 5 webinars, 1,298 participants;
 - ▶ Technical Unit Conference: 5 webinars, 1,399 participants;
 - ▶ IT Unit Conference: 85 webinars, 3,472 participants.

3. Popular science webinars for broadening of outlook on the topics: space, ecology, genetics, etc.

4. Webinars of the Company's structural blocks and video broadcasting of the address of the message from the President of MTS PJSC.

5. “Speed Reading League:” online program: 1,200 participants. 78% of employees have successfully completed this program.

6. Analysis of an “Interlocutor at Negotiations and Interviews” online program organized for corporate clients and partners of the Company. More than 1,500 partners took part in the training.

7. MTS Maths Test, attended by 2,878 employees.

8. The Share Your Knowledge project, where the employees hold webinars on their own expert topics and train other employees.

Video Courses

Since 2015, the Company practices distance video courses popular with employees on common topics of professional skills and qualities development. They can be downloaded to a mobile gadget to watch the record at a convenient time, also there is an option to download presentations and other supplementary materials and listen to an audio version of the course. We use more than 60 specialized video courses, adapted by the authors for MTS.

On the average, it takes about 1–2 hours to accomplish a course. The content is split into parts of 10 to 15 minutes, each part covering a certain aspect of the subject, containing interactive tests, multimedia materials, and homework assignments. After the complete course is studied and the final test is passed, the employee gets a certificate from the MTS Corporate University.

External Training Programs

| Training program | Target audience | Additional information |
|---|---|---|
| Genesys software training | IT Unit employees (department for administration of hardware and software complexes of the contact centers) | |
| A comprehensive program consisting of a series of distance courses and webinars | Technical Unit employees | Blending learning together with Huawei. |
| Customized course on Transformation of RAS Reporting to IFRS using MS Excel | Finance and Investment Unit | |
| Program for development and information & consulting support | BigData Team (employees of the IT Unit and Marketing Unit) and FNA (BIT) team | Forms new approaches for the development of their own IT solutions (IT transformation project – from Waterfall to Agile). |
| Comprehensive training program | Employees rendering metrological support in the Technical Unit departments | Joint team of employees from the regions of the Russian Federation, 15 people. |
| Customized course on the Cisco network equipment operation (Level 1 and 2) | Employees of the Fixed-Line Network Service Department (Unified Control Center for MTS Fixed-Line Network) | Nizhny Novgorod, Technical Unit, 15 people |
| English for All Project | All employees | Distance learning of English. More than 5,500 participants |

MTS Retail Chain Training

In October 2015 – March 2016, the On-Job Development pilot project has been launched in the MTS regional chain. Under the project, the office managers and head of office chains were taught to develop professional skills of their teams directly in working situations, to give feedback to their subordinates and plan development steps. The coaches trained the managers and assisted during field work.

Upon successful implementation of the On-Job Development pilot project, which showed a qualitative dynamic in reducing the outflow and increasing the professionalism of employees, it was decided to implement the project within the entire net-

work. In 2016, we trained middle managers in the Adaptation Technology and On-Job Development retail programs.

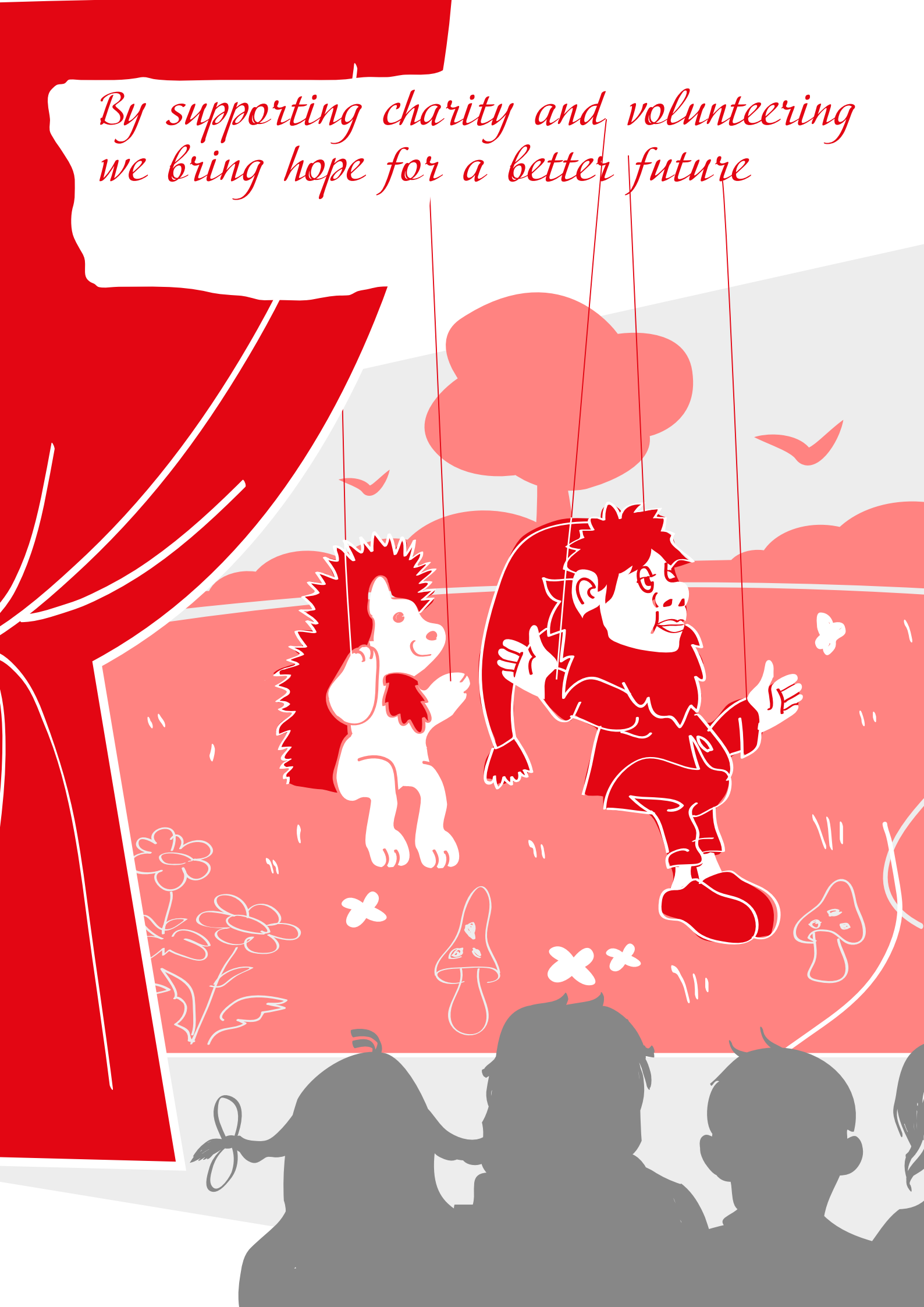
In addition, the distance learning portal was upgraded, new interactive courses were developed and a catalog of training videos was created. These activities significantly improved the quality of distance learning, the degree of staff involvement in the development process and the involvement of managers in the development and support of their teams.

At the end of 2016, more than 90% of the heads of sales offices completed the relevant training programs.

English for All

English for All federal project was launched in May 2016. The training program lasts for 1 year and assumes a distance learning format. Training takes place on a modern e-Learning Advance platform, which allows employees to learn a foreign language from any device at a convenient time. The platform is adapted for each participant, regardless of the level of his knowledge. It helps to expand the vocabulary and improve grammar, learn the exact professional translation of a word, improve pronunciation and prepare for specialized exams or typical working situations.

*By supporting charity and volunteering
we bring hope for a better future*





Charity and Volunteering

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Charity

Total expenditures of MTS Group for charity and social projects were

515.5

million RUB in 2016.

Charity is one of the major constituents of the MTS' corporate social responsibility. 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;
- ▶ 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 the Regional Communities

Since August 2016, MTS has been implementing a new type of charity activities - direct operation with regional communities. Here we interact with independent public associations of people having similar interests not related to any political, religious or commercial activities and are not specialized charitable foundations or organizations. The converging point for such social groups is the social importance and selflessness of their activities, as well as the absence of any financial interest to the partner.

Over 5 months of work, more than 40 projects on rendering assistance to local communities have been implemented, all the projects are of different orientation - for single retired people of the Tver Region we bought firewood, for search teams across the country – equipment necessary for their work, for children from low-income families we arranged tailoring sports uniform for travelling to competitions. A significant part of social events with communities is held with the help of MTS volunteers, and it is treated, among other things, as a useful type of leisure time for employees.

The first results of our work significantly exceeded our expectations: addressing directly to people on behalf of the brand, helping them to realize their most urgent needs, we receive a lively response and sincere gratitude, people are ready to focus on socially significant cases, implemented by business, and actively share positive information about such projects. In 2017, we plan a significant increase in the number of projects under implemented up to 250–300 and the expansion of their geography.

Helping Children

“Generation M”

All-Russian charitable project “Generation M” combines developing the creative capabilities of the children from the country's regions for various arts and fund-raising for the treatment of the critically-ill children. The project is invented and implemented by MTS, and the leading creative organizations of the country and the masters of Russian arts help the Company to implement it. The project motto reads “Creation in the Name of Life”.

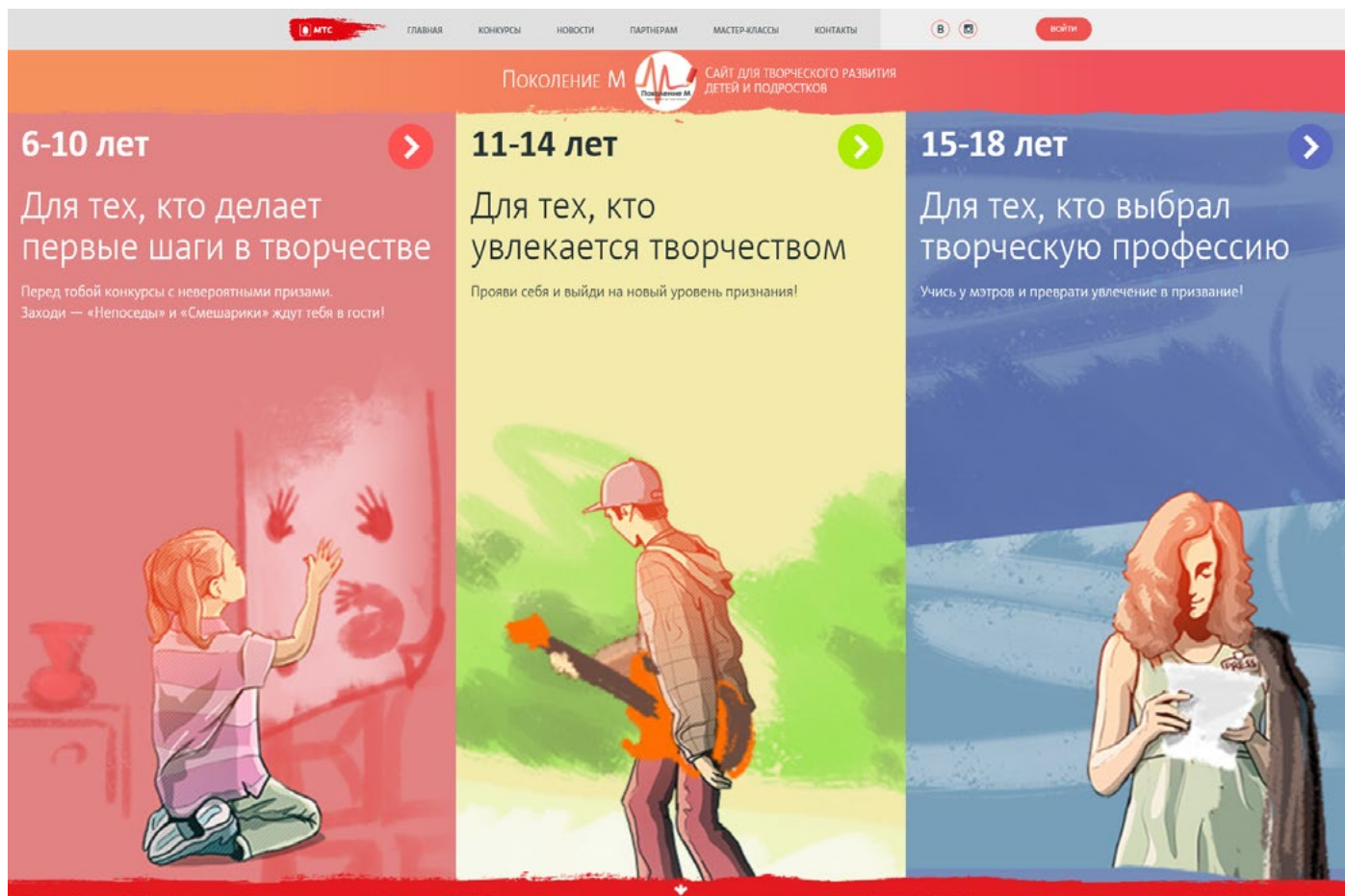
Children have an opportunity to unveil their talents when participating in competitions, master-classes and interactive exercises led by the Russian stars on the virtual creative platforms of the project on pokolenie.mts.ru, dedicated VKontakte group and Instagram page.



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.

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 the treatment of children. The balance of the common charitable account is updated in real time on the project's home page. RUB 15 million had been raised in the framework of the Generation M project within three

While developing charity through children creativity support we involve them in virtual and real activity, give them an opportunity to become familiar with ‘safe Internet’ and accept universal human values.



years. This money was spent to cover costs of operations for 35 kids.

167 children from 53 Russian regions became the project's winners and awardees. Today, they perform on the same stage with the stars, study in the leading creative universities, undertake the internship in the movie studios, act in children's comic series Yeralash, participate in various events.

In 2016, MTS extended the pool of the creative directions of the project. In the new season, MTS granted unique opportunities to the children from various regions of the country:

- ▶ To present own clothes collection under the guidance of the famous fashion designers during Moscow Fashion week;
- ▶ To undertake the internship in the legendary Neposed studio and participate in a concert in Grand Kremlin Palace
- ▶ To attend a personal vocalism lesson from Polina Gagarina,

- ▶ To shoot own movie using professional equipment.

The 2016-2017 season headline was a design trend headed by the eminent Russian designers: Vyacheslav Zaytsev, Igor Gulyaev, Dasha Gauzer, Yulia Dalakyan.

In 2016, the project involved 85 Russian celebrities in the field of arts and culture, including Vladimir Grammatikov, Vladimir Khotinenko, Vyacheslav Zaytsev, Konstantin Bronzit, Elena Pindjoyan, Polina Gagarina, and others.

The on-line project is extensively supported by the off-line master-classes and other creative events for the children from various Russian regions.

In the creative season of 2017-2018, MTS will continue implementing new creative spheres, 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.

“Generation M”

The project's Internet audience exceeded **11 million people**



More than 20 thousand mass media publications on the project



More than 200 master-classes on various creative directions: photography, dancing, singing, theater, fashion design, etc.



More than 100 project's informational partners in Russia

Table 5. Examples of the regional off-line events in the framework of “Generation M” project in 2016

| Region | Date | Event |
|---|------------------|---|
| Novosibirsk | January-February | “Generation M” became a partner of Page 16 oral reading championship among senior pupils. |
| Barnaul | February | A festive event was organized in the framework of the “Generation M” project for the children in the neurology unit of the Altai regional children's hospital. |
| Chuvashiya | March | MTS gave the “Generation M” creative master-classes in the framework of the Week of Children Book-2016 – a city reading festival, in the framework of which there was an award ceremony for the winners of the city competition Super Reader 2015, theatrical performance and children's literature exhibition. |
| The Republic of Karelia, Petrozavodsk | May | MTS sponsored the largest republican children's creative development festival A City of My Dream conducted by Karelian republic non-governmental organization for a revival of the cultural traditions – Art Shatyor, and conducted creative studio “Generation M” for children of the Republic of Karelia. |
| Karachaevo-Cherkessiya | June 1 | “Generation M” participants arranged a mass dancing flash mob on the Children's Day. |
| Saint Petersburg | June | MTS gave “Generation M” creative master-classes in the framework of festival “Light Country. Building a Cardboard Town”. The third Saint Petersburg city festival is aimed at uniting the families by the common pastime. The families build their own cardboard town, participate in parade, take the master-classes. More than 1,000 people participated in the festival. |
| The Republic of Komi, Syktyvkar | July | There was a competition for gifted children of Komi in Grenada children's center in Syktyvkar as a part of “Generation M” project during the school holidays. |
| Dagestan, Republic of North Ossetia-Alania, Ingushetia, Karachaevo-Cherkessiya, Kabardino-Balkariya, Chechnya | August | “Generation M” together with Ministry of Press and Information of Dagestan arranged a photo competition – Caucasus. Valuable photoshoots – for young citizens of the Republics. |
| The Republic of Karelia, Petrozavodsk | September | Integration of the “Generation M” project master-classes into the city festival – Day of St. Peter and Fevronia. Day of St. Peter and Fevronia is a traditional city festival conducted by Karelian Republic non-governmental organization for revival of the cultural traditions – Art Shatyor. |
| Ufa | December | “Generation M” acted as co-sponsor of the largest flash mob festival – Ufa is the most dancing city in Russia. |
| Tula Region | December | “Generation M” project participants gave drawing master-classes for foster children of the Kimovsk boarding school. |



**Give
goodness**

“Give goodness!” is a target charity program aimed at emergency assistance to seriously ill children. Within the program funds that were previously used for purchasing promotional products are devoted to charity through federal charity partner funds.

In 2016 MTS cooperated with the following organizations: regional public organization of disabled Centre for Humanitarian Programmes, charity fund “Sozidanie”, charity fund “AIF. Dobroye

serdste”, SUNFLOWER Charity Foundation. Special feature of the program is engagement of country's citizens in fund raising through innovation tools, in particular user-friendly service *700# for money transfers from MTS subscriber's account to a charity fund for treatment of a certain child.

In 2016 program's total budget amounted to RUB 10 million which were funneled into treatment of 76 children from 40 Russian regions.

Corporate Volunteering

Day of Donor

The first Day of Donor was conducted in MTS in September 2011. Today, more than 800 employees joined the MTS donor movement.

In 2016, the MTS Corporate University together with Blood Center of the Federal Medical and Biological Agency and Give Life charity fund conducted Days of Donor in February and March. Some 150 employees participated in the actions and donated over 60 liters of blood, which means giving a chance to save 120 lives.

MTS is a member of Krasnoyarsk division of National Council for Corporate Volunteering (NCCV), which more than 20 companies have already joined to. MTS volunteers participate in charitable, social and economic events organized by the NCCV member companies.

In 2016, MTS volunteers participated in a large scale charitable entertaining event Autumn Party Soon organized by regional brunch of NCCV in Krasnoyarsk. During the action volunteer teams from various city enterprises planted corporate vegetable and berry beds to harvest it in Autumn and produce jams, juices, etc. The funds, raised from selling these products, were channeled to Dobro24.ru charity fund's protégés.

MTS Corporate Volunteer Movement "JUST Give Good!"

MTS has been developing the Corporate Volunteer Movement "JUST Give Good!" for over six years. Today the movement involves some six thousand MTS employees with proactive attitude who regularly participate in the Company's volunteer events. In 2016, the volunteers conducted over 500 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 employees, enabling the Company to enhance the loyalty of its employees and boldly solve important social tasks, integrating them with the business tasks.

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, foster children of the sponsored orphanages, boarding schools, children from vulnerable and poor families, as well as young patients of hospitals and medical rehabilitation centers.

Technological Platform for Developing Corporate Volunteering

The service, specially developed by Mail.ru's Good project for MTS, which is available since the end of 2015, allowed to systematize the Company's volunteer project management and provided the necessary tools to coordinate the large-scale volunteer movement in the various regions of MTS presence.

The service provides current and potential Company volunteers with the opportunity to participate in charitable and social MTS projects in various country regions. The volunteer movement participants can trace their involvement in the social projects using the convenient personal accounts, where they can also track the project developments.

The Company's employees are given virtual badges for their participation in all kinds of volunteer initiatives – intellectual volunteer events, help to children, support programs for elderly people, ecological and nature conservation projects – and they can demonstrate the symbols of their achievements in social networks.



International Volunteer Day

On December 5, 2016, on International Volunteer Day, the most active and involved MTS volunteers were awarded in the Digital October Moscow center.

The awards were granted to the initiators of the brightest social projects. The four clusters selected the winners on their own.

The winners:

- ▶ The cluster Strong – We can educational project for the foster children of Elizavetinskaya boarding school (Krasnodar Region);
- ▶ The cluster Leader – Deti (Children) project (Smolensk);
- ▶ The cluster Growth Regions – Great Victory project (Ryazan);
- ▶ The cluster Effective – Common People project (Nizhny Novgorod);
- ▶ Intellectual Volunteering – project of TelecomIdea;
- ▶ For Active Promotion of Federal CSR Educational Projects – implementation in large Siberian cities of Children in the Internet project;
- ▶ The Best Volunteer Educational Project for Elderly People – MTS Mobile Academy project (Saint Petersburg);
- ▶ Creative Volunteering – the actors of MTS Mobile Fairy Tale Puppet Theater, as well as participants of Delo V Shlyape (As Good As Done) Creative Laboratory;
- ▶ Environmental Volunteering – Oksana Semutina (for organization of the large scale environmental actions involving the Company's employees and their immediate family), Nadiya Aimaletdinova (for contribution of ECO-Office program popularization);
- ▶ Sport Volunteering – MTS soccer and volleyball teams in the person of their captains Vagiz Rafikov and Yuri Surkov;
- ▶ Blood Donorship – Oksana Kukharchuk (for an idea of creating MTS donors' movement that helps to save human lives);
- ▶ Interaction special category – Maria Lysenko, author of the script, organizer and producing director of the Vovka in Veliky Ustyug play.





The 2016 award of the Mobile Fairytale Puppet Theater

- ▶ nominee of VIII International Open Competition – Cultural Capital in Saint Petersburg;
- ▶ Champions of the Good Deeds award in the Corporate Volunteering category, in the naming – Local Communities. The award was established by the National Council for Corporate Volunteering and the Russian Managers Association and is awarded for the projects aimed at solving local communities' issues, including volunteer cultural events.

Mobile Fairytale Puppet Theater

Since 2012, MTS has been running its Mobile Fairy Tale Puppet Theater (theater site puppet-mts.ru). The theater repertoire consists of 12 plays, and includes Morozko, Magic Mirror, Snegurushka and Fox (New Year musical fairy tales), Children on the Internet (an educational musical fairy tale), Saving the Planet Earth and History of a Prince (ecological musical performances). The MTS volunteers give these performances in the sponsored orphanages and to the children of the Company's employees and partners. 25,000 spectators attended the theater plays for the last five years.

In 2016, the theater fit-up consisted of 50 people who participated in six festivals, conducted 52 events for more than four thousand children in various Russian regions.

Key 2016 events:

- ▶ Participation in the Solony Republican Children Charitable Festival organized by Sistema Charitable Foundation and the companies of JSFC Sistema Group with support of the Government of Altai Republic;
- ▶ Holding a festival of the corporate theaters for the children of the sponsored

social institutions and the partnering companies' employees who have many children (together with Detsky Mir and Sistema Charitable Foundation) in the Modern Theater;

- ▶ Participation in High Fest International Festival of Performing Arts in Yerevan.



In 2017, we plan to develop creative volunteering practice, as well as support the regional theaters in Krasnodar, Saint Petersburg, Irkutsk, Nizhny Novgorod, continue the tours in the framework of CSR federal level projects.







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.

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 start of the school year, our volunteers go to the orphanages, give presents (stationery, clothes, books, etc.), give master-classes, organize cultural events, sports competitions and communicate with children.

In 2016, within one month, the traditional “MTS Green Express” carried out events in Moscow and Tver Regions, Saratov, Krasnodar and Nizhny Novgorod. In total 300 MTS volunteers congratulated with the start of a school year over 700 children from the social institutions.



“New Year Parties for Children” Volunteer Event on a Federal Level

“New Year Parties for Children” federal project is one of the most popular MTS volunteer events. As a New Year tradition, our volunteers come to the foster children of the sponsored children establishments and make a feast to those who can not have it in a family.

Volunteers 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.



*We improve the quality of life
by keeping the traditions
and cultural heritage alive*





Traditions

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96 Social and Cultural Projects

Corporate Culture

MTS has adopted the SIMPLE corporate values – six key values that every MTS employee shares. We believe these values to be critical for our everyday business.



S

Partnership is SIMPLE,
if you can work in a team

I

Efficiency is SIMPLE,
if you reach the set targets

M

Responsibility is SIMPLE,
if you take responsibility for your actions

P

Courage is SIMPLE,
if you take the first step forward

L

Creativity is SIMPLE,
if you think outside the box

E

Openness is SIMPLE,
if you can listen and hear

The Region company-wide contest Zaprosto Magazine

The Region company-wide contest, which is in its 5th year, brings together all MTS employees and encourages building a corporate culture appropriate to an integrated operator.

The first contest was held in 2012 and became one of the highlights of MTS corporate life; every year it attracts more and more our employees.

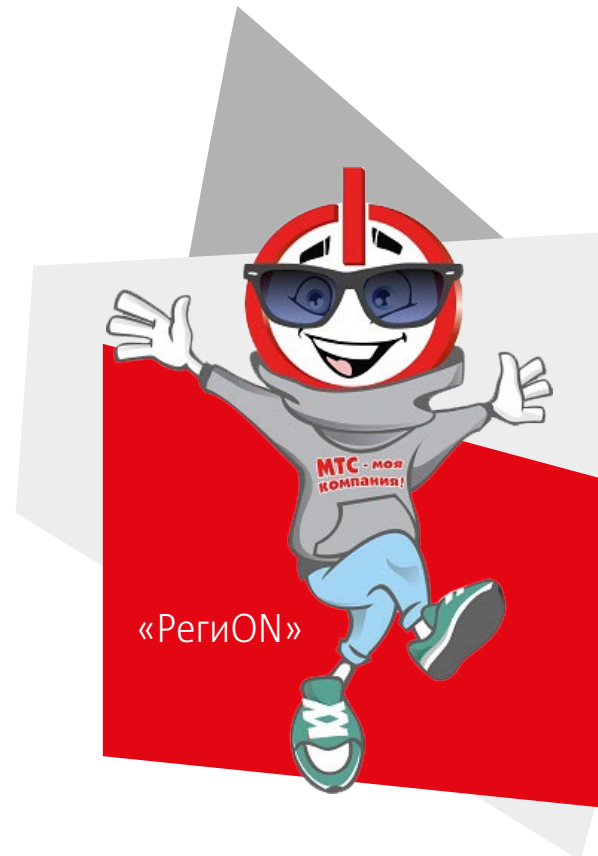
The contest encompasses several phases, which can be differently focused depending on the contest subject of a particular year. In 2016, the contest's organizing committee decided to move the contest to the second half of the year and reduce the number of stages to one. The teams declared their participation in June, the contest was held July through August, and the results were disclosed in the autumn. Just as the previous two years, there were three contest lines – Employee value, Business targets and Customer – stayed unchanged. The teams should have developed, implement and present the actual business projects for each of the lines. In 2016, 94 teams participated in the contest, they implemented 282 business projects.

The winners in the team competition participated in a final outdoor event that involved adventure, exciting new tasks, as well as an informal meeting with the top managers of MTS Group.

We issue corporate magazine Zaprosto for many years already, which talks about what is the most interesting and important in MTS life: new events and projects, major changes and appointments, regional news, services, products, tariffs, advertising campaigns. It offers interviews with top managers of MTS, interesting client stories, tips to improve work performance, announcements of training courses, and lots of other useful and fascinating information.

In 2016, 8 issues of Zaprosto and a special Success Stories issue came out, which focused on the most interesting career rotations of our colleagues within the Company. Moreover, Federal Recognition Programs almanac was published under the auspices of the magazine, where we talked of the Company's Year's Best Employees, as well as of the colleagues awarded by the Ministry of Telecom and Mass Communication of the Russian Federation. Apart from a federal issue, there are editions with the region-specific inserts that started in 2016.

There are several formats of the magazine: conventional printed, flash version, available to the employees through the intranet, as well as special mobile application for tablets and smartphones.



Internet Portal

MTS maintains a universal information portal, which is the key information source for our employees. It hosts all the Company's news, regulatory and reference documents, and search tools. By using it, you can translate documents, call a company car, book conference-calls and meeting rooms, plan your vacation, order office stationery, participate in the Internet forums, and read the Zaprosto corporate magazine. The portal provides links to additional resources: e-learning and e-testing system, performance management system, personal accounts of an employee, an Internet library, and more. In 2016, the project of transitioning to a new platform was implemented. The platform that will provide the employees with new social and interactive possibilities. The renewed portal will be launched in the second half of 2017.

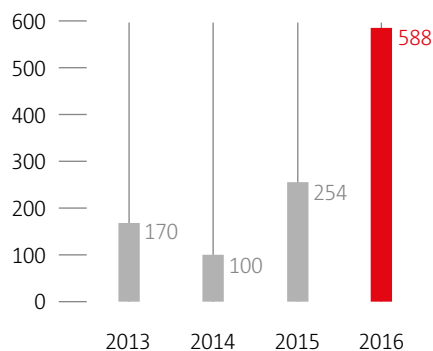
Recognition Programs

There is one, unified for all structural units and branches, recognition and rewarding system of the employee's professional development in the Company. There are various recognition programs at the federal level intended to identify and reward both individual and team achievements, and select the best ones.

The winners have received commemorative badges and valuable prizes in Moscow at an awards ceremony. The MTS President Andrey Boscov congratulated the winners. The recognition programs are supported by a wide media campaign; information on achievements of employees is posted in all MTS offices.

In 2016, 588 MTS employees were recognized with departmental awards by the Ministry of Communications and Mass Media of the Russian Federation.

Figure 18. Industry awards of the MTS employees.



MTS Life Social Network

Social networking allows our employees to share any idea with colleagues or ask them questions, get their feedback, participate in discussions, create own group, or run a vote.

Table 6. Outcomes of the federal recognition programs in 2016

| Recognition program name | Number of applications. | Number of winners and participants |
|----------------------------|-------------------------|------------------------------------|
| Professional of the Year | 144 | 23 |
| Manager of the Year | 69 | 15 |
| Well done! | 56 | 3 teams |
| Our team | 56 | 1 |
| Local communication center | 9 | 1 |

Table 7. Awards by the Ministry of Communications and Mass Media of the Russian Federation

| Award | Employees awarded |
|-------------------------------|-------------------|
| Commendation | 173 |
| Certificate of Merit | 248 |
| Honorary Radio Operator title | 167 |
| Total | 588 |

Creative Heart

We strongly believe that a broad-minded employee is more effective in achieving the set objectives and capable of finding non-standard solutions for complex issues. That is why there are the project appearing in the Company that aimed at developing employees' creative potential.

MTS Creative Heart project was launched in the Company in April 2015. The corporate theater was established in the first project season, the theater participants performed in "Truffaldino" play. In the second season, the participants attended three disciplines in a studio school: choreography, drama, opera-variety. The final stage of the project was the play "I Love You", where love theme was presented through three arts. More than 150 people participated in the project within two years.



Social and Cultural Projects

Great Patriotic War's Victory Day Events

In the first half of May 2016, the MTS PJSC employees conducted over 50 various events in the Russian regions devoted to the celebration of the Great Victory.

“Tango of Victory” and “Let's Preserve the Spring of Humankind” festival concerts were organized for the veterans of war and workers of the home front in Catherine Park and Central Museum of the Great Patriotic War on Poklonnaya Gora (the Hill of Respectful Salutation) in Moscow.

The MTS employees of Povolzhye helped to supplement the House of Veterans' Library in Nizhny Novgorod with new books. Our colleagues performed feast music program for the guest of honor on the stage of House of Veterans.

“Annual Call to a Brother-Soldier event” took place in Saratov and Tver, thanks to which the veterans could make free calls to any point in Russia and worldwide and congratulate near and dear ones with the Victory Day.

Colleagues from Pskov participated in a memorial relay race – one of the oldest events in the city. First time the race took place in Pskov after de-occupying the city from fascists in 1945. Then, 30 sportsmen-enthusiasts ran the streets of the destroyed city, this tradition never been interrupted since that time.

There was a “Call of Victory” event in Saint Petersburg. MTS organized a free “trunk-call office”: the veterans of the Great Patriotic War could make a free call worldwide at the final point of the Victory Day festivities on the shore of Ladoga Lake (next to the Disrupted Ring monument). The veterans made over 50 calls during three-hour festivities, including calls to Germany, Latvia, Austria, as well as to other Russian regions.

The MTS Saint Petersburg employees performed a literature-music play Street Railway Troops, based on the Front Street Railway book of M. K. Soroka. MTS Creative Heart participants performed in a “Tango of Victory” concert and congratulated the veterans in the MEDSI health center in Otradnoe.

All MTS regions supported Immortal Regiment – an all-Russia patriotic action.



As of 2010, the MTS Open World project is implemented in Kurgan. The purpose of the project of the war photographs free restoration is to preserve and transfer to the following generations the memory of the heroic actions of Kurgan residents.

Any resident of Kurgan has the opportunity to participate in the project. To participate one needs to bring the photographs to the collection points in MTS retail shops or editorial office of “Kurgan and Kurganians” newspaper during photograph collection period in the eve of Victory Day. The best images are exhibited at the special photo exhibition in the Victory Park.

In 2016, a record number of photographs were received for a whole six-year history of “Open World” – more than 1000 war photographs, some 350 of which were included into main exhibition in the Victory Park.




“Tango of Victory” Concert

On May 15, 2016, the “Tango of Victory” concert, a major MTS event devoted to the 71 Anniversary of Victory in the Great Patriotic War festivities, took place in Catherine Park in Moscow.

Artists of the musical theaters and movie artists, Padegras, Virtus, Vella children and youth dancing groups, Federal Customs Service orchestra and soloists participated in the concert. The performance of the Academic massed choir of the war veterans was a real sensation, the whole hall stood up applauding, when the choir sang the song Victory Day. In the end of the concert, all those who wished could take a master-class on 30-50-ies dances from an experienced trainer.



MTS Memory Book

In 2015, the MTS employees actively participated in the corporation-wide volunteer activity and created the MTS Memory Book "Life during War. 1941–1945", which incorporated the stories told by their relatives who were war veterans. The book is illustrated with photographs and is a real evidence of those heroic years. The Book contains more than 350 stories and is available both in electronic  and printed form. The Memory Books was ceremonially handed over to the Moscow Museums, including the Central Museum of the Great Patriotic War on the Poklonnaya Hill.

The decision was made to prolong this social patriotic project to 2016 so that all the employees of MTS, MGTS, RTC and all the countries of MTS presence: Turkmenistan, Belarus, Armenia, Ukraine, if they wish, could participate in it. Memory Book in electronic format will be supplemented with the stories of all those employees who wish, who have something to tell of their glorious ancestors.




<http://vov.mts.ru/kp>



<http://vov.mts.ru/kr>

"What Do We Know of War? Our Children Draw"

In 2016, MTS conducted a contest "What Do We Know of War? Our Children Draw" in the framework of MTS Memory Book project, which the children of MTS, MGTS, RTC employees participated in. The purpose of the contest is to nurture patriotism and love of the Motherland of the growing up generation, to popularize the history of the Great Patriotic War, to develop children's creative capabilities, to identify and support talented children of the MTS employees.

141 paintings of various art styles were presented for the contest. The paintings were drawn by the children aged from 1 to 17 years from Russia, Armenia, Belarus and Tajikistan. The paintings are available for viewing in the special electronic album on the site .



“Preserve Musical Heritage of Russia”

MTS provides support to a unique project “Preserve Musical Heritage of Russia”, which was initiated by the Russian State Musical Radio & TV Broadcasting Center. The purpose of the project is to re-discover music and war songs written by composers who are veterans of the Great Patriotic War. The project

involves selecting of exclusive music manuscripts, preparing and performing the music, recording concerts, uploading the records to the Server of the European Broadcasting Union (EBU), publishing the recordings on the Internet portals, and broadcasting the first performances from the Orfei Radio.

MGTS Museum

The Museum of MGTS plays a great role in preserving the traditions, forming and developing the corporate culture, attracting able and talented youth to the Company. The Museum has unique exhibits illustrating not only the history of Moscow telephone network development but also the other lines of telecommunication technologies from 1876 up to now, and the artifacts of the sociocultural environment of Moscow and Muscovites.

During 2016, the work on searching and completing of the Museum with the documents and objects of historical and cultural value for the Company. Today, the Museum's exhibitions and funds contain some 3.9 thousand of keeping units.

In 2016, 227 excursions were carried out to familiarize 3,904 people with the Company's history, which included:

- ▶ 13 excursions for MGTS and MTS Group employees – 224 persons;
- ▶ 18 excursions for the university and college students – 324 persons;
- ▶ 15 excursions for the children of MTS Group employees – 295 persons;
- ▶ 51 excursions for the school students per the application of Moscow Department of Education in the framework of the New Technology School project – 961 persons;
- ▶ 130 excursions for Muscovites and visitors of the capital — 2,100 persons.

8 movie shootings and photo sessions were organized together with the Public Relations Department at the Museum site.

A new method of preserving the Company's traditions and familiarization of the employees with the Company's history is the theme exhibitions organized in the MTS headquarters, 25 Bolshaya Ordynka St. The tradition had started back in 2015 and for two years there were four exhibitions. In 2016, the exhibition was conducted where the creative work of the employees was present, as well as another exhibition that was devoted to the 30th anniversary of fiber optic communication in MGTS.

Preserving Armenian music

As of 2011, VivaCell-MTS is focused on preservation of the Armenian music. The Company supports “Ars Lunga” duo, together with which 18 CDs were issued that contained 80 piano pieces of the Armenian composers. This unique anthology encompasses a wide range of traditions of Armenian academic music from the beginning of the 20th century to present. Some of the works have been performed and recorded for the first time.

VivaCell-MTS supports other music projects in Armenia as well, such as National Gallery Music Festival, Youth Orchestra of Armenia, Armenian Philharmonic Orchestra and other.



MTS Mobile Library



The stands and structures with e-books are installed in the places of importance in the various cities in the framework of “MTS Mobile Library” project, as well as the posters with links to the e-books are handed over to the schools and libraries. Book images accompanied with

the QR codes that allow simple, fast and free downloading of the desired book to smartphones and tablets in one of three popular formats – epub, fb2, txt. The project is implemented in 60 libraries of various Russian regions. New art-objects, ‘literature benches’, are installed in Arkhangelsk and Velikie Luki.

Mobile Guide



Any of those who wish may listen to the personal audio excursion with the help of MTS mobile guide innovative cultural project. To do this for one is enough to install special application izi.travel from the application store and scan QR code on the information stand with the help of smartphone or tablet, the excursion will commence automatically.

The service is available to the devices based on Android, iOS and Windows Phone. It allows 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 the recordings from the application to the gadget, as well as publish them to 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 2016, a number of such projects were implemented:

- ▶ 11 information stands were installed in Tver Region. They contain information on the most significant points of interest



Agreements with the regional authorities

The tripartite agreement on cooperation between town of Torzhok administration, All-Russian Historical and Ethnographic Museum and MTS was signed in Tver Region in the framework of the Mobile Guide project. The parties plan to participate together in further development of the project.

Moreover, the agreements on social-economic cooperation with the regional authorities were signed in the following regions:

- ▶ Tambov Region, 2016-2017 agreement;
- ▶ Yamalo-Nenets Autonomous District, 2016-2017 agreement;
- ▶ Novosibirsk Region, agreement with the Ministry of Culture of Novosibirsk Region on social partnership (June 2016);
- ▶ Tyumen Region, agreement with the administration of city of Tobolsk on social partnership (March 2016);
- ▶ Republic of Dagestan, agreement with Ministry of Education and Science on social partnership (June 2016);
- ▶ Krasnoyarsk Region, agreement with Ministry of Culture of Krasnoyarsk Region on social and cultural cooperation in the Region (February 2016);
- ▶ Birobidjan, agreement with city administration on social and cultural cooperation in the Region.

of Torzhok: Novotorzhsky Borisoglebsky monastery – one of the most ancient Russian cloister; Pozharsky hotel, where Aleksandr Pushkin stayed and other sites.

- ▶ As of 2014, “Know Novosibirsk” project is implemented, the purpose of which is the replacement of information tables and signs that contain information on the cultural heritage site to new format – bilingual tables with QR codes. The project continued in 2016 as well.
- ▶ In May 2016, a touristic footpath through Kurgan's historical center was launched, which is guided by MTS Mobile Guide.
- ▶ In November 2016, MTS launched Mobile Guide historical cultural project in the capital of South Urals with the support of Chelyabinsk city administration in the framework of the activities devoted to city's 280th anniversary. Every route passes by Chelyabinsk points of significance – historical and architectural monuments of federal and regional importance.
- ▶ MTS provided 7 local sights with information tables and audio guide in Orenburg. The audio guide voice was the one of the Orenburg mayor – E. Arapov.
- ▶ The project was implemented in cooperation with the country-house museum of P. I. Tchaikovsky in the town of Votkinsk, Republic of Udmurtia.
- ▶ MTS Mobile Guide accompanies the visitors of the writer V. P. Astafiev memorial in the settlement of Ovsyanka, Krasnoyarsk Region.
- ▶ In 2016, the project was launched in the Perm Zoo.



Vodafone Smart Routes

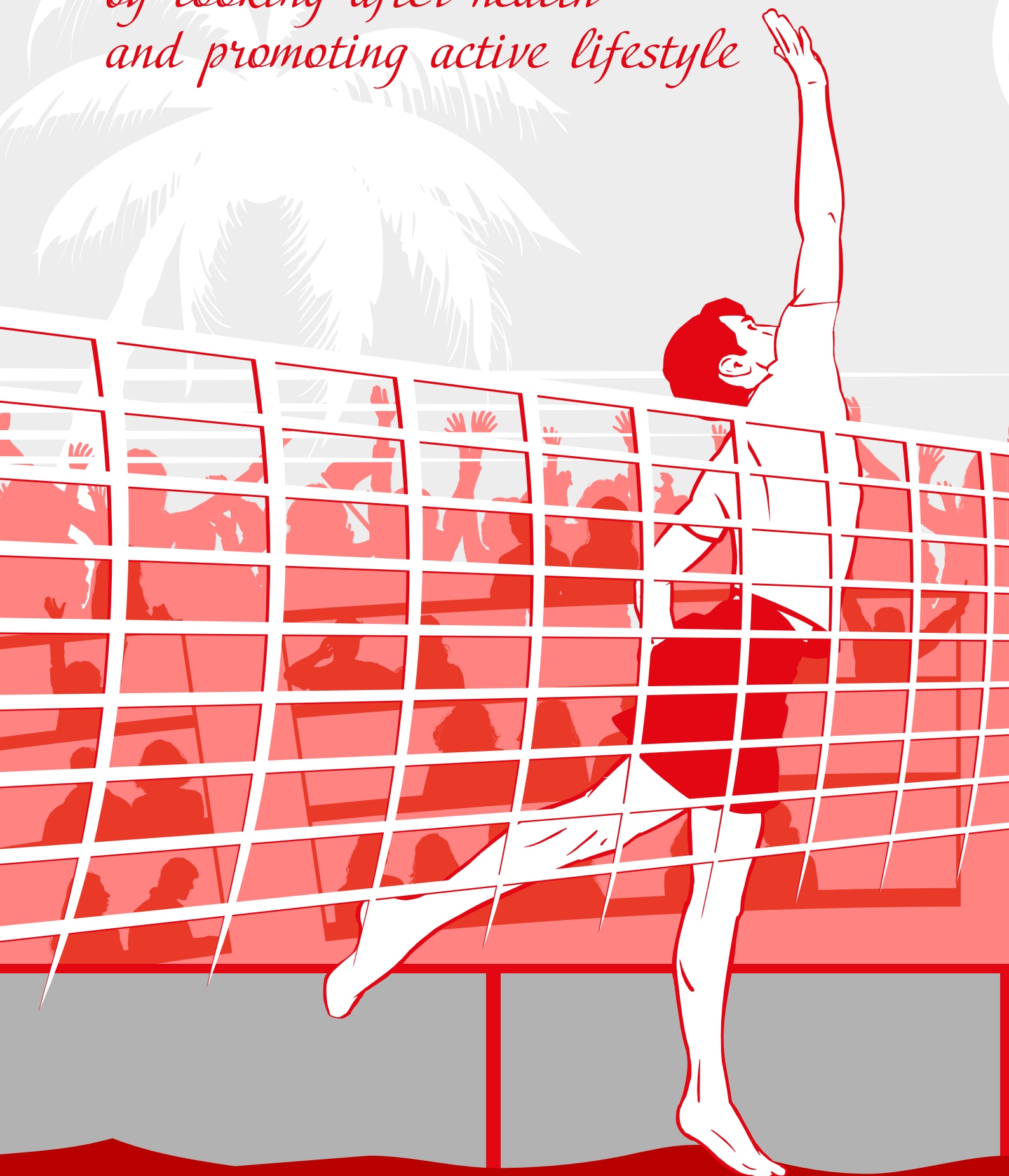
Vodafone Smart Routes are unique touristic footpaths in the towns of Ukraine. The routes are composed of stone tables with funny characters and QR codes engraved on them. The tables are placed next to cultural and historical monuments, arrows made of stone direct to the following location composing, therefore, a complete touristic route. Tourists obtain interesting information on a town and its points of interest on their smartphones with the help of QR code.

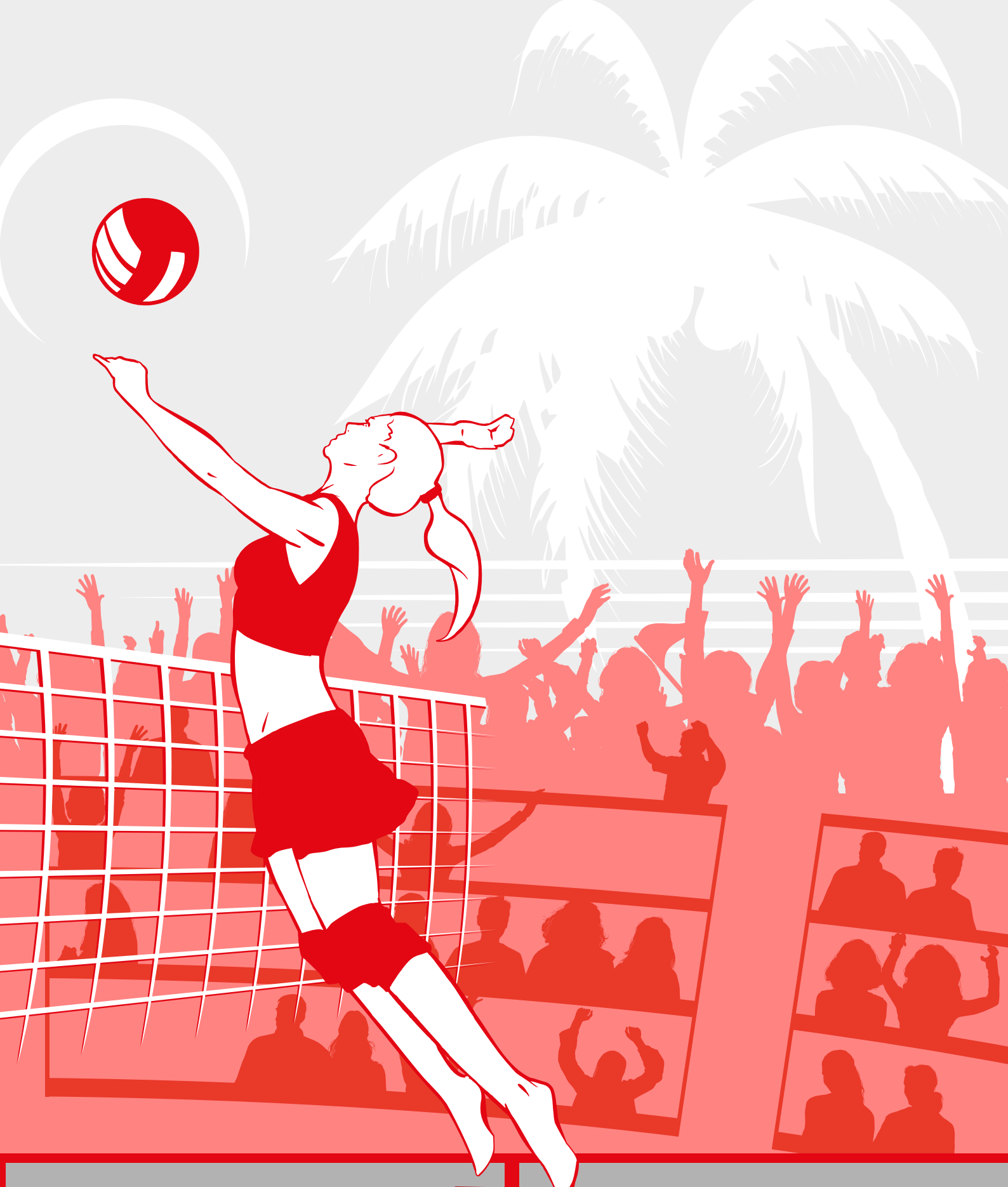
MTS Ukraine implements the project in cooperation with the city administrations. The project is aimed at developing domestic tourism, forming new quality of the city tourism with the help of modern technologies, as well as increasing mobile content (3G) consumption by smartphones.

During 2015-2016, the innovative city routes were launched in Poltava, Chernovtsy, Kherson, Uzhgorod. The project generated a lot of interest from the travelers. There were several cooperation requests received from other Ukrainian cities.



*We improve the quality of life
by looking after health
and promoting active lifestyle*





Health Care

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Healthy Lifestyle



The Company supports the desire of its employees to lead a healthy life. Our comprehensive program, Go in for Sports with MTS, encourages the activities of our football, basketball and volleyball teams, the MTS Running movement and # VeloMTS club established in 2016.

The Company's personnel can participate in corporate competitions together with the Immediate family and take football, basketball, volleyball, swimming classes. Since the end of 2012, a sports program has been existing for the MTS employees, under which the Company either leases swimming pool

lanes so that its employees can go in for sports or compensates for subscriptions.

Every year, regional and federal sports tournaments are held, in order to find the best athletes eligible for the JSFC Sistema's Summer Games. MTS has been taking part in

#MyTrainingToday

In 2016, more than 20 sport disciplines were present in Belarus in the framework of #MyTrainingToday sporting initiative.

As of June 2016, MTS gave 249 free master-classes and conducted other events devoted to healthy lifestyle. The movement covered all regional centers of Belarus.



the Spartakiada Games for 14 years, customarily taking the prize places.

The Company regularly holds MTS Group Cup in 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, tourist's meetings.

In 2016, the Strong in Spirit program to pass GTO (set of sports standards) was imple-

mented. It comprised two months of training and events, which allowed to do the exercises required to obtain GTO pin. As a result of the program, 40 people received distinction pins, of which 20 received golden GTO pins.

There are webinars and seminars in the Company on the following subjects: healthy lifestyle, healthy food, exercises, etc. There is an annual Day of Quitting Smoking in the Company.

All in Play!

In June 2016, MTS Group sports competition All in Play! were held in Moscow. More than 400 participants from Russia, Belarus, Turkmenistan participated the event. Teams of MTS (represented by the athletes form over 40 Russian cities), MGTS, RTC, MTS Bank, Envision Group and Stream compete for a title of being best in nine sports disciplines: indoor soccer, volleyball, street ball, 100 meter race, table tennis, mini golf, darts, chess and domino.

Prior to competition there was a contest of fan chants inspiring the teams to win, which had to be sent as SMS to a short number.



Ambulance

MTS UKRAINE PrJSC continues implementing Ambulance project, the purpose of which is to increase quality and speed of operation of the ambulance service.

The contemporary telecommunication technologies are backbone of the ambulance vehicle navigation system, of the calls monitoring and processing, 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).

The project is implemented in Kharkov, Kharkov Region and Uzhgorod. As a result of convergent services and data transmission technologies use, the arrival time of ambulance, upon the call, reduced on average from 20 to 3 minutes. In emergencies, when admission of a patient is required, the ambulance doctors transmit the data of initial diagnosis research en route to the hospital, which allows to save significant time and make all preparation activities for the patient admission.

Occupational Health & Safety

MTS pays a very special attention to the issues of providing favorable and safe labor conditions. 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.

The Company operates a three-tier system of OSH 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 OSH 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 2016, MTS PJSC spent a total of RUB 79.6 million for the labor protection activities, which comprised RUB 2,562 per person on average (vs RUB 2,324 in 2015).

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.

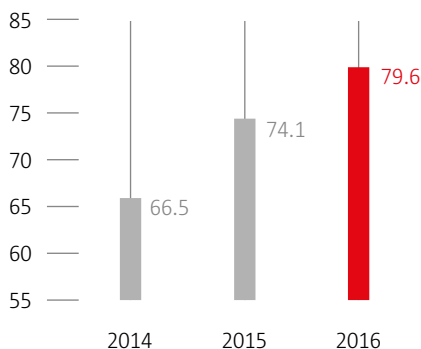
The Company provides training on first aid to people injured at the production facility. The main objective of training is a practice of independent actions and behavior of employees focused on preserving life of injured, before the arrival of rescue services.

In 2016, 19,872 employees attended external and in-house training on labor protection (vs 18,366 in 2015). Employees trained on health and safety are managers, experts, members of commissions on health and safety and other categories of employees. Various training systems are used for internal training on health and safety, including a remote health and safety training system of the MTS Corporate University.

One of the major trends in the prevention of occupational injuries and diseases is a special assessment of working conditions. This process allows to fully identify and objectively evaluate the harmful and (or) dangerous production factors and risks in the workplace, to plan the activities to improve working conditions.

As of December 31, 2016, 23,5676 work places were evaluated in MTS PJSC (94% of a total number of work places). More


Figure19. MTS PJSC expenditures for labor protection activities, RUB million.



In 2016, MTS PJSC spent a total of RUB

RUB 79.6 million

for the labor protection activities, which comprised RUB 2,562 per person on average (vs RUB 2,324 in 2015).

information on the assessment findings is available on the site . In 2017, 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 2,110 and 10,729 people respectively within the reporting period.

28 employees needed a job change, 110 employees were recommended to have health resort treatment upon the results of the periodical medical examinations.

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 2016, five minor accidents, one of which was a group one, occurred in MTS PJSC. The rate of occupational injury, which is characterized by a frequency rate of accidents¹ (Fr), was 0.16 in 2016 (in comparison to Communication industry where it was 1.4). In 2015-2016, there were no employee occupational diseases identified and no fatal accidents took place.

The jobs with potentially high occupational injury include vehicle drivers and technical specialists (working at heights, working on electrical equipment) that serve the communication network.



http://www.company.mts.ru/comp/social_responsibility/ocenka/

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

In 2016, MTS PJSC obtained the Certificate of Compliance of the occupational health and safety management system with the requirements of GOST R 54934-2012 (OHSAS 18001:2007).

Two branches of MTS PJSC received the Employer's Trust Certificate.

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 2016, total amount received as a result of this work was RUB 9.1 million (vs RUB 9.6 million in 2015). 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.

Figure 20. Causes of accidents, %

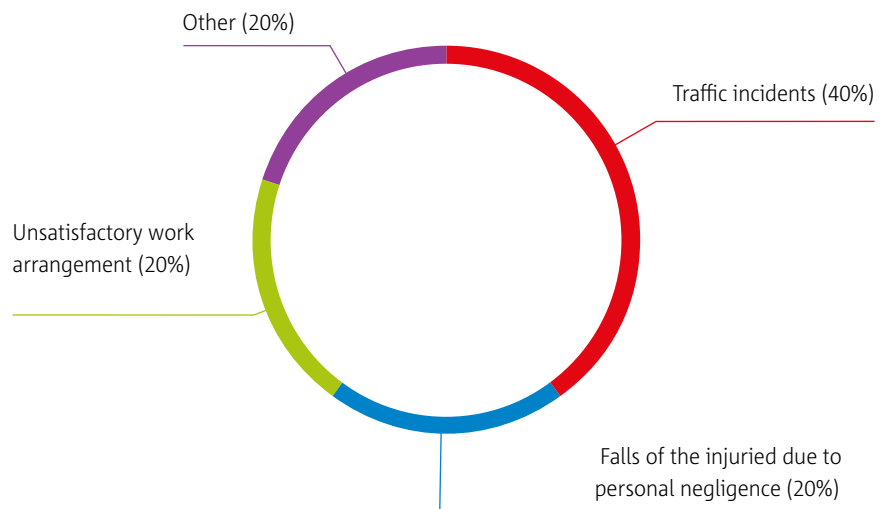


Table 8. MTS PJSC injury indicators

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

OSH management system in MTS PJSC has been recognized at the regional and district levels. In 2016, a number of MTS branches became winners of the city and regional contests for labor protection.

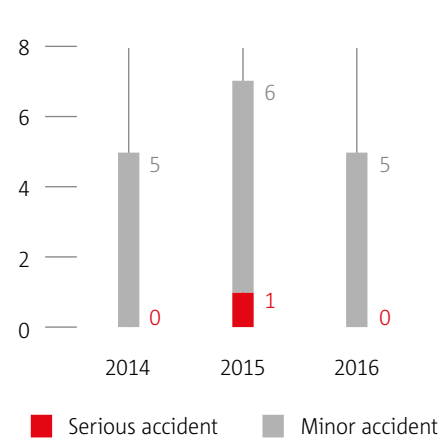
MTS pays special attention to promoting labor protection. In April, in anticipation of the Global Labor Protection Day, various actions are taken to improve the labor conditions and protection of the Company's employees, to prevent occupational injuries and diseases.

In 2016, the representatives of MTS and subsidiaries participated in the work of the second 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.

Figure 21. Number of accidents in MTS PJSC



*We improve the quality of life
by protecting environment*





Environmental Protection

112 Management of Environmental Activities

114 Environmental Initiatives

118 Environmental Impact

Management of Environmental Activities



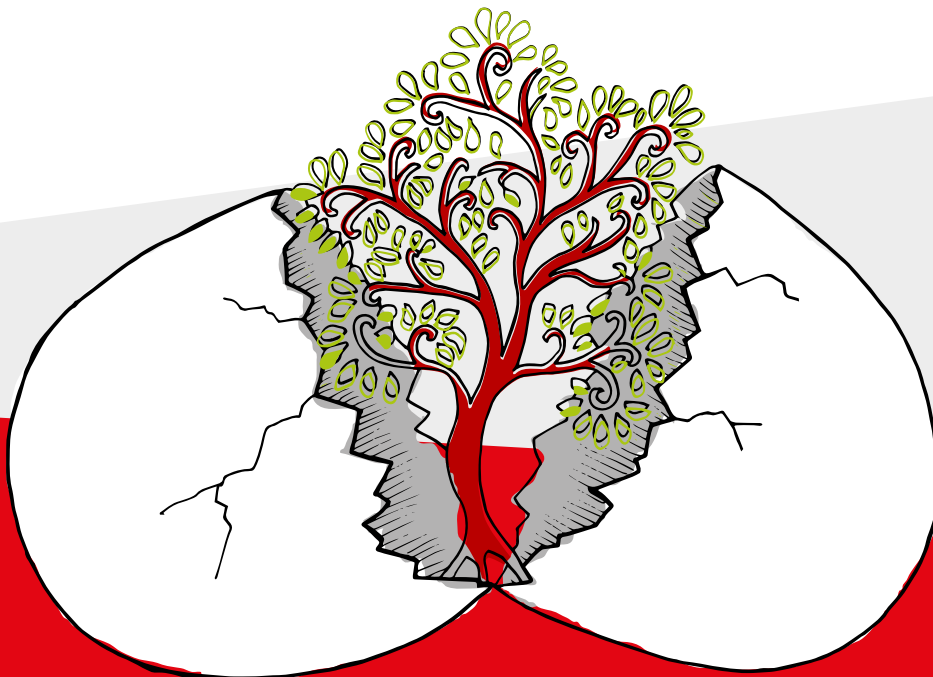
We believe that any socially-responsible company must do business taking into account the possible impact of its activities on the environment. MTS business is founded on the principle of a careful approach towards nature and the Company strives to minimize its environmental impact as much as possible. In 2016, MTS implemented a number of internal and external measures focused on improvement of the environment, increasing environmental awareness of the society, and breeding an environmentally responsible generation.

MTS management and employees share completely the sustainable development principles, in the framework of which business is responsible for the consequences of made decisions and their impact on the society's quality of life.

Management of Environmental Activities is performed by the responsible MTS divisions. The necessary environmental actions at the national level are provided by the Administrative Unit (Department of Real Estate and Office Management Division) and HR Unit (Corporate Social Responsibility Division). Management of environmental projects is carried out in MGTS by the

Environmental Protection Division of the Department for the Maintenance of Buildings and Structures.

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.

In 2016, MTS PJSC total environmental expenses increased by 4.1% up to RUB 14.4 million. In 2016, MGTS PJSC expenses for environmental activities amounted to RUB 19.3 million.

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 meth-

ods 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.

The MTS PJSC facilities generally relate to the III category facilities that have insignificant negative impact on the environment. Designing of network facility stipulates for the List of Environmental Activities. Development of activities is performed in compliance with the requirements of GOST R 21.1101-2013, and requirement of their implementation is a blocking factor for the suppliers. Examination of environmental activities execution is performed at the commissioning stage.

Figure22. MTS PJSC total environmental expenses, RUB thousand.

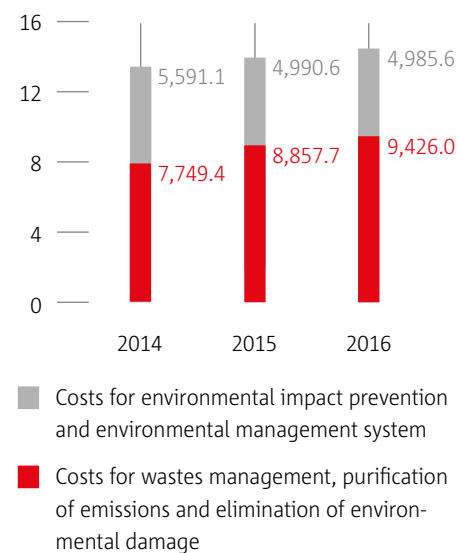


Table 9. Monetary value of material fines and total non-financial penalties of MTS PJSC for non-observance of environmental laws and regulatory requirements

| | 2014 | 2015 | 2016 |
|--------------------------------|------|-------|------|
| fines, RUB thousand. | 0 | 100.0 | 20.0 |
| non-financial penalties, cases | 0 | 0 | 0 |

In 2016, MTS PJSC total environmental expenses increased by 4.1% up to

RUB 14.4 million.

In 2016, MGTS PJSC expenses for environmental activities amounted to

RUB 19.3 million.

There was a technical error in calculation of environmental expenses in 2015 Sustainable Development Report of MTS Group: correct data on environmental expenses in 2014-2015 are published in this Report.

Environmental Initiatives



In 2017, a contest for the best branch in terms of environment protection is planned to be conducted in Belarus. Assessment criteria:

- ▶ administration of mandatory documents,
- ▶ maximum extraction of the secondary material resources from a total volume of waste,
- ▶ the level of employees' environmental awareness,
- ▶ creative contest.

Eco-Telecom

The project is focused on forming environmentally responsible culture among the MTS employees and promotes an increase of personal responsibility: saving of water, saving of forest resources, collection and proper recycling of batteries and old telephones, a careful attitude toward the environment.

As of 2013, the Eco-Telecom line is approved by 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's employees were approved as a part of MTS Human Resources unit strategy.

Save the Tree Environmental Project on Collection of Waste Paper

As of 2011, MTS is a permanent participant of Save the Tree environmental project for a 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. During the time of participation, MTS employees collected for recycling 16,605 kg of waste paper. This is equal to saving 165 trees, 16,505 kW of energy, 330,100 liters of water and prevent the emission of 28,059 kg of CO₂. Days of Fruits and Vitamins are held quarterly for the employees of the most active waste paper collection office.

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 the employees.

There are environmentally themed posters placed in the MTS offices, bright design and highlights of which attract employees' attention and allow them to familiarize themselves in more detail with what they can do to protect the environment. In 2016, in the framework of the project, the information posters on environmentally responsible conduct were updated.



Eco-Race

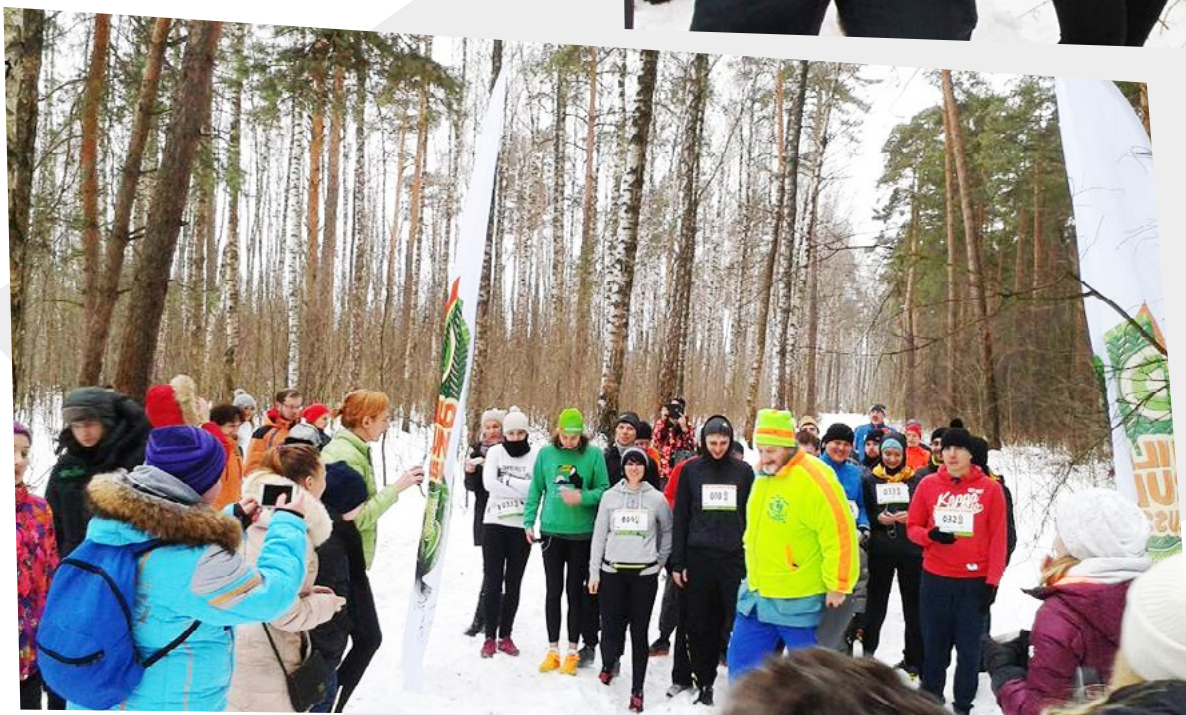
On January 30, 2016, the MTS volunteer race for a distance of 5 and 10 km took place in Losiny Ostrov national park. MTS, MGTS and Envision group employees participated in the race.

The employees of Losiny Ostrov arranged an excursion for all event guests and told of rare plants, trees, as well as of the inhabitants of the National park.

Moreover, all those who wished could participate in a remarkable and useful master-class – making of cookies for birds. Using millet, panic grass, sunflower seeds, gelatin and mold they could make nice and very useful feeding racks for the birds, which had a hard time seeking for food in winter.

MTS employees participated in an international marathon – 360 Minutes for the Sake of Baikal, as well as in eco-quest Day of

Enisey (conducted by Russian Geographic Society and RUSAL) that was aimed at the elimination of non-authorized scrap-heap on the shores of Enisey and its tributaries.



Printing procedure optimization

MTS moves confidently along the way of implementing digital business culture in all areas of its activity.

The approach to printing out documentation changed in two Moscow offices – on Dorozhny proezd (Moscow regional office) and Smolenskaya-Sennaya square. Instead of multiple printers here and there in the office rooms, the single printing zones appeared here. Each of the powerful multi-functional devices (MFD) serves the demands of much more employees than before. After re-arrangement in the office on Dorozhny proezd, the number of printers/MFDs reduced from 251 to 167. While in the office on Smolenskaya-Sennaya square this number reduced almost seven times – from 88 to 13.

The printing zones first results have shown that much less paper is now consumed – only the documents that are really needed are printed. The situation when one needs to go to the printing zone to pick up the document makes him think twice whether this printing is necessary. In the future, MTS employees will be able to obtain the document sent to a printer from their devices in any MTS office just placing the MTS employee pass next to the reading device.

Spring Clean-ups

For several years in a row, MTS conducts ecological spring clean-ups. Various city sites become the places of their execution: parks, museums, socially significant sites in the regions of MTS presence.

1,500 guests participated in a spring clean-up in Kuzminki-Lyublino park in Moscow in 2016. The territory of 4 hectares was improved, 1,500 flowers and 50 trees and shrubs were planted.

On the eve of Victory Day celebration, the employees of MTS Orel branch put in order

local Memorial of the Soldiers Killed in Combats for the Motherland on the Fronts of Great Patriotic War in 1941-1945 in the village of Vozhovo, Kromsky District, Orel Region. MTS volunteers performed a total territory clean-up, cleaned and painted the Memorial. Some 30 people participated in the activity, many of them came with the families. The young participants of the action listened to a narration on Great Patriotic War, the heroic actions of our people, on what was the price paid for the Victory over fascism. More detail on other actions devoted to Victory Day is available in the section Social and cultural projects.

Some of the performances of Mobile Fairy Tale Puppet Theater are devoted to environmental matters. They are intended for kids aged 5 to 12 and conducted in the format of a musical interactive game. The performances talk of how important is to be friendly to nature and each other, how to make life good not only for us but also for our children and the children of our children.



Mobile Technologies for the Environment

First Mobile Technologies for the Environment project (<http://econeshka.ru/>) initiated and supported by MTS in the framework of Green Schools program of EKA public movement was implemented in April-May 2014. Mobile Technologies for the Environment environmental lesson was dated for International Day of Earth on April 22. Some 1,500 Russian schools and over 100 thousand school students participated in the project.

All-Russian environmental lesson was conducted in the framework of the project, in the course of the lesson the students listened to the narration on how the mobile technologies help to preserve the nature, save human lives, eliminate the forest fires, take care of birds and animals.

The students met Ekoneshka – an MTS character and a girl-friend of Interneshka, who is responsible for ecology and helps the nature, as well as received original pocket books on careful attitude towards nature.

In 2016, MTS in cooperation with EKA conducted the second environmental lesson – Mobile Technologies for the Environment. 10,212 teachers from more than 80 Russian regions signed up to participate in the project, who conducted the lessons in their schools covering some 300 thousand students.

On June 5, 2016, Awarding ceremony for the winners, in the framework of an All-Russian ecological festival, was organized and performed in the Gorky Park in Moscow. The winners received telephone charging devices that are operated from solar energy, as well as ecological bags.

Day of Ecological Debt

“Day of Ecological Debt” is when a volume of resources consumed by humankind (ecological footprint) exceeds the volume that Earth is capable of recovering within a year (biological capacity). The rate of resource consumption is constantly growing and Day of Ecological Debt happens earlier every year, in 2016 it has come on August 8.

This date, four thousand Muscovites received, together with their usual bills from the shops, the bills stating that Earth resources were exhausted. The information on the Debt was also placed of the receipts in the MGTS retail sale and service points – Preobrazhensky and Prospekt Vernadskogo, as well as 2.7 million customers of the Company, received the information on Debt to the Planet that was indicated on the payment bills.

By doing this, MGTS reminded to its customers that Earth resources are not unlimited and that there is an opportunity to start saving them with the help of the electronic bill format. The Company received an acknowledgment from WWF for participation in the action.



Environmental Impact

MTS evaluates, in the framework of ecological activities, impact on the environment on all stages of its performance: starting from construction of base stations to packaging of SIM cards.

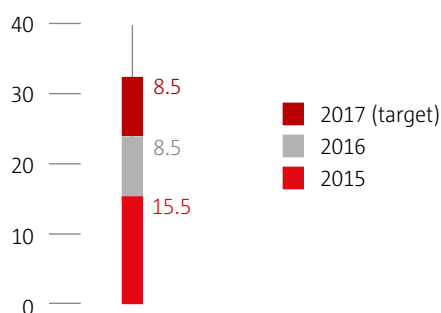
During the smartphone and accessory procurement procedure, MTS performs their testing and the products of questionable quality are not allowed to be tendered. All customized subscriber equipment models (smartphones, USB modems, routers, TV consoles) carry the EAC certificate. Moreover, the packages and components are marked with the Dispose Separately from Domestic Waste symbol.

When starting to design a radio access network facility, its sanitary certificate is developed and submitted to the 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 facility construction, a Rospotrebnadzor accredited organization performs measurements at the facility, issues its opinion and measurement report, which are submitted to Rospotrebnadzor. As a result, MTS obtains the sanitary/epidemiological opinion on SanPiN compliance of the functioning facility.

Figure 23. Number of the SIM cards sold in the ecological packaging, million pcs.



Ecological Packaging

As part of the implementing the 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. As of 2015, some 24 million SIM cards were sold in such packaging.

The packaging is made of Brazilian ecological cardboard that is produced without synthetic additives and easily decomposed by nature. MTS received an Ecological Compliance Certificate for this packaging.

Furthermore, the carrier, a sheet with marketing information for a customer, which SIM card is glued on, has been re-worked. Its paint filling was removed, which allowed to use less paint for printing and it was produced for the old packaging.



New technologies to protect forest from the fires

The active development of the MTS network both contributes to improving the quality of mobile Internet and voice services and allows to launch innovative transport monitoring and IoT services on its basis.

In 2016, MTS became a partner of SAI MR Centreskhov (an institution reporting to Moscow Region Forestry Committee) on implementing the project of video monitoring of forest fire hazard status of the Moscow Region forest resources.

Video monitoring of the forest resources allows obtaining rapidly reliable information on fire hazard status in real time, which leads to the more efficient use of available manpower and resources to prevent, detect and eliminate the forest fires.

MTS granted, in the framework of the project, locations on the cell towers for installing video cameras and ensured data transmission over protected dedicated channels at the rate of up to 4 Mbits/s. All the data come to the operator control room, where there is a communication channel available with a capacity of 250 Mbits/s, which is capable of processing large volumes of data.

As a result, the regional Forestry Committee operations control monitors, on the basis of a high-quality online video, the fire hazard status, analyses the data and may quickly engage the required manpower and resources to extinguish the fires. This solution allows optimizing the expenditures for land and air patrolling of the territory.

The Forest Patrol project, ecological monitoring of the forest area in order to prevent and quickly eliminate a threat of fire, is under implementation in the Novosibirsk Region. Forest Patrol monitoring system video cameras are installed on the MTS base stations in Moshkovsky, Novosibirsk, Kolyvanovsky, Ordynsky and Suzunsky Districts of the Region. This initiative is supported by the Novosibirsk Region Forestry Department.



Electronic Document Flow System

BOSS-Referent electronic document flow system (EDS) existed in MTS as of 2004 and within this period was subject to many innovative changes to correspond to changing business requirements.

There are about 40 thousand users in BOSS-Referent. MGTS was introduced to the system in 2013, RTC in 2014, and Envision in

2015-2016. The system covers the Company's divisions in Russia, Belarus, Turkmenistan, and Armenia.

Transition to the electronic document flow led to a significant saving of paper and transportation expenses of the courier service, which favorably impacts the environment.



PJSC MGTS preserves forests

As a result of the joint program on preserving forest resources, PJSC MGTS and WWF saved from cutting 300 trees and took under protection 1000 hectares of forest of high ecological value.

The purpose of the program announced in December 2015 was to urge Muscovites to reduce paper consumption transitioning to the electronic format of telecommunication service bills and provide them with an opportunity to participate in the recovery of forests by personal donations to WWF Russia.

A number of MTS customers who transitioned to the electronic bill format doubled within a year, which allowed the Company to reduce expenditures for producing paper bills by 6.5%, thus saving three hundred trees from cutting.

Engaging growing number of consumers to the digital communication channels simultaneously solves three tasks:

- ▶ creating of maximum comfort when solving communication related issues,

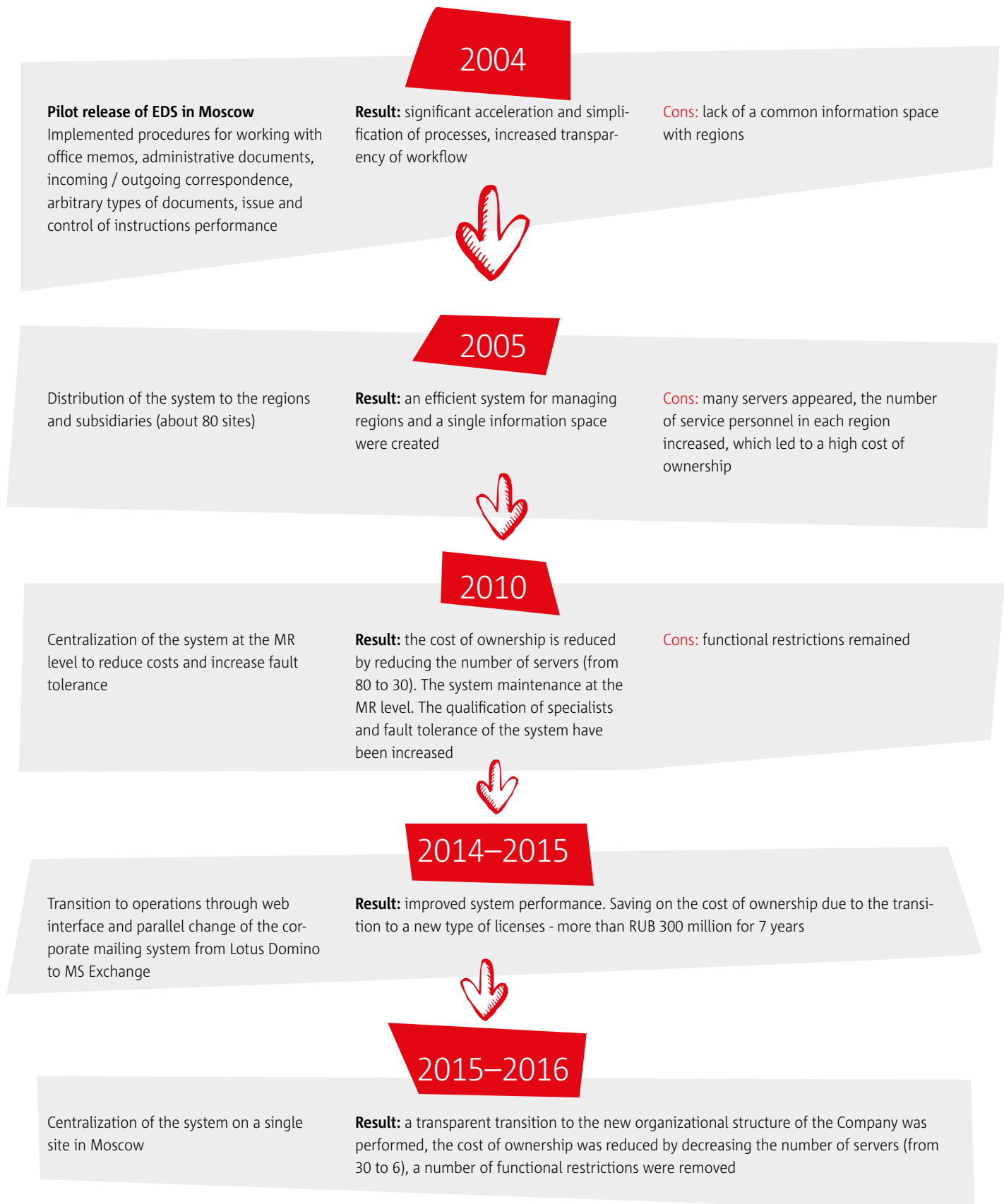
- ▶ saving the Company's funds.
- ▶ preserving the country's ecosystem on account of reducing a volume of consumables.

About a thousand customers donated their personal funds to thy program of preserving forests. MGTS added seven rubles for each ruble donated by the subscribers. Some three million trees are under protection in the especially valuable forests of Arkhangelsk Region, thanks to the raised funds.

An action, in a new digital format, is planned in 2017, which will talk of the value of the natural resources and will provide the MTS customers with the opportunity to participate in the recovery of forests for the benefit of current and future generations.



Figure 24. Evolution of electronic document flow in MTS



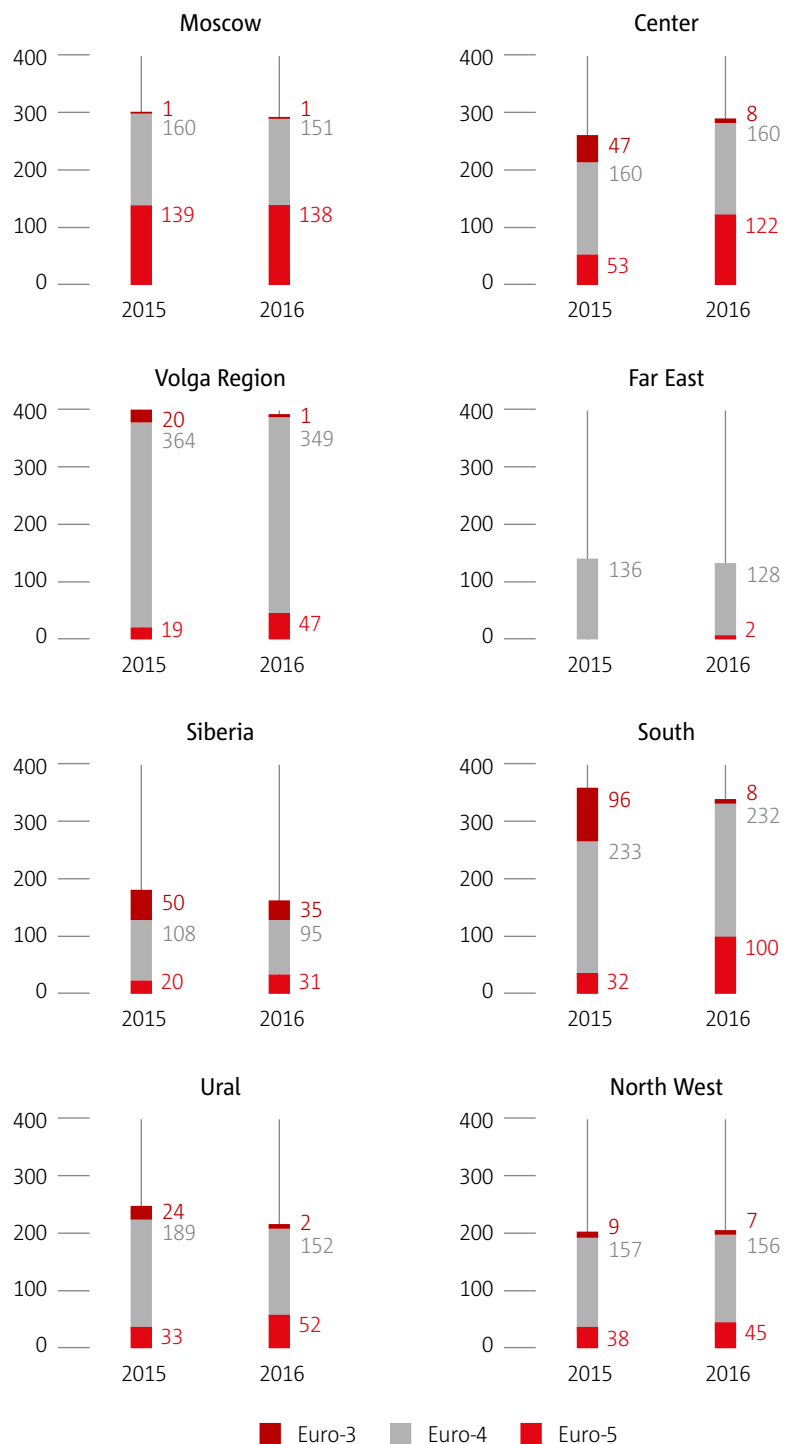


Environmental Impact of Vehicles

Owing to the nature of our business, our direct environmental impact is limited to emissions of our car fleet. In 2016, MTS PJSC used 2,039 vehicles in total (2.3% less vs previous year). When purchasing vehicles, we

take account of the (Euro 3, 4, 5) ecological standards. Share of Euro 3 standard vehicles reduces because of their replacement with the ones compliant with Euro 5 standard.

Figure 25. MTS PJSC vehicles ecology class, pcs.



MGTS PJSC activities aimed at reducing environment impact

In 2016, counting of the sources of contaminant emission to the atmosphere was performed in the MTS facilities. The sources of emission formation changed, and their number reduced because of implementing contemporary telecommunication technologies (high-speed optical technology GPON). As a consequence, contaminant emission to the atmosphere reduced by 64.8%, from 27.9 to 18.1 tons compared to 2015.

In Q4 2016, monitoring (counting) of MGTS rainfall run-off networks, waste water systems and telephone cable chambers was performed. Analysis of waste water discharge volume, its composition and quality was conducted. Upon monitoring results in 2017, waste water discharge volume will reduce by 28.7%, from 256,114.14 m³ to 199,001.14 m³ compared to 2016. Payment for negative impact on the environment of waste water discharge is planned to reduce by 36.4%, from RUB 4,648.4 thousand to RUB 3,407.9 thousand in 2017.

Energy Saving

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 traffic growth and subscriber base expansion implies more energy consumption, which inevitably leads to an increase in the load on generating stations, and thereby harms the environment.

As of 2010, Energy Saving and Energy Efficiency Strategy exists in MTS that 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. The traffic increase and additional

equipment installation result in the growth of power consumption by the base station sites. The growth of the electric power tariffs causes the cost of the power consumed to grow.

We implement new energy-efficient equipment everywhere and implement power efficiency programs; otherwise, 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 the 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 high standards on fuel consumption efficiency and CO₂ emissions.

The overwhelming majority of the 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.

Power Saving functionality is implemented on the MTS UKRAINE PJSC base stations, which switches off base station receivers/transmitters at a time of minimum load in order to save electric power. Electric power saving, taking into account functionality activation across the whole network, may reach from 2% to 5%, which comprises some 4 million kW/h a year.

MGTS PJSC activities on energy saving implemented in 2016

- ▶ Application of light emitting diodes illumination in the projects of building reconstruction and premises adaptation for personnel accommodation (5 buildings);
- ▶ Application of energy efficient starter-controlled devices for lighting fixtures with fluorescent lamps;
- ▶ Switching of communication equipment load to energy efficient power supply units (8 buildings);
- ▶ Switching off the equipment that is not involved in operating process (heating cabinets – 583 pcs.);
- ▶ Replacement of the power consumption metering devices in automatic telephone exchange and connecting them to the automated informative electric power accounting system for power consumption control (4 addresses).

Table 10. Power Consumption by MTS Group's Companies in Host Regions, million kW/h

| | 2014 | 2015 | 2016 |
|------------------------|----------------|----------------|----------------|
| Russia | 824.3 | 937.0 | 1,053.0 |
| Ukraine | 264.4 | 255.4 | 264.5 |
| Belarus | 92.5 | 94.5 | 98.1 |
| Armenia | 33.3 | 33.8 | 34.4 |
| Turkmenistan | 24.7 | 29.1 | 27.5 |
| MTS Group total | 1,239.2 | 1,349.8 | 1,477.5 |

Table 11. Energy Resources Consumed by MTS PJSC in 2016

| Resource | In physical terms | | In monetary terms, RUB, VAT excluded |
|-------------|-------------------|------------------|--------------------------------------|
| | quantity | measurement unit | |
| Heat | 54,730.10 | Gcal | 70,054,782.08 |
| Gas supply | 932,260.12 | cubic meters | 5,988,396.73 |
| Gasoline | 3,574,533.83 | liters | 98,318,783.74 |
| Diesel fuel | 4,094,035.58 | liters | 115,328,778.35 |

Environmental initiatives in Armenia

VivaCell-MTS (Armenia) actively cooperates with Foundation for the Preservation of Wildlife and Cultural Assets of Armenia (FPWC <http://www.fpwc.org/>) as of 2006.

Key projects in 2016:

- ▶ Support of Caucasus Wildlife Refuge;
- ▶ Contests aimed at building public awareness and conducting ecological educational programs for children;
- ▶ Support of Wildlife Rescue Center that was opened in May 2016. The objective of the center is to responsibly solve the issues related to damage caused to nature by human intervention, unacceptable conditions of animal management in captivity, animal abuse. Moreover, the center will conduct regular informational and educational campaigns aimed at different target groups against illegal exploitation of wild animals and its consequences.



Water Consumption

MTS PJSC operations do not materially impact water intake; nevertheless, we seek to reduce water consumption. In 2016, the volume of consumed water reduced by 22%. A

key source of water intake is water treatment plant. Most of waste water is transferred for purification to the third parties.

Table 12. MTS PJSC water consumption, thousand m³

| | 2014 | 2015 | 2016 |
|----------------------------|-------|-------|-------|
| Total | 327.5 | 350.0 | 272.7 |
| Including: | | | |
| from natural sources | 1.7 | 2.0 | 4.0 |
| from water treatment plant | 325.8 | 348.0 | 268.7 |
| recycled water | 0.00 | 0.00 | 0.00 |

Table 13. MTS PJSC waste water discharge, thousand m³

| | 2014 | 2015 | 2016 |
|--|-------|-------|-------|
| Total | 322.4 | 345.8 | 267.9 |
| Including: | | | |
| purified water | 1.85 | 1.95 | 0.06 |
| transferred for purification to the third parties (waste water disposal) | 320.6 | 343.9 | 267.8 |

Emissions

There is no material emission of greenhouse gas because of 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, parking lots, boiler rooms, etc.). Basing on the project, a business unit receives Authorization for emission of the contaminants to the atmosphere.

Table 14. MTS PJSC direct emission of greenhouse gases, tons

| | 2014 | 2015 | 2016 |
|-------|---------|---------|---------|
| Total | 1.72213 | 1.71813 | 1.72918 |

Waste Management

MTS, in the course of the operation, produces various wastes, including hazardous and recyclable ones. We have 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 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.

The Project of standards of waste generation and limits for their disposal is developed for every MTS PJSC facility that negatively impacts the environment. The certificates for a waste of I-IV hazard class are developed in

the framework of the project. Basing on the project, a business unit receives a document with an approval of standards of waste generation and limits for their disposal. Training of the employees authorized for handing of I-IV hazard class waste is performed at the MTS PJSC facilities.

In 2016, a total volume of waste formed in the course of MTS PJSC operation comprised 6,234.2 tons, 97.6% of it is non-hazardous waste of classes IV-V. that waste was transferred to the third parties for further use and recovery, small part of waste was re-used.

In 2016, 2,214.9 tons of waste from MGTS PJSC was centrally transferred for processing and burial.



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 to the specialized enterprises that have a proper license.

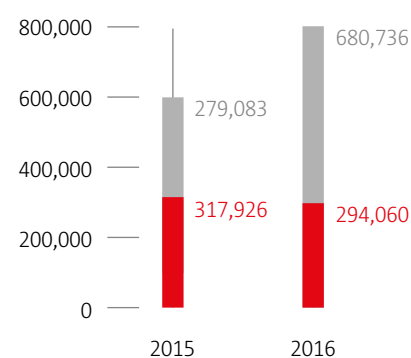
Disposal of Telecommunication Equipment

When disposing of telecommunication equipment, we usually sell spent devices back to the manufacturer, sell to 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 pyrotechnic, neutralized, classified as intrinsically safe

and cleared for processing and melting. We sell the resulting scrap metal to the recycling contractor for further processing.

New recovery service providers were selected in 2016. Our main contractor – LLC Ekoutilizatsiya – has respective license for class I-IV waste collection and recovery and operates in compliance with the RF legislation, observing all environmental standards.

Figure 26. 2015-2016 Disposal of MTS Equipment, kg



■ Ferrous metal scrap
■ Non-ferrous metal scrap

Table 15. 2016 Disposal of MTS Equipment, kg

| Region | Ferrous metal scrap | Non-ferrous metal scrap |
|--------------|---------------------|-------------------------|
| Moscow | 126,516 | 1,442 |
| Center | 165,646 | 65,564 |
| Volga Region | 234,388 | 79,161 |
| Far East | 0 | 119 |
| Siberia | 25,831 | 89,545 |
| South | 106,362 | 37,996 |
| Urals | 13,709 | 3,375 |
| North West | 8,284 | 16,858 |

*We improve the quality of life
by understanding our social
responsibility*





Responsibility

128 Corporate Governance

132 HR Policy and Social Guarantees

140 Compliance and Business Ethics

150 Supply Chain

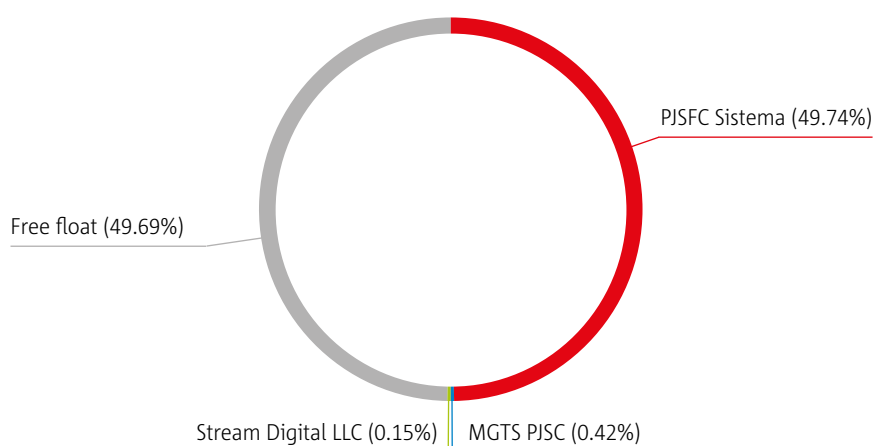
Corporate Governance



Shareholder Structure

The Company's majority shareholder is PJSFC Sistema, which owns 49.74% of the mobile operator's shares as of December 31, 2016.

MTS PJSC share capital structure as of December 31, 2016¹, %



¹ All ordinary registered voting shares that are at disposal of MTS PJSC according to the 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 ownership ratio of PJSFC Sistema includes ownership ratio of the following subsidiaries: LLC Sistema Telecom Assets (11.03% of shares of MTS PJSC) and Sistema Finance S.A. (6.95% of shares of MTS PJSC).

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

The ownership ratio of PJSFC Sistema including indirect interest via controlled entities (MGTS PJSC and Stream Digital LLC) is 50.31% of shares of MTS PJSC, the effective ownership ratio is 50.03%.

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

Free floating shares include 10.5% of shares of MTS PJSC and ADR for 39.19% of shares of MTS PJSC.



Detailed information on the shares and share capital structure of MTS PJSC is available in the Annual Report for 2016, Section Capital and Securities.

Dividend Policy

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

During 2016, MTS made a total dividend payout of RUB 26 per one ordinary share or RUB 52 for one ADR, which totaled RUB 52 billion.

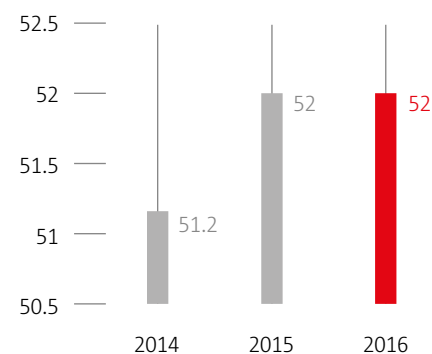
In 2014–2016, the total amount of dividend payments made RUB 155.2 billion. Thus, the Company fully ensured fulfillment of previously undertaken obligations to shareholders in this respect.

In 2016, a new dividend policy was approved for 2016–2018, according to which the Company set a target dividend yield at

the level of RUB 25.0–26.0 per one ordinary share of MTS PJSC (RUB 50.0–52.0 per ADR) during each calendar year. At the same time, the dividend policy assumes a minimum dividend payout by MTS in the amount of RUB 20.0 per share (RUB 40.0 per one ADR) per year.

Dividends, as before, will be paid by two installments during the calendar year. At the same time, MTS is moving to a more even distribution of dividend payments during the year.

Figure 27. Dividend Payments by MTS PJSC, RUB billion



Detailed information on dividend policies and payment of dividends is available in the MTS Annual Report for 2016, Interaction with Shareholders and Investors section.

Dividend payment statistics is available on the Company's website <http://www.company.mts.ru/comp/ir/dividends/>.

Corporate Governance

We aim to improve our existing corporate governance system, keep track of its effectiveness, implement the best practices in our business, and follow the provisions of the applicable Corporate Governance Code.

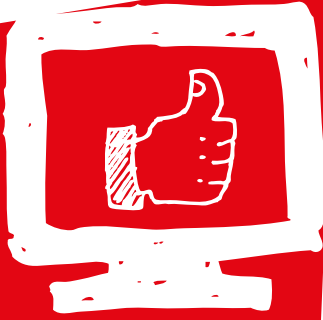
The MTS corporate governance system is based on the clear delineation of the governance bodies' responsibilities and respect for shareholders' rights and interests as well as on information transparency. MTS corporate governance relies on the provisions of the Russian legislation but is not limited there-to — we are committed to developing our corporate governance with due regard for global best practices.

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

for the long-term sustainable development of a modern company.

We recognize that the Company's Board of Directors should include 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.

As of the end of 2016, the following committees operated to improve the efficiency of the decisions made by the Board of Directors, a more detailed preliminary review of the most important issues and preparation of relevant recommendations to the Board of Directors: Budget Committee, Audit Committee, Remuneration and Nominations Committee, Corporate Governance



Innovation in the Corporate Governance

In 2016, MTS and NRC Independent Registrar Company, one of the largest Russian registrars, launched an online e-voting service based on the ComVoting service, which will allow MTS shareholders to vote in electronic format.



The ComVoting service helps shareholders to participate in the voting remotely via the MTS or NRC website. Voting is available to shareholders both keeping their shares directly in the register, and keeping their shares in the depository, including on the accounts of the Central Depository.

Despite sending paper ballots by mail, shareholders are able to instantly communicate their position to the highest management body of the Company using minimal resources and time.

The first electronic voting took place at the extraordinary General Meeting of Shareholders on September 30, 2016. In 2017, during the Annual General Meeting of Shareholders of MTS PJSC, our shareholders will be able to observe the meeting from the screens of their gadgets in real time and monitor the voting online.

Committee, Strategy Committee, Special Committee of Independent Directors.

According to the recommendations of the Corporate Governance Code, key committees (Audit and Remuneration and Nominations Committees) are formed exclusively from independent directors. Representation of MTS

PJSC management in the committees allows for a meaningful dialog during the committee meetings.

According to our estimates, as of the end of 2016, we have fully performed 89% of recommendations of the Corporate Governance Code.

Figure 28. Key principles of MTS corporate governance



A complete report on compliance with the Code's recommendations and detailed information on the corporate governance system is provided in the Annual Report of MTS PJSC for 2016.

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



Detailed information on the experience of members of the Board of Directors is provided in the Annual Report of MTS PJSC for 2016.

Executive Director



Andrei Dubovskov

President, Chairman of the Management Board
Born in 1966
Member of the Board of Directors from June 27, 2011
Citizenship: Russia

CG
SC

Committees:

| | |
|-----|--|
| BC | Budget Committee |
| AC | Audit Committee |
| RN | Remuneration and Nominations Committee |
| CG | Corporate Governance Committee |
| SC | Strategy Committee |
| SpC | Special Committee |
| | Chairman of the Committee |

Independent Directors



Michel Combes

Born in 1962
Member of the Board of Directors from February 14, 2013
Citizenship: France

AC
RN
SpC



Regina von Flemming

Born in 1965
Member of the Board of Directors from June 25, 2015
Citizenship: Germany

BC
RN
CG



Stanley Miller

Born in 1958
Member of the Board of Directors from June 24, 2010
Citizenship: Belgium

AC
RN
CG
SC



Thomas Holtrop

Born in 1954
Member of the Board of Directors from February 14, 2013
Citizenship: Germany

BC
AC
RN

Non-Executive Directors



Ron Sommer

Chairman of the Board of Directors
Born in 1949
Member of the Board of Directors from June 25, 2009
Citizenship: Germany

SC



Alexander Gorbunov

Deputy Chairman of the Board of Directors
Born in 1967
Member of the Board of Directors from February 14, 2013
Citizenship: Russia

BC
SC



Mikhail Shamolin

Born in 1970
Member of the Board of Directors from June 25, 2015
Citizenship: Russia



Vsevolod Rozanov

Deputy Chairman of the Board of Directors
Born in 1971
Member of the Board of Directors from June 27, 2012
Citizenship: Russia

BC
CG
SC

HR Policy and Social Guarantees



HR Policy

MTS staff is a crucial factor in the Company's success. All achievements of our business, the dynamics of its development depend directly on the skills of our personnel, competitive working conditions and a fair and respectful approach to each employee. We constantly strive to improve social and labor relations, create all conditions for the safe work of employees, contributing to their professional and career growth. We are sure that it is the attitude to our employees that largely determines their bona fide conduct in the Company.

In the last five years, MTS has demonstrated a steady increase in personnel involvement, which already in 2015 reached a high-performance zone by metrics of many HR consulting agencies. Maintaining the dialog between managers and employees, the digitization of business processes, the introduction of agile principles, the reasonable construction of C&B remuneration and compensation system and corporate organization structure allowed us to improve the basic HR indicators and to confirm the status of the best employer for the second year in a row.

MTS Group team is more than 70,000 people working in six 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.

The MTS HR policy is implemented in full compliance with the labor legislation and other regulations of MTS countries of presence. The MTS employees earn fair remuneration and get decent social protection. The Company has every condition for safe labor. Engaging highly skilled personnel and talented youth to MTS is an important component of the HR policy.

2016 HR Management Innovations:

- ▶ The project, Transformation of Regional Management Structure, was implemented according to a new model that involves changing the regional management system from geographically- to business-oriented and introducing the teams of regional development directors, responsible for the financial performance of each regional cluster. The concept of the project also included the creation of an institution of Competence Centers (CoC), strengthening the expertise of regions and the proactivity of their interaction with the Corporate Center (CC) and CoC.
- ▶ A single-entry point has been launched for users of Navigator IT services, enabling each employee to manage the operated systems through his Personal Account, receive notifications of operations and make quick login without entering a password or login. Today, the system integrates the Virtual Academy, Portal, Company Structure, Vacation Management, Personnel and Accounting Services Portals, Query Coordination and Workflow.

The Group builds its social and labor relations with the staff based on social partnership, which implies equality, respect and consideration for the interests of the parties concerned, as well as compliance with existing laws and regulations. MTS HR Policy is built on transparent and honest relations with employees. The Company has developed a benevolent corporate culture, an atmosphere of gratitude, care and recognition of the achievements of each member of our friendly team.



In 2016, MTS was once again recognized one of the 11 best employers of Russia (according to the International Certification, Aon Hewitt BEST EMPLOYERS STUDY), and for the second year in a row was awarded the HeadHunter Prize for work with young people and got the special award, For Contribution to the Development of HR-Branding, awarded once in 10 years.

In the rating of TOP-100 employers in Russia-2016, MTS took the 4th place, becoming the leader among telecommunication companies.



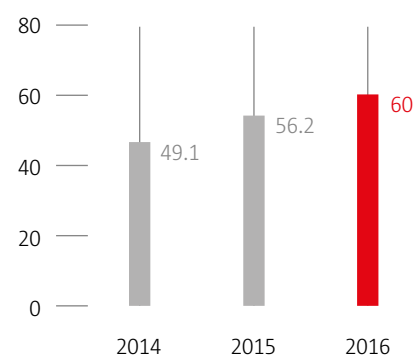
MTS concludes a labor contract individually with each employee and there is no practice of concluding collective agreements with the Company. All benefits, guarantees and compensations (including those benefits, guarantees and compensations in addition to those provided for by the labor laws) are stipulated in various local regulations of MTS. We strictly adhere to the requirements of applicable labor laws and do our best to take into account the 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 a labor contract or its termination at the initiative of the Company, all MTS employees receive notice thereof two months in advance.

The Company has a practice of career promotion based on rotation between regions and levels of management. This approach means that each employee has the opportunity to gain useful experience and skills and get acquainted with the business of MTS in various regions. Our Corporate culture

encourages the employees' social activities if they are focused on social and educational goals and performed on a voluntary basis. At the same time, the Company does not favor activities which may result in the conflict of interests. If it is probable, the employee shall report it (in accordance with the in-house procedure) before he/she becomes engaged in such activity.

The Company has an HR hotline hr@mts.ru. This hotline is created to receive and 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 (trainings, external and distance training), recognition and development of talents. In 2016, 135 messages were sent to the HR hotline. All messages were reviewed and inspected, and their authors received the feedback.

Figure 29. HR costs of MTS Group, RUB billion



Total HR costs of MTS in 2016 amounted to RUB 60 billion.

Staff Engagement

Over the past three years, the engagement statistics of MTS employees in Russia increased by 23 pp, which allowed us to enter the TOP-10 Russian companies with the highest level of staff engagement.

For the last three years, the MTS Russia internal NPS level increased from 8 to 43%, and 50% of our employees are ready to safely recommend MTS as a decent employer to their friends and relatives.

More than 90% of our employees took part in the 2015 MTS Group engagement poll, which is equal to 65,000 people in absolute figures.



MGTS PJSC

MGTS PJSC has developed a Collective Agreement, setting privileges and compensations for its employees in relation to the account of financial and economic capabilities of the Company, which exceed the ones established by the labor legislation of the Russian Federation.

In 2016, more than RUB 134 million was spent for the social and economic support of MGTS employees, including those who retired.

Personnel Structure

In 2016, the number of MTS Group employees made 69,322 people.

Table 16. Total Headcount, people¹

| | 2014 | 2015 | 2016 |
|-------------------|--------|--------|--------|
| MTS Group | 68,549 | 73,967 | 69,322 |
| of which MTS PJSC | 31,051 | 30,879 | 28,910 |

¹ 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 the staff, a healthy corporate morale and maintain and share professional experience. The women to men ratio in MTS Group is 50/50 with minor changes broken down by subsidiaries and host regions.

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.

Staff Turnover

MTS implements a set of activities aimed at reducing the staff turnover: we regularly

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



Table 17. Number of employees hired to MTS PJSC in 2016, people

| ≤ 30 years | | 30–50 years | | > 50 years | | Total | |
|------------|-------|-------------|-------|------------|----|-------|-------|
| m | f | m | f | m | f | M | f |
| 1,343 | 1,886 | 744 | 1,006 | 44 | 23 | 2,131 | 2,915 |

Table 18. MTS PJSC Staff Turnover in 2016, %

| ≤ 30 years | | 30–50 years | | > 50 years | | Total | |
|------------|----|-------------|----|------------|---|-------|----|
| m | f | m | f | m | f | M | f |
| 30 | 34 | 11 | 17 | 5 | 6 | 17 | 24 |

Figure 30. Number of MTS Group employees in 2016, people

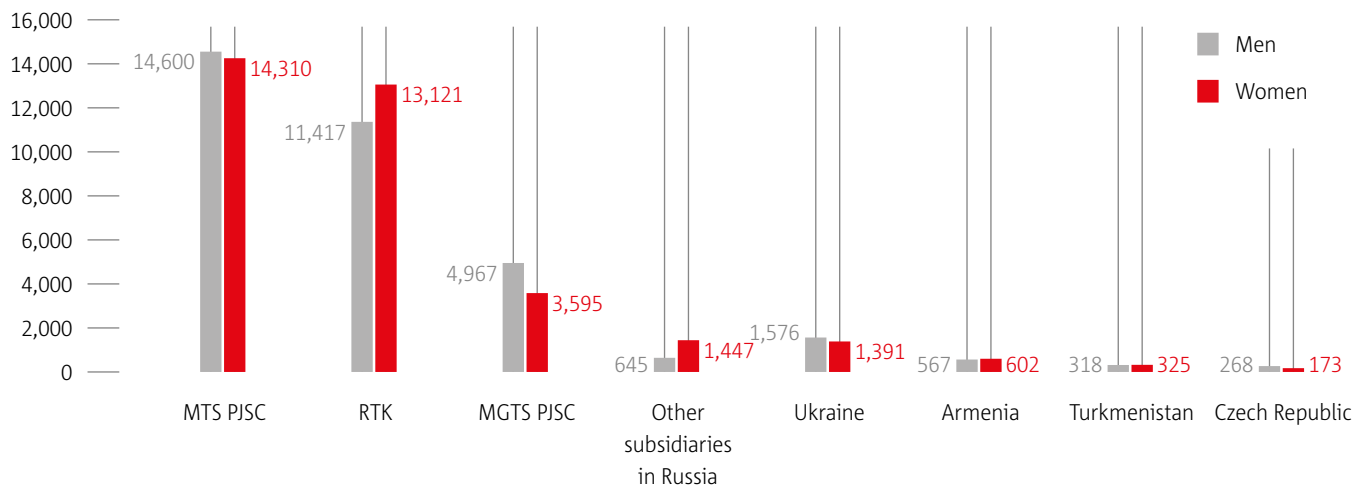


Figure 31. MTS PJSC staff structure in 2016, broken down by age, %

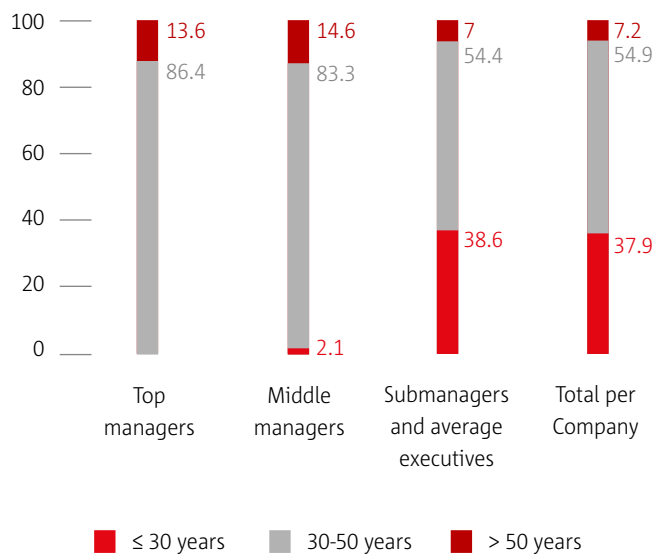


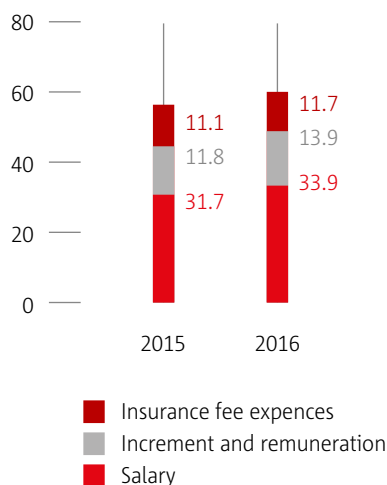
Figure 32. MTS PJSC staff structure in 2016, by gender, %



Figure 33. MTS staff structure in 2016, by types of activities, %



Figure 34. Payroll expenses structure in MTS Group, RUB billion



In 2016, payroll expenses in MTS Group amounted to

RUB 59.5 billion.

Evolution 2.0

In May 2016, a large-scale motivation program, Evolution 2.0, involving all employees of the MTS retail network, has been launched. Under this program each employee can participate in special missions, earn points and spend them in the online prize shop.

To cover differing requests of our participants, all missions were divided into two groups: commercial and social. With the help of commercial missions, colleagues achieve impressive results, fulfill and overfulfill sales plans, and social missions help to make every-day life better.

At present, over 7,000 people participate in the program.

Personnel Motivation

The Company operates a competitive payroll system consisting of fixed and variable parts. The compensations' and benefits' package is provided to the Company's employees, which meets practices existing on the labor market.

MTS personnel remuneration systems are based on the 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 pay that allow for objective evaluation of the performance of employees and MTS as a whole, and the motivation of employees to increase efficiency. The principles of payroll competitiveness and fair reward underlie every system of MTS personnel remuneration.

tem of bonuses for the employees engaged in sales and subscriber services. 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 2016, payroll expenses in MTS Group amounted to RUB 59.5 billion (in 2015 – RUB 54.6 billion).

Financial Incentives

The amount of a fixed part of the remuneration (official salary) is defined taking into account salary ranges established for each position category (grade) on the basis of 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 on the basis of 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 more influence, the higher the proportion of the variable component.

In 2016, an average salary in MTS PJSC, including salary and bonuses, amounted to RUB 68 thousand. The Company has a sys-

Non-financial Incentives

We pay great attention to non-financial incentives. The achievements recognition system, operating in the 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.

Social Guarantees

The Company provides its employees a broad compensations' and benefits' package focused on 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 on the basis of the needs of the service.

Social benefits including 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 housing 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, the MTS employees are given opportunities for living a healthy life and going in for sports. All employees have the opportunity to participate in the Health Days, bike rides and sports competitions. For

employees with a certain length of service in the Company, we provide compensation of costs for swimming pools and fitness clubs. For more details, see the [Health](#) section.

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 the additional compensation of travel expenses to the place of vacation.

Besides, employees are allowed to take part in the Benefit Cafeteria program where based on employee's individual decision his set of benefits may be changed. Such an approach enables to qualitatively satisfy personal needs of the employees with high-cost effectiveness.

Medical Care



MTS gives additional social protection to all employees by providing them with medical insurance and accident insurance. Every year we conclude voluntary medical insurance contracts with insurance companies, which enable our employees to get medical aid in state-of-the-art 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 2016, the total costs of MTS Group for providing personnel with social guarantees amounted to RUB 911.1 million, of which the cost of VHI amounted to RUB 711.1 million.



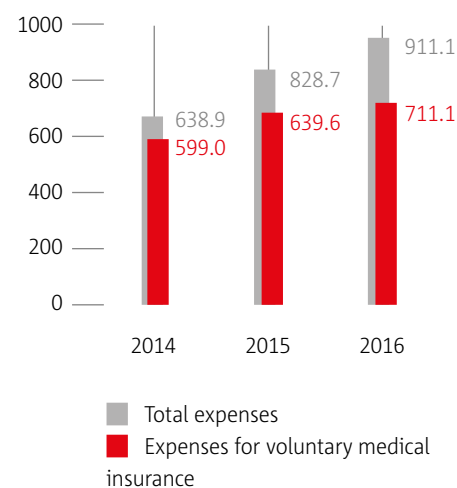
Single Hotline

The information resource known as Single Hotline is in place to promptly respond to feedback from clients and counterparties and increase employees' loyalty to the Company. Feedback topics cover a wide range of issues relating to the activities of MTS and its subsidiaries, enabling employees and counterparties to have exhaustive information on the topics of their interest.

Employees have the opportunity to 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 of 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.

Figure35. Costs of MTS Group for providing personnel with social guarantees, RUB million



Teleport



The 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 submit an application to the project team in the MTS Life social network. Upon approval by the officer in charge of project and settlement of logistical issues, an employee starts working in the selected city.

For three months of operation, about 250 applications for the transition from various regions were accepted, 106 people successfully changed their place of residence and continued to work at MTS. 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.

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. 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 extent possible. The contest for the vacancy is open for both internal and external candidates. MTS official website <http://rabota.mts.ru/> provides information about development, corporate ladder, corporate culture of MTS Group. It also provides the information both for novices, experts and managers. Any job-seeker who wishes to become employed by the Company, can apply for a vacancy of interest in the convenient format.

Recruitment of Young Professionals

The Company's website <https://rabota.ssl.mts.ru> has a special Work for the Youth section. 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 half 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 managers' master classes, collaborations with business schools.

MTS provides students and young professionals with the opportunity to go through summer internships and practical training in various departments of the Company. In total, in the context of internship, the Company cooperates with more than

50 higher education institutes of Russia. The program lasts for two months or more, during which a trainee works with a mentor. The novice performs certain business functions in a real project, where his work is indeed important.

Adaptation of New Employees

A special adaptation system has been developed for newcomers at the Company. In their first working day, the novices are given the Welcome to MTS employee guide, which provides answers to the basic questions which may arise in the first days of work.

All new MTS employees must take integrative courses:

- ▶ Introduction to MTS is a basic training course for new employees that introduces to them the Company's business principles, history, organizational and corporate culture;
- ▶ Introduction to GSM is an ABC for each MTS employee, containing engrossing lessons making it possible to learn everything about mobile communication.

The novices go through an introduction to their jobs, planning of adaptation and the probation period. At the end of the probation period the managers evaluate the new employee's work and in turn, receive proposals and suggestions that are also analyzed by the HR department. As to the newcomers to the Sales and Subscriber Service division, they are supported by the mentors.

The MTS retail chain also has the Mentoring Project. 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



In 2016, we continued to implement our Social HR project that covers hiring and adaptation of employees of mature age and young professionals with disabilities, as well as the 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 the eighth year. Its work is aimed at the employment of people with disabilities, assistance in developing their professional skills. MTS is a member of its Board of Directors from 2013.

MTS supports corporate inclusion. The Company's policy guarantees that the 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 in the country;
- ▶ Annual Best Friends dance marathon where MTS traditionally involves its employees to once again attract public attention to the fact that we all have equal opportunities. Over a thousand people take part in the event;
- ▶ Cinema Without Barriers international film festival about life of people with disabilities. The festival tells stories of their struggle and success and introduces spectators to those who live and work despite any obstacles;
- ▶ Sporting events to include people with disabilities in sport: MTS Unity Cup joint football matches and beach volleyball games with corporate teams of MTS and other major companies.

HR technology on Twitter



On May 19, 2016, MTS participated in the annual campaign, Twitter Job Fair. On its account, MTS published the currently open job positions applications for which exceeded the job-seekers' average level of activity.

More and more people are looking for a new job on the Internet and various social media. These are dynamic, young, modern people, who get used well to a new Internet society. These are the people we want to see among our employees and it was for them that we held Twitter Job Fair.

10 REDUCED INEQUALITIES



Compliance and Business Ethics

Uniform Compliance System

For several years, based on the norms of applicable legislation, recommendations of regulatory bodies, industry specifics and best practices in this area, MTS is actively developing a unified compliance system.

In order to implement a unified compliance strategy for the Company, consolidate the principles and unify approaches to effective compliance risk management, in 2016, MTS adopted the Compliance Policy of MTS PJSC.

In addition, the Company has established a Compliance Committee within the office of MTS President, which includes the President himself, heads of direct subordination. The Director of the Compliance Department is the Chairman of the Committee.

The Committee makes decisions on the forming and implementation of compliance programs that constitute the Unified Compliance System. The main tasks of the Committee are to implement a policy on compliance risk management and make proposals on the development areas of MTS Group in this sphere.

By the decision of the Compliance Committee in 2016, the Unified Compliance System included nine compliance programs. The programs are supervised by the relevant functional divisions, each of which implements its compliance line and a system for minimizing risks. Coordination of the implementation and operation of the Unified Compliance System is entrusted to MTS Compliance Department.

The introduction of the Unified Compliance System will allow the Company's management and management bodies to have a more structured understanding of existing compliance risks and take these factors into account when making managerial decisions, which will positively affect the overall performance of the Company as well as receive consolidated management reporting.

Figure 36. Unified compliance system of MTS



The Code of Business Conduct and Ethics

The code of business conduct and ethics (hereinafter – the Code) contains the basic principles of MTS business. In its activities, the Company complies with the law, follows generally accepted standards of business ethics and does not accept any other ways of doing business that contradict these rules.

The Code should be regarded as a document containing a minimum set of standards and requirements adopted by the Company in order to promote fair and ethical business practices and to prevent abuse. The Code defines the rules and standards that should be followed by the employees in their everyday work. In cases requiring an application of higher standards than the accepted commercial practice, or regulations having greater legal force under the current legislation, MTS will use such higher standards.

The Code of MTS PJSC covers such topics as MTS and Employees, MTS and Clients, MTS and the Society, MTS and Laws, Feedback on the Code Violations, which formalize the re-

sponsibility before the employees, subscribers, shareholders, partners and all parties concerned, and the public.

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

The Code is the fundamental document by which the Company is guided in its daily work and which helps to protect the good name of the Company and maintain its competitive advantage.

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

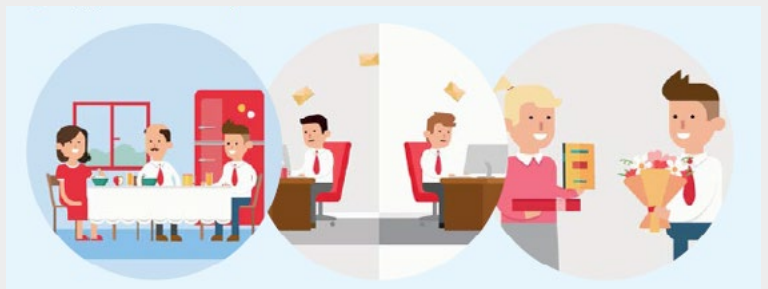


You can read the text of the Code on the official MTS website in the MTS / Compliance and Business Ethics / Code of Business Conduct and Ethics section http://www.company.mts.ru/comp/company/compliance/code_business_Conduct/.

Day of Ethics and Compliance

The arrangement of the Day of Ethics and Compliance has become an annual tradition in MTS. In 2016, the Company conducted a series of training webinars for employees on compliance programs related to countering corruption, antimonopoly compliance, as well as OSH management system. The employees of the compliance function spoke on the corporate radio and told about the Unified system which is being created, current projects and plans.

For MTS employees, a premiere of educational animated videos featuring important compliance issues was held: conflict of interests, donation of gifts and invitation to entertainment events, business correspondence by e-mail. The Company's employees were also invited to take part in the poetry contest on compliance and business eth-



ics. The winners and participants of the contest were presented with gifts and consolation prizes. In 2016, MTS subsidiaries and affiliates joined the Day of Ethics for the first time.

Settlement of Conflicts of Interest

In order to create a uniform and efficient system for managing actual and potential conflicts of interest, as well as determining the requirements for the behavior of employees, the observance of which helps to minimize the risks of decision-making under the influence of personal interests and relationships, in 2012 the Company introduced the Policy of Conflict of Interests Management. In 2015 the Policy was approved in a new version, in 2016 a new version of the application Disclosure of Information on the Conflict of Interest was adopted, supplemented with a clause on the presence of relatives in state structures. Compliance with the Policy is the responsibility of any employee of the Company, regardless of his / her official position. Employees holding managerial positions are required to set an example of law-abiding and ethical behavior and actively support the implementation of the Conflict of Interest Management Policy.

When being hired, all employees get acquainted with this Policy, fill out and sign the Disclosure of Conflict of Interest form. As the conflict of interests arises, each situation is subject to review and settlement. The Company also conducts annual testing of knowledge and certification of compliance with the Code of Business Conduct and Ethics for management and top management, the results of which are reviewed by the Audit Committee under the Board of Directors of MTS PJSC.

In 2016, a survey was conducted on the internal unified information portal of MTS on disclosing information on the conflict of interests among all employees of the Company who wanted to participate in it. During 2016, data on 19 situations with regard to conflict of interests was checked and reviewed by the experts of the Compliance Department. 2 actual and 8 potential conflicts of interest have been settled. In 9 situations, a conflict of interest has not been detected.

Anticorruption Compliance

According to a Transparency International study, in 2016 Russia ranked 131 out of 176 possible in the annually published Corruption Perception Index. A similar level of corruption was demonstrated by Iran, Kazakhstan, Nepal, and Ukraine. It is noted that, in comparison with 2015, Russia's place in the rating has not actually changed, it has scored the same number of points, and the decrease in the ranking is due to the increase in the number of counted countries.

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 addition, anti-corruption law enforcement procedures are set forth in the Company's business process regulations.

Basic principles and elements of the system of anti-corruption compliance in MTS:

- The Company's management actively demonstrates its commitment to compliance principles as well as supports efforts for implementation and assurance of operation of the corporate compliance system (Tone from the top);

- ▶ The Company regularly conducts measures for discovery and subsequent updating of corruption risks paying special attention to risks specific for its activities, regions of operations as well as potentially vulnerable business-processes;
 - ▶ The Company develops and implements anti-corruption procedures reasonably and proportionally meeting the level and nature of discovered risks;
 - ▶ The Company implements and maintains the program of training of its employees and members of management bodies in principles and standards of compliance with applicable anti-corruption legislation by means of a specially developed training system. By means of informing and training the Company contributes to the increase of the level of corporate culture, awareness of anti-corruption and business ethics issues;
 - ▶ The Company exercises monitoring of efficiency of implemented procedures for corruption prevention, monitors compliance and, if required, improves them;
 - ▶ For the purposes of minimization of the risk of the Company's involvement in corrupt practices, the Company developed due diligence procedures both in respect of contract parties – legal entities (including members of joint ventures, companies or associations) and in respect of individuals with whom the Company plans to enter into a labor contract or a civil law contract. The due diligence procedure is also applied if the Company acquires a stake in some legal entities;
 - ▶ Annually the Company conducts an assessment of corruption risks in the business processes of the organization, which directly involves representatives of business units;
 - ▶ The Company established the procedure for preliminary control as well as the reporting system and subsequent analysis of the riskiest transactions in terms of compliance, including but not limited to, in the area of granting, implementation of representation expenses, organization of measures, corporate social responsibility, procurement, marketing, sales, M&A transactions and etc.;
 - ▶ In order to prevent corruption risks in the process of implementing charitable projects, the coordination of all such projects is carried out in the Oracle E-Business Suite system, which ensures the participation of all mandatory persons in the chain of coordination. If government officials are involved in the implementation of charitable projects, such projects are subject to additional approval by the Compliance Department. The Compliance Department exercises post-control of compliance with the procedure and requirements for the implementation of charitable projects within quarterly monitoring. Should any violation be revealed, the Compliance Department notifies the executor's head thereof and makes recommendations on disciplinary actions in order to prevent violations in the future;
 - ▶ As part of internal control procedures, the Company conducts inspections of the discipline of execution of the established procedure for implementation of business processes, including inspections of lawfulness of executed transactions with the Company's assets;
 - ▶ The Company operates a Single Hotline, which allows, among other things, to send reports on violations in the field of compliance anonymously. Claimants are provided with the Company's protection from any forms of persecution or discrimination.
- Projects and initiatives of 2016 on the development of an anti-corruption compliance program and strengthening of compliance culture:
- ▶ Corruption compliance risks were assessed in the Company's foreign subsidiaries, risk maps were compiled and actions for managing discovered risks were identified;



No instances of corruption were revealed in MTS in the reporting period. There are no legal actions related to corruption practices against MTS or MTS employees.

In 2016, the development of the international standard ISO 37001 Anti-Corruption Management Systems was completed, in the creation of which the Company took a direct part working on the project committee.

- ▶ The Company conducted an in-depth study of the best international practices of organizing and building corporate anti-corruption compliance programs. The objective of the project was also to compare the state of the Company's compliance program with the leading international experience. The main conclusions of the project were that MTS is in line with the world's leading practices in terms of the organization of the compliance function, its functional subordination within the company and the coordination of compliance activities, as well as the distribution of responsibilities between the MTS compliance function and other structural divisions of the company and involvement of the compliance function in compliance with the MTS procedure;
- ▶ For the purposes of the counter party verification procedure, specialized databases of the leading news agency were involved, which made it possible to improve the effectiveness of the counter party verification procedure;
- ▶ Compliance processes and procedures to be automated have been determined and the search for a specialized IT solution has begun;
- ▶ The implementation of the training plan for the function of anti-corruption compliance has continued:
 - 2,576 employees of the Company and subsidiaries and affiliates of MTS, including the top management of the Company participated in full-time training on anti-corruption compliance;
 - 15,407 MTS employees participated in training electronically.
- ▶ In internal communications, the subject of compliance was actively covered, in particular:
 - Video messages of the Company's management on the importance of observance of compliance requirements have been published;
 - A series of animated videos on compliance with anti-corruption legislation and conflict of interest management was launched;
 - The broadcasting of interviews on corporate radio with the representatives of the compliance function was arranged;
 - A lot of thematic communications were sent out;
 - Animated screensavers on the subject of compliance were developed and placed on the working computers of the Company's employees.

Protection of Confidential Information

Compliance program Protection of Confidential Information establishes the requirements for the organization of the information security regime in the Company aimed at ensuring the protection of confidential information and the regime of commercial confidentiality. For this purpose, the Company has implemented the Regulation on the security regime of information (confidentiality) of MTS PJSC. The requirements set forth in the Regulation are mandatory for all employees of the Company. Each employee

is personally responsible for the implementation of the information security regime (confidentiality) of the Company.

The regulation is developed on the basis of the applicable law: Federal Law of the Russian Federation No. 149-FZ of July 27, 2006 "On Information, Information Technologies and Information Protection", Federal Law of the Russian Federation No. 98-FZ "On Commercial Secrets" of July 29, 2004, takes into account the require-

ments of the Federal Law of the Russian Federation of July 7, 2003 No. 126-FZ "On Communications", Federal Law of the Russian Federation No. 152-FZ of July 27, 2006 "On Personal Data".

An important element of the program's compliance is regular training and informing the company's employees about their duties, requirements and prohibitions regarding working with confidential information, as well as

on procedures on protection of confidential information in MTS.

No less important role is played by the subsequent control in the form of checks of the state of the information security (confidentiality) regime and organization of work with confidential documents. In 2016, such inspections did not reveal any significant violations.

Inside Compliance

As a company striving to maintain a high level of corporate governance, whose securities are traded in Russia and the USA, MTS, pays great attention to maintaining an efficient system of inside compliance.

MTS appointed a person accountable to the Board of Directors and responsible for exercising control over compliance with the requirements of legislation on the use of insider information.

The Company operates a system of measures, procedures and processes aimed at preventing violations of the law on the use of insider information, built taking into account the best Russian and international practices.

In order to comply with the requirements of the Russian legislation, the Company adopted the Policy Compliance with the Requirements of Legislation on Insider Information, and in compliance with applicable US requirements – the Regulation on Principles and Procedures Concerning the Prevention of Transactions Using MTS Insider Information. The specified regulations establish the procedure for the use of insider information, the procedure for access to it, regulate the procedure for maintaining the list of insiders and the list of insider information, establish appropriate prohibitions and responsibility for the commission of insider transactions, and also determine the procedure for providing information on requests from the Bank of Russia and the Moscow stock exchange.

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

- ▶ None of the officials, directors or employees of the Company possessing insider information relating to securities shall have the right to buy or sell these securities, either directly or through relatives or other persons, irrespective of whether the issuer of such securities is the Company or any other public company;
- ▶ None of the officials, directors or employees of the Company shall sell or purchase securities of the Company during the period beginning 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 referred to as the closed period), except for the exercise of options that are not related to the sale of the Company's securities;
- ▶ 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 Transactions Using MTS Insider Information";

- ▶ Insider information under no circumstances is subject to transfer by officials, directors and employees of the Company, either directly or through other persons, to third parties outside of the Company or even to persons inside the Company, except for those to whom such information is required due to service necessity;
- ▶ If a person has doubts as to whether it is possible to make a deal or not, it is better to refrain from doing it.

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

In 2014, a full-time education system was launched for all insiders-employees of the Company specifying their duties, requirements and prohibitions of legislation on the use of insider information, as well as MTS procedures for protection of insider information. In addition, when hired, each employee is familiarized with MTS regulatory documents aimed at preventing violations of insider laws.

Risks related to violation of legislation on the use of insider information are taken into account in a specialized automated system and

are reassessed within the quarterly process by the Risk Management Department.

Russian regulation related to prevention of transactions with the use of insider information has its own peculiarities. That's why the Company keeps a list of insiders. Thus, in addition, MTS pays close attention to the tracking of insiders, counter parties-insiders, and especially insiders-participants in meetings of MTS management bodies.

In order to maintain an efficient system of inside compliance, the Company audits the system's controls:

- ▶ It is made annually by employees participating in the functioning of the system of inside compliance (verification of compliance with the requirements of the system of inside compliance, related to the notification of insiders on their inclusion and exclusion from the List of insiders, as well as the fulfillment by insiders of their obligations to notify the company of transactions with securities MTS, compliance with the rules of disclosure of insider information, keeping a list of insiders, etc.);
- ▶ As necessary (taking into account the risk-oriented approach) it is made by the internal audit department, headed by a person accountable to the Board of Directors.

In 2016, the Internal Auditing Division audited the controls of the inside compliance system: no material deviations were discovered.

Organization of Personal Data Processing

MTS is the operator of personal data and is obliged to comply with the requirements of applicable legislation related to personal data. Specialized structural divisions of the Company implement the program in this field and take all the necessary organizational measures to bring the processing of personal data in compliance with the requirements of the law.

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

- ▶ Acceptance and processing of applications of personal data subjects;
- ▶ Registration of persons processing personal data of personal data subjects on behalf of MTS PJSC;

- ▶ Carrying out of checks of a state of the security regime (confidentiality) of the information;
 - ▶ Advising and raising the level of awareness of MTS PJSC employees on the processing of personal data.
- The Company developed and implemented an electronic course Personal Data Processing in MTS PJSC, which is mandatory for all employees, other information channels are used; for messages and appeals concerning the organization of processing of personal data, a special Hotline was opened.

Counteraction to the Laundering of Money Obtained through Criminal Means and Financing of Terrorism

Program on counteraction to the laundering of money and financing of terrorism was developed on the basis of the requirements of applicable legislation, monitoring of changes which is carried out on a regular basis.

The Company developed and implemented a set of relevant internal regulatory documents, regularly conducts the corresponding training. In 2016 3,200 MTS employees participated in it.

In 2016, working meetings were held with regulators – representatives of the Federal Service for Financial Monitoring, the Federal Service for Supervision of Communications, Information Technology and Mass Communications and mobile radiotelephone communications operators on current issues related compliance with legislation with regard to counteraction to the laundering of money and financing of terrorism.

As part of the program's activities, the Department for Regional Security conducts a daily audit of the subscriber base in order to check whether the subscribers included in the List of Terrorists / Extremists or not. If the Company's subscribers are carrying out high-risk operations, a check of validity of the passports is implemented as well as check of the List of Terrorists / Extremists.

The Department for Regional Security also carries out daily control over the termination of contracts for the provision of telecommunications services with the return of the balance of the advance, as well as other transactions of subscribers with signs of doubt, in accordance with Order No. 103 of the Federal Service for Financial Monitoring of May 8, 2009 "On Approval of Recommendations for Development Criteria for Discovering and Identifying the Signs of Unusual Transactions."

Antimonopoly Compliance (antimonopoly risk prevention system)

The main components of the antimonopoly risk prevention system are:

- ▶ Adherence of the management to compliance with the requirements of law on competition (Tone from the top);
- ▶ Responsibility of the antimonopoly compliance manager for maintaining and developing the antimonopoly risk prevention system;
- ▶ Annual activities for identifying and reassessing the existing antimonopoly risks in MTS operations as well as update of the Risk Map;
- ▶ Support, performance monitoring and updating of internal procedures to ensure compliance with antimonopoly laws;

- ▶ Regular training of employees and management related to requirements of the antimonopoly legislation, as well as compliance procedures approved in the Company;
- ▶ Communication aimed at increasing the level of compliance culture;
- ▶ Support of the Single Hotline used to inform about potential threats.

In 2016, the Company made a decision to implement the antimonopoly risk prevention system in MTS Ukraine PrJSC, training of employees continued, including during specialized trainings aimed at preventing the most serious risks in pricing, and an internal audit of system control procedures related to marketing activities, was conducted, the audit confirmed the efficiency of controls.

OSH Management System

Building the compliance program "OSH Management system" the Company is guided by applicable Russian and international legislation, as well as by local regulatory documents on labor protection. Within the program, activities are carried out to identify

and minimize risks, train employees and specialists in the occupational safety, promote safety issues; control procedures at various levels are implemented and interaction with regulatory bodies is performed. (More about labor protection in the section [Health](#)).

Observance of Human Rights at the Workplace

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

Business Conduct and Ethics, MTS functional strategy in the field of corporate social responsibility, and the MTS Supplier Code.

Principles and approaches to the observance of human rights are set in the company's internal regulatory documents, in the Code of

If an employee believes that his rights are violated, he can send an appeal to the Company's Single Hotline.

Environment

MTS, in its operations, strives not only produce a minimum impact on the environment but also reduce this impact as much as possible. When solving this task, the Company is guided by the requirements of environmental legislation, as well as responsible busi-

ness conduct principles, aims at raising an environmental culture of the employees and partners, as well as implement the services based on advanced technologies (for detail see section [Environmental Protection](#)).

Compliance System Development Plans for 2017

- ▶ Implementation and development of the unified compliance policy in the Company in order to effective functioning of all compliance areas included into the system;
- ▶ Strengthening of the Company's compliance culture by implementing key principles and standards, observance of all compliance programs, increase Tone-in-the-middle;
- ▶ Ensuring of centralized coordination of all compliance risks;
- ▶ Consolidation of the compliance risk management reporting system;
- ▶ Preparation for certification on compliance with ISO 19600;
- ▶ Creating a reputation of the compliance leader and best practice in the market.

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 the Supplier's Business Conduct are available to any supplier on our website in the Procurement section <https://tenders.mts.ru/>.

The Company approved the Code of MTS PJSC Supplier's Business Conduct (https://tenders.mts.ru/upload/SUPPLIER_CODE.rar), describing 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.

Any tender is carefully prepared by a category purchasing manager. A statement of work and evaluation criteria are specified in cooperation with the customer, and there is a control procedure to ensure that no terms tailored to a specific tenderer are offered.

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 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 2016, 351 messages from the current and potential suppliers came to the line (7 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 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. Within the reporting period, 250 messages (some 5 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;
- 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 commence-

In 2016, the Procurement Procedure Participant's Questionnaire was amended with a section devoted to the Corporate Social Responsibility (CSR). The section includes questions related to an application of CSR standards by the contractor, as well as occupational health and safety, and environment protection. The Questionnaire is mandatory for all MTS PJSC contractors.



Automated CSR inquiry, when signing up new suppliers to the MTS PJSC electronic procurement system, is planned to be implemented. Analysis of the received information will be performed in automatic mode.

ment/ prolongation/closure of open and closed procurement procedures.

In 2016, 2,694 procurement notifications were published on Procurement portal. The number of the suppliers, subscribed for procurement notifications e-mail distribution, comprised 1,193 in the reporting period. The number of subscribers is 8,900 as of the end of 2016.

The Oracle Sourcing IT system module is implemented in MTS, which allows to automate completely the supplier selection process, including conducting of an electronic auction on the own electronic trading platform. Thus, 100% of procurement is performed in an electronic format.

Total amount of purchases made electronically comprised over RUB 94.8 billion in 2016. In 2016, performing electronic procurement allowed to achieve 7% savings from the procurement activities, 93% of timeliness of the procurement procedures, and up to 61% of improvement of procurement planning.

Procurement activities of MTS' foreign subsidiaries were integrated into the MTS single procurement process as of 2015. MTS PJSC representatives are members of the local tender committees.

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

Key Results of Procurement Management System Enhancement in 2016

- ▶ Resulting from the Company's structural transformation from the macro-regions to the clusters, most of the purchases are performed at the level of Corporate Center as of 2016: in marketing, subscriber's equipment,

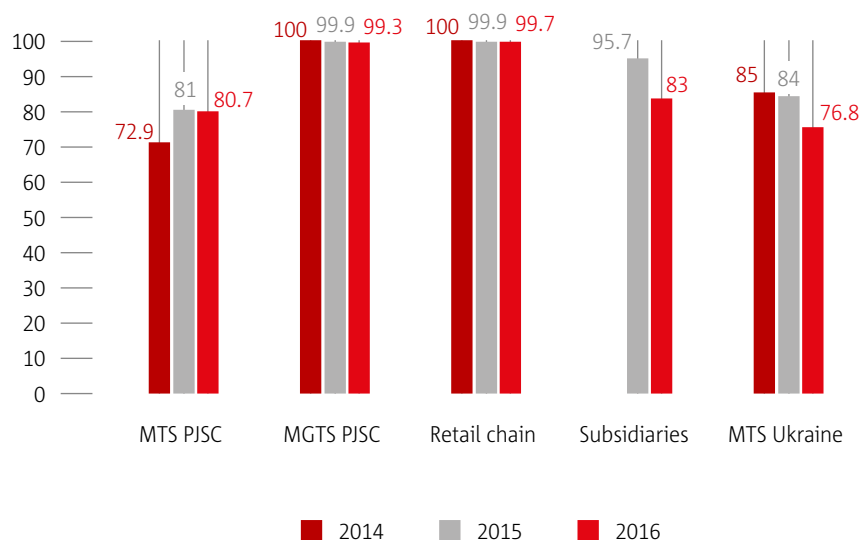
IT categories. There also were created Centers of Competence: in procurement, logistics, technical lease – Saint Petersburg, Moscow, Nizhny Novgorod, Krasnodar; procurement and logistics – Yekaterinburg and Novosibirsk;

- ▶ OEBS electronic bidding system was upgraded for entering data on the purchases below RUB 300 thousand;
- ▶ The process of payment settlement via MTS bank with the contractors-winners of the bidding procedures is developed, motivation program is launched;
- ▶ The business procedure of working with the Single Customer is established;
- ▶ The Procurement Rules for the auction participants were updated;

In 2016, 2 new sections were launched on the Procurement portal:

- ▶ MTS Proposes page, where there are notifications on MTS sales of goods and services;
- ▶ Open Accreditation for publishing notifications on purchases by category, where attracting of a supplier for a whole year is required.

Figure 37. Local suppliers share¹, %



¹ 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.

Logistics digitalization

The MTS logistics system operates on the basis of scenario principle. Meaning that a division, responsible for inventory management, forms a base scenario, derived from the plans, to ensure network construction, inventory changes and key indicators. Basing on this scenario, other logistics divisions analyze the effect of the external changes on the base scenario and select the optimal algorithm of correcting actions. Thus, all links of supply chain and network construction are directed to achieve the same objectives.

Scenario approach in inventory management allows eliminating many potential problems before they occur. As a result, the Company was capable of achieving quite tough Current Assets KPIs. The level of required inventories at the storage facilities reduced twice with a higher volume of the network construction. Fund turnover rate grew significantly. The strategic cooperation with the key vendors improved thanks to the transparent structure of equipment supply for network construction.

In the future, such digital transformation will significantly simplify implementation of SCM (Supply Chain Management) solutions that will open new horizons for cooperation with the suppliers in the form of VMI (Vendor Managed Inventory) solutions, allow to transfer part of the inventory replenishment functions to the vendors and, thus, increase the free cash flow.

► The procedure of interaction with Centers of Competence by functions was developed;

► New methods of saving from the procurement procedure were implemented:

— Approach to the technical support expenditures was revised: total assessment of needs of technical support for various types of equipment, in order to finally standardize the purchased services, was performed in cooperation with the Technical Unit. The saving on the significant purchases of technical support and repair in Radio category was achieved. Approach to technical support of the outdated switching equipment and transport network was completely changed. Competitive bidding for selecting suppliers of technical support services and repair is now applied;

— Direct supply of the subscriber equipment is implemented. The direct supply of certain accessories from the Chinese manufacturers were performed on FOB¹ conditions using MTS logistics. We work on a possibility to purchase directly from the Chinese manufacturers several segments of smartphones with the following delivery in the second half of 2017, as well as on continuation and even further increase of volume and frequency of accessories' supplies;

— Site rent expenses are optimized²: average site rent value is reduced by 2.3%. Saving is made on account of: leaving expensive sites – RUB 48 million/year, optimization of equipment amount – RUB 4.5 million/year, transfer from renting to easement³ – RUB 2.8 million/year;

— Share of import substitution in the Equipment category is increased: power cables and climate cases (100%), free cooling and dispatch systems (50%), optical cable assemblies (10%), AFP passive components (30%), mobile base stations (30%), UTP cable (70%). Still, there are equipment categories where even partial import substitution is very unlikely: commuting and radio subsystem, base stations, hydraulic lifts.

► Operational efficiency is achieved on account of:

— Standardization of approaches in Products and Services category: the single terms of reference for retail offices construction is developed, the achieved saving is 15%;

— Procurement centralization of all types of vehicles, saving is 6.2-16%;

— Fuel procurement centralization, saving is 5-9%;

— Optimization of basic purchases in Corporate Center: a working tool for purchasing of products for small needs (on-line-shops, catalogs of suppliers, open accreditation) was created. In 2016, 684 purchases for a total amount of over RUB 12 million were made in the on-line-shops, the saving was RUB 564 thousand.

Joint Procurement

In 2016, procurement partners of MTS were PJSC MTS-Bank, Ozon, PJSC Detsky Mir, Management Company Sistema Capital. Types of procurement procedures: joint procedures, accession, dedicated procedure.

Joint procurement with MTS-Bank was performed in the categories of marketing, IT, Products and Services for a total amount of over RUB 300 million, the saving was more than 14%.

A consolidated agreement of purchasing TV commercials in the framework of procurement procedure was implemented for Ozon (saving of 35%), PJSC Detsky Mir (saving of 30%). In 2016, cooperation with Management Company Sistema-Capital started in IT category: 2 procurement procedures were conducted (saving of 6% and 61%).

Apart from economic benefits, unification of technical and functional in the framework of cooperation requirements, approaches, methods is achieved in the framework of cooperation.

¹ **FOB** — is an international Incoterms trading term used to define the cargo delivery conditions and determine the party liable to pay for transportation and/or to define the point of shifting the responsibility for the cargo from a seller to the buyer.

² **Site** is a facility where main and/or auxiliary telecommunication equipment is located.

³ **Easement** is a restricted right of using other's object in terms of land relations.

Annual Supplier Survey

MTS PJSC conducts an annual supplier survey – Voice of the Supplier. This process is part of the MTS PJSC Supplier Management System and a way of developing a relationship with the suppliers. The survey provides the Company with feedback, helps to identify inefficient processes and bottlenecks in organizing procurement and supplies, helps to form proposals on their optimization.

The Voice of the Supplier 2016 supplier survey, just like the year before, was conducted in accordance with the method of Annual Supplier Assessment, which MTS PJSC performed involving the employees across the Company that interact with the suppliers.

As a result of the Voice of the Supplier 2016 survey, the total NPS Grade across MTS PJSC stayed the same high level:

- ▶ NPS 2016 – 81.00 Grade A (Excellent);
- ▶ NPS 2015 – 85.53 Grade A (Excellent).

Regardless of a stable high general NPS Grade, the development areas were identified, in the course of the survey, for development of MTS as a customer that are included into the plan of actions aimed at optimization and improving the Company's operations and increasing level of interaction with the suppliers.

Supplier – Customer Relationship Satisfaction Model is formed basing on the results of Voice of the Supplier annual supplier survey and Annual Supplier Assessment. This model is developed using the NPS mutual cross-evaluation method by comparing two NPS grades:

- ▶ Loyalty factor (NPS grade) measured basing on the results of the Voice of the Supplier survey, 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 the 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 2016 model demonstrated a high level of satisfaction from both parties. At the same time, there were areas defined, in which either supplier or customer were not completely satisfied, these areas needed to have special focus in order to improve quality of MTS PJSC interaction with the suppliers.

2017 Plans for Enhancement of the Procurement Management System

There are the following measures planned for 2017 aimed at increasing effectiveness of procurement activities:

- ▶ Searching for the possibilities of competition development, forecasting of price level for new technologies, defining of optimal cost for technical support and repair in the Radio network category;
- ▶ Developing of the supply chain management system that allows reducing blocked funds when forming inventories;
- ▶ Using of intellectual technologies in procurement;
- ▶ Creating online platform for sale of unsolicited equipment.

Achievement Recognition in 2016

| Ranking/Contest/Award name | Achievement | Arranged by |
|---|---|---|
| Corporate Awards | | |
| Ranking of the most expensive world's brands | MTS is included in the ranking where there are only four Russian companies: Sberbank, Lukoil, Gazprom and MTS. First place belonged to Apple. | Brand Finance |
| World Branding Awards | The MTS brand became the best in the "Telecommunications" naming of the "National Brands" category. | World Branding Forum |
| Forbes list of 200 largest Russian private companies — 2016 | MTS is in TOP-15 of the largest Russian private companies — 2016 | Forbes magazine |
| RBC list of 500 largest Russian companies | MTS, with number 23 in the list, became a leader among Russian telecommunication companies | RBC |
| Comnews Awards | MTS became, second year in a row, a winner in the "Leader by Annual Revenue from Communications and Broadcast Services" category. | Comnews |
| Marketing, Communication and Image-building Awards | | |
| Runet award | "MTS/Media" project won in the "Science and Education" category as the best project increasing the level of the Internet literacy. | RECA, Federal Agency for Press and Mass Communications of the RF |
| Effie Awards Russia 2016 | — "Do Internet Yourself" advertising campaign won in the Telecommunication, Internet and Other Communication Services category, — Project of MTS brand integration into "Dances" show on TNT won in the categories — "Brand User Involvement and Medialdea". | RBC and American Marketing Association |
| People Investor: the Companies Investing Into People national contest | MTS/Media project became a winner in the Partner and Customer Interaction category | The Russian Managers Association |
| HR-brand 10th Anniversary award, February | "Generation M" project won in the Big Heart category as the most socially oriented project among the best Russian employers | HeadHunter.ru, YUM! (KFS, PizzaHut brands) |
| PROBA-IPRA Golden World Awards | MTS/Media project won in the Effective Grand Prix category and became the most effective PR project in Russia in 2016. | International PR Association, Russian Pr Association, SPN Communications Agency |
| Marketing Campaign Effectiveness Index according to Effie Awards Russia | MTS had the 1st place in the Index as a company with the highest effectiveness level of marketing and communication campaigns | RBC, Association of Russian Communication Agencies |

| Ranking/Contest/Award name | Achievement | Arranged by |
|--|--|---|
| Corporate Charity Leaders contest | — MTS is number 12 in TOP-60 list of Companies-Leaders in the Area of Corporate Charity — MTS received an award — “Acknowledgment of Contribution to Development of Philanthropy in Russia” | Forum of Donors, PwC, Vedomosti |
| Best Corporate Media 13th annual contest | MTS/Media project won in the “Best Electronic Mass Media” category | Russian Association of Communication and Media Directors, Media Business publishing house |
| 2016 Results project | - SMART Bezlimitische advertising campaign won in the Best Advertising Campaign category - TV commercial of SMART Bezlimitische tariff took the second place in the Best TV Commercial category | Sostav.ru |
| TOP-20 List of companies with the highest number of mass media publications related to CSR and charity | MTS took the 3rd place in the list of the highest number of mass media publications related to CSR and charity (3,123 publications). | Medialogiya information and analytical agency |
| HR Awards | | |
| Best Employers Study 2016 award | MTS became the 2016 best employer according to AoN Hewitt international HR consulting agency | AoN Hewitt and AXES Management |
| HR-brand 10th Anniversary award | MTS won the Start of Career award for the second year in a row and became the best youth employer. | HeadHunter.ru, Career.ru |
| | MTS was acknowledged with special award “For Contributing to the Development of HR-branding”, which is presented once in 10 years | HeadHunter.ru |
| The 2016 List of the Best Russian Employers | MTS is on the 4th place in the List of the Best Russian Employers and became a leader among telecommunication companies | HeadHunter.ru according to Russian Public Opinion Research Center and PwC methodology |
| List of 10 largest Russian Employers | MTS is in TOP-10 and is the only telecommunication company in the List | Forbes magazine |
| List of the Best Employers — Leadership Index. Best Companies to Work For and Make Career | MTS won in the Telecommunication category and became the best employer in the industry | Rabota.ru, Top of the Line Personnel newspaper |

| Ranking/Contest/Award name | Achievement | Arranged by |
|--|--|--|
| Chrystal Pyramid award | MTS won in the Technological Solution of the Year category presenting digital tools used in developing and training of the personnel | RUIE, Russian and CIS HR directors summit |
| Effective Business Training national award | MTS became the winner in the category — “Best Supplier Relationship Management System” | Moscow State Institute of International Relations of Russian Ministry of Foreign Affairs, Social Projects and Programs NGO |
| Trainings-2016 award | MTS corporate university won in the HR service of the Year category and became the best division in the personnel development area | HR&Trainings EXPO and trainings.ru HR portal |
| Best Corporate Video sixth annual contest | MTS won in the Best Script category presenting a virus type of commercial with the corporate recognition programs | Moscow International Festival of Corporate Video, AKMR, Media Business PH |
| Champions of the Good Deeds national contest | MTS won the contest with its Corporate Volunteer Puppet Theater | Association of Russian Managers, National Council for Corporate Volunteering |
| Event of the Year annual national award of the special events industry | MTS became a finalist of the HR Event of the Year category presenting the MTS Creative Heart Corporate Theater project and leaving behind 20 projects of other Russian and multinational companies | Event.ru online magazine |
| BestinCSR — 2016 | MTS Mobile Fairy Tale Volunteer Theater took the 3rd place in the category — Social Responsibility in Relation to the Company Employees. Socially responsible Management, as well as received an award in the special category — Social Responsibility Leader in the Telecommunication Industry of Russia. | Sustainable Business magazine in partnership with the UN Global Agreement Network, CSR Central Asia and Grand BS |
| Product and Industry Awards | | |
| Consumer Rights and Quality of Service award | MTS won in the Telecommunication naming of the Retail Services category and became the best company of the telecommunication industry in the area of subscribers' rights protection, quality of service and communication | Social Projects and Programs NGO, Rosпотребнадзор, RUIE, Rostourism, etc. |
| Best IT Project for Public Sector 8th annual contest | MTS won in the Public Sector's Choice category | Comnews, Ministry of Communications and Mass Media of the Russian Federation |
| Customer eXperience Awards Russia national award | MTS won in the Most Customer Oriented Company of Russia category presenting the ecosystem of mobile applications | International Association of Customer Experience Management Professionals |

| Ranking/Contest/Award name | Achievement | Arranged by |
|--|---|--|
| Innovation Time award | MTS won in the Program of the Year category presenting its technological solutions (Wi-Fi Calling, Cisco network, 5G networks) | Social Projects and Programs NGO, the Ministry of Economic Development and Trade |
| Digital Communication AWARDS — 2016 | MTS won in the Digital Projects and Strategies category, rewarded for customer service improvement and image building in the digital environment | Russian Association of Communication and Media Directors, Media Business PH |
| National award in the area of multi-channel digital TV — Big Digit | MTS won in the category — Best Company's Business Strategy in the Situation of the Market Transitioning to the Intense Development Stage | Russian Cable TV Association, Midexpo |
| Sixth annual award — Best 2015 Gadget According to Runet | MTS won in the categories — Best Prices for Communication and Best Carrier's Smartphone | Hi-Tech Mail.Ru portal |
| Safety Leaders Awards | — MTS won in the Information Security category: protection from spam and unwanted mailing with phrasing — For the Most Reliable and Protected Communication, — Barrier, an MTS Access Restriction System, won in the category — Financial Security: Enterprise information system security risk management | Social Projects and Programs NGO and a number of partners |
| Loyalty Awards Russia — 2016 | My MTS application won in the Payment Transparency category | International Association of Customer Experience Management Professionals |
| Golden Application annual contest | My MTS application won in the Audience Choice Award category, as well as took the 2nd place in the Best Application of the Year category | RAEC, Ruward, Apptactor |
| Award in the area of small and medium business support — Basis of the Growth | MTS won in the category — For Contribution to Development of the Small and Medium Russian Business | Social Projects and Programs NGO |
| Oracle Innovation Awards 2016 | MTS won an award for implementation of innovative projects improving business effectiveness | Oracle |

Awards in the Area of Corporate Reporting

| | | |
|---|---|--|
| Annual report contest | MTS PJSC 2015 Annual report won in the category — Best Annual report in the Telecommunication Sector | Moscow Exchange and RCB media group |
| MarCom Awards international contest | MTS Group 2015 Sustainable Development Report won in the category — Best Annual Reports/Sustainable Development Reports | Association of Marketing and Communication Professionals (USA) |
| All-Russian contest — Leaders of the Russian Business: Dynamics and Responsibility — 2015 | MTS won in the category — For High Quality Reporting in the Area of the Sustainable Development | Russian Union of Industrialists and Entrepreneurs |

| Ranking/Contest/Award name | Achievement | Arranged by |
|--|---|--|
| LACP 2015/16 Vision Awards | MTS Group 2015 Sustainable Development Report was included in the global TOP-50 annual reports taking the 3rd position, as well as received a platinum award in the categories — Best Report of the Telecommunication Industry and Best Independent Report | League of American Communication Professionals (USA) |
| Ranking of Annual reports | MTS PJSC 2015 Annual report won in the category — Best Level of the Corporate Governance Practice Disclosure | Expert RA and the Russian Union of Directors |
| BestinCSR — 2016 | MTS Group 2015 Sustainable Development Report took the 3rd place in the category — Socially Responsible Corporate Governance. Reporting | Sustainable Business magazine in partnership with the UN Global Agreement Network, CSR Central Asia and Grand BS |
| Personal Awards | | |
| The TOP-1000 Russian Managers ranking | Andrey Dubovskov, Aleksey Kornya, Vasil Latsanich, Ruslan Ibragimov, Mikhail Arkhipov, Anfrey Ushatsky, Valery Shorzhin, Elena Kokhanovskaya, Maxim Kalinin, Andrey Rego were included in the ranking in their categories. MTS is a leader in terms of a number of the first places (7 first places) in all categories | Russian Association of Managers, Kommersant PH, Russia Today Media Information Agency |
| POWER-100 international ranking of the most powerful people in telecommunication | Andrey Dubovskov was included into POWER-100 — a hundred of the most powerful people in the telecommunication area | Global Telecoms Business |
| CMO of the Year international award | Vasil Latsanich became the 2016 Best CMO in the world | European Communications' |
| International ranking of the most effective lawyers — Legal 500 | Ruslan Ibragimov was included in the ranking of 500 most effective lawyers in the world, leaving behind 250,000 companies/persons | Legal 500 publishing group |
| Annual ranking of a hundred best Russian corporate communication and corporate relations directors and companies | — MTS (Public Relations Department) won the 1st place in the ranking of the companies with the best corporate communication and corporate relations system in Russia — Elena Kokhanovskaya took the 2nd place in the ranking of the Russian corporate communication and corporate relations directors and became undisputed leader in the telecommunication industry | Russian Association of Communication and Media Directors and a number of partners |
| Competitive Procurement Leader award | Valery Shorzhin won in the Competitive Procurement Professional category and became the best 2016 Procurement Director in Russia | B2B-Center |
| Compliance 2015 award | Yulia Romashkina became nominee in the category — For Compliance Practices Promotion | International Compliance Association |
| PROBA-IPRA Golden World Awards | Dmitry Solodovnikov, Head of media relations, won in PR Professional of the Year category and became the best Russian press-secretary in 2016 | International PR Association, Russian Pr Association, SPN Communications Agency |

| Ranking/Contest/Award name | Achievement | Arranged by |
|---|---|--|
| National Business Communication Award | Natalia Glagoleva, Director of marketing communications, took the second place in the ranking of the best marketing professionals in the telecommunications | Association of Russian Communication Agencies |
| TOP-50 Corporate Social Responsibility Managers ranking | Elena Seryogina, Corporate Social Responsibility Director, took the 6th place in the ranking | Association of Russian Managers, RBC newspaper |
| HR Manager of the Year contest | Elena Morgachyova, Head of methodology and HR support in the Department of Compensations, Benefits and Administration, won the contest | HR Business magazine |
| Success. Corporate Counsel of the Year award | Denis Kastrulin, Head of projects in the Department of Court and Administration practices, won in the Publication of the Year category | Russian Corporate Counsel Association |

About the Report

Dear friends, you are holding the ninth MTS Group Sustainable Development Report, an issue for 2016. The previous report was published in 2016. MTS publishes the non-financial reports on an annual basis.

Principles of Reporting

MTS Group compiled the sustainable development report in accordance with the core version of the GRI Sustainability Reporting Standards, the best domestic and international practices, as well as with the pilot version of the Appendix for telecommunications industry. In addition, the report incorporated comments and recommendations of the Council of the Russian Union of Industrialists and Entrepreneurs on non-financial reporting, which had been given during public approval of 2015 report.

Materiality Definition

Materiality definition (material subjects) is an integrated part of a sustainable development report preparation in compliance with the international GRI Standards.

Reporting Boundaries

MTS Group prepares social reporting on the corporate level. 2016 Report includes activities of MTS PJSC and its subsidiaries in all regions and countries of presence. This report summarizes all aspect of social activities of the Company as of January 1 to December 31, 2016.

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. There are no material differences as compared to earlier reporting period with regard to the scope, boundaries, or methods of measurement used in the 2016 social report. No analysis of the impact of material aspects on suppliers and other groups of legal entities was done owing to lack of information. The boundaries of material aspects apply to MTS Group.

Figure 38. Materiality defining procedure

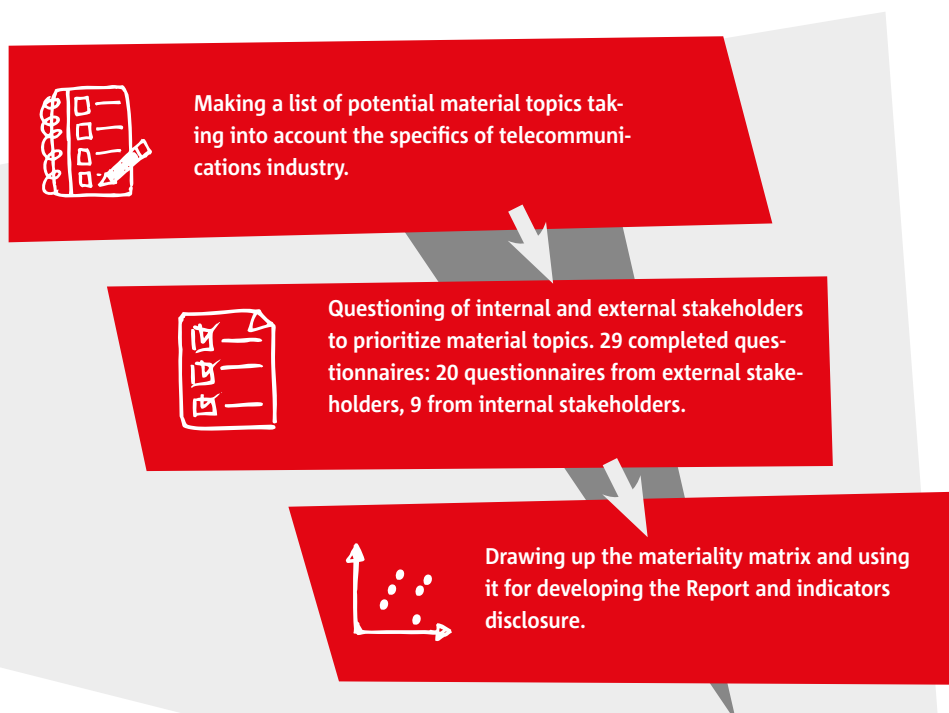


Figure 39. MTS PJSC Materiality Matrix¹



¹ The matrix reflects only the most material subjects. MTS specific subjects, which do not have equivalents in the GRI Standards, are highlighted red.



Report Approval

This is the sixth approved social report by MTS. As in previous years, the approval of the report took the form of Public endorsement by an independent third party, namely, the Council of the Russian Union of Industrialists and Entrepreneurs (RUIE) on non-financial reporting. The text of the

Public endorsement final conclusion is given below. 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.

Extract from the Minutes of the Council of RUIE on non-financial reporting from 27th of July 2017 on the question of the Agenda “About the Public Endorsement of the Sustainable Development Report of MTS Group for 2016”

Regarding the question of the agenda “About the public endorsement of the Sustainable Development Report of MTS Group for 2016” the following decisions were made:

1. To declare the public endorsement of the Report as accomplished.

1.1. Put on record in the Statement of public endorsement the following:

The Sustainable Development Report of MTS Group for 2016 contains material information, covers wide range of questions on key aspects of responsible business conduct in accordance with the principles of the Social Charter of the Russian Business, with sufficient completeness discloses information on material aspects of the Company’s activities in these areas.

The recommendations made by the RUIE Council following the public verification of the MTS Group’s Report 2015 were incorporated into the 2016 Report in so far as extension of quantitative indicators on Company’s sustainability and corporate social responsibility performance over time.

1.2. To approve the Statement of public endorsement taking into account discussions.

2. To pay Company’s attention on the following: The Statement is prepared for MTS PJSC, which can use it for inter-corporate aims and for aims of communications with stakeholders by means of its publishing in whole without any changes.

Chair of the Council of RUIE on non-financial reporting
Fedor Prokopov

Deputy Chair of Council of RUIE on non-financial reporting
Elena Feoktistova

Stakeholder Engagement

MTS recognizes its responsibility towards all stakeholders: shareholders and investors, employees, clients, partners and contractors, government authorities and local communities. The company aims to understand the needs and expectations of each one 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 build our CSR system in compliance with the demands of society, clients, stakeholders, our employees, state, non-governmental and public organizations, partners and suppliers, local communities.

| 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"> ▶ Cost of service; ▶ Quality of service; ▶ Easier interaction with the Company; ▶ Privacy of personal data. | <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 www.mts.ru.</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.</p> <p>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"> ▶ Financial results; ▶ Dividend policy; ▶ Risks and opportunities; ▶ Efficient governance; ▶ Transparency; ▶ Long-term sustainability. | <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 http://www.company.mts.ru/comp/ir/.</p> |

| Stakeholders group | Significance for us | Stakeholder interests | Methods of interaction |
|--|---|---|---|
| Employees | 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. | <ul style="list-style-type: none"> ▶ Career opportunities; ▶ Remuneration and social guarantees; ▶ Skills development opportunities; ▶ Volunteering. | 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. 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. |
| Local communities | 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. | <ul style="list-style-type: none"> ▶ Creating new jobs; ▶ Investments in communities; ▶ Charity ▶ educational and cultural programs; ▶ Volunteering. | MTS is actively engaged with local communities (population, public organizations and associations, health authorities, trade unions and the media) of the host regions. |
| Authorities | 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. | <ul style="list-style-type: none"> ▶ Socio-economic growth; ▶ Consumer protection; ▶ Creating new jobs; ▶ Tax deductions. | 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. |
| Business partners and contractors | 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. | <ul style="list-style-type: none"> ▶ Transparent procurements; ▶ Long-term sustainability. | 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. 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. |

Engagement with Stakeholders while Preparing this Report

While preparing this 2016 Sustainable Development Report we conducted a questionnaire survey of internal and external stakeholders with the purpose of identifying material aspects of MTS sustainable development in order to clarify and update the map of material aspects. For more details of this survey, see the section About this report.

On February 28, 2016, an extended meeting of the CSR Committee was held to review the concept of the Sustainability Report of MTS Group for 2016. Representatives of internal and external stakeholders were invited to

discuss the concept of the Report. Prior to the meeting, the participants of the discussion received printed copies of MTS Group 2015 Sustainable Development Report and a presentation illustrating the concept of the 2016 Sustainable Development Report. After the report on the concept, the participants could ask the questions they were interested in regarding the disclosure of information in the Report. The stakeholders expressed a number of comments and proposals in relation to presentation of the information in the report that were taken into account in the preparation of the Report.

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 | 8 | |
| | 102-2 Activities, brands, products, and services | 8 | |
| | 102-3 Location of headquarters | 176 | |
| | 102-4 Location of operations | 12 | |
| | 102-5 Ownership and legal form | 8 | |
| | 102-6 Markets served | 12 | |
| | 102-7 Scale of the organization | 10, 12, MTS PJSC Annual Report 2016, section «Management Report» | |
| | 102-8 Information on employees and other workers | 134–135 | |
| | 102-9 Supply chain | 150 | |
| | 102-10 Significant changes to the organization and its supply chain | In the reporting period MTS PJSC sold its 50,01% stake in the joint venture Universal Mobile Systems (UMS) LLC to Uzbekistan government. | |
| | 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 | 19, 117, 141 | |
| | 102-13 Membership of associations | 9 | |
| | 102-14 Statement from senior decision-maker | 2 | |
| | 102-15 Key impacts, risks, and opportunities | MTS PJSC Annual Report 2016, section «Management Report» | |
| | 102-16 Values, principles, standards, and norms of behavior | 92, 140 | |
| | 102-17 Mechanisms for advice and concerns about ethics | 137, 141 | |
| | 102-18 Governance structure | 8, 128 | |
| | 102-40 List of stakeholder groups | 163 | |
| | 102-41 Collective bargaining agreements | 133 | |
| | 102-42 Identifying and selecting stakeholders | 163 | |

| GRI Standard | Disclosure | Page number(s)and/or URL(s) | Omission |
|---|---|---|----------|
| | 102-43 Approach to stakeholder engagement | 163–165 | |
| | 102-44 Key topics and concerns raised | 163–165 | |
| | 102-45 Entities included in the consolidated financial statements | http://static02.mts.ru/uploadmsk/contents/1762/MTS_IFRS_Cons_FS_15-16.pdf | |
| | 102-46 Defining report content and topic Boundaries | 160–165 | |
| | 102-47 List of material topics | 160–161 | |
| | 102-48 Restatements of information | None | |
| | 102-49 Changes in reporting | None | |
| | 102-50 Reporting period | 160 | |
| | 102-51 Date of most recent report | 160 | |
| | 102-52 Reporting cycle | 160 | |
| | 102-53 Contact point for questions regarding the report | 176 | |
| | 102-54 Claims of reporting in accordance with the GRI Standards | 160 | |
| | 102-55 GRI content index | 166 | |
| | 102-56 External assurance | None | |
| Material topics | | | |
| Economic Performance | | | |
| GRI 103: Management Approach 2016 | 103-1 Explanation of the material topic and its Boundary | 10, MTS PJSC Annual Report 2016, section «Management Report» | |
| | 103-2 The management approach and its components | 10, MTS PJSC Annual Report 2016, section «Management Report» | |
| | 103-3 Evaluation of the management approach | 10, MTS PJSC Annual Report 2016, 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 | 150–153 | |
| | 103-2 The management approach and its components | 150–153 | |
| | 103-3 Evaluation of the management approach | 150–153 | |
| GRI 204: Procurement Practices 2016 | 204-1 Proportion of spending on local suppliers | 151 | |

| GRI Standard | Disclosure | Page number(s)and/or URL(s) | Omission |
|---|---|-----------------------------|---|
| Anti-corruption | | | |
| GRI 103: Management Approach 2016 | 103-1 Explanation of the material topic and its Boundary | 140–149 | |
| | 103-2 The management approach and its components | 140–149 | |
| | 103-3 Evaluation of the management approach | 140–149 | |
| GRI 205: Anti-corruption 2016 | 205-2 Communication and training about anti-corruption policies and procedures | 144 | Breakdown by region and employee categories is omitted. |
| | 205-3 Confirmed incidents of corruption and actions taken | 143 | |
| Environmental Compliance (compliance with legal requirements) | | | |
| GRI 103: Management Approach 2016 | 103-1 Explanation of the material topic and its Boundary | 112–127 | |
| | 103-2 The management approach and its components | 112–127 | |
| | 103-3 Evaluation of the management approach | 112–127 | |
| GRI 307: Environmental Compliance 2016 | 307-1 Non-compliance with environmental laws and regulations | 113 | |
| Employment | | | |
| GRI 103: Management Approach 2016 | 103-1 Explanation of the material topic and its Boundary | 132 | |
| | 103-2 The management approach and its components | 132 | |
| | 103-3 Evaluation of the management approach | 132 | |
| GRI 401: Employment 2016 | 401-1 New employee hires and employee turnover | 134 | Breakdown by region is omitted. |
| | 401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees | 136–137 | |
| Occupational Health and Safety | | | |
| GRI 103: Management Approach 2016 | 103-1 Explanation of the material topic and its Boundary | 106 | |
| | 103-2 The management approach and its components | 106 | |
| | 103-3 Evaluation of the management approach | 106 | |
| GRI 403: Occupational Health and Safety 2016 | 403-1 Workers representation in formal joint management–worker health and safety committees | 107 | |
| | 403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities | 108–109 | Breakdown by region and gender is omitted. |
| | 403-3 Workers with high incidence or high risk of diseases related to their occupation | 109 | |

| GRI Standard | Disclosure | Page number(s)and/or URL(s) | Omission |
|--|---|-----------------------------|--|
| Training and Education | | | |
| GRI 103: Management Approach 2016 | 103-1 Explanation of the material topic and its Boundary | 72–73 | |
| | 103-2 The management approach and its components | 72–73 | |
| | 103-3 Evaluation of the management approach | 72–73 | |
| GRI 404: Training and Education 2016 | 404-1 Average hours of training per year per employee | 75 | Information is disclosed in days, breakdown by gender and employee category is omitted. |
| | 404-3 Percentage of employees receiving regular performance and career development reviews | 72 | |
| Customer Health and Safety | | | |
| GRI 103: Management Approach 2016 | 103-1 Explanation of the material topic and its Boundary | 113, 118, 125 | |
| | 103-2 The management approach and its components | 113, 118, 125 | |
| | 103-3 Evaluation of the management approach | 113, 118, 125 | |
| 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 | 42 | |
| | 103-2 The management approach and its components | 42 | |
| | 103-3 Evaluation of the management approach | 42–43 | |
| GRI 418: Customer Privacy 2016 | 418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data | 43 | 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 | 43, 133, 140 | |
| | 103-2 The management approach and its components | 43, 133, 140 | |
| | 103-3 Evaluation of the management approach | 43, 133, 140 | |
| GRI 419: Socioeconomic Compliance 2016 | 419-1 Non-compliance with laws and regulations in the social and economic area | None | |

| GRI Standard | Disclosure | Page number(s)and/or URL(s) | Omission |
|---|--|-----------------------------|----------|
| Access to Telecommunication Services | | | |
| GRI 103: Management Approach 2016 | 103-1 Explanation of the material topic and its Boundary | 66, 119 | |
| | 103-2 The management approach and its components | 66, 119 | |
| | 103-3 Evaluation of the management approach | 66, 119 | |
| 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 | 66 | |
| | PA4 Quantify the level of availability of telecommunication products and services in areas where the organisation operates | 12 | |
| | PA6 Programmes to provide and maintain telecommunication products and services in emergency situations and for disaster relief | 119 | |
| Development of Innovation Services | | | |
| GRI 103: Management Approach 2016 | 103-1 Explanation of the material topic and its Boundary | 46 | |
| | 103-2 The management approach and its components | 46 | |
| | 103-3 Evaluation of the management approach | 46 | |
| Technology Applications (development of innovation services) | TA2 Examples of telecommunication products, services and applications that have the potential to replace physical objects | 54 | |
| Development of Safer Internet | | | |
| GRI 103: Management Approach 2016 | 103-1 Explanation of the material topic and its Boundary | 42, 69 | |
| | 103-2 The management approach and its components | 42, 69 | |
| | 103-3 Evaluation of the management approach | 42, 69 | |
| Personnel Social Guarantees | | | |
| GRI 103: Management Approach 2016 | 103-1 Explanation of the material topic and its Boundary | 132, 137 | |
| | 103-2 The management approach and its components | 132, 137 | |
| | 103-3 Evaluation of the management approach | 132, 137 | |
| - | Total costs for providing personnel with social guarantees | 137 | |
| Job Creation | | | |
| GRI 103: Management Approach 2016 | 103-1 Explanation of the material topic and its Boundary | 138–139 | |
| | 103-2 The management approach and its components | 138–139 | |
| | 103-3 Evaluation of the management approach | 138–139 | |

| GRI Standard | Disclosure | Page number(s)and/or URL(s) | Omission |
|---|--|-----------------------------|----------|
| Improving Access to Services | | | |
| GRI 103: Management Approach 2016 | 103-1 Explanation of the material topic and its Boundary | 36 | |
| | 103-2 The management approach and its components | 36 | |
| | 103-3 Evaluation of the management approach | 36 | |
| Telecommunication Infrastructure Development | | | |
| GRI 103: Management Approach 2016 | 103-1 Explanation of the material topic and its Boundary | 25 | |
| | 103-2 The management approach and its components | 25 | |
| | 103-3 Evaluation of the management approach | 25 | |
| - | Capital expenditures | 25 | |
| - | Number of base stations | 25 | |
| Responsible Business Conduct | | | |
| GRI 103: Management Approach 2016 | 103-1 Explanation of the material topic and its Boundary | 128, 140 | |
| | 103-2 The management approach and its components | 128, 140 | |
| | 103-3 Evaluation of the management approach | 128, 140 | |
| Quality of Service | | | |
| GRI 103: Management Approach 2016 | 103-1 Explanation of the material topic and its Boundary | 32 | |
| | 103-2 The management approach and its components | 32 | |
| | 103-3 Evaluation of the management approach | 32 | |
| Charity | | | |
| GRI 103: Management Approach 2016 | 103-1 Explanation of the material topic and its Boundary | 80 | |
| | 103-2 The management approach and its components | 80 | |
| | 103-3 Evaluation of the management approach | 80 | |
| - | Total expenditures for charity and social projects | 80 | |
| Volunteering | | | |
| GRI 103: Management Approach 2016 | 103-1 Explanation of the material topic and its Boundary | 84 | |
| | 103-2 The management approach and its components | 84 | |
| | 103-3 Evaluation of the management approach | 84 | |
| - | Total number of Company's volunteers | 84 | |
| - | Number of volunteering events | 84 | |

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.

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.

FOB — the Incoterms trade term used to describe the conditions for the delivery of goods and to determine the party that is responsible for the transportation costs and / or the point of transfer of liability for the goods from the seller to the buyer.

GPON (GigabitPON) — Passive Optical Network that providing a multifunctional high-quality reliable broadband Internet access at unprecedented high speeds of up to 1 Gbit/s. 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.

M2M (Machine to Machine) — 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).

Near Field Communication (NFC) — a high-frequency wireless technology that enables data exchange between devices within a short distance (a few centimeters). The advantage of this technology lies in the possibility of using devices that support NFC for a variety of purposes. For example, NFC-based devices can act as bank cards, e-wallets, travel passes, keycards, identity documents, etc.

OEBS (Oracle e-Business Suite) — a replicable integrated software application complex from Oracle.

OTT — OTT technology (abbr. from eng. Over the Top) — a method of providing video services via the Internet without a physical connection to the operator's networks.

R&D (Research and Development) — research and development works.

USSD (Unstructured Supplementary Service Data) — a standard service in GSM networks, which allows to organize interactive communication between a network subscriber and a service application in the mode of sending short messages.

ADR — American Depositary Receipts.

Safe working conditions — elimination of the impact of harmful and hazardous working conditions or keeping them within the hygienic standards.

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.

Stakeholder engagement — company's activities to understand the expectations and concerns of stakeholders and to involve them in the decision-making process.

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.

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.

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.

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).

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.

Competences — knowledge, skills, abilities and behavioral characteristics necessary for a job.

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.

Corporate Center (CC) — a management structure engaged in centralized management functions with regard to the Company's business units and their member affiliated companies and foreign subsidiaries (FS).

Mission — the purpose of an organization, the meaning of its existence, that makes it different from other similar organizations.

MICEX — Moscow Interbank Currency Exchange (Russia).

Young specialists — graduates of higher or vocational educational institutions whose employment experience after graduation does not exceed three years.

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.

IFRS — International Financial Reporting Standards.

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.

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.

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.

Restructuring — an end-to-end transformation of company's activities including changes in production pattern, assets, liabilities as well as in its management system with the aim to increase its soundness, profitability and competitiveness as well as to overcome unprofitability or to modify production's organizational structure.

Rotation — transfer of employees to a higher-level position in another region (vertical inter-regional rotation) or to a same-level position in another business unit (horizontal rotation) in order to enable them to acquire new skills and to broaden their horizons thus contributing to a better performance of their professional duties.

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.

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.

Sponsor — an individual or legal entity who finances any activities of other individuals or legal entities. Sponsor provides financing without deriving any material benefit or profit from it.

Material Aspects — aspects that reflect the organization's significant economic, environmental and social impacts; or substantively influence the assessments and decisions of stakeholders.

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.

Machine-to-Machine, M2M — services that ensure direct communication between devices (machines) using wired and wireless technologies. The term M2M implies that telecommunications and IT technologies are combined in order to transfer data between devices over large distances. M2M services are used in security applications, automation of industrial processes, logistics, health care, "smart home" systems, etc.

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.

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.

Contacts

Mobile TeleSystems PJSC

Address: 4 Marksistskaya Str., Moscow, 109147, Russia

Phone: +7 (495) 911-71-51, 8 (800) 333-08-90

Fax: +7 (495) 911-65-69

Web: www.mts.ru

Contact person:

Inna Pavlova,
CSR Manager
Department of corporate social responsibility
Human resources division

Phone: +7 (916) 601-11-09

Email: pavlova@mts.ru



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