

REPORT BY THE BOARD OF DIRECTORS

RESULTS OF THE YEAR IN THE CONTEXT OF IMPLEMENTING THE COMPANY'S STRATEGY

The Board of Directors of MTS PJSC is responsible for a wide range of issues of strategic importance for ensuring a sustainable development of the company, as well as issues related to the protection of rights and interests of the investors, interaction with the management and compliance with corporate governance standards.

Throughout 2019, MTS Board of Directors met 16 times in the form of in-person meetings and absentee voting to make decisions on key issues. Furthermore, a large number of issues that do not require a direct approval by the Board were considered in the framework of 6 specialized committees.

One of the most important managerial decisions of the past year was the adoption of a new strategy developed by MTS management called “Customer Lifetime Value 2.0” (CLV 2.0). In accordance with this concept, we concentrate on the client, on their life, values and daily needs. We build up an ecosystem of digital products around him, aimed at satisfying as many of these needs as possible, we strive to increase the frequency of use of our services by the client, increase user loyalty and the time a user spends in our ecosystem. As a result, over the course of long-term interaction between the company and the client, we get the opportunity to transfer more value to the client and in turn receive more value from the client¹.

Despite a significant semantic difference from the previous strategy “3D: Data. Digital. Dividends.”, the principle of continuity is observed in the concept “CLV 2.0.” We build our digital future on a solid foundation of the highest-level telecommunication infrastructure, combined with competencies, processes and products developed in the course of evolution of Digital-field business areas.

The key to successful implementation of the strategy is the optimal organizational structure of the company, built up taking into account current goals, objectives, external and internal conditions. We paid special attention to the construction of such a structure as part of the digital transformation process that was the most intensive during 2018 and 2019.

¹ Detailed information on the strategy is provided in the “New Strategy” section.

It is important to remember that in 2018 our company moved from a functional to a product-oriented management structure in the digital areas of business. At the same time, the responsibility for most tasks related to the development, positioning and further modernization of digital products was assigned to specialized product teams united in turn into larger structures, which we call business directions. This process continued in 2019; we extended the product logic to all areas of direct contact with the user and generate customer experience. Product business directions formed in this way are called verticals and functional divisions serving them are called horizontal. As a result, we received a structure close to the matrix, which we believe allows us to combine the functional competencies and the competencies of forming an advanced customer experience in the best possible way.

To date, the organizational structure as a whole has been formed and all key appointments have been made by decisions of the Board. This does not mean, however, that the company is transitioning to a kind of static state. We carefully monitor the results of work of divisions and are ready to respond promptly in case of a need for further transformations. In any case, management efforts in the near future will be aimed at finer tuning of the internal architecture of the business directions, and work will continue to develop a corporate culture aimed at innovation.

Another important area of business of the Board in 2019 was the area of M&A transactions. The most important thing here was the project for acquisition and integration of MTS Bank PJSC

that has strategic importance for us to strengthen our position in the promising field of financial services. A special committee under the Board that was formed to implement this project conducted a comprehensive analysis of the terms of the transaction and made sure that the interests of all parties (including shareholders of both companies) were respected in the repurchase of MTS Bank shares and in the course of management structures merging.

Another important transaction was the sale of a number of assets in Ukraine. In our opinion, this step will allow MTS to concentrate more on intensive growth in the digital sphere, to reduce the level of risks and to expand the possibilities for the core business funding.

The Board also approved participation as a shareholder in a number of companies operating in various promising digital directions, which is consistent with our general strategy for shifting the business focus towards high-tech areas.

For a long time, MTS PJSC has been continuously demonstrating absolute reliability in terms of observing the rights and interests of shareholders and ensuring the approved scope of dividend payments. In 2019, the Board of Directors adopted the Dividend Policy Regulation in new revision, which confirms the objectives we adopted earlier.² It should be noted that the desire to translate the cash flow generated by the company into a shareholder value is our fundamental objective and an integral part of the management culture.

² Detailed information on the company's dividend policy is given in the section "Interaction with Shareholders and Investors"

The following can be noted among other issues considered by the MTS Board of Directors in 2019 and the respective decisions made:

- > In addition to the basic corporate strategy, the Board reviewed and made decisions regarding the strategies of individual business areas. Also, promoting the MTS right to form its position as a shareholder, the Board reviewed reports on performance results and strategies of subsidiaries.
- > In order to ensure the continuity of cash flow, the proper level of company funding and to maintain the optimal structure of debt and the level of debt burden, decisions were made regarding the attraction of borrowed funds.
- > The MTS budget and capital expenditures program have been reviewed and approved.
- > In a number of the most significant and sensitive business areas, the reports on results of activities therein were reviewed in order to monitor the effectiveness of company's work.
- > A program of motivation and long-term material incentives for employees was considered and adopted in order to ensure a high level of labor productivity and quality of company management. A comprehensive and qualified assessment of the effectiveness of company management was also given.
- > Following the best corporate governance practices, the Board considered a number of issues related to functioning of the internal audit, control and compliance system, as well

as the risk management system. A special compliance committee has been formed under the Board.

- > Within the framework of ensuring the rights and interests of shareholders, all necessary procedures for convening meetings of shareholders have been carried out; the necessary materials have been prepared to provide information about the results of the company's activities; and voting has been provided on all issues requiring shareholders' approval.

It should be noted that in June 2019 there was a change in composition of the Board of Directors of MTS PJSC. Independent directors Stanley Miller and Wolfgang Schüssel, as well as Ron Sommer who served as Chairman for 10 years and whose contribution to the company's success in this eventful and challenging period can hardly be overestimated, left the Board. Antoniou Antonios Theodosiou and Valentin Borisovich Yumashev entered the updated composition of the Board in the status of independent directors; Feliks Vladimirovich Yevtushenkov was elected as the Chairman. Such limited rotation is working; it corresponds to the best corporate practices, contributes to the emergence of new ideas and views in the Board while maintaining the necessary succession in corporate governance.

\\ Compliance with the Bank of Russia Corporate Governance Code¹

Nº	Code Section	Share of implemented principles and recommendations of the section of the Bank of Russia Corporate Governance Code
I.	The rights of shareholders and the equality of conditions for shareholders when exercising their rights	Over 95%
II.	Board of Directors of the Company	Over 90%
III.	Corporate Secretary	100%
IV.	Remuneration system for members of the board of directors, executive bodies and other key executives of the company	Over 90%
V.	Risk Management and Internal Control System	100%
VI.	Disclosure of information about the company, information policy of the company	Over 80%
VII.	Essential corporate actions	Over 85%

DEVELOPMENT OF THE CORPORATE GOVERNANCE SYSTEM AND PLANS FOR 2020

In previous years, one of the priority tasks within the framework of the Company's corporate governance development was implementation of recommendations of the Corporate Governance Code approved by the Board of Directors of the Bank of Russia on March 21, 2014². We put a lot of effort into implementing its recommendations. It is important to remember that we fully complied with more than 80% of all principles and recommendations of the Code by the end of 2017, according to our estimates. The results of our work were evaluated by the Bank of Russia and the expert community.

For example, in 2019 our company entered the calculation base of the corporate governance index RUCGI, becoming one of the TOP 10 companies in the index.

Summing up the results of 2019, I'd like to note that we launched an external assessment procedure for the MTS Board of Directors and introduced new work practices for the Board of Directors due to implementing the strategy of ecosystem building.

Today we consider it important to maintain the achieved level of development of the corporate governance system and devote more time to its fine-tuning.³

F. V. Yevtushenkov,
Chairman of the Board of Directors, MTS PJSC

¹ A detailed report on MTS compliance with the recommendations of the Bank of Russia Corporate Governance Code is given in the Appendix to this report, "Report on Compliance with the Corporate Governance Code."

² Then follows the Corporate Governance Code, the Code.

³ More detailed information on the development of the MTS corporate governance system is given in the section "Improvement the Corporate Governance System."