

IMPLEMENTATION OF THE STRATEGY IN 2019

\\ In 2019, MTS Group again fulfilled the announced forecast levels of key performance indicators.

\\ Company's Key Performance Indicators¹

Indicator (MTS Group)	2019			2018		2017		2016
	Target	Actual	Target	Actual without effect of new IFRS standards	Target	Actual	Target	Actual
Revenue change, %	+6–7	> 7*	+4–6	+8.9	0 / +2	+1.7	+2–3	+2.1
OIBDA change, %	+4–5	> 4*	~2	+6.2	+5	+6.2	-4	-4.4

* Revenues and adjusted EBITDA include the estimated impact for the 12 months of 2019 of the Group's operating activities in Ukraine based on the financial results for 11 months of 2019 and MTS internal forecast for December 2019.

In 2019, we successfully completed all the tasks of the 3D strategy: Data. Digital. Dividends: we strengthened our leading position in the Russian telecommunications market; implemented large-scale infrastructure projects; expanded many product areas: fintech, artificial intelligence, the Internet of Things, cloud technologies, continued to successfully use big data analytics; actively developed digital TV; became a prominent player in the entertainment and e-sports market; began to digitalize customer service and maintained a traditionally high level of return on invested capital to shareholders.

In addition to the growth of key business indicators, in 2019 we successfully implemented a number of projects aimed at developing the Company in the long term, including reducing the number of target markets and focusing on the key market; we introduced a matrix organizational structure built around four main business areas: telecommunications, fintech, media, cloud and digital business solutions. Key positions were occupied by talented young leaders who will strengthen their functions thanks to a flexible management system. We approved a new business strategy until 2022, aimed at creating a digital ecosystem based on the main telecommunications business, and continued to invest in promising growing areas. We also continued to actively develop our telecommunications and IT infrastructure and optimize our retail network.



DATA

Data remains a key strategic direction to ensure our leadership and long-term competitiveness in our core business. We continued to invest heavily in the development of our telecommunications infrastructure with a focus on improving coverage and communication quality. At the end of 2019, the country's population coverage with LTE MTS networks reached 74%. In general for the year, we built a total of more than 22.8 thousand base stations of all standards. The penetration of smartphones in the MTS network reached 74.5%, and the penetration of mobile internet users increased to 62.9%, the volume of traffic was more than 9 GB on average per user per month.

Telecommunication Business and Network Development

In February, MTS launched a large-scale program for the construction of LTE2100 mobile communication networks at the frequencies of the previous generation – 3G – in small and remote settlements in Russia. The Company was the first Russian telecom operator to start refarming (transferring) the 2100 MHz band, originally intended for UMTS (3G) networks, for faster and more capacious 4G (LTE) communication networks.

9 INDUSTRY INNOVATION
AND INFRASTRUCTURE



10 REDUCED
INEQUALITIES



11 SUSTAINABLE CITIES
AND COMMUNITIES



17 PARTNERSHIPS
FOR THE GOALS



¹ Detailed analysis of operating indicators is provided in the "Financial Overview" section.

MTS provided full mobile network coverage for the Moscow Metro. At all 226 stations, the MTS network is available in all existing standards: 2G, 3G, and 4G. VoLTE technology is also available to subscribers, which allows voice services to be provided on a 4G network.

In February, MTS and Ericsson signed an agreement on a work plan for 2019–2022, which involves the development and deployment of the first fragments of 5G networks in 2019 within pilot zones and commercial clusters, the evolution of existing LTE networks into high-speed LTE Advanced Pro networks, and further development and the introduction of commercial solutions and products based on fifth-generation communication technologies.

In June, MTS and Huawei entered into an agreement on the development of 5G technologies and pilot launches of fifth-generation communication networks in Russia. Under the agreement, the companies developed an action plan for 2019–2020, which involves the introduction of 5G and IoT technologies and solutions on the existing MTS infrastructure, the development of the operator's commercial LTE network to 5G-ready level, and the launch of 5G test zones and pilot networks for various usage scenarios, including at infrastructure facilities. In August, with the support of the St. Petersburg Administration, the first fifth-generation large-scale pilot user communication network in Russia was launched in Kronstadt, covering the populated part of the city with 5G signal.

MTS and Russian Railways (Russian Railways) OJSC have concluded an agreement on the implementation of a project worth more than 2 billion rubles to improve the quality of mobile communications along 9 federal railway lines, as well as at 49 railway stations in Russia. To ensure continuous voice and mobile internet coverage, there are plans to build about 400 additional LTE base stations along the main transit routes.

MTS won the auctions of the Ministry of Digital Development, Telecommunications and Mass Media of the Russian Federation to connect about 5 thousand socially significant facilities in 9 regions of Russia to fixed internet. The sum of the contracts signed in the framework of the national project "Digital Economy of the Russian Federation" amounted to 3.93 billion rubles.

In September, MTS, along with Nokia and Qualcomm Technologies, Inc., successfully conducted the first user tests in Russia for the pre-commercial Samsung Galaxy S10 5G smartphone, as a result of which a data transfer rate of up to 2.1 Gb/s was achieved in the 5G pilot network.

MTS, together with Huawei and the system integrator NVision Group (part of the MTS Group), with the support of the Moscow Department of Information Technology, tested smart city technologies in the 5G pilot zone at VDNKh. MTS has demonstrated three scenarios for using the fifth generation network to improve road safety. In the territory of the innovative and educational complex Technograd at VDNKh, a platform was also opened for the development and testing of digital solutions and devices operating in the 5G network. The 5G Center combines next-generation network utilization scenarios with case study development equipment.

In December, MTS, the Element Group, which unites leading Russian microelectronics enterprises, and Skoltech signed a tripartite agreement on cooperation in the development and production of equipment for 5G networks in Russia based on the international open radio access standards of the Open RAN project.

At the end of 2019, MTS, VimpelCom, MegaFon and Rostelecom signed an agreement of intent with a view to organizing joint work on the development and optimal use of the fifth generation mobile networks (5G/IMT-2020) in Russia. The parties are considering options for joining forces to create a 5G radio subsystem in priority frequency ranges, where there is an acute spectrum deficit, including the possibility of creating a joint venture (JV) with equal equity interests for each operator. JV activities will be aimed at clearing the frequency resource, which is sufficient for participants to build their own 5G networks.



DIGITAL

Convergent and Digital Products

MTS continued to successfully develop the strategic area for the creation of convergent products, which allowed us not only to provide our subscribers with the most relevant services with maximum convenience and minimum costs, but also to increase the performance indicators of our company as an ecosystem.

At the end of Q4 2019, the number of convergent product users (fixed services + mobile services + satellite TV) reached more than 1.144 million, the number of MTS Music subscribers in partnership with Apple Music exceeded 1 million. At the same time, the outflow of these multi-product subscribers decreased by more than 3 times, and the average bill has more than doubled. The share of subscribers using non-telecom products of MTS amounted to more than 20%.

We note particularly the growing popularity of the My MTS self-service application as a digital ecosystem and convergent products center, which facilitates the management of the whole range of our services – from traditional telecommunications to financial and entertainment services, an online store and loyalty programs. As of the end of 2019, the number of My MTS users per month reached 20.3 million people.

The application supports all customer accounts: mobile and fixed-line, cable and satellite TV; it is fully integrated with MTS Bank MTS Cashback credit cards. The artificial intelligence-based chat bot in the application successfully resolves customers' issues. All this allowed us to become the best mobile operator application in Russia with high ratings: 4.6 on the App Store and 4.6 on Google Play (according to Similarweb data for October 2019).

In January 2019, MTS PISC and MTS Satellite TV launched a convergent product – All MTS Satellite – within which a subscriber can simultaneously connect satellite TV and a mobile internet router

and use these services under one contract with a discount of over 30% from their total cost, as well as a discount on equipment of up to 40%. Since May, the service has become available in all regions where MTS Satellite TV is present. During the product's operation period, it accounts for more than a quarter of the total satellite TV connections. In the first half of 2019, the subscriber base of MTS Satellite Television increased one and a half times compared to the same period last year – up to 752 thousand subscribers.

In June, MTS and the internet company Yandex announced a joint launch of the on-board car computer MTS | Yandex Auto. Russian car enthusiasts gained the opportunity to upgrade their car and connect it to the internet while maintaining the car manufacturer's warranty. This can be done using a joint solution from Yandex and MTS – MTS | Yandex Auto. It is a car multimedia system which has useful services for cars with a single interface and voice control: a navigator, Alice voice assistant, Yandex.Music and applications for listening to music, radio and watching TV and movies from MTS.

Banking Services and Fintech

To successfully achieve cross-synergies between telecom and banking products, to accelerate the launch of projects and to implement a financial services strategy aimed at building a unified digital ecosystem of innovative services for customers, MTS continued the integration of MTS Bank.

Every fourth loan was issued by the Bank in 2019 thanks to Big Data MTS. Sales of cash loans tripled, the portfolio of retail loans almost doubled compared to 2018; in turn, the risks of loan defaults decreased significantly – by a third compared to when MTS Bank used only its own data.

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11 SUSTAINABLE CITIES AND COMMUNITIES



8 DECENT WORK AND ECONOMIC GROWTH



In cooperation with MTS Bank, MTS Group accelerated the development of financial services – one of the key activities of the Company. In October 2019, the number of users of the MTS Cashback program reached 5 million due to the further expansion of the convergent product portfolio. At the end of 2019, the retail loan portfolio grew by 72.8% and amounted to 90.7 billion rubles. The total number of issued cards (credit and debit) increased by 72% year on year to 1.14 million cards by integrating banking products into MTS applications and creating individual offers for MTS customers.

For the third year in a row, the Bank doubles its sales in the retail segment and demonstrates high operating performance.

Cloud Technologies

In January, MTS acquired for 2.491 billion rubles (including net debt) a 100% stake in IT-Grad 1 Cloud LLC, which combines the cloud assets of IT-Grad Group of Companies, one of the largest cloud providers in the Russian IaaS market. The deal expanded MTS's competencies in the cloud business and increased the business performance of #CloudMTS provider.

In February, MTS launched a cloud service for corporate customers storing large amounts of data. #CloudMTS object storage is deployed in MTS own data centers connected by the operator's communication channels.

In July, MTS announced the launch of one of the fastest and most affordable cloud services in Russia for high-speed data processing based on a supercomputer, capable of more than making calculations more than 100 times faster and cutting associated costs.

We created a new cloud area based on the Containerum team, a startup from our own accelerator. A cloud service has been developed for clients of the #CloudMTS provider that can speed up the launch, deployment and administration of IT solutions and increase the competitiveness of Russian business.

MTS began to provide services for the creation of private and hybrid clouds on the basis of the Avantage data center, one of the largest in the country. Corporate customers will be able to implement large-scale IT projects using the provider's cloud solutions and reliable data center infrastructure that meets the Tier III Constructed Facility fault tolerance level.

The #CloudMTS provider launched a cloud service for the privacy of data processed by medical institutions and related to customers' state of health. The solution makes it possible to fulfill the requirements of the Russian legislation and to optimize the companies' costs for IT infrastructure for personal data processing and storage.

#CloudMTS has launched a cloud-based backup service which uses Acronis technology, a cyber security developer. Corporate clients can ensure the continuity of their business and optimize the cost of data storage up to 30% per month.

We have introduced a new antivirus service for the Russian market for the protection of IT resources and corporate data located in a public cloud. The solution was developed in a technological partnership with Kaspersky Lab and integrated into the virtual infrastructure of the MTS cloud.

Internet of Things

We have developed a new platform for implementing industry-specific IoT solutions and managing IoT devices: it combines all solutions, connected via various communication protocols, based on the Internet of Things into one management system. The platform is in the industrial class and facilitates the simultaneous connection of millions of smart devices, sensors and robots.

In a number of regions of the Russian Federation, including Samara Region, Reutov of the Moscow Region, as well as and in Yakutsk, we have launched comprehensive projects to digitalize the management of collection and removal of household waste, eco-monitoring, and remote monitoring of the state of housing and communal services infrastructure.



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AND INFRASTRUCTURE12 RESPONSIBLE
CONSUMPTION
AND PRODUCTION

In August, MTS and the international car manufacturer Geely signed an agreement under which, in cars delivered to Russia, directly on the factory conveyor, began to install the operator's SIM-chips.

MTS, the Ministry of Digital Development, Telecommunications and Mass Media, the Ministry of Development of the Far East and the Arctic, and the Far Eastern Federal University (FEFU) have signed an agreement on the development of the Far Eastern IT cluster on Russky Island. The first project was the creation of elements of a "digital" twin of Vladivostok based on MTS Big Data and IoT technologies. Based on the system, it is possible to model and analyze various scenarios of urban processes: track population migration, predict the adequacy of transport interchanges and urban infrastructure facilities, assess the tourism potential of the territory, and ensure the public safety of the region.

In November, MTS launched a comprehensive IoT-product designed to increase the safety level of employees in the production, mining and construction industries. The solution combines a set of sensors built into workwear and installed at the enterprise, as well as a system of analytics of employee activity and alerts about the likelihood of a dangerous situation.

MTS launched the SCEF node on the NB-IoT network – ensuring the interaction of any devices with the Internet of Things via a single interface. The service is integrated into the M2M Manager platform, which allows application and product developers to manage devices connected through various standards: 2G, 3G, 4G, and NB-IoT. At the end of 2019, over 4 thousand corporate customers were using the MTS internet platform.

In December, MTS launched a comprehensive solution for the digital management of multi-family houses that includes software for management companies and mobile applications for the building's tenants and specialists who service the apartments. The solution increases the collection rate for housing and communal services, gives management

companies an additional channel for promoting their own services, and helps to keep accurate records of residents and owners, optimize the wage fund, and increase satisfaction with the quality of service.

Artificial Intelligence

In April, MTS opened a research center in Skolkovo to develop solutions based on speech technologies: virtual assistants, chat bots, and voice assistants. MTS intends to create the largest voice database in the Russian language, collecting and marking up more than 15 thousand hours of Russian speech using Skolkovo personnel and technical resources. MTS plans not only to use the collected data to develop its own voice interfaces, but also to provide access to the database to other companies, primarily Skolkovo residents.

In June, MTS announced the launch of sales of customer service specialist robots – automated dialogue systems that interact with clients without human involvement. The system, based on artificial intelligence technologies, is able to process typical requests, for example, talking about products and services, answering popular questions, and performing routine operations.

In November, MTS, Sberbank, Gazprom Neft, Yandex, Mail.ru Group, and the Russian Direct Investment Fund (RDIF) announced the conclusion of a cooperation agreement that involves the creation of the AI-Russia Alliance. The parties intend to join efforts for the creation of technological components that stimulate the development of AI solutions; to contribute to the formation and development of a dynamic market for AI technologies, as well as products and services created on their basis; to unite efforts aimed at accelerating technological development and achieving the leadership positions by the alliance members in global technology markets in the field of artificial intelligence; to coordinate the activities of the business community and scientific organizations in the implementation of the National Artificial Intelligence Strategy; to develop a community of specialists and organizations involved in the creation and implementation of technologies in the field of artificial intelligence.

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INEQUALITIES

At the end of 2019, we announced the start of sales of a “virtual lawyer” – a system for automatically working with documents and managing the life cycle of contracts. The solution is based on artificial intelligence technologies such as natural language processing and computer vision. The system is able to take up to 90% of the routine operations of lawyers and can manage the work schedule of employees, forming a set of priority tasks and offering optimal solutions. The implementation of this solution makes it possible to automate the processes of procurement, document creation, making claims and electronic document management.

Pilot Businesses and Innovation Areas

In September, MTS and A.N.D. Corporation JSC, one of the largest players in the commercial real estate and development market of the Moscow region (SAFMAR Group), signed a cooperation agreement, under which MTS will equip the multi-purpose concert and entertainment complex being built by A.N.D. Corporation with modern digital technologies and become the title partner. The capacity of the six-story MTS Live Arena complex is 11,500 people. At least 130 events a year will be held in it, more than 700 thousand people will be able to attend them.

MTS will build a high-speed mobile data network at the site, including the 5G standard, equip the arena with projection screens with ultra-high resolution, provide viewers with a convenient purchase of electronic tickets, integrate intelligent identification and access control systems, a security system, install equipment for VR broadcasts, a unique digital system navigation inside the building, and a smart parking lot.

MTS launched the MTS Poster service, which provides access to information on entertainment events in more than 10 categories – from theater performances and musical performances to quests and excursions with the possibility of purchasing tickets and registering for them.

For e-sportspeople and gamers, we launched the WASD.TV interactive media platform and the Gambit League selection mechanism to select amateur players to professional e-sports teams. In the Russian internet segment, this is a unique solution that will compete with global streaming platforms by targeting a Russian-speaking

audience and localizing the technological base, which gives advantages in quality and speed of work. WASD.TV is one of MTS’ own developments, not just a streaming service, but a platform, on the basis of which we will develop various solutions in the field of gaming, professional e-sports, and multimedia content.

In October, MTS and MEDSI Group, one of the leading private federal networks of medical clinics in Russia, connected doctors from St. Petersburg to telemedicine consultations through the SmartMed service. Users of the service from St. Petersburg were provided with an opportunity to continue medical treatment at a clinic after online consultation or to remain under care online after offline attendance

MTS announced the launch of Russian language courses on the Smart University educational platform to prepare for the Basic State Exam (BSE) and the Unified State Exam (USE). Preparation for USE and BSE on the MTS online platform is fully available for basic subjects, i.e. Russian, Mathematics and English.

In April, MTS launched its own corporate venture fund to develop and support promising technology startups. The fund’s strategy involves investing in early stage startups through the acquisition of a minority stake. Among the key parameters when choosing projects are prospects for rapid growth and synergy with the new business areas of MTS. The geography of the fund’s investments includes startups from Russia and the CIS countries.

In May, MTS launched a program to create a partnership network in the main innovation centers of the world to attract and transfer startups. The first partner networks will be opened in three key innovation hubs: Israel, Germany, and Singapore. In each of the regions, MTS will be represented by a team of technology scouts who will search for startups for MTS business and interact with local incubators and development institutions.



In June, MTS signed a memorandum of cooperation with the national investment agency of India, Invest India. The agreement involves the search and implementation of technological projects from India in the MTS business. The main areas for selection were e-commerce, telemedicine, fintech, and IoT solutions.

In July, MTS selected 10 technology startups to conclude pilot contracts as a part of the MTS StartUp Hub corporate accelerator. Among the finalists, four HR projects, four projects from the Esports sphere and two more projects represent FinTech solutions. Recruiting for the corporate accelerator at the end of 2019 consisted of 19 startups, selected among more than 450 applications. Of these, eight startups were selected for the "Customer Service" direction, two projects each were of interest to the #CloudMTS and "MTS Online Store" divisions, and seven others were technological solutions services.

Partnerships

In February, MTS and the Government of the Leningrad Region announced a strategic partnership in the framework of implementing programs to develop the Region's innovative infrastructure based on the Internet of Things, Big Data and cloud services technologies.

In June, MTS signed cooperation agreements on the development of digital projects in the Moscow, Tatarstan, Kaluga, Ryazan and Samara Regions for a total of 24 billion rubles. The priority areas of cooperation were the launch of MTS comprehensive offers in the areas of telemedicine and educational platforms, solutions in the field of fintech, cybersecurity, big data, cloud services and electronic commerce, the Internet of Things, including those based on the NB-IoT network and the MTS integration platform.

In August, MTS and the M.Video-Eldorado Group, Russia's largest retailer of household appliances and electronics, announced the launch of a partnership in retail sales and the opening

of a new format for digital gadget stores under the MTS and M.Video brands for the Russian market. The new retail format combines all the latest products in digital electronics, from smartphones to gaming devices, and the entire set of services necessary for their work, including TV and banking.

In autumn, MTS entered into a number of agreements with the authorities of the Kamchatka and Khabarovsk Territories, the Republics of Buryatia, Kalmykia and Yakutia, as well as the Sakhalin, Amur, Lipetsk, Smolensk and Kirov Regions on strategic partnership for the implementation of projects aimed at digitalizing the economy, urban economy and social sphere of the Regions: implementation of Smart City systems based on ICT technologies, climate monitoring, use of Big Data MTS analytics to create elements of "digital copies" of cities and develop tourism potential, development of a 4G high-speed data network and the innovative NB-IoT (Narrow Band IoT) network for IoT products and devices, and increasing the availability of digital services and financial services for the Region's population, including the introduction of the Active Citizen platform.

MTS and the communications group Dentsu Aegis Network Russia, a leading advertising holding company in Russia, have announced a strategic partnership in the field of media research, media planning and product development for the advertising market. Under the agreement, the companies will develop tools for evaluating advertising performance, media products for digital and television advertising, and will also create a research panel based on the audience data available to the parties.

In September, MTS joined the GSMA global initiative to develop an industry-specific roadmap of activities to minimize the impact of the telecommunications industry on climate change in accordance with the Paris Agreement aimed at curbing global warming.





DIVIDENDS

In March, the MTS Board of Directors approved a new dividend policy for the period from 2019 to 2021, according to which the Company intends to pay shareholders at least 28 rubles per ordinary share (56 rubles per ADR) every six months during each calendar year.

In June, according to the results of voting at the annual General Meeting of shareholders, annual dividends of 19.98 rubles per MTS ordinary share (39.96 rubles per ADR), or 39.9 billion rubles, were approved on the basis of the financial results for 2018.

In September, an extraordinary meeting of shareholders approved interim dividends of 8.68 rubles per MTS ordinary share (17.36 rubles per ADR), or 17.3 billion rubles, based on the financial results for the first half of 2019.

In November 2019, MTS completed the payment of regular dividends according to the results of financial results for the first half of 2019 in the amount of 8.68 rubles per ordinary share of MTS (17.36 rubles per ADR). The total amount of dividends paid for the calendar year 2019 amounted to 28.66 rubles per MTS ordinary share (57.32 rubles per ADR), or 57.3 billion rubles, which exceeds the obligations assumed by the Company in accordance with the new dividend policy for 2019–2021, which stipulates a minimum annual payment of 28 rubles per ordinary share (56 rubles per ADR).

In December, at an extraordinary General Meeting of MTS shareholders, special dividends were approved in the amount of 13.25 rubles per ordinary share of MTS (26.50 rubles per one ADR) for a total amount of 26.5 billion rubles. The decision to pay special dividends was made based on the financial results of MTS for the nine months of 2019 and the sale of VF Ukraine PrJSC.



STRATEGY IN THE FIELD OF MERGERS AND ACQUISITIONS

The company monitors the opportunities of inorganic growth both in the markets of its operation and beyond. MTS PJSC has sufficient experience in the integration of acquired companies that allows their incorporation into the business structure efficiently and ensures the achievement of a positive economic effect as quickly as possible.