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# MTS Group Today

More than  
**139 thousand**  
base stations

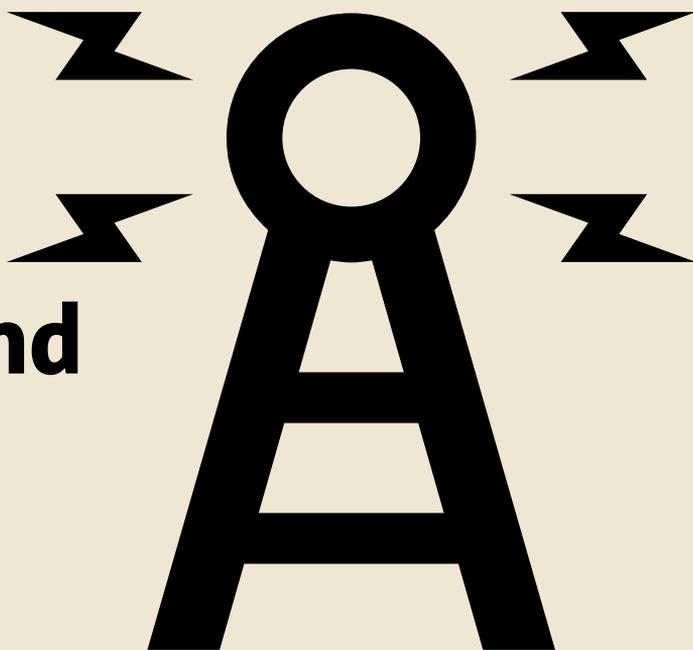
Most advanced technologies:

2G 900/1800;

3G 900/1800/2100;

DC-HSDPA+;

LTE TDD&FDD 800, 1800, 2100, 2600, LTE+ CA.



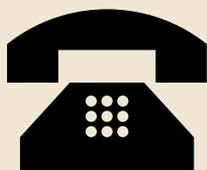
More than  
**6 million**  
on-line orders per year



More than  
**6 thousand**  
retail stores of MTS



More than  
**213 thousand**  
km of fiber-optic lines



**10 million**

households in Russia covered  
by fixed lines of MTS and

**9 million**

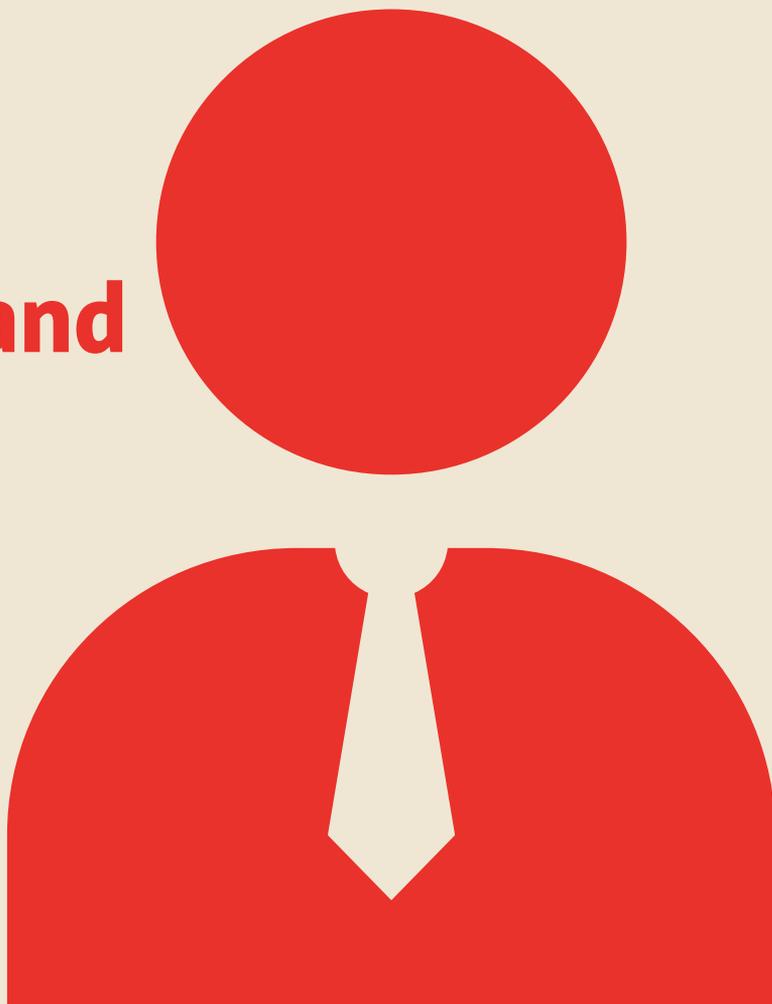
by broadband Internet



**110**

offices of MTS Bank  
in Russia

**70 thousand**  
employees



# MTS business: the main and new digital directions



**New activations**  
8.5 million quarterly



**Fixed business**  
2.8 million Internet users.  
2.7 million: Pay-TV services;



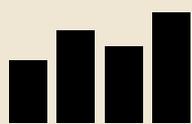
**Satellite TV MTS**  
120 thousand users in 2016



**Financial services**  
Penetration into the MTS base  
more than 20%

More than

# 80,000



**Big Data**  
536 million in 2016



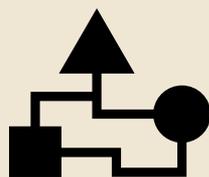
**OTT/Cloud**  
More than 7.3 million users  
of MTS apps



**System integration**  
5.6 billion RUB in 2016



**E-commerce**  
75 % in mobile e-commerce Big3  
6.6 million Ozon  
customers



**Internet of Things**  
~46% market share among  
Big3 operators

**0,000**

**MTS subscribers in Russia**

# Main Outcomes for 2016

- Strong financial performance in 2016, despite the difficult macroeconomic situation and competition: in 2016 consolidated revenues of MTS Group grew by 2% over the year to 435.7 billion rubles;
- MTS, one of the largest tower infrastructure and antenna-mast structures operators in the Russian Federation has announced its entry into the tower infrastructure rental market. The Company has elaborated a strategy for development of its own telecommunications infrastructure, which also involves the creation of a new business for management of the existing tower infrastructure.
- MTS opened the Innovation Center, a unit that forms a new approach to research into promising areas of business development in the company and the subsequent launch of products and services. The work of the MTS Innovation Center includes iterative development of services, dynamic formation of requirements and their implementation by a team of experts of various profiles. Using this approach, the company expects to reduce the time to market of new products three to four times in the long term.
- MTS for the first time in the history of corporate governance in Russia launched online shareholder electronic voting service based on ComVoting.

## Financial indicators

Consolidated  
income

**435.7**

billion RUB

OIBDA

**169.3**

billion RUB

OIBDA  
profitability

**38.8%**

Average  
net profit

**48.5**

billion RUB

Net income  
margin

**11.1%**

## Operational indicators

Penetration of financial services  
into subscriber base

**20%**

A unique digital ecosystem  
has been created:  
24 applications,  
7.3 million monthly users

Cumulative effect  
from the use of Big data

**536**

million RUB

Revenues from  
system integration in 2016

**5.6**

billion RUB

Dividend payments in 2016  
in the amount of 26.0 rubles per share  
+ yield of 0.4 rubles per share  
as a part of redemption program

# 2016 Highlights

## ● February 15, 2016

MTS, British Telecom, Deutsche Telekom, JIO Infocomm, Millicom, Orange, Rogers, TeliaSonera and TIM have created an alliance of operators to quickly and effectively promote products and services of innovative partner companies. The total potential client base of all alliance members covers about one billion people in more than 80 countries.

## ● April 11, 2016

The Board of Directors of MTS approved new dividend policies. In accordance with the new dividend policy to apply in 2016–2018, the company set a target dividend yield of 25.0–26.0 rubles per one common share of MTS PJSC (50.0–52.0 rubles per ADR) during each calendar year. With that, the dividend policy assumes a minimum dividend payout of 20.0 rubles per share (40.0 rubles per one ADR) per year.

## ● April 20, 2016

MTS and Samsung Electronics have started cooperation for the development of Samsung's branded retail stores in Russia. MTS will build and will manage a network of showrooms under the Samsung brand in several key regions of Russia.

## ● June 3, 2016

MTS launched the Moscow's first fragment of the Fourth Generation network in Russia with LTE FDD1 frequency aggregation and LTE TDD2 in Moscow. Combination of these two standards in other regions of Russia will enable MTS to significantly improve LTE network coverage and increase the peak mobile Internet rates up to 187 Mbps.

## ● June 15, 2016

MTS and Ericsson conducted the first successful testing of LTE-U (LTE-Unlicensed) mobile technology in Russia, demonstrating aggregation of two frequency bands — 10 MHz in the 1800 MHz bandwidth of the LTE standard and 20 MHz in the unlicensed 5 GHz bandwidth at Wi-Fi access points. During the tests data rate reached 200 Mbit/s.

## ● June 15, 2016

MTS announced early redemption of outstanding Eurobonds issued for a total of \$ 750 million with maturity in 2020, through its subsidiary company of Dega Retail Holding Limited. In June, MTS purchased its own Eurobonds with a par value of \$ 267.44 million.

## ● July 19, 2016

MTS paid the last seventh coupon and redeemed Series 05 ruble bonds. Thus MTS has completed repayment of seven-year bonds of Series 05 for the total amount of 15 billion rubles.

## ● August 19, 2016

MTS announced reduction of the authorized capital to 199.84 million rubles (1,998,381,575 placed ordinary registered shares) from 206.64 million rubles (2,066,413,562 shares) according to the procedures for repayment of 3.29% of shares.

## ● September 15, 2016

MTS and Nokia Corp. Successfully conducted testing of fifth generation (5G) mobile communication technology, and achieved a record for Russia's mobile data speed of 4.5 Gbit/s in 200 MHz band.

## ● September 20, 2016

MTS acquired a 100% stake in the regional telecommunications operator JSC SMARTS-Yoshkar-Ola through its subsidiary Telecom Povolzhye LLC from the SMARTS Group for 41 million rubles, including the net debt of 27.7 million rubles.

## ● October 31, 2016

In October and December 2016, the Board of Directors decided to hold modified two Dutch auctions for share buyback program for the total amount of up to 10 billion rubles. In October 2016 and January 2017, MTS repurchased 17,532,278 shares for the total amount of 5.0 billion rubles, and also acquired shares from its majority shareholder, JSFC Sistema, in proportion to its effective share of ownership, at the prices determined by the auction. In total, MTS spent 10 billion rubles on the acquisition of 35,121,665 shares.

## ● **November 3, 2016**

MTS and Nokia Corp. announced successful completion of the Russia's first tests of the integrated Internet of Things (IoT) solution on MTS network.

## ● **November 22, 2016**

MTS completed payment of dividends for the first half of 2016 in the amount of 24 billion rubles.

## ● **November 28, 2016**

MTS and VimpelCom began sharing radio spectrum in 4G networks in the city of Cherepovets (Vologda region), increasing mobile data rates for their subscribers. This region was the first where for the first time in Russia two operators combined their frequency bands as a part of a large-scale project on joint construction and operation of LTE networks in more than 30 regions of the Russian Federation.

## ● **December 16, 2016**

MTS began transition to the next, going right after 4G mobile communication standard — LTE-Advanced Pro (4.5G), launching the country's fastest fourth-generation sections on the existing network with peak data rates of up to 700 Mbps. High-speed commercial networks 4.5G from MTS have been already launched in Moscow, St. Petersburg, Ufa and Yakutsk.



# Message of the Board Chairman

## Dear shareholders,

First of all, I would like to note that the actual levels achieved by MTS in 2016 in terms of key performance indicators fully meet our expectations. I'll let the management of the Company to give details on this year's performance; for my part, I would like to highlight the fact that the goals that we faced last year were achieved in unfavorable macroeconomic context observed in the markets where we operate, which, however, was not something new and unexpected for us. The economic background that was perceived as a challenge three years ago has become a familiar environment for us, and we feel more than confident in it. Even in such difficult conditions, the Company successfully grows its revenues year after year, fulfills all tasks to achieve target profitability and meet all obligations to ensure profitability for shareholders, including, first of all, dividend payments.

It should be noted that currently the telecommunications market in its traditional sense has practically no prospects for further growth. In the markets where we operate the fixed segment still has some potential for organic and inorganic growth, but here we are talking about the dynamics in couple of percents,

which does not allow us to count on significant progress in the business where we have operated for many years. That is why in 2014 one of the key strategic priorities for our company was Differentiation. Today we can say that all the tasks that we set ourselves in this area have been fulfilled, the goals have been achieved. MTS's competencies expanded into new areas such as financial services, Internet of Things, Big Data, system integration and a number of others. Over this period we have traveled from project teams to full-fledged divisions within our organizational structure, from pilot projects to robust products

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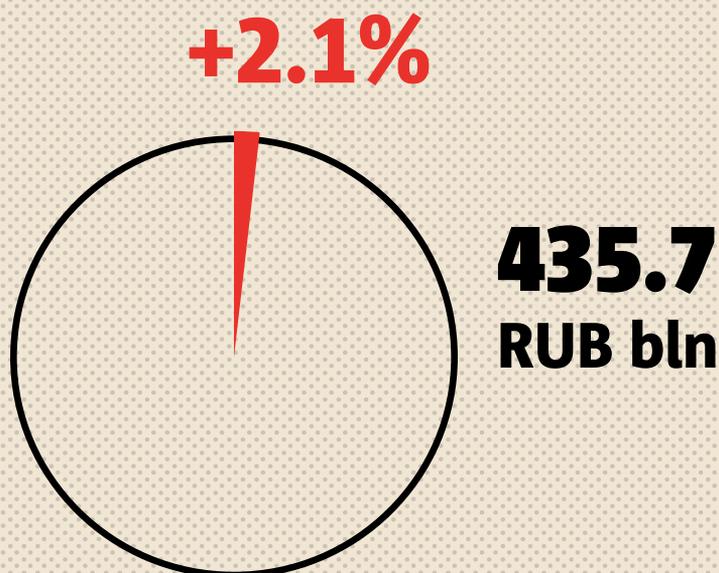
which are used by millions of customers, from a near-zero commercial effect to billions in revenues. We are ready to build a new environment for our business on this foundation, and move further into the digital age.

In order to emphasize the desire not only to expand the scope of our activities, but also to change the general approach to the development of new products, solutions, to the very principles of work organization and company management, in 2016 the Board of Directors decided to transform the strategy “3D: Data. Differentiation. Dividends” into a new form: “3D: Data. Digital. Dividends”. You will learn more about the elements of our new strategy in the section “Our Strategy”. I also would like to mention that it is based on the aspiration to realize the potential of our company during Digital Transformation, which is a key task for us in the near future.

Another important decision made by the Board of Directors of MTS in 2016 was the approval of the dividend policy for 2016–2018. Without going too much into details that will be revealed below, I emphasize that we continue the good tradition laid down in the previous 3 years: namely, ensuring stable, guaranteed, high level of return on investment for our shareholders.

Before I give the floor to MTS President Andrey Dubovskov, I would like to thank all the members of the Board of Directors for their hard and fruitful work

**Consolidated income of MTS Group**



during the year. The hours of joint discussion of key issues for the company, free and open exchange of opinions, high professionalism and experience of each Board member were embodied in the most important strategic and tactical decisions. Details on the activities of the Board of Directors will be discussed in the “Corporate Governance” section; I also note that this year the Board has traditionally demonstrated the high level of execution of its key functions: ensuring information openness and transparency, protecting shareholders’ rights, controlling management activities and collegial way of making major management decisions.

Chairman of the Board of Directors of MTS PJSC  
RON SOMMER