

MOBILE TELESYSTEMS PJSC  
Form 20-F  
April 27, 2018

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

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**Form 20-F**

o **Registration Statement pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934**

or

ý **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2017**

or

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

or

o **Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**Date of event requiring this shell company report**  
**Commission file number 333-12032**

**MOBILE TELESYSTEMS PUBLIC JOINT STOCK COMPANY**

(Exact name of Registrant as specified in its charter)

**Not Applicable**

(Translation of Registrant's name into English)

**RUSSIAN FEDERATION**

(Jurisdiction of incorporation or organization)

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4 Marksistskaya Street, Moscow 109147 Russian Federation  
(Address of Principal Executive Offices)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
AMERICAN DEPOSITARY SHARES, EACH REPRESENTING 2 SHARES OF COMMON STOCK COMMON STOCK, PAR VALUE 0.10 RUSSIAN RUBLES PER SHARE	NEW YORK STOCK EXCHANGE  NEW YORK STOCK EXCHANGE <sup>(1)</sup>

Securities registered or to be registered pursuant to Section 12(g) of the Act:

NONE  
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

NONE  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report 1,129,245,695 ordinary shares, par value 0.10 Russian rubles each and 391,398,362 American Depositary Shares as of December 31, 2017.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  Yes  No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes:  No:

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated Filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>
---	---	---	---

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

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U.S. GAAP

International Financial Reporting Standards as issued

Other

by

the International Accounting Standards Board

If "Other" has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow.  Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

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(1)

Listed, not for trading or quotation purposes, but only in connection with the registration of ADSs pursuant to the requirements of the Securities and Exchange Commission.

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Unless otherwise indicated or unless the context requires otherwise, references in this document to (i) "MTS," "the Group," "we," "us," or "our" refer to Mobile TeleSystems Public Joint Stock Company and its subsidiaries; (ii) "Vodafone Ukraine" and "VF Ukraine" are to Private Joint Stock Company "Vodafone Ukraine" (formerly PJSCMTS Ukraine); (iii) "Uzdunrobita" is to our former subsidiary in Uzbekistan, which was deconsolidated in 2013; (iv) "MTS-Turkmenistan" our Turkmenistan subsidiary and "BCTI" are to Barash Communication Technologies, Inc., our former Turkmenistan subsidiary; (v) "Comstar" or "Comstar-UTS" are to COMSTAR United TeleSystems, our former fixed line subsidiary, which was merged into MTS PJSC in 2011; (vi) "MGTS" is to Public Joint Stock Company Moscow City Telephone Network, our Moscow public switched telephone network ("PSTN") fixed line subsidiary; and (vii) "MTS-Armenia," "K-Telecom" or "VivaCell-MTS" are to our Armenian subsidiary; and (viii) "UMS" is to Universal Mobile Systems LLC, our former subsidiary in Uzbekistan which was deconsolidated in 2016; (ix) NVision our subsidiaries which provides integration services and (x) "Sistema" is to Sistema Public Joint Stock Financial Corporation, our majority shareholder. We refer to Mobile TeleSystems LLC, our 49% owned equity investee in Belarus, as "MTS Belarus." We refer to MTS Bank PJSC, our 26.6% owned equity investee as "MTS Bank." As MTS Belarus and MTS Bank are equity investees, our revenues and subscriber data do not include MTS Belarus and MTS Bank.

In this document, references to "U.S. dollars," "dollars," "\$" or "USD" are to the lawful currency of the United States, "Russian rubles," "rubles" or "RUB" are to the lawful currency of the Russian Federation, "hryvnias" are to the lawful currency of Ukraine, "soms" are to the lawful currency of Uzbekistan, "manats" are to the lawful currency of Turkmenistan, "dram" are to the lawful currency of Armenia and "€," "euro" or "EUR" are to the lawful currency of the member states of the European Union that adopted a single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended by the treaty on the European Union, signed at Maastricht on February 7, 1992. References in this document to "shares" or "ordinary shares" refers to our ordinary shares, "ADSs" refers to our American depositary shares, each of which represents two ordinary shares, and "ADRs" refers to the American depositary receipts that evidence our ADSs. Prior to May 3, 2010, each ADS represented five ordinary shares of our common stock. "CIS" refers to the Commonwealth of Independent States. "CBR" refers to the Central Bank of Russia.

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The following tables show, for the periods indicated, certain information regarding the exchange rate between the ruble and the U.S. dollar, based on data published by the CBR. These rates may differ from the actual rates used in preparation of our financial statements and other financial information provided herein.

Years ended December 31,	High	Rubles per U.S. dollar		
		Low	Average <sup>(1)</sup>	Period End
2013	33.47	29.93	31.98	32.73
2014	67.79	32.66	39.34	56.26
2015	72.88	49.18	60.96	72.88
2016	83.59	60.27	67.03	60.66
2017	60.75	55.85	58.35	57.60

(1)

The average of the exchange rates on the last business day of each full month during the relevant period.

	Rubles per U.S. dollar	
	High	Low
July 2017	60.74	58.93
August 2017	60.75	58.53
September 2017	58.55	57.00
October 2017	58.32	57.09
November 2017	60.25	58.09
December 2017	59.29	57.47
January 2018	57.60	55.83
February 2018	58.17	55.67
March 2018	57.76	56.37

Source: CBR.

The exchange rate between the ruble and the U.S. dollar quoted by the CBR for April 27, 2018 was 62.60 rubles per U.S. dollar.

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

Matters discussed in this document may constitute forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 (the "U.S. Securities Act"), and Section 21E of the U.S. Securities Exchange Act of 1934 (the "U.S. Exchange Act"). The Private Securities Litigation Reform Act of 1995 provides safe harbor protections for forward-looking statements in order to encourage companies to provide prospective information about their businesses. Forward-looking statements include statements concerning plans, objectives, goals, strategies, risks and their assessment, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts.

MTS desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this cautionary statement in connection with this safe harbor legislation and other relevant law. This document and any other written or oral statements made by us or on our behalf may include forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. The words "believe," "expect," "anticipate," "intend," "estimate," "forecast," "project," "predict," "plan," "may," "should," "could" and similar expressions identify forward-looking statements. Forward-looking statements appear in a number of places including, without limitation, "Item 3. Key Information D. Risk Factors," "Item 4. Organizational Structure B. Business Overview," "Item 5. Operating and Financial Review and Prospects," and "Item 11. Quantitative and Qualitative Disclosures about Market Risk" and include statements regarding:

our strategies, future plans, economic outlook, industry trends and potential for future growth;

our liquidity, capital resources and capital expenditures;

our payment of dividends;

our capital structure, including our indebtedness amounts;

our ability to generate sufficient cash flow to meet our debt service obligations;

our ability to achieve the anticipated levels of profitability;

our ability to timely develop and introduce new products and services;

our ability to obtain and maintain interconnect agreements;

our ability to secure the necessary spectrum and network infrastructure equipment;

our ability to meet license requirements and to obtain and maintain licenses and regulatory approvals;

our ability to maintain adequate customer care and to manage our churn rate; and

our ability to manage our rapid growth and train additional personnel.

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The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections. In addition to these important factors and matters



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discussed elsewhere herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

growth in demand for our services;

changes in consumer preferences or demand for our products;

availability of external financing on commercially acceptable terms;

the developments of our markets;

the highly competitive nature of our industry and changes to our business resulting from increased competition;

the impact of regulatory initiatives;

the rapid technological changes in our industry;

cost and synergy of our recent acquisitions;

the acceptance of new products and services by customers;

the condition of the economies of Russia, Ukraine and certain other countries of the CIS;

risks relating to legislation, regulation and taxation in Russia, Ukraine and certain other CIS countries, including laws, regulations, decrees and decisions governing each of the telecommunications industries in the countries where we operate, currency and exchange controls relating to entities in Russia, Ukraine and other countries where we operate and taxation legislation relating to entities in Russia, Ukraine and other countries where we operate, and their official interpretation by governmental and other regulatory bodies and by the courts of Russia, Ukraine and the CIS;

political stability in Russia, Ukraine and certain other CIS countries; and

the impact of general business and global economic conditions and other important factors described herein and from time to time in the reports filed by us with the U.S. Securities and Exchange Commission (the "SEC").

All future written and verbal forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. New risks and uncertainties arise from time to time, and it is impossible for us to predict these events or how they may affect us. Readers are cautioned not to place undue reliance on these forward-looking statements. Except to the extent required by law, neither we, nor any of our respective agents, employees or advisors intends or has any duty or obligation to supplement, amend, update or revise any of the forward-looking statements contained or incorporated by reference in this document.

Table of Contents**PART I****Item 1. Identity of Directors, Senior Management and Advisors**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information****A. Selected Financial Data**

We adopted International Financial Reporting Standards ("IFRS") starting from the fiscal year ended December 31, 2015 by applying IFRS 1, First-Time Adoption of International Financial Reporting Standards. The date of transition to IFRS is January 1, 2014. Our consolidated financial statements for the years ended December 31, 2014 were originally prepared in accordance with U.S. GAAP and were restated in accordance with IFRS.

Pursuant to the transitional relief granted by the U.S. SEC in respect of the first-time adoption of IFRS, we have only provided selected financial information for four fiscal years ended December 31, 2017, 2016, 2015 and 2014 as presented under IFRS.

The selected financial data should be read in conjunction with our audited consolidated financial statements, included elsewhere in this document, "Item 3. Key Information D. Risk Factors" and "Item 5. Operating and Financial Review and Prospects." Certain industry and operating data are also provided below.

	Years Ended December 31,			
	2017	2016	2015	2014
	Amounts in millions of Russian rubles, except share and per share amounts, industry and operating data and ratios			
<b>Consolidated statements of profit or loss data:</b>				
Services revenue	390,761	386,486	386,159	381,143
Sales of goods	52,150	49,206	40,480	29,535
<b>Total operating revenues</b>	<b>442,911</b>	<b>435,692</b>	<b>426,639</b>	<b>410,678</b>
<b>Operating expenses:</b>				
Cost of services	123,779	130,158	126,805	119,053
Cost of goods	45,623	45,574	36,555	25,445
Selling, general and administrative expenses	95,186	94,046	87,340	88,095
Depreciation and amortization	79,912	81,582	77,843	74,734
Operating share of the profit of associates	(3,210)	(3,115)	(3,456)	(3,459)
Provision for investment in distressed Ukrainian banks			1,698	5,138
Impairment of non-current assets	3,775		3,516	
Other expenses/ (income) <sup>(1)</sup>	1,746	(222)	2,415	1,814
<b>Operating profit</b>	<b>96,100</b>	<b>87,669</b>	<b>93,923</b>	<b>99,858</b>
Finance income	(5,548)	(5,273)	(8,368)	(4,519)
Finance costs	26,064	27,136	26,422	17,252
Currency exchange loss/(gain)	(1,301)	(3,241)	6,154	17,926
Non-operating share of the loss of associates	436	1,287	3,780	6,537
Change in fair value of financial instruments	(110)	(166)	(1,014)	95
Other expenses/(income), net	992	317	(54)	937
<b>Profit before tax</b>	<b>75,567</b>	<b>67,609</b>	<b>67,003</b>	<b>61,630</b>
Income tax expense	18,977	15,138	13,931	15,909

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<b>Profit for the period from continuing operations</b>	<b>56,590</b>	<b>52,471</b>	<b>53,072</b>	<b>45,721</b>
(Income)/Loss from discontinued operations, net of tax		4,021	5,668	(5,775)
<b>Profit for the period</b>	<b>56,590</b>	<b>48,450</b>	<b>47,404</b>	<b>51,496</b>

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	Years Ended December 31,			
	2017	2016	2015	2014
	Amounts in millions of Russian rubles, except share and per share amounts, industry and operating data and ratios			
<b>Attributable to:</b>				
Owners of the company	56,042	48,474	49,489	51,306
Non-controlling interests	548	(24)	(2,085)	190
Dividends declared <sup>(2)</sup>	51,958	51,958	52,011	51,247
Earnings per share, basic, RUB	28.68	24.37	24.88	25.80
Earnings per share, diluted, RUB	28.66	24.35	24.87	25.78
Earnings per share from continuing operations, basic, RUB	28.68	26.06	26.31	22.67
Earnings per share from continuing operations, diluted, RUB	28.66	26.04	26.29	22.66
Earnings per share from discontinued operations, basic, RUB		(1.69)	(1.43)	3.13
Earnings per share from discontinued operations, basic and diluted, RUB		(1.69)	(1.42)	3.13
Annual Dividends declared per share, RUB	26.00	25.99	25.17	24.80
Semi annual Dividends declared per share, RUB	10.4	11.99	5.61	6.20
Number of common shares outstanding	1,912,042,419	1,986,899,529	1,988,892,399	1,988,912,130
Weighted average number of common shares outstanding basic	1,953,778,999	1,989,281,930	1,988,728,000	1,988,757,022
Weighted average number of common shares outstanding diluted	1,955,558,196	1,990,693,983	1,990,195,552	1,989,977,971
<b>Consolidated statement of cash flows data:</b>				
Cash provided by operating activities	144,640	130,565	144,088	158,979
Cash used in investing activities	(81,510)	(57,302)	(145,356)	(105,008)
(of which capital expenditures) <sup>(3)</sup>	(76,431)	(86,149)	(106,537)	(91,929)
Cash used in financing activities	(50,445)	(83,038)	(27,595)	(33,212)
<b>Consolidated statement of financial position (end of period):</b>				
Cash, cash equivalents and short-term investments	81,343	27,127	83,304	71,352
Property, plant and equipment, net	263,063	272,841	302,662	299,023
Total assets	551,070	544,470	653,378	599,304
Total debt (long-term and short-term) <sup>(4)</sup>	303,570	284,320	345,869	289,965
Total shareholders' equity	124,205	143,948	168,371	178,622
Common stock less treasury stock	(22,444)	(548)	(24,261)	(24,257)
<b>Financial ratios (end of period):</b>				
Total debt/total capitalization <sup>(5)</sup>	71.0%	66.8%	67.3%	61.9%
<b>Mobile industry and operating data:<sup>(6)</sup></b>				
Mobile penetration in Russia (end of period)	179%	179%	176%	168%
Mobile penetration in Ukraine (end of period)	131%	136%	134%	136%
Mobile subscribers in Russia (end of period, thousands) <sup>(7)</sup>	78,291	80,032	77,277	74,562
Mobile subscribers in Ukraine (end of period, thousands) <sup>(7)</sup>	20,805	20,856	20,431	20,221
Overall market share in Russia (end of period)	31%	31%	31%	31%
Overall market share in Ukraine (end of period)	36%	36%	35%	34%

- (1) "Operating expenses" consist mainly of allowance for doubtful accounts, gain/losses on disposal of property, plant and equipment and intangible assets as well as any gain/losses resulting from stock-taking.
- (2) Dividends declared in each of the years ended December 31, 2014, 2015, 2016 and 2017 consisted of dividends in respect of the prior fiscal year (*i.e.*, in respect of each of the years ended December 31, 2013, 2014, 2015 and 2016, respectively) and semiannual dividends in respect of the current fiscal year (RUB 12,812 million, RUB 11,592 million, RUB 23,961 million and RUB 20,783 million, respectively). Amounts include dividends on treasury shares RUB 1,996 million, RUB 435 million, RUB 220 and RUB 1,319 million in respect of the years ended December 31, 2014, 2015, 2016 and 2017, respectively. At a meeting held on April 11, 2018, the Board recommended that an annual general meeting of shareholders approve annual dividends of RUB 23.4 per ordinary MTS share (RUB 46.8 per ADS), or a total of approximately RUB 46.76 billion, based on the full-year 2017 financial results.
- (3) Capital expenditures include purchases of property, plant and equipment and intangible assets.
- (4) Includes notes payable, bank loans, capital lease obligations and other debt.
- (5) Calculated as book value of total debt divided by the sum of the book values of total shareholders' equity and total debt at the end of the relevant period. See footnote 4 above for the definition of "total debt."

(6)

Source: AC&M-Consulting and GSMA Intelligence. Operating data is presented for mobile operations only. None of this data is derived from our audited consolidated financial statements.

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(7)

We define a subscriber as an organization or individual, whose SIM-card shows traffic-generating activity or accrues a balance for services rendered or is replenished of topped off over the course of any three-month period, inclusive within the reporting period, and was not blocked at the end of the period.

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors**

*An investment in our securities involves a certain degree of risk. You should carefully consider the following information about these risks, together with other information contained in this document, before you decide to buy our securities. If any of the following risks actually occur, our business, prospects, financial condition or results of operations could be materially adversely affected. In that case, the value of our securities could also decline and you could lose all or part of your investment. In addition, please read "Cautionary Statement Regarding Forward-Looking Statements" where we describe additional uncertainties associated with our business and the forward looking statements included in this document.*

**Risks Relating to Business Operations in Emerging Markets**

*Emerging markets such as the Russian Federation, Ukraine and other CIS countries are subject to greater risks than more developed markets, including significant legal, economic, social, regulatory, tax and political risks.*

Investors in emerging markets such as the Russian Federation, Armenia, Ukraine, Turkmenistan, Belarus and other CIS countries should be aware that these markets are subject to greater risk than more developed markets, including in some cases, significant legal, economic, social, regulatory, tax and political risks. Investors should also note that emerging economies such as the economies of the Russian Federation, Ukraine and other CIS countries are subject to rapid change and that the information set out herein may become outdated relatively quickly.

There is a number of risks associated with investing in emerging markets, including the following:

instability of emerging markets (for more information, see " Risks Relating to Economic Risks in Our Countries of Operation" and " Legal Risks and Uncertainties");

high volatility of national currencies (for more information, see " Risks Relating to our Financial Condition");

possible geopolitical disputes (for more information, see " Political and Social Risks"); and

possible liquidity constraints (for more information, see " Risks Relating to Economic Risks in Our Countries of Operation" and " Risks Relating to our Financial Condition").

Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal and financial advisors before making an investment in our securities.

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**Risks Relating to Our Business**

*The telecommunications services market is characterized by rapid technological change, which could render our services obsolete or non-competitive and result in the loss of our market share and a decrease in our revenues.*

The telecommunications industry is subject to rapid and significant changes in technology and is characterized by the continuous introduction of new products and services. The mobile telecommunications industry in Russia is also experiencing significant technological change, as evidenced by the introduction in recent years of new standards for radio telecommunications, such as Wi-Fi, Worldwide Inter-operability for Microwave Access ("**Wi-Max**"), Enhanced Data Rates for Global Evolution ("**EDGE**"), Universal Mobile Telecommunications System ("**UMTS**"), and Long Term Evolution ("**LTE**"), as well as ongoing improvements in the capacity and quality of communications, shorter development cycles for new products and enhancements and changes in customer requirements and preferences. Such continuing technological advances make it difficult to predict the extent of the future competition we may face and it is possible that existing, proposed or as yet undeveloped technologies will become dominant in the future and render the technologies we use less profitable or even obsolete. New products and services that are more commercially effective than our products and services may also be developed. Furthermore, we may not be successful in responding in a timely and cost-effective way to keep up with these developments. Changing our products or services in response to market demand may require the adoption of new technologies that could render many of the technologies that we are currently implementing less competitive or obsolete. To respond successfully to technological advances and emerging industry standards, we may require substantial capital expenditure and access to related or enabling technologies in order to integrate the new technology with our existing technology.

*We face increasing competition in the markets where we operate, which may result in reduced operating margins and loss of market share, as well as different pricing, service or marketing policies.*

The wireless telecommunications services markets in which we operate are highly competitive, particularly in Russia and Ukraine. We also face increased competition in our cable TV and fixed line business, while the market for fixed line communications services in Russia is rapidly evolving and becoming increasingly competitive. Competition is generally based on price, product functionality, range of service offerings and customer service.

Generally, increased levels of competition, including from the potential entry of new mobile operators, government-backed operators, mobile virtual network operators and alternative fixed line operators in the markets where we operate, as well as the strengthening of existing operators, increased use of Internet protocol telephony and other services, provided via the internet, may adversely affect our ability to keep the level of revenue which we receive from our operations on the telecom market. This in turn could result in reduced operating margins and a loss of market share, as well as necessitating different pricing, service or marketing policies, which may have a material adverse effect on our business, financial condition and results of our operations.

*Competition in the Russian market*

Our principal wireless competitors in Russia are Public Joint Stock Company "Vimpel-Communications" ("**VimpelCom**"), Public Joint Stock Company MegaFon ("**MegaFon**"), as well as the federal cellular operator established in 2014 by the combination of Tele2 Russia and the mobile assets of Public Joint Stock Company Long-Distance and International Telecommunications "Rostelecom" ("**Rostelecom**"). We also face competition from several regional operators.

In addition, we face competition in the fixed line telecommunications business, in particular from Rostelecom. Mass media reported that Rostelecom was determined by the Governmental Decree to be

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the only provider of Internet services for state and commercial medical institutions. It was also reported that Rostelecom may be the only provider of telecommunications services except mobile communications services for federal state institutions. Implementation of these Decrees requirements could have a material adverse effect on our business and results of operations.

See also " If we cannot interconnect cost-effectively with other telecommunications operators, we may be unable to provide services at competitive prices, which may diminish our market share and result in a loss of revenues and margins" below.

*Competition in the foreign markets of our operation*

The Association Agreement with the European Union signed by Ukraine, which came into force on September 1, 2017, may adversely affect our business, financial condition and results of operations due to a possible increase in competition. The implementation of the Association Agreement requires the harmonization of Ukrainian legislation and the adoption of certain EU regulations on telecommunications services. In this regard, no assurance can be given as to the exact nature of the intended changes, their potential implementation and possible impact on our business.

In Ukraine, competition in the markets within which we operate has been affected by the launch of 3G/UMTS services. Through cooperation with Vodafone, MTS Ukraine has started operating in Ukraine under the Vodafone brand. The competitive situation in Ukraine may be further affected by (i) the planned introduction of a mobile number portability service ("MNP"), although the terms of its implementation still remain unknown (interestingly, the regulatory framework for MNP has already been implemented in Russia); (ii) the launch of LTE networks; (iii) the possible emergence of new virtual mobile network operators in the market (for instance, Europe's largest virtual operator, Lyca Mobile, provides communication services in Ukraine on the basis of the TriMob network); and (iv) the regulator's plans to reduce tariffs for international roaming.

In Belarus, our associate, MTS Belarus, faces increasing competition and aggressive pricing from Best CJSC, a subsidiary of System Capital Management and Turkcell Iletisim Hizmetleri A.S. ("Turkcell"), which operates in Belarus under the "life:) " brand. Additionally, in 2011, the government of Belarus announced its intention to hold a public tender to privatize a 51% stake in MTS Belarus with an opening price of approximately USD 1 billion. The public tender was scheduled to be held on December 23, 2011 but was cancelled due to a lack of bidders. The latest attempt to find an investor for the 51% stake in MTS Belarus took place in February 2014. However, it was unsuccessful for the same reason. A date for the next tender has not yet been specified. The terms of the share disposal have not yet been determined, although it may be conducted either through a public tender or by entering into a direct contract with a prospective purchaser. If we are unable to acquire this ownership interest at a commercially reasonable price, or if it is acquired by one of our competitors, it may impact our competitive position and results of operations in Belarus.

We also face competition in Armenia. On July 22, 2015, Orange announced its decision to leave the Armenian market and 100% of Orange Armenia's shares were sold to an Armenian internet service provider, Ucom. The transaction was approved by the Public Services Regulatory Commission of the Republic of Armenia on August 20, 2015.

***We are subject to anti-corruption laws in the jurisdictions in which we operate, including anti-corruption laws of Russia and the US Foreign Corrupt Practices Act (the "FCPA"), and we may be subject to the UK Bribery Act 2010 (the "UK Bribery Act"). Our failure to comply therewith could result in penalties which could harm our reputation and have a material adverse effect on our business, financial condition and results of operations.***

We are subject to the FCPA, which generally prohibits companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business and/or



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other benefits, along with various other anti-corruption laws. We may also be subject to the UK Bribery Act. The UK Bribery Act is broader in scope than the FCPA in that it directly addresses commercial bribery in addition to bribery of public officials and it does not recognize certain exceptions, notably facilitation payments that are permitted by the FCPA.

We operate primarily in Russia and other countries of the former Soviet Union, many of which pose elevated risks of corruption violations. We and certain of our subsidiaries are in frequent contact with persons who may be considered "foreign public officials" under the FCPA and UK Bribery Act, and therefore, are subject to an increased risk of potential FCPA and UK Bribery Act violations. If we are not in compliance with the FCPA, the UK Bribery Act and other laws governing the conduct of business with government entities (including local laws), we may be subject to criminal and civil penalties and other remedial measures, which could have an adverse impact on our business, results of operations, financial condition and liquidity.

As disclosed in our public filings, in March 2014, we received requests for the provision of information from the United States Securities and Exchange Commission and the United States Department of Justice relating to an investigation of the Group's former subsidiary in Uzbekistan. See also Note 30 to our audited consolidated financial statements. We continue to cooperate with these investigations. We, the DOJ and the SEC are having discussions about a potential resolution to allegations of non-compliance with the Foreign Corrupt Practices Act (FCPA). However, at this stage, the Group cannot be certain that such discussions will result in a settled resolution or whether there will be further developments in the investigations.

***The controlling shareholder has a possibility to determine certain decisions of our governing bodies.***

Sistema, which is a public company, owns a controlling stake in MTS. According to the applicable Russian legislation, Sistema has a possibility to exercise its controlling rights, which may become decisive during consideration of a number of issues by our General Meeting of Shareholders, including, but not limited to (i) making decisions on the issues, requiring simple majority of votes our shareholders participating at the General Meeting, for example, in case of making decisions on dividends payment or approval of the our annual reports; (ii) appointment of the majority or dismissal of all members of our Board of Directors members and other matters. Thus, Sistema can take actions that may conflict with the interests of other security holders. Furthermore, our international, credit, investment and other ratings, which determine, inter alia, peculiarities of our operations, terms of raising debt financing and our other activity can be affected by our controlling shareholder's activity and (or) its ratings. See also " Risks Relating to our Financial Condition A change in control could have a material adverse effect on our financial condition and results of operations."

Controlling shareholder as well as other our shareholders has a right to receive dividends at the amount proportionate to the number of our shares belonging to a respective shareholder. For information about dividends see "Item 5 Operating and Financial Review and Prospects B. Liquidity and Capital Resources Capital Requirements." The indentures relating to our outstanding notes and other debt do not restrict our ability to pay dividends. As a result of paying dividends, our reliance on external sources of financing may increase, our credit rating may decrease, and our cash flow and ability to repay our debt obligations, or make capital expenditure, investments and acquisitions could be materially adversely affected.

***Failure to effectively implement our geographic expansion strategy as well as difficulties with operational management of the acquired businesses could hamper our continued growth and profitability.***

Our continued growth depends, in part, on our ability to identify attractive opportunities in markets that will grow and on our ability to manage the operations of acquired or newly established businesses. Our acquisitions may occur in countries that represent new operating environments for us

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and, in many instances, may be located a great distance from our corporate headquarters in Russia. We therefore may have less control over their activities. We may also face uncertainties with respect to the operational and financial needs of those businesses and may, in the course of our acquisitions, incur additional debt to finance the acquisitions and/or take on substantial existing debt of the acquired companies. In addition, it is possible that the countries into which we may expand will be emerging markets and, as with countries of our current presence, subject to greater political, economic, social and legal risks than more developed markets.

For example, see " Legal Risks and Uncertainties The inability of MTS-Turkmenistan to sustain its operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations" and " The inability of our subsidiaries in the countries in which we are present to maintain control over their operations and assets may adversely affect our business, financial condition and results of operations." Our failure to identify attractive opportunities for expansion into new markets and to manage the operations of acquired or newly established businesses in these markets could hamper our continued growth and profitability, and have a material adverse effect on our financial condition, results of operations and prospects.

*Acquisitions and mergers may pose significant risks to our business.*

We have expanded our business through a number of acquisitions. We will continue to evaluate opportunities to acquire, invest in or merge with other existing operators or license holders in the CIS and in growing markets outside the CIS, as well as other complementary businesses. In 2015, our acquisition focus covered regional mobile operators, as well as one of the largest system integrators and complex IT solutions providers in Russia, NVG JSC ("**NVision Group**"). In 2016, we acquired 100% of shares in "SMARTS Yoshkar-Ola" JSC and participated in MTS Bank's additional share issuance. In 2017, our acquisitions focused on various segments, including communication and software development companies, as well as management investment companies.

These and other business combinations entail a number of risks that could materially and adversely affect our business, financial condition, results of operations and prospects, including the following:

assumption of the acquired target's liabilities and contingencies;

failure to realize any of the anticipated benefits or synergies from any acquisitions or investments we complete;

problems connected with integrating the acquired businesses, technologies or products into our operations;

incurrence of debt to finance acquisitions and higher debt service costs related thereto;

difficulties in retaining business relationships with suppliers and customers of the acquired companies;

risks associated with businesses and markets in which we lack experience, including political, economic, social, legal and regulatory risks and uncertainties;

competition risks;

potentially incorrect assessment of the value of any acquired target resulting from the facts we could not have known at the time of evaluation (subsequently discovered facts);

more onerous government regulation;

potential loss of key assets of the acquired company;

potential loss of key employees of the acquired company;

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potential write-offs of acquired assets; and

lawsuits arising out of disputes over ownership of acquired assets and/or the enforcement of indemnities relating to the title to such assets.

See also " Legal Risks and Uncertainties The inability of our subsidiaries in the countries in which we are present to maintain control over their operations and assets may adversely affect our business, financial condition and results of operations" and " Risks Relating to our Financial Condition We may be adversely affected by the current economic environment."

In addition, companies that we acquire may not have internal policies, including accounting policies and internal control procedures that are compatible, compliant or easily integrated with ours.

If any of our future business combinations is structured as a merger with another company, or we merge with or absorb a company subsequent to its acquisition by us, such a merger would be considered a corporate reorganization under Russian law. This would entitle our creditors to file a claim seeking to accelerate their claims or terminate the respective obligations and seek damages. The creditors would need to prove in court that we will not perform our obligations in due course and the amount of damages suffered. Secured creditors would also be required to prove that the security provided by our shareholders, any third parties or us is not sufficient to secure our obligations. Creditors whose claims are secured by pledges do not have the right to claim additional security.

As of December 31, 2016, we held a 26.6% stake in MTS Bank. As a participant of the state recapitalization program, at the end of 2015, MTS Bank received federal loan bonds for total value of RUB 7.25 billion from the Deposit Insurance Agency. In 2016, Sistema and MTS participated in the additional share issuance of MTS Bank in proportion to our direct ownership stakes. In February 2016, MTS signed a binding agreement with MTS Bank, pursuant to which we acquired 946,347 ordinary shares in MTS Bank's additional shares issuance for RUB 1.3 billion. In November 2016, we acquired 2,637,310 ordinary shares in MTS Bank's additional shares issuance for RUB 2.77 billion. As of December 31, 2017, we held a 26.6% stake in MTS Bank.

On January 22, 2015, our subsidiary MGTS closed deals for the sale of a 49.95% stake in Joint Stock Company "Intellect Telecom" and the acquisition of an 89.536% controlling stake in Public Joint Stock Company "Navigation-information systems." In 2015, we acquired 100% of shares in NVision Group, one of the largest system integrators and complex IT solutions providers in Russia. These acquisitions will allow us to improve control over our billing system, reduce our billing and IT related expenses, develop our proprietary technological platform for machine-to-machine ("M2M") solutions and enhance our presence in the areas of telematics solutions for transport, insurance and security systems.

In September 2016, we entered into a purchase agreement to acquire 100% of shares in "SMARTS Yoshkar-Ola" JSC for RUB 13 million.

On July 27, 2017, MTS acquired 100% of the shares of Bashkortostan Cellular Communication OJSC in order to gain access to the frequency resource in the range of 2100 MHz in the territory of the Republic of Bashkortostan. On September 29, 2017, MTS acquired 30% in the share capital of Sistema-Capital Management Company LLC, one of the largest management companies in Russia in terms of collective investment volume. In October 2017, MTS acquired a 50.82% stake in Oblachny Retail LLC (operating under LiteBox trademark), a Russian retail software developer. In December 2017, MTS entered the gaming market through the acquisition of Praliss Enterprises, which manages the Gambit Esports team.

These acquisitions have allowed us to diversify our business. However, additional risks relating to acquired companies' liabilities and non-achievement of initial financial and operational targets may

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arise in connection with these acquisitions. See also Note 4 to our audited consolidated financial statements.

We may also be involved in various litigation to protect our title or other rights related to acquired businesses and incur loss.

In addition, a merger or any corporate reorganization or business combination that constitutes a "major transaction" under Russian law would trigger the right of our shareholders who abstain from voting on or vote against such reorganization or transaction to sell, and our obligation to buy, their shares in an amount representing up to 10% of our net assets as calculated under Russian Accounting Standards. See " Legal Risks and Uncertainties Shareholder rights provisions under Russian law could impose additional obligations and costs on us, which could have a material adverse effect on our business, financial condition, results of operations and prospects."

***If we cannot successfully develop our network or integrate the acquired companies, we will be unable to expand our subscriber base and maintain our profitability.***

Our ability to increase our subscriber base depends upon the success of our network expansion.

We have expended considerable amounts of resources to enable both organic expansion and expansion through acquisitions, and we plan to continue to do so. Limited information regarding the markets into which we have or are considering expanding, through either acquisitions or new licenses, complicates accurate forecasts of future revenues from those regions, increasing the risk that we may overestimate these revenues. In addition, we may not be able to integrate previous or future acquisitions successfully or operate them profitably. Any difficulties encountered in the transition and integration process and in the operation of acquired companies could have a material adverse effect on our results of operations.

The build-out of our network is also subject to risks and uncertainties, which could delay the introduction of services in some areas and increase the cost of network construction, including difficulties in obtaining base station sites on commercially attractive terms. Further, telecommunications equipment used in Russia, Ukraine and other CIS countries is subject to governmental certification and periodic renewals of the same. We are also required to obtain permits and governmental certification for the operation of telecommunications equipment and/or permission for the import and export of certain network equipment, which can result in procurement delays and slower network development. The failure of any equipment we use to receive timely certification or re-certification, as applicable, could hinder our expansion plans. See also " Risks Relating to our Financial Condition If we are unable to obtain adequate capital, we may have to limit our operations substantially, which could have a material adverse effect on our business, financial condition, results of operations and prospects."

For example, the import and export of products containing cryptographic hardware is subject to special documentation requirements and approvals. As telecommunications networks comprise various components with cryptographic hardware, we must comply with these requirements in order to import such components. Moreover, where imported equipment does not contain cryptographic hardware, the federal customs service requires manufacturers to provide written confirmation regarding the absence of such hardware. The range of goods requiring the provision of such "certificates of conformance" by suppliers and manufactures prior to their import into Russia has also been expanded to cover most of our key network components, and imported radioelectronic equipment is required to be licensed by the Russian Ministry of Industry and Trade. Similar requirements regarding the import and export of cryptographic hardware exist in Ukraine.

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***Our inability to develop additional sources of revenue and competitive services could have a material adverse effect on our business, financial condition, results of operations and prospects.***

Until recently, customer growth has been our principal source of revenue growth. Currently, however, increasing competition, market saturation and technological development lead to the increased importance of data services in the markets in which we operate. As a result, data services became the key driver of our revenue growth and we will therefore need to continue to develop new competitive services, including value-added, 3G, LTE, and others, and to consider vertical integration opportunities through the development or acquisition of dealers in order to provide us with sources of revenue in addition to standard voice services. Our inability to develop additional sources of revenue could have a material adverse effect on our business, financial condition, results of operations and prospects.

***The failure to launch and develop distribution network in Ukraine.***

VF Ukraine is in the process of launching a distribution network in Ukraine. The retail business of telecommunications operators is sensitive to changes in the economic environment, state regulation and economic policies and can be affected by the national currency exchange rate volatility. An economic downturn or an increased national currency exchange rate volatility may significantly increase price competition and thereby hinder our subscriber growth rate, which could lead to loss of revenues and retail margin. The inability to launch and develop distribution network in Ukraine, could have a material adverse effect on our business, financial condition, results of operations and prospects.

***Changes in the governmental regulation of SMP operators in Ukraine could adversely affect our results of operations.***

The interconnect fees charged by us and our competitors for terminating calls connecting to any of our respective networks are subject to regulation by the National Commission for the State Regulation of Communications and Informatization (the "NCCIR"). See "Item 4 Information on Our Company B. Business Overview Regulation of Telecommunications in the Russian Federation and Ukraine Regulation in Ukraine Interconnect Arrangements and Telephone Numbering Capacity" for additional information.

A qualification as an SMP has been assessed with reference to the market as defined by the NCCIR. According to the Telecommunications Law, an operator qualifies as an SMP in a particular market if its share of gross revenue from the provision of services during the last 12 months exceeded 25% of the total gross revenue of all telecommunications operators for the same services during the same period. Since 2011, the legislation separates fixed and mobile telecommunications networks and the regulation of those networks by the NCCIR. The NCCIR has a right to set different rates for different types of networks. Accordingly, rates for traffic termination on fixed-line networks might be higher than on the network of VF Ukraine. Different rates could lead to a decrease in our revenue share in Ukraine and an increase in costs.

In the fourth quarter of 2016, a new draft law "On Electronic Communications" was registered in the Verkhovna Rada of Ukraine. The draft law provides for, *inter alia*, introduction of a "virtual operator" concept, tougher regulation of SMP operators, submission of tariffs in certain electronic communication services markets for approval by the national regulator, mandatory registration of subscribers by providers of electronic communications services (this implies provision of individuals' personal data to communication services providers in case contracts are concluded in other than written form), mutual use of operators' infrastructure, as well as financing of radio frequency monitoring within radio frequency ranges set for public use to be paid for out of the state budget. Some of the initiatives mentioned above have been also included in the draft law of Ukraine "On state administration and regulation in the sphere of electronic communications." In addition, a draft resolution related to the

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segregation of powers between the NCCIR and the central executive communications authority was registered. The draft law "On Electronic Communications" introduced a power for the central executive communications authority to control and freely access networks and regulations relating to networks operation terms during wartime and/or emergencies. If this law or any other law containing similar provisions is adopted and comes into force, this may influence our revenues and could have an adverse effect on our business, financial condition and results of operations.

A number of international mobile operators have recently increased fees for interconnecting to their networks for VF Ukraine. A further raise of interconnect fees is likely to result in an increase in costs. In addition, interconnect fees for SMP operators for rendering international roaming may become subject to further governmental regulation.

To comply with the Presidential Decree No. 146/2017 "On measures aimed at introduction of a visa-free regime with the European Union," the NCCIR approved an action plan for abolishing roaming charges on the territory of the European Union. According to this plan, tariffs reduction is planned in 2019 and 2020 for the countries specified in this plan.

In September 2017, the European Parliament preliminary approved a possibility of abolition of roaming charges between the European Union and the members of the Eastern Partnership. A decrease in such tariffs may have an adverse effect on our revenue from international roaming charges.

Additionally, the NCCIR submitted for public discussion a draft procedure for the telecommunications market analysis and identification of SMP operators. This draft describes a procedure for analysing markets to identify SMP companies and implementing by the NCCIR the preliminary regulation of these companies in accordance with the Association Agreement signed by Ukraine and the European Union.

In accordance with the Association Agreement, it is planned to, *inter alia*, increase a number of telecommunications markets (to up to 17) where the NCCIR will be responsible for regulating the activities of SMP operators. The adoption of this draft might lead to an increased level of regulation of SMP operators and the reconsideration of current procedure for identifying SMP operators in markets of traffic transfer and traffic termination services.

The adoption of new procedures, an increased regulation of international tariffs for subscribers and fees for traffic transfer, in addition to an increase in international interconnect fees by the members of the European Union may negatively affect revenues of VF Ukraine.

See also " Legal Risks and Uncertainties Changes in Ukrainian telecommunications legislation have caused uncertainty in relation to the regulation of the Ukrainian telecommunications industry and may adversely affect our business, financial condition and results of operations."

***If we cannot interconnect cost-effectively with other telecommunications operators, we may be unable to provide services at competitive prices, which may diminish our market share and result in a loss of revenues and margins.***

Our ability to provide commercially viable services depends on our ability to continue to interconnect cost-effectively with zonal, intercity and international fixed-line and mobile operators in Russia, Ukraine and other countries in which we operate. Interconnect fees are established by agreements with network operators and vary depending on the network used, the nature of the call and the call destination. In Ukraine, the connection fees for the SMP operators' networks and interconnect fees for the termination of traffic on such networks are established and regulated by the NCCIR.

Since 2014, the NCCIR has planned to lower interconnect fees for the termination of traffic on SMP operators' networks. By the resolution dated August 4, 2015 "On the introduction of traffic transmission rates over the network of telecommunications operators with significant competitive

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advantage on traffic transmission services market," the NCCIR approved new rates valid from October 1, 2015. As a result, interconnect rates for the termination of both national traffic on fixed-line networks and traffic on mobile networks were lowered, and the rates for the termination of traffic on local networks remained unchanged. The "Rules for setting traffic transmission rates to the networks of telecommunications operators with significant market advantage" were adopted by the NCCIR and forwarded for registration by the Ministry of Justice of Ukraine on June 7, 2016 following their approval by the relevant government bodies. The rules were registered, published and came into force on July 26, 2016. In accordance with these rules, new rates for access to the networks of SMP operators, both at national and international levels, were introduced and approved by the NCCIR on August 30, 2016 and came into force on January 1, 2017.

The reduction of interconnect fees for the termination of traffic on the networks of SMP operators may adversely affect VF Ukraine's revenues.

Although Russian legislation requires that operators of public switched telephone networks that are deemed to be "substantial position operators" cannot refuse to provide interconnect services or discriminate against one operator over another, we believe that, in practice, some operators attempt to impede wireless operators by delaying interconnect applications and establishing technical conditions for interconnecting that can be met only by certain operators.

Any difficulties or delays in interconnecting cost-effectively with other networks could hinder our ability to provide services at competitive prices, or at all, causing us to lose our market share and revenues, which would have a material adverse effect on our business and results of operations. See also " If we or any of our mobile network operator subsidiaries operating in Russia are identified as an operator occupying a "substantial position," the regulator may reduce our interconnect tariffs which, in turn, may have a material adverse effect on our financial condition and results of operations."

In addition, as part of the restructuring of Svyazinvest, a fourth national mobile operator in Russia was established by the combination of "Tele2 Russia" and the mobile assets of Rostelecom in 2014, which started its operations in 2015 under the "Tele2" brand. As Svyazinvest controlled regional fixed-line operators in all regions of Russia (other than Moscow), a mobile operator established as part of the Svyazinvest group (mobile assets were consolidated into LLC "T2 RTK Holding") may receive preferential terms for interconnecting with these operators, which would allow it greater flexibility in setting tariffs and could put us at a competitive disadvantage. It is currently unclear how the establishment of the fourth federal mobile operator may impact our interconnect agreements and our expenses. See also " We face increasing competition in the markets where we operate, which may result in reduced operating margins and loss of market share, as well as different pricing, service or marketing policies."

***We may not realize the benefits we expect to receive from our investments in 3G and 4G wireless services and Internet of Things (IoT) technologies, which could have a material adverse effect on our business and results of operations.***

In May 2007, the Federal Service for Supervision in the Area of Communications and Mass Media awarded MegaFon, VimpelCom and us a license to provide 3G services in the Russian Federation. In July 2012, these three companies and Rostelecom were awarded licenses to provide 4G services.

Following the integration of Rostelecom's mobile assets and Tele2 Russia in 2014, Tele2 Russia got control over licenses to provide 3G and 4G services. The 3G license allows us to provide mobile radiotelephone services using the International Mobile Telecommunications-2000 ("IMT-2000/UMTS") standard. The 4G license allows us to provide services using the LTE standard. The 4G wireless services are expected to provide faster, higher quality data transfer and streaming capabilities, as compared to 2G and 3G, and may pose additional competition for 3G providers. In December 2017, the State Commission for Radio Frequencies issued a decision allowing the use the frequency bands



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previously allocated for LTE mobile communications for NB-IoT technology. Historically, mobile operators that developed 3G and 4G networks experienced various difficulties and challenges, including a limited supply of compatible handsets, limited international roaming capabilities, as well as various 3G and 4G software and network related problems. We may experience similar problems or encounter new difficulties when developing our 3G and 4G networks (including NB-IoT) and may be unable to fully resolve them. For example, we cannot be certain that:

we will be able to build-out our 4G and NB-IoT network in a timely manner or within the time frame stipulated by the license terms;

our 3G and 4G networks and services (including NB-IoT) will deliver the quality and level of service that our customers demand or expect;

we will be able to provide all contemplated 3G and 4G services (including NB-IoT) at reasonable prices and within a reasonable timeframe;

manufacturers and content providers will develop and offer new marketable products and services for our 3G and 4G networks (including NB-IoT) on a timely basis;

demand for our 4G services (including NB-IoT) will not be lower than expected;

our 3G and 4G networks will be commercially viable in all of the locations we are required to operate pursuant to our 3G and 4G licenses;

our competitors will not offer similar services at lower prices; and

changes in governmental policies, rules, regulations or practices will not affect our network rollout or our business operations.

See also " If we cannot successfully develop our network or integrate the acquired companies, we will be unable to expand our subscriber base and maintain our profitability."

In addition, Russian military authorities also use frequencies in the 3G and 4G spectrum, which may limit the availability of 3G and 4G frequencies for commercial use in certain areas. During the construction of our 3G and 4G networks, there is also a risk that the frequencies assigned to us for commercial use may overlap with those used by the Russian military authorities. For example, conflicts over the availability of frequency reserved for military use in Moscow caused delay in the commercial launch of 3G services by all 3G license-holders in Moscow, despite the fact that some of these frequencies were cleared for commercial use in 2009. If a similar conflict were to occur, it could cause problems or delays in the development and operation of our 3G and 4G networks in Russia.

Potential competition from other 3G and 4G providers, together with any problems relating to the rollout of our 3G and 4G networks and provision of 3G and 4G services in the future, could materially adversely affect our business, financial condition and results of operations.

In December 2013, July 2014 and in July 2017, the State Commission for Radio Frequencies introduced several modifications to the conditions of using the frequency band for mobile radio communication networks. These changes resulted in the implementation of the principle of technological neutrality for frequency bands 900 MHz (UMTS and LTE), 1800 MHz (LTE) and 2100 MHz (LTE), and included the imposition of certain additional obligations on network operators. Pursuant to these modifications, in the event that we receive new bandwidth allocation, and as a result of the renewal of the current decisions of the State Commission for Radio Frequencies or in case of using frequencies on the terms of technological neutrality principle, we are obliged to provide network coverage to settlements with lower subscriber numbers, where the commercial rationale for doing so may otherwise be limited. Such changes lead to additional costs for the construction of our 3G and 4G wireless networks and may therefore adversely affect our business, financial condition and results of operations.



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*If we are unable to successfully develop and/or deploy 4G wireless services in the countries in which we operate, or if any operators in those markets obtain a significant technological and/or commercial advantage over us in 4G wireless services, it may have a material adverse effect on our business and results of operations in the long term.*

The next step in the development of telecommunications in the countries where we operate is the deployment of 4G/LTE networks. The cost of 4G/LTE network development and quality of services (including data speed and quality of coverage) depends on the band and the width of frequency range given to an operator.

In September 2011, the Russian government announced its intention to auction frequencies for LTE use on a national level in 2012. Additionally, outside of the auction process, the State Commission for Radio Frequencies granted Scartel (operating the "Yota" retail brand) a paired range of LTE frequencies (2x30 MHz) in the 2.5-2.7 GHz band for use in the entire territory of Russia in exchange for the 4G frequencies held by Scartel for Wi-Max technology with a total bandwidth of 70MHz. Four sets of frequencies in the 791-862 MHz band were planned to be sold during the auction in 2012, after which the successful bidders would receive frequencies in the 2.5-2.7 GHz band. The remaining frequencies, 40 MHz of the 2.5-2.7 GHz band, were allocated evenly during the auction among four major market participants (VimpelCom, MegaFon, Rostelecom and us).

Initially, it was planned that all operators would receive equal access to the Scartel infrastructure, which would allow each operator to reduce its 4G/LTE network development costs. In March 2011, MTS, MegaFon, VimpelCom and Rostelecom signed a non-binding memorandum of understanding with Scartel, according to which MTS, MegaFon, VimpelCom and Rostelecom were to receive access to Scartel's 4G network infrastructure (which was yet to be built) and were to receive options to purchase shares in Scartel in 2014 at a price determined by an independent appraisal. MTS considered the preliminary value assessment of Scartel to be unduly high.

In July 2012, Alisher Usmanov and Scartel shareholders (Telconet Capital and Rostechnologyi) formed a telecommunications holding company, Garsdale. In exchange for an 82% stake in Garsdale, AF Telecom, which is controlled by Alisher Usmanov, contributed 50% of MegaFon's shares into Garsdale's share capital. Rostechnologyi and Telconet Capital, which held 25.1% and 74.9% stakes in Scartel, respectively, contributed 100% of Scartel shares into Garsdale's share capital, in return for which they received an 18% stake in Garsdale, which was split equally between Rostechnologyi and Telconet Capital. On July 12, 2012, the Federal Service for Supervision of Communications, Information Technology and Mass Media (the "**Roskommnadzor**") awarded each of MTS, MegaFon, VimpelCom and Rostelecom a license to provide 4G services using LTE and its subsequent modifications in the frequency range of 791-862 MHz.

On October 1, 2013, MegaFon acquired Maxiten Co Limited, which had acquired 100% of shares in Scartel and Yota Ltd. from Garsdale. The transaction was approved by a general shareholders' meeting of MegaFon and by the Federal Antimonopoly Service (the "**FAS**"). At present, MegaFon holds a 4G/LTE network through Scartel as well as controlling the continuous spectrum of frequencies 2-40 MHz in the band of LTE FDD 2600 MHz. As a result of this transaction, MegaFon obtained a competitive advantage in terms of LTE network development costs and may also obtain an advantage in LTE network performance. In addition, as a result of this deal, MegaFon consolidated the financial and operational indicators of Scartel/Yota, which increased its formal market share in the mobile communications market.

Furthermore, the limited number of available frequencies may prevent us from realizing the full benefits we expect to receive from the development of a 4G network, because our network capacity would be constrained and our ability to expand limited. Moreover, if we cannot develop a commercially viable 4G network, and one of our competitors does, that competitor would have an advantage over us, which in turn may have a material adverse effect on our business.

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According to the Decree of the President of Ukraine No. 445/2015 dated July 21, 2015, "On Ensuring Conditions for the Introduction of the Fourth-Generation Mobile Communication System," the Cabinet of Ministers of Ukraine was assigned to develop and approve the 2015-2017 Action Plan for the introduction of the fourth-generation mobile communications system in Ukraine in 2017, in cooperation with the NCCIR and other state authorities. The Action Plan was approved by the Cabinet of Ministers of Ukraine at the end of 2015.

In 2017, a number of government documents and decisions of the NCCIR regarding the preparation of a tender for 4G licenses in the 1800 MHz band was adopted. The government announced two tenders for 4G/LTE frequencies: for the 2600 MHz band (was held at the end of January 2018) and the 1800 MHz band (was held in March 2018). Significant material resources for the introduction of such new technologies may be required that could have a material adverse effect on our business and results of operations. In addition, there is a number of risks associated with holding tenders for 4G/LTE frequencies in Ukraine, for example, the results of the tender for the 1800 MHz band might be challenged, which could result in additional costs we would have to incur to prevent the degradation of our mobile networks.

***Service disruptions on our networks could lead to a loss of subscribers, damage to our reputation, violations of the terms of our licenses and subscriber contracts and penalties.***

We are able to deliver services only to the extent that our information communication infrastructure and data processed therein is protected from unlawful actions, including hacker and targeted attacks, technical malfunctions, power failures and natural disasters. Any system failure, accident or security breach that causes interruptions in our operations could impair our ability to provide services to our customers and materially adversely affect our reputation, business and results of operations.

In addition, to the extent that any disruption or security breach results in a loss of or damage to customers' personal data or applications, or inappropriate disclosure of confidential information, we may incur liability as a result, including costs to remedy the damage caused by these disruptions or security breaches.

While we maintain back-up systems for our telecommunications equipment, network management, operations and maintenance systems, these systems may not ensure recovery in the event of a network failure. In particular, in the event of extensive software and/or hardware failures, significant disruptions to our systems could occur, leading to our inability to provide services. The quality of our services in roaming (including roaming between networks) also depends, *inter alia*, on the network quality of our roaming partners which is out of our control. Disruptions in our provision of services could lead to a loss of subscribers, damage to our reputation, violations of the terms of our licenses and subscriber contracts and penalties.

Our computer and communications hardware is protected through technical and software safeguards. However, it is still vulnerable to fire, storm, flood, loss of power, telecommunications failures, interconnect failures, physical or software break-ins, viruses and similar events. Although our computer and communications hardware is insured against fire, storm and flood, we do not have business interruption insurance to protect us in the event of a catastrophe, even though such an event could have a material adverse effect on our business.

***Failure to fulfill the terms of our licenses could result in their suspension or termination, which could have a material adverse effect on our business and results of operations.***

Each of our mobile licenses requires service to be offered by a specific date and some contain further requirements as to network capacity and territorial coverage to be reached by specified dates.

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In addition, all of our mobile licenses require us to comply with various telecommunications regulations relating to the use of radio frequencies and numbering capacity allocated to us, network construction, interconnect rules and technical requirements relating to compliance with law enforcement authorities' requests, among others. If we fail to comply with the requirements of Russian, Ukrainian or other applicable legislation or meet any terms of our licenses, our licenses and other authorizations necessary for our operations may be suspended or terminated, which could significantly limit our operations. In addition to the impact on our operations, the suspension or loss of certain licenses could also constitute an event of default under certain of our debt obligations and cause certain of our debt to be accelerated. A suspension or termination of our licenses or other necessary governmental authorizations could therefore have a material adverse effect on our business and results of operations.

For example, in February 2015, MTS Ukraine won the bid for the use of the 1950-1965/2140-2155 MHz frequency bands in a tender allocating 3G licenses. On March 24, 2015, MTS Ukraine paid the full amount and received the UMTS license that is valid for a period of 15 years.

According to the tender terms, all regional centers of Ukraine have to be covered with 3G communication (within the bands granted to the successful bidder) within 18 months from the date of the license issuance, all settlements with a population of over 10,000 have to be covered with 3G communication within the period of six years.

Our inability to comply with the license conditions may negatively affect our business. Additional investment may also be required for the conversion of radio frequencies and the deployment of 3G services. Either of the foregoing may have a material adverse effect on our business, financial condition, results of operations and prospects.

***Failure to renew our licenses, or receive renewed or new licenses with similar terms to our existing licenses, could have a material adverse effect on our business and results of operations.***

Our telecommunications licenses have their expiration dates in various years. For a list of the telecommunications licenses held by us, see "Item 4. Information on Our Company B. Business Overview Regulation of Telecommunications in the Russian Federation and Ukraine Licenses."

These licenses may be renewed upon application to the relevant governmental authorities. Government officials in Russia and the other countries in which we operate consider the compliance with license requirements and the conditions of using the allocated frequency range when deciding whether to renew a license.

Additionally, new mandatory conditions, which relate to the need for further development of the communication network in order to provide licensed communication services for potential users of the communication service in sparsely populated residential areas, may be introduced when deciding whether to renew a license. These new conditions will require additional investment. Moreover, we may be subject to penalties or our licenses may be suspended or terminated for non-compliance with any such new license requirements. The suspension or loss of certain licenses could significantly limit our operations and cause certain of our debt to be accelerated.

The license to construct and maintain telecommunications networks and provide services within them was granted to MTS Ukraine on July 12, 2010 and terminated on December 3, 2013. On October 15, 2013, the NCCIR refused to renew the license and recommended that MTS Ukraine receive a new license to provide operations in the telecommunications sector. Receiving a new license involves additional costs in comparison with the renewal of the current one and MTS Ukraine filed a lawsuit against the NCCIR. On November 19, 2013, the claims of MTS Ukraine were satisfied and, on January 28, 2014, the NCCIR extended MTS Ukraine's license for 5 years. At the same time, however,

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On January 27, 2014, the NCCIR filed an appeal against the decision of the District Administrative Court of Kiev.

Taking into account possible long-term lawsuits regarding the extension of the license for rendering cellular network services in 2G standard, MTS Ukraine has asked the NCCIR to provide a new license with no restrictions in special conditions (technologically neutral), which may be used for different technologies, including GSM, UMTS and LTE. On January 27, 2015, the NCCIR made a decision to grant the license for a 15-year period.

On January 22, 2015, the High Administrative Court of Ukraine considered the appeal submitted by the NCCIR and overturned the decisions of the Court of Appeals and the District Administrative Court, and issued an order rejecting the claim of MTS Ukraine. In March 2015, the High Administrative Court of Ukraine satisfied the application of the NCCIR to annul its decision to extend our license for rendering cellular network services in 2G standard. Later, the High Administrative Court made a ruling refusing to overturn the execution of the NCCIR's decision to extend the license and ordered a retrial on the grounds of breach of procedural rules in the first instance court. The District Administrative Court of Kiev decided to reject the claim of MTS Ukraine on March 25, 2016. On April 22, 2016, MTS Ukraine filed an appeal claim against this decision, which was rejected by the Court of Appeals on May 30, 2016. On June 29, 2016, MTS Ukraine filed a cassation petition to the High Administrative Court of Ukraine that issued a ruling on the cassation petition consideration. The date of consideration has not been scheduled yet.

Due to the change of the legal entity name from MTS Ukraine to VF Ukraine, the NCCIR refused to reissue the foregoing license considering judicial decisions in its favor that are currently in force (namely, the decisions dated January 22, 2015, March 25, 2016 and May 30, 2016 described above) and canceled the license. This decision has no material impact on the operational activities of VF Ukraine. Since this cancellation, the main telecommunications license that VF Ukraine use is the license granted by the NCCIR on January 27, 2015.

Failure to renew our telecommunications licenses, or receive renewed or new licenses with similar terms to existing licenses, could significantly limit our operations, which could have a material adverse effect on our business, financial condition and results of operations.

Until March 2014, telecommunications operators carried out activities and received licenses in Crimea in compliance with Ukrainian legislation. However, following the referendum in Crimea on March 16, 2014 where a vote in favor of Crimea joining the Russian Federation was declared and the subsequent developments in the region, certain countries recognized Crimean secession whereas others did not, which means that our licensing status in Crimea and ability to receive continuous cash flow has been uncertain. In addition, due to technical issues that have curtailed our ability to provide telecommunications services to our customers, we suspended our operations in Crimea on August 6, 2014. In October 2014, MTS Ukraine sold its base stations, network infrastructure, IT and telecom equipment and certain other assets located in Crimea through an open tender procedure.

See also " Political and Social Risks Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations" and " A deterioration in relations between Russia and other former Soviet republics as well as other politically related disagreements and allegations between Russia and other countries and sanctions imposed as a result thereof could materially adversely affect our business, financial condition, results of operations, prospects and the value of our shares and ADSs."

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***If frequencies currently assigned to us are revoked, or if we fail to obtain renewals of our frequency allocations, our network capacity will be constrained and our ability to expand limited, resulting in a loss of market share and revenues.***

There is a limited number of frequencies available for wireless operators in each of the regions in which we operate or hold licenses to operate. We are dependent on access to adequate spectrum allocation in each market in which we operate in order to maintain and expand our subscriber base. If frequencies are not allocated to us in the future in the required quantities, with the geographic span and for time periods that would allow us to provide wireless services on a commercially feasible basis throughout all of our license areas, our business, financial condition, results of operations and prospects may be materially adversely affected.

According to the decision of the State Commission for Radio Frequencies No. 13-22-01 dated December 11, 2013, the terms of radio frequency bands usage by radio electronic facilities for mobile communication were supplemented with a requirement to provide the settlements of over 1,000 people with communication services within seven years (depending on the used frequency range). If we are not able to fulfill these requirements, our authorizations for the use of radio frequency spectrum might be either terminated or not prolonged in extrajudicial procedure.

A loss of allocated spectrum, which is not replaced by other adequate allocations, could also have a substantial adverse impact on our network capacity. In addition, frequency allocations are often issued for periods that are shorter than the terms of the licenses, and such allocations may not be renewed in a timely manner, or at all. If our frequencies are revoked, or if we are unable to renew our frequency allocations, our network capacity would be constrained and our ability to expand limited, resulting in a loss of market share and revenues.

***An increase in the fees for frequency spectrum usage could have a negative effect on our financial results.***

The terms of our licenses in Russia and the CIS require that we make payments for frequency spectrum usage. Any significant increase in the fees payable for the frequency channels that we use or additional frequency channels that we need in Russia or the CIS could have a negative effect on our financial results. A number of projects implemented by MTS in 2016 and 2017, as well as a number of normative acts previously adopted by the Ministry of Communications, resulted in the expansion of the range of frequencies that have to be paid for.

On December 31, 2014, a new procedure for payment for frequency spectrum usage came into force. According to the newly adopted amendments, the fees for frequency spectrum usage are calculated based on the total frequency band allocated to each operator in each region with such frequency spectrum usage determined with reference to the decision of the State Commission for Radio Frequencies, frequency allocation decisions or to the license conditions.

Furthermore, the order of the Ministry of Communications No. 279 dated September 4, 2014 introduced corresponding amendments into the "Methodology of calculation of a single fee and annual fee for the use of the radio spectrum of the Russian Federation" approved by the order of the Ministry of Communications dated June 30, 2011 No. 164. Fees are directly calculated according to this methodology. Under the new order, rates and coefficients are subject to revision at least once every two years. In December 2017 the State Duma approved the Law on federal budget for 2018 and the planned period of 2019 and 2020, which assumes the need of a 25% increase in rent payments for the radio spectrum by the relevant governmental authorities in 2018, 2019 and 2020. To comply with this Law in March 2018, the Ministry of Communications prepared order No. 98, which provides for increase of rent payments for the radio spectrum usage in 2018. Any such increase in payments for the radio spectrum will likely increase our costs and may adversely affect our results of operations.

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With effect from January 1, 2015, the fee for radio spectrum usage in Ukraine was transformed into a rent payment. When adopting a state budget for 2016, the Verkhovna Rada introduced a number of amendments to the Tax Code of Ukraine, including the increase in rent payment for radio spectrum usage by 13.35% commencing January 1, 2016.

The laws of Ukraine "On State Budget of Ukraine for 2017" and "On amendments to the Tax Code for Budget Stability in 2017" that provide for, *inter alia*, the reconsideration of both rent payments for radio frequency usage and fees payable for frequency licensing were adopted on December 21, 2016 and December 20, 2016, respectively. The amount of rent payments in 2017 increased insignificantly as compared to the previous years. If these rates are raised further, it may adversely affect our financial and operating results.

***If we are unable to maintain our favorable brand image, we may be unable to attract new subscribers and retain existing subscribers, which may lead to a loss of market share and revenues.***

Developing and maintaining awareness of our brands is critical to informing and educating the public about our current and future services and is an important element in attracting new subscribers.

We believe that the importance of brand recognition is increasing as our markets become more competitive. Successful promotion of our brands will depend largely on the effectiveness of our marketing efforts and on our ability to provide reliable and useful products and services at competitive prices. Brand promotion activities may not yield increased operating revenues and, even if they do, such operating revenues may not offset the operating expenses we incur in building our brands.

Furthermore, our ability to attract new subscribers and retain existing subscribers depends, in part, on our ability to maintain what we believe to be our favorable brand image. Negative publicity or rumors regarding our company, our shareholders and affiliates or our services could negatively affect our brand image, which could lead to a loss of market share and revenues. Failure to successfully and efficiently promote and maintain our brands may limit our ability to attract new subscribers and retain our existing subscribers and materially adversely affect our business and results of operations.

***MTS is a part of the Sistema group and may potentially enter into agreements with other members of the group (i.e. related parties transactions) on terms, which are different from those that would be obtainable on an open market.***

We have purchased interests in various companies from Sistema and entered into agreements with other companies within the Sistema group for the provision of advertising services ("Maxima Advertising" JSC), connectivity facilities and telephone numbering capacity (MGTS), IT services and hardware purchases ("STS" JSC, SITRONICS CAMS JSC, "SST" LLC and NVG JSC), banking services (MTS Bank, formerly Moscow Bank of Reconstruction and Development ("MBRD")), telecommunications services (Stream LLC), medical services ("Medisi Group" JSC), travel services (VAO "INTOURIST"), billing system development and IT integration services (NVG JSC and "STS" JSC), maintenance of the residential and commercial real estate ("SITTEL" CJSC) and other services. According to the applicable Russian legislation and notwithstanding certain control procedures in respect of related parties transactions, related parties transactions with the companies within the Sistema group may potentially be concluded on terms, which are different from those that would be obtainable on an open market. See "Item 7 Major Shareholders and Related Party Transactions B. Related Party Transactions."

***In the event that our past or future interested party transactions are successfully challenged, our business, financial condition, results of operations and prospects could be materially adversely affected.***

We own less than 100% of the equity interests in some of our subsidiaries. In addition, certain of our wholly owned subsidiaries have had other shareholders in the past. We and our subsidiaries in the



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past have entered into, and continue to enter into, transactions that may be considered to be "interested party transactions" for the purposes of Russian law, requiring in some cases consent or approval by disinterested directors, disinterested independent directors, disinterested shareholders or owners of voting shares, depending on the nature of the transaction and parties involved. The provisions of Russian law No. 208 "On Joint-Stock Companies" dated December 26, 1995, as amended (the "**Joint Stock Companies Law**") relating to "interested party transactions" have recently been amended and may be subject to different interpretations taking into account, *inter alia*, the lack of court practice in respect of the new amendments. As a result, it is possible that our and our subsidiaries' interpretation and application of these provisions could be subject to challenge. Any such challenge, if successful, could result in the invalidation of transactions, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

***In the event that our minority shareholders or the minority shareholders of our subsidiaries do not consent to or approve certain transactions or other matters requiring their consent or approval we could be limited in our operational flexibility, and our business, financial condition, results of operations and prospects could be materially adversely affected.***

Russian law requires a three-quarters majority vote of the holders of voting stock present at a shareholders' meeting to consent to or approve certain transactions and other matters, including, for example, charter amendments, major transactions involving assets in excess of 50% of the total assets of the company, purchase of offered shares by the company and certain share issuances. In addition, a 95% or a unanimous vote is required to approve certain matters, for example, certain charter amendments regarding shareholders' rights. A majority of disinterested shareholders participating in the voting is required to consent to or approve an "interested party transaction" in certain cases. In the event that our minority shareholders or minority shareholders of our subsidiaries do not consent to or approve such transactions or other matters requiring their consent or approval, we could be limited in our operational flexibility, and our business, financial condition, results of operations and prospects could be materially adversely affected.

***Our competitive position and future prospects depend on our senior managers and other key personnel and our inability to attract, retain and motivate qualified key personnel could have a material adverse effect on our business, financial condition and results of operations.***

Our ability to maintain our competitive position and to implement our business strategy is dependent to a large degree on the services of our senior management team and other key personnel.

Moreover, competition in Russia and in the other countries where we operate for personnel with relevant expertise is intense due to the relatively small number of qualified individuals. As a result, we attempt to structure our compensation packages in a manner consistent with the evolving standards of the labor markets in these countries. We are not insured against the detrimental effects to our business resulting from the loss or dismissal of our key personnel. In addition, it is not common practice in Russia and the other countries where we operate to purchase key-man insurance policies, and we do not carry such policies for our senior management and other key personnel. The loss or decline in services of members of our senior management team or an inability to attract, retain and motivate qualified key personnel could have a material adverse effect on our business, financial condition and results of operations.

***The entry of mobile virtual network operators into the Russian mobile communications market could increase competition and subscriber churn, resulting in a possible loss of our market share and decreased revenue.***

On December 29, 2008, the Ministry of Communications and Mass Media adopted an order establishing the requirements for mobile virtual network operators ("MVNOs"). MVNOs are companies that provide mobile communications services but do not own the radio frequencies and, in some cases,

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the network infrastructure required to do so. According to the order, MVNOs in Russia must be licensed, and their use of frequencies and infrastructure and rendering of services is to be done pursuant to agreements entered into between MVNOs and existing frequency holders. However, existing frequency holders are under no obligation to enter into such agreements with the MVNOs.

By introducing this regime, the Ministry aims to increase competition in the Russian mobile services market, which is currently dominated by MTS, VimpelCom and MegaFon. While existing frequency holders, including us, may receive revenues from MVNOs for the use of our frequencies and network infrastructure, we expect these revenues to be lower than the revenues we would receive if providing services directly to subscribers. In addition, in the event we lose subscribers to MVNOs that lease their frequencies and infrastructure from other operators, we will be deprived of the revenue streams from both the subscribers and the MVNOs. The MVNOs may also establish aggressive tariffs, which could result in increased subscriber churn and/or driving down the tariffs of all mobile operators.

For example, Skartel (under the "Yota" brand), MGTS, Rostelecom, Tinkoff Bank operate as MVNOs in the Russian mobile communications market.

It is currently unclear how the emergence of new MVNOs in the market or any of the foregoing trends might affect market competition and subscriber churn, but this could have a material adverse effect on our business, financial condition, results of operations and prospects.

***A finding by the FAS that we have acted in contravention of antimonopoly legislation could have a material adverse effect on our business, financial condition and results of operations.***

Our businesses have grown substantially through the acquisition and formation of companies, many of which required the prior approval of, or subsequent notification to, the FAS or its predecessor agencies.

In part, relevant legislation in certain cases restricts the acquisition or formation of companies by groups of companies or individuals acting in concert without such prior the FAS approval. While we believe that we have complied with the applicable legislation for our acquisitions and formation of new companies, this legislation is sometimes vague and subject to varying interpretations. If the FAS were to conclude that our acquisition or formation of a new company was done in contravention of applicable legislation, or find our actions insufficient to rectify past violations of antimonopoly laws, or issue new warnings and requests in the future, it could impose administrative sanctions and require the divestiture of such company or other assets, which could have a material adverse effect on our business, financial condition and results of operations.

In recent years, the FAS has been investigating mobile operators, including MTS, for suspected violations of antimonopoly laws. For example, see "Item 8 Financial Information A. Consolidated Statements and Other Financial Information 7. Litigation Antimonopoly Proceedings" and " Changes to the rules and regulations involving roaming charges in Russia may adversely affect our financial condition and results of operations."

If the FAS finds that we have violated or otherwise acted in contravention of antimonopoly legislation, this could have a material adverse effect on our business, financial condition, results of operations and prospects.

***A finding by the AMC that we have acted in contravention of antimonopoly legislation could have a material adverse effect on our business, financial condition and results of operations.***

Under Ukrainian legislation, a company that is found to have acted in contravention of antimonopoly legislation may be subject to fines and claims from the Antimonopoly Committee of Ukraine (the "AMC"). The AMC may investigate us from time to time and, should such investigations identify any violations, impose penalties (including fines).

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Based on the complaint filed by Astelit LLC concerning illegal establishment of regional tariffs, in April 2016, the AMC initiated proceedings relating to a violation of legislation on the protection of economic competition. The case is awaiting consideration.

In July 2016, the AMC sent requests to the big three operators asking to provide it with information on the establishment of settlement rates for international roaming and interconnect fees with foreign telecommunications operators.

In August 2016, the AMC began an investigation in relation to antimonopoly restrictions that affect content services market. The case is currently under consideration.

Based on the complaint filed by Lifecell LLC, in April 2017, the AMC initiated proceedings relating to a violation of legislation on the protection of economic competition. The case is currently under consideration.

If we are found by the AMC to have violated antimonopoly legislation in the above or any other matters, we may be subject to fines, which may have a material adverse effect on our business, financial condition and results of operations. In addition, we may be required to adjust our current marketing practices. See also " Changes in the governmental regulation of SMP operators in Ukraine could adversely affect our results of operations" and "Item 4 Information on Our Company B. Business Overview Regulation of Telecommunications in the Russian Federation and Ukraine Regulation in Ukraine Competition" for additional information.

***If we are found to have a dominant position in the markets where we operate and are determined to have abused this position, the FAS may be entitled to regulate our subscriber tariffs and impose certain restrictions on our operations.***

Under Russian legislation, a company controlling between 35-50% or over 50% of a market may be found by the FAS to hold a dominant position in such market. In case of collective dominance of legal entities, a company could be also categorized by the FAS as dominant even if its share of the corresponding market is less than 35%. Current Russian legislation does not clearly define "market" in terms of the types of services or the geographic area. In 2016, as a result of certain amendments to the Federal Law No. 135 "On the Protection of Competition," the register of business entities having more than 35% of a certain commodity market or otherwise occupying a dominant position in the markets in which they operate, which previously listed MTS as occupying a dominant position in certain markets, was repealed. At the same time, the FAS continues to conduct market analysis in order to identify entities holding a dominant position in the markets in which they operate.

Companies recognized as natural monopolies are also considered to have a dominant position in their respective markets. One of our subsidiaries, MGTS, was categorized as a natural monopoly in the Moscow telecommunications market. As a result, MGTS' tariffs are now subject to regulation by the FAS. In addition, as a natural monopoly, MGTS is obliged to comply with the rules of non-discriminatory third party access to its infrastructure. See also " MGTS is subject to extensive regulation of tariffs, and these tariffs may not fully compensate us for the cost of providing required services."

In the event that we are found in the future to have a dominant position in the markets where we operate and are either determined to have abused the dominant position or found to have committed concerted actions in the market and/or concluded anti-competitive agreements, the FAS will have a right to impose certain restrictions on our operations in such markets. See "Item 4 Information on Our Company B. Business Overview Regulation of Telecommunications in the Russian Federation and Ukraine Regulation in the Russian Federation Competition, Interconnect and Pricing" for additional information.

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If we are found to have violated antimonopoly legislation, an order requiring us to transfer any illegally obtained revenue to the federal budget may be issued in relation to such violations. The level of fine ranges from 5% to 15% of revenue in the market where the violation is conducted for cartel agreements and from 1% to 15% of revenue for other violations (with 8% being the base level of the fine for all types of violations).

If we or any of our subsidiaries were found by the competition authority to be business entities occupying a dominant market position, the competition authority would have a power to impose certain restrictions on our or our subsidiaries' businesses. In particular, the authorities may impose on us tariffs at levels that could be competitively disadvantageous. If we or any of our subsidiaries were found by the FAS to be business entities occupying a dominant market position with a market share exceeding 70% and determined to abuse such dominant position, the Russian government would have a right to determine the rules of non-discriminatory access to goods or services offered by us. Additionally, geographic restrictions on our expansion could reduce our subscriber base and prevent us from fully implementing our business strategy, which may materially adversely affect our business, financial condition, results of operations and prospects.

***If we or any of our mobile network operator subsidiaries operating in Russia are identified as an operator occupying a "substantial position," the regulator may reduce our interconnect tariffs which, in turn, may have a material adverse effect on our financial condition and results of operations.***

In addition to the regulation of dominant operators by the FAS, the Federal Law on Communications provides for the special regulation of telecommunications operators occupying a "substantial position" (*i.e.*, operators which, together with their affiliates, have 25% or more of installed capacity or capacity to carry out transmission of not less than 25% of traffic in a geographically defined zone within the Russian Federation). These regulations provide for governmental regulation of the key terms of such operators' interconnect agreements, including the interconnect tariffs. In addition, such operators are required to develop standard key terms of interconnect agreements and publish them as a public offer made to all operators who intend to interconnect to the networks of those operators. Refusal of such operators to conduct an interconnect agreement is prohibited, except in cases where such agreement would contradict the terms of their license or other regulatory acts in respect of the unified communications network in the Russian Federation.

For additional information, see "Item 4 Information on Our Company B. Business Overview Regulation of Telecommunications in the Russian Federation and Ukraine Regulation in the Russian Federation."

At present, the foregoing regulations apply only to fixed-line operators in Russia, including our fixed-line business. Draft legislation was introduced in 2008 that would extend the law to apply to mobile operators. Although the proposed law was not adopted, the risk that similar legislation will be proposed and adopted in the future remains. If any legislation that extends the foregoing regulations to mobile operators is adopted, and we and any of our mobile network operator subsidiaries operating in Russia are identified as operators occupying a "substantial position," regulators may reduce our interconnect tariffs which, in turn, may have a material adverse effect on our revenues, financial condition and results of operations.

In addition, MGTS is categorized as fixed-line operator occupying a substantial position in the Moscow telecommunications market and its interconnect tariffs are therefore subject to state regulation. In February 2013, Comstar-UTS was removed from the list of "substantial operators" in Moscow and MTS was not included therein. There is however a possibility that we could be categorized as fixed-line operator occupying a "substantial position" in Moscow due to our affiliation with MGTS and because of our integration with Comstar-UTS. As a result of the state regulation of the relevant interconnect rates, we, as "substantial operators," may be unable to increase these in line with

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economic developments or any increases of our relevant costs, resulting in a material adverse effect on our financial condition and results of operations. See also " MGTS is subject to extensive regulation of tariffs, and these tariffs may not fully compensate us for the cost of providing required services."

***MGTS is subject to extensive regulation of tariffs, and these tariffs may not fully compensate us for the cost of providing required services.***

In addition to holding a "substantial position" in the Moscow telecommunications market, MGTS is included in the register of natural monopolies in the telecommunications market. Consequently, tariffs for basic services rendered to public switched telephone networks subscribers (fees for providing access to a local telecommunications network, monthly fees for granting subscriber line in a constant use and monthly fees for providing a local telephone connection) are subject to regulation.

Although MGTS is permitted to petition the FAS for increases in tariffs based on such criteria as inflation, increased costs and the need for network investments, it is possible that future requested increases may not be granted or that the FAS may not adequately take such factors into account in setting tariffs. If the permissible tariffs applicable to MGTS do not adequately compensate MGTS for the costs of providing services, our business and results of operations could be materially adversely affected. See also " If we or any of our mobile network operator subsidiaries operating in Russia are identified as an operator occupying a "substantial position," the regulator may reduce our interconnect tariffs which, in turn, may have a material adverse effect on our financial condition and results of operations."

***Changes to the rules and regulations involving roaming charges in Russia may adversely affect our financial condition and results of operations.***

In June and July 2017, several draft laws were submitted for consideration to the State Duma, which were intended to change the regulation of roaming services in Russia by eliminating (or reducing) intra-network roaming tariffs and national roaming tariffs for incoming and outgoing calls as well as the regulation of international roaming charges between Russia and Belarus. In addition, in July 2017, the FAS requested mobile operators to cancel roaming fees across Russia. Any revision of roaming charges may lead to a reduction in our revenues.

Moreover, a resolution was adopted at a meeting of the Supreme State Council of the Union State on June 30, 2017 to examine a matter regarding the cancellation of international roaming charges between Russia and Belarus. The implementation of this initiative may adversely affect our revenues from roaming charges in Belarus and increase our expenditure incurred in connection with the provision of these services.

In July 2017, the FAS sent a warning to mobile operators, in which it demanded to cancel intra-network roaming. In March 2018, the FAS opened an antimonopoly case against VimpelCom, MTS and MegaFon (in connection with the non-fulfilment of the warning). The revision of tariffs may lead to a reduction of income of MTS and other mobile carriers in Russia.

In August 2017, the FAS opened an antimonopoly case against VimpelCom, MTS, MegaFon and T2 Mobile LLC on the grounds of establishing and maintenance of monopolistically high prices for communication services in national roaming and inter-operator roaming agreements. On February 22, 2018 the FAS rendered a decision and found MTS responsible for establishing monopolistically high prices for subscribers for communication services in national roaming. VimpelCom, MegaFon and T2 Mobile were also found guilty for establishing monopolistically high prices for subscribers for communication services in national roaming. An administrative case is expected to be initiated, which will result in an administrative fine. The case related to inter-operator roaming agreements against MTS was canceled. See also " A finding by the FAS that we have acted in contravention of

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antimonopoly legislation could have a material adverse effect on our business, financial condition and results of operations."

Any material fines imposed on us or changes to the roaming charges may adversely affect our financial condition and result of operations.

***Compliance with the new regulations on IMEI numbers may present us with technical difficulties and may lead to the expenditure of significant resources.***

A draft law that enables each mobile communications subscriber to register a user terminal under certain conditions on an International Mobile Equipment Identity ("IMEI") numbers database of the Ukrainian State Center of Radio Frequencies, primarily to prevent their unlawful use, was previously proposed in Ukraine. Aimed at discouraging theft, the draft law required operators to suspend or block the traffic transmission of the terminal upon the application of a subscriber. In July 2015, the draft law was withdrawn from consideration. A similar draft law was rejected by the Russian State Duma.

Additionally, the Cabinet of Ministers of Ukraine adopted the decision "On introduction of amendments to the Regulation of the Cabinet of Ministers of Ukraine "On introduction of rules relating to rendering and using telecommunications services," which, *inter alia*, cancels a requirement to block IMEI numbers of terminals not included in the database of the Ukrainian State Center of Radio Frequencies ("USCRF").

If similar initiatives are proposed in the future, we may be required to develop a system to monitor IMEI numbers and may need to establish and maintain a database of IMEI numbers, which would necessitate the expenditure of significant technical and financial resources.

***The accession of Russia to the World Trade Organization (the "WTO") may lead to legislative and business changes.***

On August 22, 2012, the Russian Federation became a member of the WTO. This may lead to potentially significant changes in Russian legislation including, among others, regulation of foreign investments in Russian companies, competition laws, telecommunications laws, changes in the taxation system and customs regulations in Russia. In addition, the implementation of the WTO rules may lead to increased competition in the markets where we operate. During the period of 2012 to 2016, Russia adopted certain changes to its legislation related to the accession to the WTO, for example, regarding intellectual property laws; however, it is still unclear if, and when, all necessary legislative changes related to the WTO accession will take place. If further new legislation is implemented in Russia as a result of its accession to the WTO, this could have a material adverse effect on our financial condition and results of operations.

***We may be required to make significant investments beyond those that are currently planned to preserve our competitive advantage in response to the rapid evolution of fixed network technology.***

One of our subsidiaries, MGTS, has devised a number of projects aimed at developing communications networks and expanding availability of telecommunications services for customers. The likely shortage of free cash flow during the current economic downturn could halt such investment programs for the development of new products and services, and possibly lead to a decrease in the number of projects and cutbacks in development programs in the New Moscow and Moscow regions. The company has recently completed its project on construction of broadband optical networks employing the Gigabit-capable Passive Optical Network ("GPON") technology with a direct connection of subscribers to an optical network. The applied part of the GPON project's progress is the creation of a digital platform of IMS core, which enables MGTS to render a larger range of services, including services for the B2G segment. See "Item 4 Information on Our Company A. History and Development Capital Expenditure" for further information.

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MGTS attracts contractors for the construction and upgrade of its network. Due to the currently unfavorable market conditions, some of MGTS' contractors may face a lack of own current assets and/or external finance sources which may lead to the contractor's inability to fulfill contract obligations or, in some cases, lead to bankruptcy. This may negatively affect the terms of MGTS projects' implementation and lead to higher costs. If MGTS is not able to expand and upgrade its network infrastructure in a timely manner and offer new services, or if it is required to make significant investments beyond those that are currently planned, our business, financial condition, results of operations and prospects could be materially adversely affected.

***Our intellectual property rights are costly and difficult to protect.***

We regard our copyrights, trademarks, trade secrets and similar intellectual property, including our rights to certain domain names, as essential to our continued success. We rely upon trademark, copyright and trade secret protection laws, as well as confidentiality and/or license agreements with our employees, customers, partners and others, to protect our proprietary rights. Nonetheless, intellectual property rights are particularly difficult to protect in the markets where we operate. In these markets, the regulatory agencies responsible for the protection of intellectual property rights are inadequately funded, legislation is underdeveloped, piracy and infringement are commonplace, and enforcement of court decisions is problematic.

A special court for intellectual property rights was established in July 2013 as a new body in the system of the Arbitrazh Court for dealing with cases relating to the protection of intellectual property rights.

Litigation may be necessary to enforce our intellectual property rights, to determine the validity and scope of any proprietary rights of others, or to defend against claims of infringement. Any such litigation may result in substantial costs and diversion of resources and, if decided unfavorably to us, could have a material adverse effect on our business. We also may incur substantial acquisition or settlement costs to the extent that it would strengthen or expand our intellectual property rights or limit our exposure to intellectual property claims of third parties. See also "Item 8 Financial Information A. Consolidated Statements and Other Financial Information 7. Litigation Other litigation."

The rules regarding intellectual property rights regulation changed following the adoption of the Federal Law No. 35 dated March 12, 2014, which introduced significant amendments to the fourth part of the Civil Code of the Russian Federation. However, the lack of extensive law enforcement practice of the changed provisions of the Civil Code may cause difficulties in protection of our rights and legitimate interests.

***Changes to our current sales and customer care procedures, the creation of new information technology services and the migration of fixed B2B and B2C subscribers to a single information technology solution may destabilize our information technology solutions, which could have a material adverse effect on our business and results of operations.***

Changes to our current sales and customer care procedures, the creation of new information technology services and the migration of fixed B2B and B2C subscribers to a single information technology solution may increase our operational risks and expenses and inconvenience subscribers. The failure or breakdown of key components of our infrastructure in the future, including our billing system and its susceptibility to fraud, could have a material adverse effect on our business and results of operations.

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***If leaks of confidential information (including any information relating to our subscribers) occur, it may negatively impact our reputation and our brand image and lead to a loss of market share, which could materially adversely affect our business, financial condition, results of operations and prospects.***

Despite our continuous efforts to protect confidential information, breaches of security and leaks of confidential information, including information relating to our subscribers, may negatively impact our reputation and our brand image and result in a loss of market share or otherwise have a material adverse effect on our business, financial condition and results of operations. For example, in January 2003, part of our database of subscribers, containing private subscriber information, was illegally copied and stolen. In addition, in May 2003, certain subscriber databases of several operators in the North-West Region, including those of MTS, MegaFon, Delta Telecom and two other operators, were stolen. In each case, the stolen databases were thereafter available for sale in Russia. Despite the measures taken, we cannot completely exclude the possibility of such incidents occurring in the future. See also " Legal Risks and Uncertainties Russian and foreign legislation on personal data and information security in information systems and communication networks may turn out to be hard to implement and require significant resources. Inability to comply with the requirements may lead to sanctions."

***Alleged medical risks of cellular technology may subject us to negative publicity or risk of litigation, decrease our access to base station sites, diminish subscriber usage and hinder access to additional financing.***

Electromagnetic emissions from transmitter masts and mobile handsets may harm the health of individuals exposed for long periods of time to such emissions. The actual or perceived health risks of transmitter masts and mobile handsets could materially adversely affect us or our subsidiaries by reducing subscriber growth, reducing usage per subscriber, increasing the number of product liability lawsuits, increasing the difficulty of obtaining or maintaining sites for base stations and/or reducing the financing available to the wireless communications industry. Each of these potential risks may adversely affect our business, financial condition, results of operations and prospects.

**Risks Relating to our Financial Condition**

***We may be adversely affected by the current economic environment.***

As a result of the credit market crisis (including uncertainties with respect to financial institutions and the global capital markets), decreased prices for major export commodities (including oil and metals) and other macro-economic challenges currently affecting many of the markets in which we operate, our subscribers' disposable incomes and our vendors' cash flows may be adversely impacted.

Consequently, subscribers may modify or decrease their usage of our services or fail to pay the outstanding balances on their accounts, and vendors may significantly increase their prices, eliminate vendor financing or reduce their output.

We may also experience increases in accounts receivable and bad debt among corporate subscribers, some of whom may face liquidity problems and potential bankruptcy, as well as the potential bankruptcy of our corporate partners. The deterioration of economies in the countries of our operation may lead, *inter alia*, to insolvency of financial institutions, which in turn may impact our business and financial condition.

The strained political situation in Ukraine coupled with an economic downturn resulted in financial difficulties in the banking system, including, notably, increased liquidity risks. As we hold the bulk of excess hryvnia and foreign currency cash in Ukrainian banks, a banking crisis or the bankruptcy or insolvency of the banks through which we receive or with which we hold our funds could result in the loss of our deposits or affect our ability to complete banking transactions in Ukraine and other countries, which could have a material adverse effect on our business, financial condition and results of



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operations. For example, we realized losses in the fourth quarter of 2014 due to an impairment of cash balances stemming from the insolvency of DeltaBank in Ukraine. In 2015, the Group wrote off certain cash balances deposited in distressed Ukrainian banks. These banks are currently being liquidated.

See also " Inflation could increase our costs and adversely affect our results of operations."

A decline in subscriber usage, an increase in bad debts, material changes in equipment pricing or financing terms or the potential bankruptcy of our corporate subscribers or partners may have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, a further deterioration in macroeconomic conditions could require us to reassess the value of goodwill on certain of our assets, recorded as a difference between the fair value of the assets of business acquired and its purchase price. This goodwill is subject to impairment tests on an ongoing basis. The weakening macroeconomic conditions in the countries in which we operate and/or a significant difference between the performance of an acquired company and the business case assumed at the time of acquisition could require us to write down the value of the goodwill or portion of such value. Future write-downs relating to the value of the goodwill or portion of such value could have a material adverse effect on our financial condition and results of operations.

***Continued turmoil in the credit markets could cause our business, financial condition, results of operations and the value of our shares and ADSs to suffer.***

Sanctions introduced by the United States and the European Union with respect to the Russian Federation coupled with an economic downturn and decline in global oil prices caused a significant capital outflow, ruble depreciation, a rise of credit rates in the domestic market and a lack of available financing.

Currently, the situation relating to funding has become more stable as the key rate has been decreasing since 2016. In spite of this, although funding by the Central Bank of Russia is available for a large number of banks, it is characterized by high volatility during periods of economic instability. For example, certain Russian banks have in the past experienced difficulties that have caused them to become insolvent and have their licenses revoked, such as Bank Yugra, or to recognize large loan impairment provision losses that required steps to replenish their capital, as in the case of the Promsvyazbank, Bin Bank and Otkritie Bank.

A continuation or repetition of this downturn in the global financial markets as well as a toughening or extension of international sanctions against Russia and the resulting volatility of the trading price of our shares and ADSs may negatively impact our ability to obtain financing on commercially reasonable terms, either domestically or overseas, and could have a material adverse effect on our business, financial condition, results of operations and prospects.

***Our inability to generate sufficient free cash flow to satisfy our debt service obligations or to refinance debt on commercially reasonable terms, could materially adversely affect our business, financial condition, results of operations and prospects.***

We have an amount of outstanding indebtedness, primarily consisting of the obligations we entered into in connection with our notes and bank loans. As of December 31, 2017, our consolidated total debt, including capital lease obligations, was RUB 303,570 million. Our finance cost for the year ended December 31, 2017 was RUB 26,064 million, net of the amounts of interest capitalized.

Our ability to service, repay and refinance our indebtedness and to fund planned capital expenditure will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, we may default under the terms of our financial indebtedness,

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and the holders of our indebtedness would be able to accelerate the maturity of such indebtedness, potentially causing cross-defaults under and acceleration of our other indebtedness. The existing debt servicing is becoming more difficult due to our dependence on floating interest rates in the financial markets.

We may not be able to generate sufficient cash flow or access domestic or international capital markets, or incur additional loans to enable us to service or repay our indebtedness or to fund our other liquidity needs. We may be required to refinance all or a portion of our indebtedness on or before maturity for a number of reasons. For example, the terms of some of our loan agreements may require us to prepay the loan in certain circumstances, such as a deterioration in our credit rating, a delisting of our shares or a drop in our retained earnings below a certain level. This, in turn, may force us to sell assets, reduce or delay capital expenditure or seek additional capital. Refinancing or additional financing may not be available on commercially reasonable terms or at all, and we may not be able to sell our assets or, if sold, the proceeds therefrom may not be sufficient to meet our debt service obligations. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance debt on commercially reasonable terms, would materially adversely affect our business, financial condition, results of operations and prospects. See "Item 5 Operating and Financial Review and Prospects B. Liquidity and Capital Resources."

***Ruble volatility and regulatory changes in foreign currency regulation could increase our costs, decrease our available funds or make it more difficult for us to comply with financial covenants and to repay our debts and would affect the value of dividends received by holders of ADSs.***

The ruble has weakened significantly against the U.S. dollar during the period of 2014 to 2016, which can be explained by external geopolitical factors, limited financial markets, decrease in oil prices, international ratings agencies' downgrades of Russia's sovereign rating, reduction in internal consumption and other factors.

For example, on December 31, 2014, the official exchange rate published by the CBR was 56.26 rubles per U.S. dollar. The ruble continued to depreciate against the U.S. dollar reaching 72.88 rubles per one U.S. dollar on December 31, 2015, whereas on December 31, 2016, it amounted to 60.66 rubles per one U.S. dollar. On December 31, 2017, ruble amounted to 57.60 per one U.S. dollar.

See also " Changes in the exchange rate of local currencies in the countries where we operate against the Russian ruble, as well as changes in the exchange rate of the Russian ruble and local currencies against the U.S. dollar and/or euro could adversely impact our financial results."

The stability of the ruble will depend on many political and economic factors. These include the ability of the government to finance the deficit of the state budget without recourse to monetary emissions and to control the level of interest rates and inflation. Furthermore, changes in foreign currency regulation may affect our ability to fund payments denominated in foreign currency and result in us entering into supplementary agreements with our foreign counterparts.

A significant portion of our capital expenditure and liabilities and borrowings are either denominated in or tightly linked to the U.S. dollar. Conversely, a majority of our revenues are denominated in rubles. As a result, devaluation of the ruble against the U.S. dollar can adversely affect us by increasing our costs in rubles, both in absolute terms and relative to our revenues, and make it more difficult to comply with the financial ratios contained in our various loan agreements or fund cash payments on our indebtedness on time. It also reduces the U.S. dollar value of tax savings arising from tax incentives for capital investment and the depreciation of our property, plant and equipment, since their basis for tax purposes is denominated in rubles at the time of the investment. Increased tax liability would also increase total expenses, which would have an adverse impact on our results.

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We also anticipate that any dividends we may pay in the future on the shares represented by the ADSs will be declared and paid to the depositary in rubles and will be converted into U.S. dollars by the depositary and distributed to holders of the ADSs. Accordingly, the value of dividends received by holders of ADSs will be subject to fluctuations in the exchange rate between the ruble and the U.S. dollar. Any further depreciation of the ruble against the U.S. dollar could therefore materially adversely affect our financial condition, results of operations and prospects and the value of our ADSs. See also "Item 11 Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Risk."

***Changes in the exchange rate of local currencies in the countries where we operate against the Russian ruble, as well as changes in the exchange rate of the Russian ruble and local currencies against the U.S. dollar and/or euro could adversely impact our financial results.***

A significant portion of our expenditure and liabilities, including capital expenditure and borrowings (including our U.S. dollar denominated notes), are either denominated in, or closely linked to, the U.S. dollar and/or euro, while substantially all of our revenues are denominated in local currencies of the countries where we operate. If the local currencies of the countries where we operate decline against the U.S. dollar and/or euro and our costs increase so that we cannot keep pace, we could have difficulty repaying or refinancing our U.S. dollar and/or euro-denominated indebtedness, including our U.S. dollar denominated notes. At the same time, the devaluation of local currencies against the Russian ruble can adversely affect our revenues reported in Russian rubles and increase our costs in terms of local currencies. In addition, local regulatory restrictions on the purchase of hard currency in the majority of countries where we operate (for example, Ukraine) may delay our ability to purchase equipment and services necessary for network expansion which, in turn, may cause difficulty in expanding our subscriber base in those countries. Further, a portion of our cash balances is held in jurisdictions outside Russia, and as a result of currency exchange controls in those jurisdictions, these cash balances may not always be readily available for our use.

Ukraine's economic crisis combined with political unrest and events in the Eastern part of Ukraine have led to the weakening of the hryvnia, with the exchange rate rising from 15.77 hryvnias per one U.S. dollar on December 31, 2014 to 24.00 and 27.19 hryvnias per one U.S. dollar on December 31, 2015 and on December 31, 2016, respectively, as a result of substantial capital outflow in response to the continuing political instability in Ukraine. As of December 31, 2017, the exchange rate amounted to 28.07 hryvnias per one U.S. dollar.

See also " Political and Social Risks Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations."

The Belarusian ruble depreciated against the U.S. dollar, whereby the exchange rate increased from 11,850 Belarusian rubles per one U.S. dollar on December 31, 2014, to 18,569 Belarusian rubles per one U.S. dollar on December 31, 2015. On July 1, 2016, Belarus redenominated its currency on a scale of 10,000:1. As of December 31, 2016, the official exchange rate published by the National Bank of the Republic of Belarus amounted to 1.96 Belarusian rubles per one U.S. dollar. As of December 31, 2017, the official exchange rate published by the National Bank of the Republic of Belarus amounted to 1.97 Belarusian rubles per one U.S. dollar. The possible devaluation of the Belarusian ruble in the future may adversely affect our revenues from this market.

See also " Inflation could increase our costs and adversely affect our results of operations" and "Item 11 Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Risk."

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*If we are unable to obtain adequate capital, we may have to limit our operations substantially, which could have a material adverse effect on our business, financial condition, results of operations and prospects.*

We have to make significant capital expenditure, particularly in connection with the development, construction and maintenance of, and the purchasing of necessary software for, our mobile and fixed-line networks. We had capital expenditure in the amounts of RUB 96,111 million (excluding costs of RUB 3.382 billion related to the acquisition of a 4G license in Russia and RUB 7.044 billion related to the acquisition of a 3G license in Ukraine in 2015) in 2015, RUB 83,551 million (excluding costs of RUB 2.598 billion for the acquisition of a 4G license in Russia) in 2016 and RUB 76,431 million in 2017. Further, the acquisition of 3G and 4G licenses and frequency allocations and the build-out of our 3G, 4G and broadband Internet networks will require additional capital expenditure. See "Item 4 Information on Our Company A. History and Development Capital Expenditure."

However, future financings and cash flow from our operations may not be sufficient to meet our planned needs in the event of various unanticipated potential developments, including the following:

- a lack of external financing sources;
- changes in the terms of existing financing arrangements;
- construction of the wireless networks at a faster rate or higher capital cost than anticipated;
- pursuit of new business opportunities or investing in existing businesses that require significant investment;
- acquisitions or development of any additional wireless licenses;
- slower than anticipated subscriber growth;
- slower than anticipated revenue growth;
- regulatory developments;
- changes in existing interconnect arrangements; or
- a deterioration in the economies of the countries where we operate.

During the period of 2014 to 2018, the United States and the European Union announced sanctions applying to a number of Russian and Ukrainian individuals and associated institutions which were considered to have contributed to the situation in Ukraine and Crimea. The sanctions may be extended and our ability to gain external funding may be affected. See also " Political and Social Risks Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations" and " A deterioration in relations between Russia and other former Soviet republics as well as other politically related disagreements and allegations between Russia and other countries and sanctions imposed as a result thereof could materially adversely affect our business, financial condition, results of operations, prospects and the value of our shares and ADSs."

Our indebtedness and the limits imposed by covenants in our debt obligations could limit our ability to obtain additional financing and thereby constrain our ability to invest in our business and place us at a possible competitive disadvantage. In addition, we are currently unable to raise equity financing through newly issued depositary receipts, such as ADSs, due to Russian securities regulations providing that no more than 25% of a Russian company's shares may be circulated abroad through sponsored depositary receipt programs. Prior to December 31, 2005 and at the time of our initial public offering, this threshold was 40% and our current ADSs program is near its full capacity. If we cannot obtain

adequate funds to satisfy our capital requirements, we may need to limit our operations significantly, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

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***Inflation could increase our costs and adversely affect our results of operations.***

The Russian and Ukrainian economies have been characterized by high rates of inflation, which over the past few years have been mainly driven by weakening of national currencies, restrictions on foreign trade and acceleration in food prices.

In 2014, the Bank of Russia implemented an inflation targeting program. As a result of this, inflation in Russia amounted to 5.4% in 2016, which was significantly lower as compared to 12.9% in 2015, according to the Federal Statistics Service. In 2017, inflation decreased to lower than 3% as compared to the target level of 4%. By the end of 2017, consumer inflation reached its historically lowest level of 2.5% year-to-year. The Bank of Russia plans to maintain inflation at the 4% target level in the long-term. To achieve this target, the Bank of Russia will more likely change main parameters of monetary policy. However, despite its plans to maintain inflation at the target level, there are risks of inflation increase due to the following factors:

possible unfreezing of monopolies' tariffs. During last 10 years tariffs of infrastructure monopolies significantly affected inflation parameters, and contributed more than 40% to the total price volatility in certain years;

import of inflation due to exchange rate of the Russian ruble. Cumulative effect of domestic prices change in response to change of exchange rate of the Russian ruble is defined as an effect of transferring dynamics of an exchange rate to prices, it has been salient during ruble depreciation in 2014 and 2015; and

low monetization of the Russian economy. The degree of monetization of the Russian economy is lower than in developed countries and in countries of the Eastern Europe. Attempts to increase the monetization of the Russian economy by raising money supply will likely lead to an increase in inflation due to the lack of confidence on the part of residents and non-residents in the Russian banking system.

According to the State Statistics Service of Ukraine, in December 2017, the inflation index was 13.7% for 2017 (as compared to 12.4% for 2016). According to the National Bank of Ukraine latest outlook, the consumer price index will stabilize at 7.3% by the end of 2018.

In addition, a further decline in global oil prices coupled with capital outflow from growing markets and depreciation of national currencies might cause a rise in inflation. High inflation levels may lead, *inter alia*, to increased marketing expenditure that could, in turn, affect our operating margins and profitability.

At the end of 2015, 2016 and 2017, inflation in Belarus amounted to 12.0%, 10.6% and 4.6%, respectively.

High rates of inflation in Russia, Ukraine and other countries of our operation could increase our costs and decrease our operating margins. See also "Item 5 Operating and Financial Review and Prospects A. Operating Results Certain Factors Affecting our Financial Position and Results of Operations Inflation."

See also " Changes in the exchange rate of local currencies in the countries where we operate against the Russian ruble, as well as changes in the exchange rate of the Russian ruble and local currencies against the U.S. dollar and/or euro could adversely impact our financial results" and "Item 11 Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Risk."

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***Indentures relating to some of our notes contain, and some of our loan agreements and Sistema's loan agreements contain, restrictive covenants, which limit our ability to incur debt and to engage in various activities.***

Covenants in the agreement relating to our Eurobonds due 2023 limit our ability to create liens on our properties, merge or consolidate with another person or convey our properties and assets to another person. Additionally, the indentures governing our U.S. dollar-denominated notes due 2020 contain covenants limiting our ability to incur debt, create liens on our properties, enter into sale and lease-back transactions, merge or consolidate with another person or convey our properties and assets to another person, as well as our ability to sell or transfer any of our or our subsidiaries' GSM licenses for the Moscow, St. Petersburg, Krasnodar and Ukraine license areas. Some of our loan agreements contain similar and other covenants, including, in relation to the incurrence of indebtedness, creation of liens and disposal of assets. We may also incur additional credit obligations providing for similar covenants. Failure to comply with these covenants may cause a default and result in the debt becoming immediately due and payable, which would materially adversely affect our business, financial condition and results of operations.

In addition, Sistema, which owns a controlling stake in MTS and consolidates our results in its financial statements, is subject to various covenants in its credit facilities. These covenants impose restrictions on Sistema and its restricted subsidiaries (including us) with respect to, *inter alia*, incurrence of indebtedness, creation of liens and disposal of assets. In its indentures, Sistema undertakes that it will not, and will not permit its restricted subsidiaries (including us) to, incur indebtedness unless a certain indebtedness level / EBITDA ratio is met. In addition to us, Sistema has various other businesses that require capital and, therefore, the consolidated Sistema group's capacity to incur indebtedness otherwise available to us could be diverted to its other businesses. Sistema may also enter into other agreements in the future that may further restrict it and its subsidiaries (including us) from engaging in these and other activities. We expect Sistema to exercise control over us in order for Sistema, as a consolidated group, to meet its obligations under its current and future financings and other agreements, which could materially limit our ability to obtain additional financing required for the implementation of our business strategy. The inability to implement our business strategy may have a material adverse effect on our financial condition and results of operations.

***A change in control could have a material adverse effect on our financial condition and results of operations.***

Under the terms of our outstanding notes, if a change in control occurs, our noteholders will have the right to require us to redeem notes not previously called for redemption. The price we will be required to pay upon such event will be 101% of the principal amount of the notes, plus interest accrued prior to the redemption date. A change in control will be deemed to have occurred in any of the following circumstances:

with respect to the notes due 2020, any person acquires beneficial or legal ownership of, or control over, more than 50% of our issued shares, ownership of or control over more than 50% of the voting interests in our share capital or obtains the power to elect not less than half of our directors, provided that the following transactions would not be deemed to result in a change of control:

any acquisition by Sistema or its subsidiaries that results in the 50% threshold being exceeded;

any acquisition by us, our subsidiary or our employee benefit plan; and

a contribution by Sistema of all or part of its ownership interest in us into a partnership, joint venture or other indirect holding vehicle as long as any other person who is an owner of or party interested in that partnership, joint venture or other indirect holding vehicle

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does not acquire beneficial ownership of or control over more than 50% of our issued shares, does not acquire ownership of or control over more than 50% of the voting interests in our share capital and does not obtain the power to elect not less than half of our directors.

Some of our loan agreements contain similar change of control provisions. If a change in control occurs, and our noteholders and other debt holders exercise their right to require us to redeem all of their notes or debt, such event could have a material adverse effect on our financial condition and results of operations.

In addition, under certain of our debt agreements, an event of default may be deemed to have occurred and/or we may be required to make a prepayment if Sistema disposes of its stake in our company and a third party takes a controlling position in our company. The occurrence of any such event of default or failure to make any required prepayment, which leads to an event of default, could trigger cross default / cross acceleration provisions under certain of our other debt agreements. In such event, our obligations under one or more of these agreements could become immediately due and payable, which would have a material adverse effect on our business and our shareholders' equity. If Sistema were to dispose of its stake in us, our company may be deprived of the benefits and resources that it derives from Sistema, which could harm our business.

**Risks Relating to Economic Risks in Our Countries of Operation**

*Economic instability in the countries where we operate could adversely affect our business.*

Since the dissolution of the Soviet Union in 1991, the economies of Russia and other countries where we operate have experienced periods of considerable instability. For example, GDP level significantly impacted basic commodity prices as was detected during the crisis in 2008 and 2009.

In 2016, the decline in the GDP of Russia was 0.2%, compared to 3.7% in 2015, according to the Federal State Statistics Service. The Ministry of Economic Development revised its forecast for Russian GDP up to 2.1% in 2017 from the previous forecast of 2.0%, and its current forecast for the GDP of Russia for 2018, 2019 and 2020 is in the range of 2.1-2.3%, compared to just 1.5% in its previous forecast.

In January 2018, the Ministry of Economic Development forecasted that the Russian economy would grow 1.4-1.8% in 2017, and not 2.1%, as previously forecasted. This rate corresponds with the monthly and quarterly data of the Federal State Statistics Service. The Ministry of Economic Development expects that the economy will accelerate to a rate of about 2% in 2018, and a budget surplus will be 1%.

Any future economic downturns in Russia or the other countries where we operate, could lead to a decrease in demand for our services and, consequently, in our revenues, and negatively affect our liquidity position and ability to obtain further debt financing, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

*The Russian banking system remains underdeveloped, the number of creditworthy banks in Russia is limited and another banking crisis could place severe liquidity constraints on our business.*

Russia's banking and financial services systems are less developed or regulated as compared to other countries, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent application. The August 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. Many Russian banks currently do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags far behind internationally accepted norms. Aided by inadequate supervision by the regulators, certain banks do not



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follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. Furthermore, in Russia, bank deposits made by corporate entities are generally not insured.

In recent years, there has been a rapid increase in lending by Russian banks, which has been accompanied by a deterioration in the credit quality of the borrowers. In addition, a robust domestic corporate debt market is leading Russian banks (including the banks with which we conduct banking transactions) to hold increasingly large amounts of Russian corporate ruble bonds in their portfolios, which is further deteriorating the risk profile of Russian bank assets. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturn or economic slowdown. In addition, the CBR has from time to time revoked the licenses of certain Russian banks, which resulted in market rumors about additional bank closures and many depositors withdrawing their savings. Recently, a number of banks and credit institutions have lost their licenses due to the deficiency of capital and failure to meet the CBR requirements. In 2014-2017, for instance, the CBR revoked the licenses of a number of Russian banks for reasons associated with implementing high-risk lending policies, loss of liquidity and non-compliance with anti-money laundering legislation. A combination of these factors may result in a significant deterioration in the financial fundamentals of Russian banks, notably liquidity, asset quality and profitability.

There is currently a limited number of sufficiently creditworthy Russian banks and few ruble denominated financial instruments in which we can invest our excess ruble cash. We hold the bulk of our excess ruble and foreign currency cash in Russian banks, including subsidiaries of foreign banks.

In the event of a banking crisis, Russian companies may be subject to severe liquidity constraints due to the limited supply of domestic savings and the withdrawal of foreign funding sources that may occur during such crisis. Another banking crisis or the bankruptcy or insolvency of the banks from which we receive or with which we hold our funds could result in the loss of our deposits or affect our ability to complete banking transactions in Russia, which could have a material adverse effect on our business, financial condition and results of operations.

***The physical infrastructure in Russia, Ukraine and the other countries where we operate is in poor condition, which could disrupt our normal business activities and adversely impact our results.***

The physical infrastructure in Russia, Ukraine and the other countries where we operate largely dates back to Soviet times and has not been always funded and maintained over the past years. Particularly affected are the rail and road networks, power generation and transmission systems, communication systems and building stock. For example, in August 2009, a major accident occurred at Russia's largest power plant, the Sayano-Shushenskaya hydroelectric power station, resulting in flooding of the engine and turbine rooms and the death of 75 people. Power generation from the station ceased completely following the incident, which led to a major power outage in the nearby residential areas and at certain industrial facilities as well as pollution of the rivers and soil as a result of an oil spill from the transformer.

In addition, the road conditions throughout our countries of operation are poor with many roads not meeting minimum quality standards, causing disruptions and delays in the transportation of goods to and within these countries. The Russian and Ukrainian governments are actively considering plans to reorganize their national rail, electricity and communications systems. Any such reorganization may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. The deterioration of the physical infrastructure in Russia, Ukraine and the other countries where we operate harms the national economies, adds costs to doing business in these countries and generally disrupts normal business activities. These difficulties

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can impact us directly; for example, we keep portable electrical generators to help us maintain base station operations in the event of power outages. Further deterioration of the physical infrastructure in Russia, Ukraine and the other countries where we operate could have a material adverse effect on our business, financial condition and results of operations. In addition, the increased charges and tariffs that may result from the government reorganization may also have a material adverse effect on our business, financial condition and results of operations.

***Fluctuations in the global economy may materially adversely affect the economies of the countries where we operate and our business in these countries.***

The economies of the countries where we operate are vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia, Ukraine and the other countries where we operate, and businesses in these countries could consequently face severe liquidity constraints. Additionally, as Russia produces and exports large amounts of oil and gas, the Russian economy is especially vulnerable to the price of oil and gas on the world market and a decline in the price of oil and gas could negatively impact its economy. Recent military conflicts and international terrorist activity have significantly impacted the oil and gas prices globally, and pose additional risks to the Russian economy. Both Russia and Ukraine are also major producers and exporters of metal products and their economies are vulnerable to world commodity prices and the imposition of tariffs and/or anti-dumping measures by the United States, the European Union or other principal export markets.

The disruptions recently experienced in the domestic and international capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in emerging markets, including us, may be particularly susceptible to these disruptions and reductions in the availability of credit or increases in financing costs. To the extent that the current market downturn continues or worsens, it may lead to constraints on our liquidity and ability to obtain debt financing, which may have a material adverse effect on our business, financial conditions and results of operations.

**Political and Social Risks**

***Political and governmental instability in Russia and other countries of our operations could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs.***

The political and economic situation in Russia has been negatively affected by the global financial crisis, the economic sanctions imposed by the United States and the European Union and the ongoing volatile economic conditions. Other countries where we operate may pose similar challenges, for example, Ukraine, where political tensions and uncertainty are continuing. See also " Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations." Current and future political changes in Russia and the other countries where we operate, major policy shifts or a lack of consensus between the various branches of power and powerful economic groups could disrupt or reverse economic and regulatory reforms. This could, in turn, lead to further political instability or conflicts among powerful economic groups, which could have a material adverse effect on our business, financial condition, results of operations, prospects and the value of our shares and ADSs. A deterioration of the socio-political situation in Russia could also trigger an event of default under some of our loan agreements.

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***Potential conflict between central and regional authorities could create an uncertain operating environment hindering our long-term planning ability.***

The Russian Federation is a federation of units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. A lack of consensus between the federal government and local or regional authorities could result in the enactment of conflicting legislation at various levels and may lead to political instability. In particular, conflicting laws have been enacted in the areas of privatization, land legislation and licensing. Some of these laws, as well as governmental and administrative decisions implementing them and certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus may hinder our long-term planning efforts and create uncertainties in our operating environment, both of which may prevent us from effectively and efficiently implementing our business strategy.

Additionally, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, which can halt normal economic activity and disrupt the economies of neighboring regions. The further intensification of violence, including terrorist attacks and suicide bombings, or its spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some parts or the whole of Russia. Moreover, any terrorist attacks and the resulting heightened security measures are likely to cause disruptions to domestic commerce and exports from Russia. Any of these factors could materially adversely affect our business and the value of our shares and ADSs. In Ukraine, the political instability and the tensions in eastern Ukraine may also have negative effect on our business operations.

See also " Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations."

***A deterioration in relations between Russia and other former Soviet republics, as well as other politically related disagreements and allegations between Russia and other countries and sanctions imposed as a result thereof, could materially adversely affect our business, financial condition, results of operations, prospects and the value of our shares and ADSs.***

Relations between Russia and certain other former Soviet republics are or have in the past been strained. For example, in August 2008, an armed conflict erupted between Russia and Georgia over the self-appointed republics South Ossetia and Abkhazia, culminating in Russia's recognition of their independence from Georgia. The political and economic relationships between Ukraine and Russia have also been strained in recent years, see also " Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations" and " Risks Relating to our Financial Condition Changes in the exchange rate of local currencies in the countries where we operate against the Russian ruble, as well as changes in the exchange rate of the Russian ruble and local currencies against the U.S. dollar and/or euro could adversely impact our financial results."

The United States and the European Union have imposed sanctions on certain Russian and Ukrainian persons and entities. No individual or entity within our group has been designated with sanctions introduced by either the United States or the European Union. However, additional designations may be made, or additional categories of sanctions may be created, at any time, and we can give no assurance that any member of our group, or individuals holding positions within our group, will not be affected by future sanctions designations.

Non-compliance with any potential sanctions could result in, among other things, the inability of the relevant group entities to contract with the governmental authorities of the United States or the

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decision-making and executive bodies of the European Union, or their agencies, potential civil or criminal liability for the sanctioned individuals and entities and their associates under the US and/or EU law, the imposition of significant fines and reputational damage.

Further tensions between Russia and other countries and any escalation of the existing tensions, the imposition of further sanctions, or continued uncertainty regarding the scope thereof, could have a negative effect on the Russian economy, the financial condition of our partners and suppliers, our ability to conduct trade and financial transactions, our ability to obtain financing on commercially reasonable terms (or at all), and the level and volatility of the trading price of our shares and ADSs.

The Ukrainian Cabinet of Ministers initiated adoption of the Law "On Sanctions" by the Verkhovna Rada of Ukraine which came into force on September 12, 2014. The law provides for special economic and other restrictive measures against foreign states, foreign legal entities and individuals involved in activities threatening the national security, sovereignty and territorial integrity of Ukraine and the rights and freedoms of its citizens. The law stipulates 25 types of sanctions which include, among others:

asset freezing;

temporary limitation of a right to use or dispose of property;

cancellation or suspension of licenses and other permits, including special permits for subsoil use;

prohibition to use radio frequency resources in Ukraine; and

termination or suspension of rendering telecommunications services or utilizing telecommunications networks of general use.

A draft law expanding the list of sanctions, stipulated by the Law "On sanctions" was introduced on July 13, 2015. It includes, *inter alia*, the seizure of any assets of Russian proprietary rights and any assets or private property in case of social necessity in the interests of the state. In addition, the Presidential Decree No. 549/2015 dated September 16, 2015 approved the decision of the National Security and Defense Council of Ukraine dated September 2, 2015 "On the application of personal special economic and other restrictive measures (sanctions)," whereby the list of individuals and legal entities to which these sanctions applied for a one-year term was specified. The list of sanctions was extended several times during the period under review.

Pursuant to the Law of Ukraine "On the legal status of martial law" dated June 8, 2015, military command together with military administrations are permitted to temporarily limit certain rights, freedoms and legal interests of individuals and legal entities within specific territories where martial law is introduced. On June 28, 2015, amendments to the Law of Ukraine "On licensing of certain types of economic activity" came into force expanding the terms of license cancellation, including adoption of an "act on documentary proof of control over licensee actions by other states, carrying out armed aggression against Ukraine or whose actions create preconditions either for military conflict or use of military force against Ukraine." With effect from January 1, 2018, the licensing of certain activities in the telecommunications sector has been canceled in accordance with the Law of Ukraine "On licensing of certain types of economic activity."

Furthermore, the Law of Ukraine "On amendments to the Law of Ukraine "On the protection of economic competition" came into force and is aimed to improve the procedures for control over the concentration of economic entities, and provides for special economic and other restrictive measures to a concentration's participant according to the Law of Ukraine "On Sanctions."

The Law of Ukraine "On Amendments to the Law of Ukraine "On the protection of economic competition" regarding the improvement of control over the concentration of economic entities" is

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expected to be signed by the President of Ukraine and it will give the Antimonopoly Committee of Ukraine the right to refuse to consider applications for concentration submitted by companies included in the sanctions list. The draft law "On amendments to Article 9 of the Law of Ukraine "On State Registration of Legal Entities, Individual Entrepreneurs and Public Organizations" was introduced in Ukraine, which requires economic entities to publish information relating to their beneficial owners in the unified state register (in the event that the beneficial owner of the company is a resident of a country carrying out armed aggression against Ukraine). In addition, the draft law "On amendments to some legislative acts relating to labeling of products (or services) produced by suppliers tied with an aggressor country" stipulates that the suppliers of goods (or services) might be obliged to mark the advertising of products (or services) with the information on their ties with an aggressor country. The draft laws have not been considered by functional committee of the Verkhovna Rada and the Parliament of Ukraine yet.

The Presidential Decree No. 133/2017 "On the decision of the National Security and Defense Council of Ukraine "On the imposition of personal special economic and other restrictive measures (sanctions)" dated May 17, 2017 imposed new sanctions and determined a new sanction list against 1,228 individuals and 468 legal entities. MTS Ukraine was not subject to these sanctions.

According to that Decree:

mobile operators and providers of telecommunications services must restrict access to a number of Internet resources listed in the annexes to the Decree;

software usage of a number of legal entities listed in the annexes to the Decree is prohibited; and

rendering of telecommunications services and access to telecommunications networks is prohibited for a number of legal entities listed in the annexes to the Decree.

In November 2016, NBU adopted a resolution that is aimed to, *inter alia*, impose restrictions on operations with persons and entities targeted by sanctions.

On February 13, 2017, the Decree of the President of Ukraine No. 32/2017 provided the directions of legislative changes, that could lead to restriction of the use of software and telecommunications equipment produced in Russia and simplification for the regulators to access data from communication channels (for the purposes of the identification of service providers, blocking of certain information resources and facilitating the storage of telecommunications data by operators). These decisions may affect our operations to the extent that they allow access to information resources of Russian origin, using billing equipment and storing data from communication channels. Pursuant to this Decree, the draft law "On Amendments to the Law "On Sanctions" was submitted for public discussion on July 7, 2017, which proposes to impose additional sanctions, in particular, with regard to the prohibition or restriction of the use of Russian software on sensitive infrastructure objects, as well as software developed by companies that are subject to sanctions. This draft law was adopted by the Cabinet of Ministers of Ukraine on February 14, 2018.

In March 2017, pursuant to the Resolution of the National Security and Defense Council of Ukraine dated March 15, 2017 "On the Imposition of Personal Special Economic and Other Restrictive Measures (Sanctions)," as approved by the Decree of the President of Ukraine No. 63/2017, NBU introduced sanctions aimed at Ukrainian subsidiaries of a number of Russian banks in order to prohibit financial operations, including any payments of dividends, in favor of the parent banks. This supplements a set of measures in respect of Russian entities subject to the sanctions introduced in accordance with the NBU Board Resolution No. 654 dated October 1, 2015 "On Ensuring the Implementation and Monitoring of the Effectiveness of Personal Special Economic and Other Restrictive Measures (Sanctions) and the Resolution No. 399 dated November 1, 2016 "On

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Amendments to the Resolution of the Board of the National Bank of Ukraine No. 654 dated October 1, 2015."

The Administration of the State Service of Special Communications and Information Protection of Ukraine developed a draft government resolution which provides further actions of authorized state bodies when blocking access to the information resources designated in the sanction list. The project provides, inter alia, connection to operators' networks of equipment to monitor the blocked information resources. Regarding the draft law special equipment might be connected to the operator's network, which may lead to additional costs. The document is under consideration.

In June 2017, the Board of the National Bank of Ukraine adopted Resolution No. 46 "On Amendments to the Resolution of the Board of the National Bank of Ukraine No. 654 dated October 1, 2015." The Resolution set out the requirements for banks dealing with persons designated in the sanctions list, in particular, prohibiting them from executing payment documents of any customers designated in the sanction list and transferring any funds to their accounts.

On October 5, 2017, the Law of Ukraine "On the basic principles of ensuring the cybersecurity of Ukraine" was adopted. The law provides the requirements and procedures for identifying critical infrastructure objects to ensure cybersecurity. All enterprises in the field of information and communications technologies might be recognized as objects of critical infrastructure that can bear the risks of additional costs and additional responsibility for ensuring cybersecurity.

On October 19, 2017, The Ministry of Economic Development and Trade developed and submitted for public discussion the draft law "On Amendments to the Law of Ukraine "On foreign economic activities," which proposed to grant the Ministry of Economic Development and Trade a right to suspend foreign economic activities for a period of one year according to a submission of the Security Service of Ukraine if subjects of foreign economic activity carry out activities connected with the financing of terrorism and encroachment of national interests, national security and territorial integrity of Ukraine.

There is still significant uncertainty regarding how these measures might affect VF Ukraine and our group, the extent and timing of any further sanctions, or the ultimate impact of these sanctions on our operations. These measures and any further measures and sanctions may have a negative effect on our business, financial condition, results of operations, prospects and the value of our shares and ADSs.

See also " Legal Risks and Uncertainties The inability of MTS-Turkmenistan to sustain its operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations" and "The inability of our subsidiaries in the countries in which we are present to maintain control over their operations and assets may adversely affect our business, financial condition and results of operations" and "Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations."

***Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations.***

Economic crisis, deterioration of key aspects of the economy and the lack of investment into the social infrastructure, has, amongst other things, led to the instability of the political situation in Ukraine where we have significant operations. Furthermore, the refusal of the Ukrainian Government to enter into an association agreement with the European Union in November 2013, incited mass protests in Kiev and other regions of the country. These protests caused, amongst other things, a downgrade of Ukraine's international ratings and significant depreciation of the national currency, see " Risks Relating to our Financial Condition Changes in the exchange rate of local currencies in the countries where we operate against the Russian ruble could adversely impact our revenues reported in

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Russian rubles as well as changes in the exchange rate of the Russian ruble and local currencies against the U.S. dollar and/or euro could adversely impact our financial results."

On March 16, 2014, a referendum in favor of joining the Russian Federation was held in Crimea with the consequent declaration of independence Crimea from Ukraine and the accession to the Russian Federation by the parliament of Crimea.

The armed conflict in Eastern Ukraine that has taken place since April 2014 has destabilized the region and caused uncertainty in our operation in the region of the armed conflict. It has also led to damage of our network equipment in the region followed by related losses. Should the economic and political situation in Eastern Ukraine become further destabilized, should local operators enter the market or other external factors affect the region, this may adversely affect our business, financial condition, corporate image and results of operations as well as cause regulatory uncertainties.

These events have resulted in heightened tensions between Ukraine and the Russian Federation and have strained relationships of the Russian Federation with the United States and the European Union, which may adversely impact our business. Furthermore, should the tensions between the Russian Federation and Ukraine continue or increase, or should the economic, social and political situation in Ukraine become further destabilized, our business interests in Ukraine and other impacted regions may be adversely affected or targeted. The continued impact of these events and any continuing or escalating military action, public protests, unrest, political instability or further sanctions could have a further adverse effect on our business in Ukraine, our financial condition and reputation.

See also " A deterioration in relations between Russia and other former Soviet republics, as well as other politically related disagreements and allegations between Russia and other countries and sanctions imposed as a result thereof, could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs."

***Crime and corruption could disrupt our ability to conduct our business and thus materially adversely affect our operations.***

The political and economic changes in recent years in the countries where we operate have resulted in significant dislocations of authority. In addition, the local and international press have reported high levels of corruption, including the bribing of officials for the purpose of initiating investigations by government agencies. Press reports have also described instances in which government officials engaged in selective investigations and prosecutions to further the commercial interests of certain government officials or certain companies or individuals. Additionally, some members of the media in the countries we operate in regularly publish disparaging articles in return for payment. The depredations of organized or other crime or demands of dishonest officials could result in negative publicity, disrupt our ability to conduct our business and could thus materially adversely affect our business, financial condition, results of operations and prospects.

Actions of fraudsters aimed against subscribers cause additional risks for operators. Despite our efforts to detect and prevent fraud, some forms of rendering services (for example, offering payments via external Internet sources) might entail risks of fraudulent charge-offs from subscribers' personal accounts. Such fraud actions could negatively affect our reputation and lead to an increase in subscriber churn, which could materially adversely affect our business, financial condition, results of operations and prospects.

***Social instability could increase support for renewed centralized authority, nationalism or violence and thus materially adversely affect our operations.***

The failure of the government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living

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have led in the past, and could lead in the future, to labor and social unrest. Labor and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralized authority; increased nationalism, including restrictions on foreign involvement in the economies of the countries where we have operations; and increased violence. An occurrence of any of the foregoing events could restrict our operations and lead to the loss of revenues, materially adversely affecting our operations. See also " Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations."

**Legal Risks and Uncertainties**

*Weaknesses relating to the legal system and legislation in the countries where we operate create an uncertain environment for investment and business activity, which could have a material adverse effect on the value of our shares and ADSs.*

Each of the countries we operate in is still developing the legal framework required to support the market economy. The following risk factors relating to these legal systems create uncertainties with respect to the legal and business decisions that we make, many of which do not exist in countries with more developed market economies:

inconsistencies between and among the constitution, federal and regional laws and subordinate legislation (presidential decrees and governmental, ministerial and local orders, decisions and resolutions) and other acts;

the lack of judicial and administrative guidance on interpreting certain legislation as well as conflicting interpretations of supreme general jurisdiction and arbitrazh courts;

the relative inexperience of judges and courts in interpreting certain aspects of legislation;

the lack of an independent judiciary;

a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions such as suspension or termination of our licenses; and

poorly developed bankruptcy and liquidation procedures and court practice that create possibilities of abuse.

The recent nature of much of the legislation in the CIS countries, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of these legal systems in ways that may not always coincide with market developments place the enforceability and underlying constitutionality of laws in doubt and result in ambiguities, inconsistencies and anomalies. In addition, legislation in these countries often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. All of these weaknesses could affect our ability to enforce our rights under our licenses and contracts, or to defend ourselves against claims by others. Moreover, it is possible that regulators, judicial authorities or third parties may challenge our internal procedures and bylaws, as well as our compliance with applicable laws, decrees and regulations.

*The inability of our subsidiaries in the countries in which we are present to maintain control over their operations and assets may adversely affect our business, financial condition and results of operations.*

If we are unable to protect our business entities in the countries in which we operate from the withdrawal or suspension or regulatory scrutiny, this may adversely affect our business, financial condition and results of operations. For example, in June 2012, the authorities of the Republic of Uzbekistan began audits of the financial and operating activities of our wholly owned subsidiary, Uzdunrobita. Further various claims for violation of tax, antimonopoly and industry legislation were made against Uzdunrobita, which resulted in significant amounts of fines and penalties, revocation of



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all licenses and suspension of services. Total amount of damages was calculated and determined on the basis of all the aforementioned claims against Uzdunrobita and amounted to approximately RUB 18,375 million payable in equal installments over eight months.

Uzdunrobita paid two scheduled installments in November and December 2012 totaling approximately RUB 4,583.4 million. On January 14, 2013, further to its partial payment of the third installment due in January 2013 totaling approximately RUB 481 million and constituting the remaining amount of cash held in its bank accounts, Uzdunrobita filed a petition for voluntary bankruptcy to the Tashkent Economic Court on the grounds of its inability to meet further obligations.

On April 22, 2013, the Tashkent Economic Court declared Uzdunrobita bankrupt and initiated a liquidation process. Uzdunrobita was later liquidated. In 2012, we filed a claim against the Republic of Uzbekistan in the International Center for Settlement of Investment Disputes ("ICSID"), part of the World Bank Group, in Washington, D.C.

On July 31, 2014, we and the Republic of Uzbekistan signed a settlement agreement (the "**Settlement Agreement**") and MTS agreed to reenter the Uzbekistan market through a joint enterprise with MTS holding a 50.01% in the charter capital of the joint enterprise, while the remaining 49.99% belongs to a state-owned unitary enterprise established and managed by the State Committee for Communications, Development of Information Systems and Telecommunications Technologies of the Republic of Uzbekistan. The Settlement Agreement is governed by English law and provides for the resolution of any disputes arising out of the Settlement Agreement in the International Court of Arbitration under International Chamber of Commerce in Paris.

On September 24, 2014, in accordance with the Settlement Agreement, the authorities of the Republic of Uzbekistan granted the joint enterprise 2G, 3G and LTE licenses, provided necessary frequencies and numbering capacity, fostered entrance into lease agreements for communication channels and issued all permissions required to the joint enterprise so it could operate and offer full telecommunications services throughout Uzbekistan. The joint enterprise has also received guaranties for investment protection and return of investments in accordance with the laws of the Republic of Uzbekistan.

In November 2014, ICSID discontinued international arbitration proceedings between MTS and the Republic of Uzbekistan following the submission of a joint application by both parties.

On December 1, 2014, the joint enterprise, named UMS, launched sales of SIM cards through its proprietary network of 20 stores and through another 230 independent locations throughout Uzbekistan and started provision of 2G/3G telecommunications services on the entire territory of Uzbekistan.

On August 5, 2016, we sold our 50.01% stake in UMS to the State Unitary Enterprise Centre of Radio Communication, Radio Broadcasting and Television of the Ministry of Development of Information Technologies and Communications of the Republic of Uzbekistan. The loss on disposal of investment in Uzbekistan was recorded in the financial report for the third quarter of 2016. See Note 27 to our audited consolidated financial statements.

See also " Political and Social Risks A deterioration in relations between Russia and other former Soviet republics as well as other politically related disagreements and allegations between Russia and other countries and sanctions imposed as a result thereof could materially adversely affect our business, financial condition, results of operations, prospects and the value of our shares and ADSs" and "Political instability in Ukraine could have a material adverse effect on our operations in Ukraine and on our business, financial condition and results of operations."

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***The inability of MTS-Turkmenistan to sustain its operations in Turkmenistan on commercially acceptable terms or at all may adversely affect our business, financial condition and results of operations.***

In December 2010, the Group suspended its operations in Turkmenistan following notification by the Ministry of Communications of Turkmenistan of a decision to suspend licenses held by BCTI, the Group's wholly owned subsidiary in Turkmenistan, initially for a period of one month starting from December 21, 2010, and then permanently.

On May 24, 2012, we concluded an agreement with the state-owned telecom operator Turkmentelekom relating to our terms of operations in Turkmenistan, which resulted from negotiations between the Turkmenistan government and ministries. The agreement had a five-year term and could be extended for the following five years, provided certain terms and conditions are satisfied. Under this agreement, we were obliged to pay Turkmentelekom a monthly amount calculated as 30% of our net profit in Turkmenistan based on accounting rules of Turkmenistan.

On July 25, 2012, we, our subsidiary BCTI, the Republic of Turkmenistan, the Ministry of Communications of Turkmenistan, the state-owned company, Turkmentelecom, and a mobile operator, Altyn Asyr, signed a settlement agreement (which included the dismissal of all international lawsuits) concerning the suspension of our operations in Turkmenistan in December 2010.

In August 2012, we restarted our mobile communication network in Turkmenistan and resumed providing services to subscribers who had not canceled their contracts. Since October 1, 2012 we resumed our operations in Turkmenistan entirely and started entering into contracts with new subscribers.

On September 29, 2017, we announced that we were compelled to suspend communication services in Turkmenistan from 00:00 September 29, 2017, due to the actions of Turkmenistan, the Ministry of Communications of Turkmenistan, the state-owned telecommunications company, Turkmentelekom, and its wholly-owned subsidiary, Altyn Asyr, the state owned mobile operator in Turkmenistan. These actions resulted in the disconnection of international and long-distance zonal communication services and Internet access.

Although our license for communication services in Turkmenistan is valid until July 26, 2018, we currently remain unable to operate in the country and are pursuing our legal remedies.

***Russian and Ukrainian companies can be forced into liquidation on the basis of formal non-compliance with certain legal requirements.***

Certain provisions of Russian law may allow government authorities to seek a court order for the liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation, reorganization or during its operation.

For example, under Russian corporate law, if the net assets of a Russian joint stock company calculated on the basis of Russian accounting standards are lower than its charter capital as at the end of its third or any subsequent financial year, the company must either decrease its charter capital or be placed in liquidation. If the company fails to comply with these requirements, governmental or local authorities can seek the involuntary liquidation of such company in court, and the company's creditors will have the right to accelerate their claims or demand early performance of the company's obligations as well as demand compensation of any damages.

The existence of negative assets may not accurately reflect the actual ability to pay debts as they fall due. Many Russian companies have negative net assets due to very low historical asset values reflected on their Russian accounting standards balance sheets; however, their solvency, *i.e.*, their ability to pay debts as they fall due, is not otherwise adversely affected by such negative net assets. Some Russian courts, in deciding whether or not to order the liquidation of a company for having negative

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net assets, have looked beyond the fact that the company failed to fully comply with all applicable legal requirements and have taken into account other factors, such as the financial standing of the company and its ability to meet its tax obligations, as well as the economic and social consequences of its liquidation. Nonetheless, creditors have the right to accelerate claims, and file damages claims, and governmental or local authorities may seek the liquidation of a company with negative net assets.

Courts have, on rare occasions, ordered the involuntary liquidation of a company for having net assets less than the minimum charter capital required by law, even if the company had continued to fulfill its obligations and had net assets in excess of the minimum charter capital at the time of liquidation.

The amount of net assets in accordance with the local accounting standards of some of our subsidiaries is less than the minimum charter capital required by law. Although these subsidiaries continue to meet all of their obligations to creditors, there is a minimal risk of their liquidation while the net assets remain below the minimum legal requirements.

There have also been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or non-compliance with provisions of Russian law have been used as a basis to seek the liquidation of a legal entity. Weaknesses in the Russian legal system create an uncertain legal environment, which makes the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict. If involuntary liquidation were to occur, such liquidation could lead to significant negative consequences for our group. Ukrainian law also contains provisions similar to Russian law, whereby a company's failure to comply with certain legal requirements concerning its formation, net assets or operation may be grounds for its liquidation.

***Insufficient adherence to the independence and competitiveness of the judicial process, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent us or holders of our securities from obtaining effective redress in a court proceeding.***

The judicial bodies in the countries where we operate are not always completely independent or immune from economic and political influences, and are often understaffed and underfunded. Judges and courts are often inexperienced in the area of business, corporate and industry (telecommunications) law. Judicial precedents generally have no binding effect on subsequent decisions, and not all court decisions are readily available to the public or organized in a manner that facilitates understanding. The judicial systems in these countries can also be slow or unjustifiably swift.

Enforcement of court orders can, in practice, be very difficult to achieve. All of these factors make judicial decisions in these countries difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political and commercial aims or infighting. We may be subject to such claims and may not be able to receive a fair hearing. Additionally, court orders are not always enforced or followed by law enforcement agencies. Furthermore, recognition and enforcement of arbitral awards in countries where we operate is subject to compliance with corresponding rules of civil procedure and applicable laws, and courts in the countries where we operate may interpret applicable regulations in a manner which would result in denial of such recognition and enforcement.

These uncertainties also extend to property rights. For example, during Russia and Ukraine's transformation from centrally planned economies to market economies, legislation has been enacted in both countries to protect private property against uncompensated expropriation and nationalization.

However, there is a risk that due to the lack of experience in enforcing these provisions and due to political factors, these protections would not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of our entities, their assets or portions thereof, potentially without adequate compensation, would have a material adverse effect on our business, financial condition, results of operations and prospects.

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***Selective or arbitrary government action could have a material adverse effect on our business, financial condition, results of operations and prospects.***

Governmental authorities in the countries where we operate have a high degree of discretion and, at times, act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that is inconsistent with legislation or influenced by political or commercial considerations.

Selective or arbitrary governmental actions have reportedly included the denial or withdrawal of licenses, sudden and unexpected tax audits and claims, criminal prosecutions and civil actions. Federal and local government entities have also used ordinary defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations or to void transactions. Moreover, the government also has the power in certain circumstances, by regulation or government acts, to interfere with the performance of, nullify or terminate contracts.

In addition, the Russian tax authorities have brought tax evasion claims relating to Russian companies' use of tax-optimization schemes, and press reports have speculated that these enforcement actions have been selective. Selective or arbitrary government action, if directed at us, could have a material adverse effect on our business, financial condition, results of operations and prospects.

***Failure to comply with existing laws and regulations or to obtain all approvals, authorizations and permits required to transmit television channels or operate telecommunications equipment, or the findings of government inspections or increased governmental regulation of our operations, could result in a disruption in our business and substantial additional compliance costs and sanctions.***

Our operations and properties are subject to regulation by various government entities and agencies in connection with obtaining and renewing various licenses, approvals, authorizations and permits, as well as with ongoing compliance with existing laws, regulations and standards. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licenses, approvals, authorizations and permits and in monitoring licensees' compliance with the terms thereof. Russian authorities have the right to, and frequently do, conduct periodic inspections of our operations and properties throughout the year. Any such future inspections may conclude that we or our subsidiaries have violated laws, decrees or regulations, and we may be unable to refute such conclusions or remedy the violations. See also " The regulatory environment for telecommunications in Russia, Ukraine and other countries where we operate or may operate in the future is uncertain and subject to political influence or manipulation, which may result in negative and arbitrary regulatory and other decisions against us on the basis of other than legal considerations and in preferential treatment for our competitors."

Primarily due to delays in the issuance of permits, approvals and authorizations by regulatory authorities, it is frequently not possible to procure all of the permits for each of our base stations or other aspects of our network before we put the base stations into commercial operation or to amend or maintain all of the permits when we make changes to the location or technical specifications of our base stations. At times, there can be a significant number of base stations or other communications facilities and other aspects of our networks for which we do not have final permits to operate and there can be delays in obtaining the final permits, approvals and authorizations for particular base stations or other communications facilities and other aspects of our networks. Furthermore, we are constantly in the process of registration and re-registration of ownership over certain infrastructure facilities, for example, MGTS carries out measures aimed at registration of ownership rights to the cable line structures (CLS). At the same time, MGTS is not insured against the risks of challenging the ownership rights by third parties. MGTS performs legal registration of its ownership rights to minimize the risk. In case of receiving reasonable claims, MGTS reconciles cable line objects to distinguish the ownership rights. MGTS is ready to assert its rights to CLS in court when necessary.

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In addition, we may be unable to transmit certain television channels if entities that provide television content to us do not possess the requisite licenses. In case such providers of television content do not obtain the required licenses, or have their existing licenses suspended or terminated, our selection of potential television channels for transmission could be significantly limited. The Federal Law No. 257 "On Amending Federal Law "On Mass Media" and Federal Law "On Communications" dated July 13, 2015 introduced a number of amendments to the national mandatory free television channels list. Requirements on sequence of channels, sound and image quality and signal reception points of national mandatory free television channels were adopted in September 2015. The inability of operators to comply with such requirements may lead to suspension or termination of a license.

Furthermore, we could be subject to fines and other penalties, including forced suspension of our cable network operators' activity for up to 90 days. In some cases of our service provision (for example, those employing GPON technology) power failures in subscribers' households may lead to non-compliance with rules regulating local telephony communication services. Any of these consequences could have a material adverse effect on our business, financial condition and results of operations.

Our failure to comply with existing laws and regulations of the countries where we operate or to obtain all approvals, authorizations and permits required to operate telecommunications equipment, or the findings of government inspections including the State Labor Inspection Service may result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of our licenses, approvals, authorizations and permits, or in requirements that we cease certain of our business activities, or in criminal and administrative penalties applicable to our officers.

Moreover, an agreement or transaction entered into in violation of law may be invalidated and/or unwound by a court decision. Any such decisions, requirements or sanctions, or any increase in governmental regulation of our operations, could result in a disruption of our business and substantial additional compliance costs and could materially adversely affect our business, financial condition, results of operations and prospects. In addition, we may assume risks of potential claims from subscribers and regulating authorities regarding former activities of the acquired or merged businesses.

Generally, communication networks are vulnerable to physical or software break-ins, viruses, unauthorized interferences and similar events. Should such events occur with respect to our network elements, we may become subject for additional inspection by the regulatory authorities. Although we obtain all necessary permissions and certificates for the operation of our equipment and provide measures to protect confidential information, our failure to fully comply with all legislation requirements could result in the imposition of fines or penalties, additional government regulations, substantial additional compliance costs, disruption of our business including its suspension or termination, and other adverse effects.

In addition, in 2015 the Prosecutor General's Office of Ukraine started criminal proceedings on the fact of "unauthorized intervention" in the operation of MTS Ukraine telecommunications network in Crimea on March 15 and 16, 2014. The outcome of the investigation is currently unclear. Possible legal risks or risks concerning our license terms and conditions arising from the proceedings might adversely affect our business, financial condition and results of operations.

***The level of development of corporate and securities laws and regulations in Russia could limit our ability to attract future investment.***

The regulation and supervision of the securities market, financial intermediaries and issuers are less developed in Russia than, for example, in the United States and Western Europe. Securities laws, including those relating to corporate governance, insider trading, disclosure and reporting requirements, are relatively new, while other laws concerning anti-fraud and directors' and officers' liabilities remain

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underdeveloped. The Russian securities market is regulated by several state authorities, which poses certain risks.

In addition, Russian corporate and securities rules and regulations can change rapidly, which may materially adversely affect our ability to conduct capital markets transactions. The regulatory requirements imposed on Russian issuers may lead to delays in the placement of securities and access to capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to us. As a result, we may be subject to fines and/or other enforcement measures despite our best efforts at compliance, which could have a material adverse effect on our business, financial condition and results of operations.

Furthermore on July 1, 2016, provisions of the Federal Law No. 210 stipulating the new procedure for corporate actions became effective which, *inter alia*, provides for a possibility of remote participation at general meetings of security holders (e-voting) for those shareholders who hold their shares either directly on a share register or through a depository. This new procedures may lead to delays in voting process and inconsistencies and may entail additional risks due to their novelty to the Russian market.

***There is insufficient minority shareholder protection in Russia.***

Minority shareholder protection under Russian law principally derives from (a) supermajority shareholder approval requirements for certain corporate actions, (b) the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of actions, (c) the ability of a shareholder to sell his shares at a fair price when the control is changed, the company is acquired at a price determined in accordance with the requirements of the current legislation, (d) shareholders' right to challenge decisions of the company's management bodies in certain circumstances, and (e) shareholders' right to challenge transactions which caused company's loss. Companies are also required under Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. In practice, enforcement of these protections has not always been effective. Shareholders of some companies have suffered as a result of fraudulent bankruptcies initiated by hostile creditors.

The supermajority shareholder approval requirement is met by a vote of 75% of all voting shares that are present at a shareholders' meeting. Thus, controlling shareholders owning slightly less than 75% of outstanding shares of a company may have a 75% or more voting power if certain minority shareholders are not present at the meeting. In situations where controlling shareholders effectively have 75% or more of the voting power at a shareholders' meeting, they are in a position to approve amendments to the charter of the company or significant transactions including asset transfers, which could be prejudicial to the interests of minority shareholders. It is possible that our controlling shareholder in the future may not operate us and our subsidiaries for the benefit of minority shareholders, and this could have a material adverse effect on the value of our shares and ADSs.

While the Federal Law on Joint Stock Companies provides that shareholders owning not less than 1% of the company's stock may bring an action for damages caused to a company by its CEO, member of the Board of Directors or its Management Board and certain other officials acting on behalf of the company, minority shareholders may have difficulties with proving such damages with the court and as a consequence their claims may be denied by the court. In 2009, legislation was adopted which contemplates class action litigation and in 2015 mechanism of class action regarding corporate disputes was introduced. Although there have been several disputes in the past few years, Russian courts do not have a clear and consistent approach in regards to class action litigation. In addition, the issue of claims by shareholders against the company to compensate the shareholders for their losses is not clearly regulated by the current legislation.

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Accordingly, your ability to pursue legal redress against us may be limited, reducing the protections available to you as a holder of our shares and ADSs.

***According to Russian legislation, shareholders/participants of Russian companies have an opportunity to demand either liquidation of a company in a judicial proceeding or exclusion of other shareholder/ participant (except for public joint stock companies) from the company.***

According to the amendments to the Civil Code of the Russian Federation, which came into effect on September 1, 2014, shareholders and participants of Russian companies have, *inter alia*, the following rights, which can be executed via judicial proceedings:

to demand the liquidation of a company in case of failure to achieve a corporate purpose for which it was created, including a case when an operation of a company becomes impossible or is substantially hampered; and

to demand exclusion of a shareholder or a participant (except for the public joint stock companies, including MTS) whose actions/inactivity either cause significant harm or hampers the company's operations.

In this regard, we cannot rule out the possibility of such claims being filed against us. Should such claims be brought, this may have a negative impact on our business, financial condition and results of operations.

***Shareholder liability under Russian legislation could cause us to become liable for both obligations of our subsidiaries and losses of the legal entities in which we have a practical possibility of determining actions.***

The Civil Code of the Russian Federation, the Joint Stock Companies Law and the Federal Law "On Limited Liability Companies" generally provide that shareholders in a Russian joint stock company or members of a limited liability company are not liable for the obligations of the company and bear only the risk of loss of their investment. This may not be the case, however, when one entity is capable of determining decisions made by another entity. The entity capable of determining such decisions is deemed an "effective parent." The entity whose decisions are capable of being so determined is deemed an "effective subsidiary." The effective parent bears joint and several liability for transactions concluded by the effective subsidiary in carrying out its decisions or decisions made with its consent. However, joint and several responsibility of the effective parent is excluded in case of voting of the effective parent on the approval of the transaction at a general shareholders' meeting of the effective subsidiary, as well as the approval of the transaction by the body of the effective parent, if the need for such approval is envisaged in the charter of the effective subsidiary and/or the effective parent. In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the action or failure to act of an effective parent. This is the case no matter how the effective parent's ability to determine decisions of the effective subsidiary arises.

Accordingly, we could be liable in some cases for debts of our subsidiaries and losses of the legal entities to the extent that we had any power of determining such subsidiaries' actions that caused such losses. This liability could have a material adverse effect on our business, results of operations and financial condition.

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***Shareholder rights provisions under Russian law could impose additional obligations and costs on us, which could have a material adverse effect on our business, financial condition, results of operations and prospects.***

Russian law provides that shareholders that vote against or did not participate in voting on certain matters have the right to sell their shares to the company at market value in accordance with Russian law. The decisions that trigger this right to sell shares include:

decisions with respect to a reorganization;

the approval by shareholders of a "major transaction," which involves property in excess of 50% of the balance sheet value of the company's assets calculated according to Russian accounting standards, regardless of whether the transaction is actually consummated (including those which are simultaneously interested-party transactions), except for transactions undertaken in the ordinary course of business;

the amendment of our charter in a manner that limits shareholder rights;

the amendment of our charter in a manner that excludes reference to the entity's public status, approved simultaneously with a decision on applying to the CBR on release from obligation to disclose information under the laws of the Russian Federation on securities; and

a decision on applying for delisting of shares and convertible securities from a stock exchange.

For example, during 2015-2017 we repurchased MTS ordinary shares, for more details see "Item 16E Purchases of Equity Securities by the Issuer and Affiliated Purchasers." Our obligation to purchase shares in these circumstances, which is limited to 10% of the company's net assets calculated in accordance with Russian accounting standards at the time the matter at issue is voted upon, could have a material adverse effect on our business, financial condition, results of operations and prospects. Under Russian law, if we are unable to sell the repurchased shares at a price equal to or exceeding the market price within one year of the date of repurchase, we will have to reduce our charter capital accordingly.

***The Strategic Foreign Investment Law imposes certain restrictions on us and our existing and potential foreign shareholders, which could have a material adverse effect on our business, financial condition, results of operations and prospects.***

On May 7, 2008, the Federal Law "On the Procedure for Foreign Investment in Commercial Organizations of Strategic Importance for the Defense and Security of the State," or the Strategic Foreign Investment Law, came into force in Russia. This law sets forth certain restrictions relating to foreign investments in Russian companies of "strategic importance." Among others, companies with a dominant position in the Russian telecommunications market are considered to be strategically important and foreign investments in such companies are subject to regulations and restrictions to these companies set out by the Strategic Foreign Investment Law. For purposes of the Strategic Foreign Investment Law, a mobile telecommunications provider is deemed to be dominant if its market share in the Russian market exceeds 25%, as may be determined by FAS. In addition, a company may be considered to be strategically important due to our offering of services involving the use of cryptographic technologies.

Starting from the effective date of the Strategic Foreign Investment Law, a foreign investor (including Russian citizens having foreign citizenship according to the amendments which came in force on July 1, 2017) seeking to obtain direct or indirect control over a strategically important company is required to have the respective transaction pre-approved by a special governmental commission on control of foreign investments. On December 6, 2014, the amendments to the Strategic Foreign Investment Law came into effect. The law stipulates that foreign investors are obliged to obtain prior approval of transactions envisaging the acquisition of right of ownership, possession or use of property



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classified as the fixed production assets of a strategic company and the value of which represents 25% or more of the balance sheet value of the assets of such company as of the last reporting date, according to accounts. In addition, foreign investors are required to notify this authorized governmental body about any transactions undertaken by them resulting in the acquisition of 5% or more of the charter capital of strategically important companies. Within 180 days from the effective date of the Strategic Foreign Investment Law, foreign investors having 5% or more of the charter capital of strategically important companies were required to notify the authorized governmental body about their current shareholding in such companies.

Commencing December 6, 2014, a foreign investor is also obliged to notify the authorized governmental body about the fact of conducting the pre-approved transactions. With effect from July 1, 2017, according to the amendments, offshore companies (and companies under their control) are prohibited from obtaining control over a strategically important company and are obliged to have any acquisition of 25% or more of right of ownership of voting shares pre-approved. According to the amendments that came into force on July 1, 2017, certain sanctions may be imposed in respect of such transactions conducted without notification, for example, a deprivation of the foreign investor of any voting rights at a shareholders' meeting of strategically important companies through judicial proceedings brought by an authorized governmental body.

As we are classified as a strategically important company, our current and future foreign investors are subject to the notification requirements described above and our current and potential investors may be limited in their ability to acquire a controlling stake in, or otherwise gain control over, us. Such increase in governmental control or limitation on foreign investment could impair the value of your investment and could hinder our access to additional capital.

***Regulatory changes in Russia, including the reduction of settlement rate, regulation of other inter-carrier and subscriber tariffs and others, as well as regulatory changes at the international level may have a material adverse effect on our financial condition and results of operations.***

Following an amendment to the Federal Law on Communications, which became effective July 1, 2006, fixed-line operators began charging their subscribers for calls to mobile phone users and started to transfer a percentage of the charge to mobile operators terminating such calls. The percentage transferred to mobile operators is established by the regulator and is known as the "settlement rate."

The Ministry of Communications and Mass Media is considering altering the approach to inter-carrier settlements in Russia and the subsequent lowering of the settlement rate. Any reduction of the settlement rate by the regulator could have a negative impact on our average monthly service revenues per subscriber and margins. In September 2013, the Government commission on telecommunications supported the proposal of the Ministry of Communications and Mass Media to simplify the process of traffic transmission within one sub-federal region, as well as to simplify the process of traffic transmission within the voice and data networks while transmitting voice information within one sub-federal region of the Russian Federation. The exact changes to the current regulations may be significant, including the regulation of interconnect leading to operators' inability to determine the autonomous pricing of interconnect rates.

In November 2014, the Government of Russia considered a proposal on reconsideration of the interconnect regulation approach submitted by the Ministry of Communications. It is unclear yet how this proposal may be implemented, however it may potentially lead to a reduction in traffic transmission revenues and an increase in traffic transmission costs. The final decision on the implementation of this proposal has not been made yet.

The agreement on the conditions of inter-carrier mutual settlements while delivering international communication services in CIS-countries was signed on the CIS Heads of Government Council meeting held in Dushanbe on October 30, 2015 (the "**Agreement**"). The enforcement of certain provisions of

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the Agreement may adversely affect our operation in terms of the execution of inter-carrier mutual settlements among CIS-operators. In order to be implemented, the corresponding provisions should be introduced to the Russian legislation. To date, the provisions have not been implemented yet.

In December 2013 and July 2014, the State Commission for Radio frequencies introduced a number of modifications to the conditions of using the frequency band for 3G and 4G. These changes resulted in implementation of the principle of technological neutrality for frequency bands 900 MHz (UMTS and LTE) and 1800 MHz (LTE). The Government Regulation No. 480 dated May 24, 2014, requiring that tenders shall be held mainly in the form of auctions, came into force on June 6, 2014.

These changes may strengthen competition in the market as well as add costs for development of the network infrastructure.

According to press reports, a proposal on carrying international traffic from the country's territory through the networks of nationwide operators is being considered. The list of nationwide operators has not been specified yet. In case such initiative is implemented and MTS is not included in the list of nationwide operators, this may lead to an increase in our traffic transmission costs.

According to Government Regulation No. 1240 dated November 24, 2014, starting from January 1, 2015, federal public bodies were vested with a right to make decisions on using data transmission network of government bodies, which is a part of infrastructure ensuring information and technological interaction with the information systems used for rendering state and municipal electronic services for the purposes of exercising public functions. To date, the single operator of infrastructure of electronic state services is Rostelecom. Adoption of the Regulation may adversely affect our revenues with regard to the B2G market segment due to competitive disadvantage.

With the entry into force of the Treaty on the Eurasian Economic Union (the "EEU") on January 1, 2015, a supra-national antimonopoly body empowered to control compliance with general competition rules on cross-border markets and to apply antitrust measures was established. Should violations with respect to companies operating on cross-border markets be identified, this might lead both, to imposition of fines in accordance with the legislation of the EEU and adoption of the decisions for compulsory execution.

The amendments introduced to Article 5 of the Federal Law No. 115 "On Combating Legalization (Laundering) of Criminally Gained Income and Financing of Terrorism" dated August 7, 2001, entered into force on March 1, 2015. The list of organizations carrying out cash/other property operations, to whom the law requirements are applied, was expanded according to those amendments. In addition to telecommunications operators entitled to independently render mobile radio telecommunications services, the telecommunications operators occupying "substantial position" in public switched telephone networks entitled to independently provide data transmission services and render services on the basis of contracts with individual subscribers, have been also included in the list. A telecommunications operator which meets the specified criteria is obliged to provide the Federal Financial Monitoring Service with the information on cash/other property operations (that is subject to compulsory control or that seems suspicious while implementing the rules of internal control), as well as to take measures for freezing of cash assets / other property (in case there is an information on its involvement in extremist activities or terrorism). Lack of law enforcement practice may cause difficulties in interpreting the above-mentioned amendments and lead to additional burden for telecommunications operators.

On July 8, 2017, the Federal Law No. 110 "On amendments to Article 66 of the Federal Law "On Communications" and Article 35 of the Federal Law "On Mass Media" dated June 7, 2017 came into force, which requires operators to transmit warning signals to telecommunications services users or inform them about dangers arisen by threat of occurrence of emergencies or occurrence of

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emergencies. Expenditure related to the transmission of warning signals is not compensated to operators.

On April 4, 2016, the Ministry of Communications of the Russian Federation adopted the order No. 135 "On the approval of requirements for communication networks operation with respect to the use of services provided by third parties." The order came into force on July 26, 2017.

According to the requirements, a telecommunications operator is obliged (on a quarterly basis) to provide authorities with data on foreign companies and foreign citizens that are engaged to provide works or services related to exploitation and management of its communication network. In addition, a telecommunications operator is obliged to store information concerning all actions on communication facilities executed by servicing staff or third parties engaged in exploitation and management of communication networks both from workplaces and with the use of a remote access.

Consultations are underway with the Ministry of Communications of the Russian Federation to determine the exact list of communication facilities and actions, information in respect of which has to be stored. The amount of forthcoming costs is to be determined based on the consultations' results and first results of complying with requirements.

The Federal Law No. 374 "On the introduction of amendments to certain legislative acts of the Russian Federation with respect to setting up of additional counter-terrorism measures and public security enforcement" was adopted on July 6, 2016. Pursuant to that law, operators are obliged to store information on the facts of receiving, transferring, delivery and/or processing of voice information and text messages, as well as images, sounds, video- and other messages of telecommunications services users (for a three-year period) and the contents of such communications, including voice data, text messages, pictures, sounds, video or other communications (for up to six months). The requirement relating to the storage of messages contents enters into force on July 1, 2018. The Government of the Russian Federation is responsible for approving the rules, terms and volume of information to be stored. The Government regulation "On rules, terms and volume of voice information, text messages, images, sounds, video- and other messages of telecommunications services users to be stored" was adopted on April 19, 2018. According to this regulation, voice traffic is required to be stored for a period of six months starting from July 1, 2018, and data traffic is required to be stored, starting from October 1, 2018, by using data storage technical equipment in the volume of electronic communication messages sent and received by the operator's subscribers (the actual traffic) during 30 days before the commissioning date of the technical equipment. Moreover, the capacity of the data traffic storage system is required to be increased by 15% annually. Significant additional costs will be required in order to comply with these requirements.

Currently, the Russian Civil Code is undergoing the process of substantial revisions with new provisions being introduced relating to a number of sectors. At present, the potential interpretation of these amendments by state authorities (including the courts), along with their impact on our activities are unknown.

On July 29, 2017, Federal Law No. 245 "On Amendments to the Federal Law" On Communications" was adopted and is aimed at further aligning the process of concluding a contract for the provision of mobile radiotelephone communication services without appropriate identification of a subscriber (*i.e.*, a user) of communication services. The effective date for these changes is June 1, 2018. Additional costs will be required to provide a set of measures to improve the filling of databases with information about subscribers and the organization of interaction with state systems to verify the reliability of information about subscribers.

Russian companies are obliged to pay various and significant taxes including income tax, VAT, real estate tax, excise tax, payroll tax and others. Along with tax liabilities there are different obligatory non-tax payments. These include payments into Universal Service Fund, which currently amounts to

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1.2% of our annual revenue on telecommunications services. Furthermore, potential regulatory changes that may be enacted in the future, such as the introduction of new rules regulating MVNOs, new rules concerning our pricing policy and others, could weaken our competitive position in the mobile telecommunications market. Changes in tax laws and non-tax regulations may lead to the growth of our tax burden and may, as a result, materially adversely affect our financial condition and results of operations.

***The failure of our subsidiaries that are subject to regulations as natural monopolies to comply with the requirements of the Federal Law No. 223 "On Procurement Process," inter alia, in case of collective tendering can lead to penalties on our subsidiaries.***

One of our subsidiaries, MGTS, is categorized as a natural monopoly in the Moscow telecommunications market. According to the Federal Law No. 223 "On Procurement Process," natural monopolies are obliged to conduct the procurement process in accordance with the principles of transparency and non-discrimination and unjustified limitation of competition. If our subsidiaries that are under additional regulations as natural monopolies are found failing to comply with the law on procurement process, *inter alia* in case of collective tendering with us, our subsidiaries can be subject to penalties. See also "Risks Relating to Our Business" If we are found to have a dominant position in the markets where we operate and are determined to have abused this position, the FAS may be entitled to regulate our subscriber tariffs and impose certain restrictions on our operations."

***Russian and foreign legislation on personal data and information security in information systems and communication networks may turn out to be hard to implement and require significant resources. Inability to comply with the requirements may lead to sanctions.***

Communication operator activity in the sphere of information security in the Russian Federation is represented by the following legal acts: Federal laws "On communication," "On information, information technologies and information protection," "On personal data," "On trade secret," "On electronic signature," by-laws of the Government, FSTEC, FSS, Ministry of Communication and The Federal Service for Supervision of Communications, Information Technology and Mass Media of the Russian Federation, among others. Main risks, posed by organization of processing and providing security of personal data include the following factors:

ambiguity of applicability of legislation on communication, personal data, trade secret, etc. to a single object of legal regulation. Data may be simultaneously attributed to different categories of limited access information, which fall under different information security requirements under different sections of the Russian legislation;

responsibility of personal data operators for the actions of the third parties, processing personal data at the request of personal data operators;

ambiguity of the criteria for determining personal data protection level during its processing in the information systems (for example, in case undocumented possibilities in system and/or applied software exist), set by Government Decree No.1119, dated November 1, 2012;

high level of requirements to the personal data protection;

significant costs on creation of information protection system and support of protection level;

necessity to use the means of information protection, which have undergone a special conformity assessment procedure; replacement of the existing means of information protection with the ones, certified by FSTEC and FSS of Russia may require additional costs on certification of the existing means of information protection and later on certificates renewal (because of the limited period of certificates validity);

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in case of untimely obtaining licenses or untimely confirmation of licenses for the technical and cryptographic protection activity of confidential information by FSTEC of Russia or FSS of Russia, the company wouldn't be able to provide the corresponding commercial services to the third parties; and

ambiguity of the requirement of Federal law No. 152 to localize processing of the Russian citizens personal data on the territory of Russia, keeping the possibility of cross-border transfer of this data.

In case of non-compliance with the Russian legislation on information security and personal data protection, the company cannot rule out the possibility of imposing sanctions by the regulatory bodies in the form of fines, confiscation of uncertified means of information protection, suspension of business processes for 90 days as well as suspension or withdrawal of the license, allowing to provide communication services, technical and cryptographic protection of confidential information.

In addition, it is possible that subscribers will file legal claims, seeking to reimburse tangible and moral damage in connection with the violation of the legislation requirements. With effect from May 25, 2018, the General Data Protection Regulation will come into force in the European Union. At the moment, it is unclear how the requirements of this new Regulation may affect operations of companies that are subject to them. If the resources required to maintain, develop and implement data protection and information security systems meeting the legislation requirement are greater than expected, or we fail to comply with the data protection and information security laws despite our best efforts to do so, our business, financial condition and results of operations could be materially adversely affected.

***Changes in Ukrainian telecommunications legislation have caused uncertainty in relation to the regulation of the Ukrainian telecommunications industry and may adversely affect our business, financial condition and results of operations.***

In November 2012, the NCCIR issued the decision regarding the rules governing the provision of MNP service, which enables the subscribers to retain their telephone number after switching from one operator of mobile communications to another. MNP law came into legal force on July 5, 2013 with the beginning of switching to other operators from December 20, 2013. On December 30, 2013 a resolution that postponed the beginning of service provision to July 2014 came into legal force, however, implementation of MNP service was cancelled later on by a court decision. On July 31, 2015, the NCCIR approved the procedure for MNP service rendering and introduced amendments to the basic requirements of agreements for the provision of telecommunications services. The decision entered into force on September 8, 2015, after which the NCCIR appointed the Ukrainian State Center of Radio Frequencies ("USCRF") as an administrator of the centralized database of the ported numbers.

In May 2017, operators received approved documents including technical requirements for MNP service. As of March 2018, the court proceedings regarding the choice of a supplier for the centralized database were still ongoing. The terms of MNP service launch must be set by the special decision of the NCCIR which has not been passed yet.

The Verkhovna Rada of Ukraine regularly reviews different versions of draft laws "On Electronic Communications." The key one of these draft laws requires, *inter alia*, the identification of the entire subscriber base of operators. The draft law provides for a period of compulsory registration, being six months. The inability to identify subscribers within the prescribed timeframe could have a negative effect on business operations of VF Ukraine. The request of VF Ukraine and PrJSC "Kyivstar" with regard to extending the transition period to two years was passed to legislators by way of an official letter.

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In addition, on July 28, 2017, the NCCIR submitted for consideration to the Ukrainian government a new procedure for the identification of anonymous subscribers, which obliges operators to register subscribers in electronic form. The approval of this procedure and the introduction of an electronic subscriber identification system may result in additional costs for new equipment, interface, software and tools for digital signature recognition.

Legislative changes regulating the telecommunications industry may materially adversely affect our business, financial condition and results of operations. See "Item 4 Information on Our Company B. Business Overview Regulation of Telecommunications in the Russian Federation and Ukraine Regulation in Ukraine Legislation."

***The Russian taxation system is underdeveloped and any imposition of significant additional tax liabilities could have a material adverse effect on our business, financial condition or results of operations.***

The discussion below provides general information regarding the Russian tax regime and is not intended to be inclusive of all issues. Investors should seek advice from their own tax advisors as to these tax matters before investing in our shares and ADSs. See also "Item 10 Additional Information E. Taxation."

In general, taxes payable by Russian companies are substantial and numerous. These taxes include, among others, corporate income tax, value added tax, property taxes, excise duties, payroll-related taxes and other taxes.

As of January 1, 2012, changes to the Tax Code of the Russian Federation enable Russian taxpayers that are part of a group to consolidate their financial results for profit tax purposes. It is yet unclear how the new legislative provisions will be applied by the tax authorities as currently only limited regulatory guidance is available on this matter. In addition to imposing certain criteria that must be met in order to create a consolidated tax-paying group, the law also limits certain transactions within the group (e.g. corporate restructurings). In 2014, we concluded an agreement with tax authorities, according to which the consolidated taxpaying group had to start functioning since 2016.

However, pursuant to the law adopted in November 2015, the contracts on the set up of the consolidated taxpaying group were not subject to registration during the period of 2016 to 2017, and the contracts registered during the period of 2014 to 2015 are considered by tax authorities as not having been registered. In the absence of any official interpretation, it is currently difficult to estimate the implementation of new law on the agreements already registered by tax authorities.

In addition, intercompany dividends are subject to a withholding tax of 0% or 13% (depending on whether the recipient of dividends qualifies for Russian participation exemption rules), if being distributed to Russian companies, and 15% (or lower, subject to benefits provided by relevant double tax treaties), if being distributed to foreign companies.

The Russian tax authorities may take a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may nonetheless be subject to challenges in the future. The foregoing factors raise the risk of the imposition of arbitrary or onerous taxes on us, which could adversely affect the value of our shares and ADSs.

Current Russian tax legislation is, in general, based upon the formal manner in which transactions are documented, looking to form rather than substance. However, the Russian tax authorities are increasingly taking a "substance and form" approach, which may cause additional tax exposures to arise in the future. Moreover, the Russian Tax Code was amended with direct provisions which prohibit tax benefits, if achieved without real business activities, or the main aim of the transaction was tax benefits. Additional tax exposures could have a material adverse effect on our business, financial condition, results of operations and prospects.

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It is expected that Russian tax legislation will become more sophisticated, which may result in the introduction of additional revenue raising measures. Although it is unclear how any new measures would operate, any such introduction may affect our overall tax efficiency and may result in significant additional taxes becoming payable. Additional tax exposures could have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. For example, tax laws are unclear with respect to deductibility of certain expenses. This uncertainty could possibly expose us to significant fines and penalties and to enforcement measures, despite our best efforts at compliance, and could result in a greater than expected tax burden.

See also "Item 8 Financial Information A. Consolidated Statements and Other Financial Information 7. Litigation Tax Audits and Claims."

***Lack of law enforcement practice of the Russian anti-offshore policy may have adverse impact on our business, financial condition and results of operations.***

In the past few years, the Russian Federation like a number of other countries in the world has been actively involved in a discussion of measures against tax evasion by the use of low tax jurisdictions as well as aggressive tax planning structures.

The rules of controlled foreign companies (CFC) came into force on January 1, 2015. The rules oblige Russian taxpayers being controlling persons of a foreign company to submit to the tax authorities both standard notifications on participation in CFC and tax declarations in certain cases. Profit generated commencing in 2015, including retained earnings, is subject to taxation in the Russian Federation. The innovations could impose additional tax on the undistributed profits of any foreign entity controlled by us (in proportion to such controlling stake) at the rate of 20%. These innovations caused amendments to the Tax Code providing for liability in case of non-disclosure or incomplete disclosure of information on CFCs and the non-payment or underpayment of relevant tax.

In addition, implementation of new concept of beneficial ownership, with regard to taxation of payment of passive income (dividends, royalty, interest, capital gain), may negatively affect possibility to apply benefits set by the double tax treaties, in case such payments pass through intermediary entities.

This may potentially lead to increase of tax burden with regard to such payments.

On November 4, 2014, the President of the Russian Federation signed the Federal law No. 325 "On ratification of the Convention on Mutual Administrative Assistance in Tax Matters." Ratification of this Convention will enable the Russian Federation to receive tax information from all participating countries, which include a number of offshore jurisdictions.