



MESSAGE FROM THE BOARD OF DIRECTORS' CHAIRMAN

Dear shareholders,

Hereby, I present to your attention the following Annual Report, in which we will cover the operations of MTS PJSC throughout 2021, the results of our activity in the key business areas and those of MTS Group in general.

Two years ago, at the very beginning of the pandemic, facing extreme uncertainty about the future, we spoke about the fact that the results of our company operations are of particular importance for ensuring the continuity of the activities of enterprises and government bodies, for normalizing public life, mitigating the economic and social consequences of the challenge faced by our country and the global community. This understanding encouraged us to adapt to the new conditions quite fast, we learned how to be efficient subject to seriously limited personal communications, while a flexible approach to the work format and the technical and organizational measures taken made it possible for thousands of our employees to work remotely to the fullest extent. Where the need for direct physical contact remains, we have ensured maximum physical security for the customers and the company employees. All this provided complete continuity of business processes enabling us to meet all the tasks we faced and reach our targets.

Under the current unfavorable conditions, we saw not only threats, but also opportunities, consisting in accelerating digitalization processes and growing demand for telecom and digital services. We took advantage of these opportunities thanks to the vigorous work of the Company management and all employees, which I would like to highlight separately. Our efforts resulted in a logical outcome — we managed not only to keep our existing positions, but also to ensure business growth in general, as well as to achieve the target levels in terms of key operational performance indicators. As a result, during 2021, revenue growth for MTS Group amounted to 8% with OIBDA growth at 6.6%, while the capital expenditure

program in the amount of BRUB 111 as implemented in full.

Last year, MTS continued to work on filling its own ecosystem offer. We see the customers' growing interest in our digital services, in convergent products and MTS Premium subscription, we notice a steady increase in the number of their active users. Moreover, 2021 has become a landmark year for us in this sense, as more than a half of the revenue growth of the Group was provided by the contribution of digital products not related to the telecom part of our business.

Separately, I would like to mention one more 2021 result not directly related to our marketing initiatives and, probably, not attracting close attention of a wide audience. Nevertheless, its importance for the further MTS Group development cannot be overestimated. I refer to the adoption of the strategic principle of giving promising business areas maximum independence, up to their separation into separate companies in the medium and long run, at the level of senior executives and the Board of Directors. Due to this, we plan to achieve the following: greater focus of direction management on creating high-quality products, transparency and flexibility in building internal interaction and strengthening the motivation of product teams. The ultimate strategic goal of implementing this approach is to liberate digital areas from being evaluated by investors using conservative telecom multipliers and to achieve their fair evaluation in accordance with industry specifics and their operation results. It shall be noted that, even with area allocation to independent companies, we intend to provide such conditions that will pre-

534
billion RUB

Revenue of MTS Group

+8%

229
billion RUB

OIBDA of the Group

+6.6%

serve the ecosystem links between them, which will help maximize the overall synergy. In any case, MTS will remain a full-fledged Group, where all businesses operate in unison based on common strategic guidelines. We believe that this approach will help change the perception of us by the investment community and significantly increase the fundamental shareholder value of MTS Group.

Over the past year, the Company has made a number of appointments relating to positions of senior executives, which were evolutionary in nature and were part of our managerial rotation practice. The most striking was the appointment of Vyacheslav Nikolaev to the position of President of MTS in March 2021. Mr. Nikolaev has been a member of our team for many years, he is one of the company management structure architects, he is fluent in the Company functioning features and deeply immersed in all key business processes. I am pleased to welcome Mr. Nikolaev in his new position and I also would like to thank Alexey Kornya, who previously held this position, for his contribution to the development of MTS, for his efforts aimed at establishing MTS as a digital player.

The beginning of 2022 brought new challenges that we cannot have a significant impact on, but that do have a significant impact on us. The format of my message does not allow me to delve into analyzing the situation and its possible consequences, so I will limit myself to the key theses on the matter.

- > The majority of our business is focused on the domestic Russian market, and the markets of our operation are subject to limited exposure to external impacts and do not experience a significant decrease in demand or a radical change in conditions for the companies operating in them. This is especially true of our telecom core, which sets us apart from other digital players whose

business model was built around the sources of value that are more subject to current changes.

- > We pay special attention to potentially problematic areas, such as hardware and software supplies, logistics, and partnership projects. We quickly react to the changing situation and ensure continuity of all key business processes.
- > Our strong financial position, efficient debt management process and convenient leverage level provide us with a good safety and stability margin.
- > The fact of foreign players leaving the market opens up a wide window of opportunities for us, primarily in the field of digital services, with which we associate the principal prospects for our growth.
- > The general complication of access to funding for the Russian companies opens up additional opportunities for us in the field of M&A and participation in promising projects, which we intend to take advantage of.

Separately, I would like to note that, thanks to a balanced HR policy, we do not observe a churn of employees in any areas or functions. Moreover, a positive factor in staff retention is the remote work practice implemented in the company, which has been actively promoted by us in connection with the threats of the pandemic, and now allows employees to fully participate in the Company operations in the conditions most favorable for them without loss of efficiency. As for senior executives, we continue to act in a coordinated manner, as a single team, with all the managers performing their functions to the fullest extent. I would like to thank all the employees of our company, who, despite the high degree of emotional stress, continue to demonstrate unity, do



their job well and are looking for new ways to develop the current projects.

In terms of the investment community's assessment of MTS Group as an asset, we are obviously in a "turbulent" state; we understand that the current quotes are subject to external factors and emotional decisions not related to the real fundamental and business value. This is not the first time we are facing such a situation, and, just as before, for some, it's a time of hardship, while for others, it's a time of opportunity. I would like to wish our investors to stay wise in making decisions and take into account the fact that we have proven multiple times that we always act in the best interests of our shareholders and aim at long-term growth of the shareholder value of the Company.

In conclusion, I would like to emphasize again that our business is in excellent shape and the history of our company has repeatedly proven the ability to demonstrate consistently good results, regardless of the conditions and challenges that we face. The tele-

com core is a stabilizing factor for us, as this market shows the least drop in demand, which has already been observed during the crisis. The promising digital areas, with which we associate the prospects of growth in the current conditions, open up a number of opportunities for us, which, as a result, may outweigh the negative impact of the environment. We have an efficient and balanced strategy aimed at long-term value growth. Depending on external conditions, we are ready to locally adjust the targets, review the framework for implementing some projects, yet, at the moment we do not see the need for radical strategy changes. We continue to think positively, while acting pragmatically and vigorously. We are facing another challenge that mobilizes us and we perceive the next crisis as an opportunity to enter a new development round, which is what we are striving for.

Felix Evtuschenkov,
Chairman of MTS Board of Directors



**MESSAGE FROM
THE PRESIDENT**

Dear friends and colleagues,

Together with the entire MTS team, we were lucky to get an interesting and ambitious task: we are creating a sustainable, competitive and dynamically developing digital ecosystem based on the strongest telecom brand in Russia. This is a big challenge in the current competitive environment and an equally big responsibility to our shareholders, customers and employees.

In 2021, we managed to implement a number of important strategic initiatives and achieve sustainable financial performance in terms of both revenue and net income. MTS grew at a rate faster than the market rate and increased its year-on-year consolidated revenue by 8% to 534.4 BRUB and net income by 3.4% to 63.5 BRUB, respectively. Our core telecom business went on demonstrating stable and strong growth in both mobile and fixed-line segments. The launch of KION online cinema provided MTS with a strategic breakthrough in the field of media, the retail chain demonstrated increased sales of smartphones and accessories. The revenue in the cloud technologies segment almost doubled year-on-year; while the reliability of MTS Bank's business strategy allowed it to quickly achieve a significant scale and autonomy in the financial transactions market.

We are proud of the actively developing system of partnerships for creating new digital products. In 2021, the number of users of the MTS digital ecosystem increased by 40% accounting for almost 9 million of them today. I would like to note that, in 2021, the MTS Premium subscription, the number of users of which has doubled over the year, is recognized in Russia as one of the ecosystem subscription leaders.

We see the efficiency of the Company's long-term development strategy aimed at creating the best user experience for dozens of millions of private and corporate customers. Our operating results made it possible to demonstrate a decent level of return for our shareholders: in 2021, MTS completed the implementation of a three-year dividend policy and a share buyback program at the end of the year.

For the past two years, we have lived and developed our business in the tough pandemic conditions. This time has become an important stage in the internal MTS transformation: we have dramatically accelerat-

ed digitalization and adapted our business processes to the new realities. The Company structure has been significantly updated reflecting both the ongoing changes in the processes to meet new challenges, and the gradual business verticals' development. In 2021, we separated out MTS tower and network infrastructure into separate areas of importance. We also continue expanding the ecosystem and creating additional competencies in the existing areas through acquisitions: we closed the deal of acquiring Interregional TransitTelecom, a federal provider of intelligent telecom and IT solutions for business; we strengthened the AI vertical by acquiring VisionLabs, one of the global leaders in creating computer vision- and machine learning-based services. In order to expand the ecosystem of financial services, MTS Group acquired Factorin, one of the leading blockchain systems for trade funding, and consolidated 100% of the shares of MC Sistema Capital.

Today, while the market condition remains uncertain, we are elaborating various scenarios so that possible trade and technological restrictions would not affect the quality of services, network upgrades and business development. This complicated task is relevant for any company, but the MTS business has a large margin of safety and feels confident even in unstable conditions, since our products and services are in demand by users. We have a strong strategy, which we believe in, and a sustainable business model quickly and effectively adapting to external factors, which, the practice of recent years has proven. The dynamically developing MTS Bank has a significant liquidity reserve. Today, MTS has a very strong team able to address new challenges quickly and flexibly. The company continues its active transformation to increase its competitiveness, we continue to hire and are open to the best specialists, especially in IT.

Most importantly, we have millions of loyal customers. The ability to create high-quality and reliable digital products for them, to help solve everyday and business problems is an important contribution of MTS to maintaining the sustainability of our society in general.

Sincerely,

Vyacheslav Nikolaev,
President of MTS