

# REPORT BY THE BOARD OF DIRECTORS

## RESULTS OF 2020 IN THE CONTEXT OF IMPLEMENTING THE COMPANY'S STRATEGY

The Board of Directors is the senior collective corporate governance body of MTS PJSC. Its key functions include:

- › making managerial decisions of a strategic nature, ensuring the company's long-term sustainable development;
- › selecting an effective management team;
- › ensuring comprehensive protection of investors' rights and interests;
- › ensuring the transparency and efficiency of financial flows;
- › monitoring compliance with standards and implementing best corporate governance practices.

Throughout 2020, the MTS Board of Directors met 14 times in the form of face-to-face meetings, video conferences and absentee voting to make decisions on key issues. Preliminary elaboration of decisions, as well as consideration of less significant issues that do not require approval by the Board of Directors, were arranged within the framework of six dedicated committees with the participation of invited experts, representatives of the management and members of the Board of Directors.

It is worth recalling that in October 2019, the Board of Directors approved a new strategy of the MTS Group, Customer Lifetime Value 2.0 (CLV 2.0), which provides for building up an ecosystem of digital services around the client and their needs. The primary goal of the ecosystem approach is to increase the frequency of contacts with the client, enhance the client's loyalty and make

interaction with the client more durable. This will make it possible to transfer more value to the client and in turn get more value from the client<sup>1</sup>.

Implementation of the new strategy, in fact, was the transition from a single-industry (telecommunications) to a multi-industry business logic and, as a consequence, to a new organizational structure of the company. Throughout 2020, we fine-tuned this structure, making targeted personnel decisions aimed primarily at strengthening digital areas and individual product teams working in them. The most outstanding decision within this line of activity was the introduction of the position of a member of the Management Board — Vice President for Artificial Intelligence, which demonstrates our desire to give the maximum impetus to the development of digital competences at MTS.

The company's entry into new digital markets, characterized by high dynamics and increased requirements to the pace of product development and the ability to quickly respond to the competitive environment and clients' demands, assigned us with a task of finding new formats for organizing the workflow of product teams and methods of interaction between departments. We came to the conclusion that this task requires a systematic approach, and after evaluating all arguments, we decided to implement a program for comprehensive transformation of the corporate culture. It is noteworthy that the process of "Digital transformation of the company" had been previously one of our strategic priorities, therefore, more profound changes in the cultural environment became its natural continuation. Examination of issues related to this area, its elaboration together

with the management and at the level of committees constituted a significant part of the Board's activities in 2020.

In the field of M&A, we considered the feasibility and made decisions on the participation in a number of companies and projects related mainly to digital business areas that are new to us. We plan to continue using the full array of tools (including M&A), which enable us to enter promising markets and strengthen our presence there, as well as to build up the relevant product competences.

The 2020 realities required the company to make quick decisions regarding the distribution of financial flows, in particular, the dynamic adjustment of budget revenue and expenditure items. As a result of hard work, we managed to compensate for the loss of some part of income and origination of additional costs for measures to protect the health of clients and employees by reducing operating costs in other areas (operating costs for offices, temporary closure of retail network points of sale and branches of MTS Bank, etc.). Meanwhile, all the necessary approvals for budget changes were promptly considered and approved by the Board.

One of the key functions of the Board of Directors is to protect the rights and interests of shareholders, in particular, to monitor compliance with the company's Regulations on Dividend Policy and to ensure the approved amount of dividends<sup>1</sup>. As part of this function, the Board made decisions regarding the dividend payments, as well as the implementation of the share redemption

<sup>1</sup> Detailed information on the strategy is provided in the section "Our Strategy".

program.

It should be noted that as a result, 2020 became a record year in the history of MTS in terms of the amount of payments to shareholders, which once again confirms our commitment to translate the company's financial results into shareholder value<sup>1</sup>.

The following can be noted among other issues considered by the MTS Board of Directors in 2020 and the respective decisions made.

- › The Board reviewed and made decisions regarding the strategies of individual business areas. Furthermore, promoting MTS right to form its position as a shareholder, the Board reviewed reports on performance results and strategies of subsidiaries.
- › In order to ensure the continuity of cash flow, the proper level of company funding and to maintain the optimal structure of debt and the level of debt burden, decisions were made regarding the attraction of borrowed funds and exchange bonds program.
- › The MTS budget and capital expenditures program have been reviewed and approved.
- › A program of motivation and long-term material incentives for employees was considered and adopted in order to ensure a high level of labor productivity and quality of company management. A comprehensive and qualified assessment was also given as to the effectiveness of company management.
- › Following the best corporate governance practices, the Board considered a number of issues related to functioning of the internal audit, control and compliance system, as well as the risk management system.
- › Within the framework of ensuring shareholders' rights and interests, all necessary procedures for convening general meetings of shareholders were carried out; the materials were prepared to provide information about the results of the company's activities; and voting was provided on all issues requiring shareholders' approval.
- › A Special Committee under the Board has been established for the project to unite the personnel of MTS PJSC in the integrated office space in Moscow.

In June 2020, in accordance with the decision of the General Meeting of Shareholders, the composition of the Board of Directors of MTS PJSC

was changed. Instead of Vsevolod Rozanov, Aleksey Katkov and Antoniou Antonios Theodosiou, who left the Board, Konstantin Ernst, Nadia Shouraboura and Shaygan Kheradpir were elected as independent directors, while the number of independent directors reached six out of a total of nine persons. These appointments were made in order to strengthen the competence and expertise of the Board in respect of promising industries and markets and are in line with the best corporate governance practices, in particular, the recommendations regarding the regular rotation of directors. We are confident that the renewal of the Board's composition will facilitate the new views and ideas and have a positive impact on the Board's activity.

## **DEVELOPMENT OF THE CORPORATE GOVERNANCE SYSTEM AND PLANS FOR 2021.**

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

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

In 2020, our main efforts were aimed at maintaining the achieved level of development of the corporate governance system and fine-tuning it. In particular, we put much effort to maintain a high position of MTS in the annual National Corporate Governance Index and conducted the first external assessment of the MTS Board of Directors.

<sup>1</sup> For detailed information see section "Interaction with Shareholders and Investors".

One of the important tasks for the development of the corporate governance system of MTS in 2021 will be to implement measures based on the results of an external assessment of the MTS Board of Directors.

## **ASSESSMENT OF THE BOARD OF DIRECTORS PERFORMANCE**



Determining the right business development strategy is one of the main components of its success. The Board of Directors is responsible for strategic management of the company; therefore, it is very important that its activities always remain effective. This goal can be achieved through evaluation of performance of the Board of Directors.

In 2020, we conducted the first external assessment of the BoD performance with the involvement of a team of independent consultants. You may find out more details about its results below in this section.

**F.V. Yevtushenkov,**

**Chairman of Board of Directors,  
MTS PJSC**