

## AUDIT COMMITTEE



In the reporting year, the Audit Committee paid special attention to the efficiency of the internal control and risk management system, taking into account the unprecedented changes in the external environment. During 2020, the Company continued the development of a comprehensive ecosystem environment, and the Committee's focus remained on compliance by the new digital areas and business lines with the corporate governance rules and compliance requirements, as well as ensuring the effectiveness of the risk management and internal control system.

The Committee continued its work on monitoring the completeness and reliability of the financial statements of the MTS Group, including control over the disclosure of relevant information, as well as over the effectiveness of work of the internal audit and the external auditor, assessing the quality of their work, compliance with the principles of independence and objectivity.

**Thomas Holtrop,**  
Chairman of the Audit Committee

The Audit Committee is an auxiliary, collective advisory body of the Company's Board of Directors. The committee was established for the purposes of assisting in efficient implementation of functions of the Board of Directors in terms of control over financial and economic activities of the Company.

In their activities, the Committee members are guided by the applicable law, the Charter and the internal documents of the Company, the Corporate Governance Code<sup>1</sup>, the Code of Business Conduct and Ethics of MTS PJSC, decisions of the Company's management bodies<sup>1</sup>, and the Regulations on the Audit Committee<sup>2</sup>.

The main task of the Committee is to assist the Board of Directors in performing its oversight functions in relation to financial reporting, risk management, internal controls system, compliance, adherence to the Code of Business Conduct and Ethics of MTS PJSC, conducting internal and external audits, counteracting unfair actions committed by the members of management bodies and employees of MTS PJSC and its subsidiaries (hereinafter referred to as the "Group" or "MTS Group") and third parties.

### KEY FUNCTIONS OF THE COMMITTEE:

- › overseeing the control over completeness, accuracy and reliability of the financial statements of the MTS Group; review and analysis, together with the management and the external auditor, of the annual financial statements, interim financial data of the Group and related documents submitted to the SEC, the Central Bank of the Russian Federation and other regulatory bodies; consideration of reports on the financial and operating performance of the MTS Group before issue of press releases;
- › overseeing the process of ensuring the effectiveness of risk management, the internal control system and corporate governance of the MTS Group; assessment of implementation of the procedures used by the MTS Group to identify the main risks, and the corresponding control procedures in order to determine their adequacy and efficiency; overseeing the implementation of procedures to ensure that the MTS Group complies with the requirements of the Sarbanes-Oxley Act; consideration, together with the management, internal and external audit, of any cases of violation of the law, possible cases of fraud and significant deficiencies in internal control and risk management procedures;
- › overseeing the updating, communicating the Code of Business Conduct and Ethics of MTS PJSC (hereinafter referred to as the "Code") to the persons whose activity is regulated by the Code; consideration of measures taken by the management of MTS PJSC to increase the level of corporate, compliance and risk culture, awareness of persons whose activity is regulated by the Code, about the requirements of the Code and the consequences of its violation;

<sup>1</sup> Corporate Governance Code recommended for application by the Bank of Russia (Letter dated April 10, 2014. No. 06-52 / 2463).  
<sup>2</sup> <https://moskva.mts.ru/about/investoram-i-akcioneram/korporativnoe-upravlenie/dokumenty-pao-mts/polozhenie-o-komitete-po-auditu/>

- consideration of the proposed measures to resolve the conflict of interests of members of the management bodies of MTS PJSC;
- > ensuring independence and objectivity of the internal audit function; review and approval of the internal audit policy, internal audit strategy, annual audit schedule and major changes to the schedule during the calendar year; review, jointly with the Director for Internal Audit and approval of the resource plan, budget and KPIs for internal audit; assessing the effectiveness of internal audit activities and meeting KPIs;
- > assessment of the independence, impartiality and lack of conflict of interests among the Group's external auditors, including the assessment of candidates for the Group's auditors, development of proposals for the appointment, re-election and removal of the Group's external auditors, payment for their services and conditions for their involvement; supervision of the external audit and assessment of the audit quality and audit opinions; supervision over the fulfilment

- of the Group's procedures determining the principles of rendering and combining by the auditor of audit and non-audit services;
- > oversight of the effectiveness of the reporting system on the potential cases of fraud of the Group's employees (including violation of anti-corruption policy, unfair use of insider and confidential information) and of third parties, as well as other violations in the Group; consideration of reports on the work of the MTS Group Unified Hotline, as well as the results of internal audits and investigations;
- > other functions.

## NUMBER AND IDENTITIES OF MEMBERS

Composition of the Committee was changed during the reporting year.

New composition of the Committee was approved at the meeting of the Board of Directors dated June 24, 2020.

### Members of the Committee in 2020

Committee Member	From June 27, 2019	From June 24, 2020
<b>T. Holtrop, Chairman</b> , Independent Director	●	●
<b>A. Antoniou</b> , Independent Director <sup>1</sup>	●	○
<b>Regina von Flemming</b> , Independent Director	●	●
<b>Sh. Kheradpir</b> , Independent Director <sup>2</sup>	○	●
<b>N. Shouraboura</b> , Independent Director <sup>3</sup>	○	●

● person was/is a committee member  
○ person was/is not a committee member

<sup>1</sup> Excluded from the composition of the Committee since June 24, 2020.  
<sup>2</sup> Elected as a committee member on June 24, 2020  
<sup>3</sup> Elected as a committee member on June 24, 2020

## MEETINGS

The Committee's activities were based on the approved action plan according to main functions assigned to the Committee. In the reporting year, 18 meetings of the Committee took place: 14 in-person meetings and 4 meetings in the form of absentee voting.

Besides these meetings, the Committee members held meetings with financial executives of the Company and managers responsible for the system of management of risks and internal control, as well as with external advisors of the Company on a number of issues.

### \\ Participation of the Committee members in meetings in 2020

Committee Member	23.01 In-absentia	12.02	11.03	18.03	08.04 In-absentia	15.04	20.05	22.06	29.07	17.08	16.09	12.10 In-absentia	21.10	28.10 In-absentia	16.11	27.11 In-absentia	16.12	30.12 In-absentia
T. Holtrop	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Regina von Flemming	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
A. Antoniou	•	•	•	•	•	•	•	•	—	—	—	—	—	—	—	—	—	—
N. Shouraboura	—	—	—	—	—	—	—	—	•	•	•	•	•	•	•	•	•	•
Sh. Kheradpir	—	—	—	—	—	—	—	—	•	•	•	•	•	•	•	•	•	•

• — committee member participated in the meeting  
 ○ — committee member did not participate in the meeting  
 — person was not a committee member at the time of the meeting

## KEY AREAS OF THE AUDIT COMMITTEE'S ACTIVITIES AND MATTERS CONSIDERED IN 2020

### In financial reporting

During 2020, the Audit Committee reviewed the interim financial data of the MTS Group for the Q1, Q2, Q3 of 2020 in order to determine the completeness, consistency of information and presentation of reasonable assessment of financial standing, performance indicators and prospects of the MTS Group.

The consolidated financial statements of the MTS Group for 2020, prepared in accordance with the international financial reporting standards, and the financial statements of MTS PJSC for 2020, prepared in accordance with the Russian accounting and reporting standards, were considered, and an analysis of audit results was carried out together with the management and the external auditor.

The reports on the financial and operating performance of the MTS Group for Q1, Q2, Q3, Q4 and 2020 as a whole were reviewed and recommended for subsequent disclosure.

### In risk management, internal controls and corporate governance system

During 2020, the Committee monitored the effectiveness of risk management, the internal control system and corporate governance of the MTS Group.

The Committee reviewed the reports on risk management at MTS PJSC for the first six months and 2020, gave positive assessment of work in the field of risk management at the MTS Group in 2020. The report on the risk management system at the MTS Group and the report according to Form 20-F for 2020 were reviewed.

At the instruction of the Audit Committee, the management of MTS PJSC assessed the impact of COVID-19 on risk management, internal control, integrated security, preparation of financial reporting, internal audit, business ethics and compliance.

At the instruction of the Audit Committee, a third party consultant completed a project to assess risks in the development of the MTS ecosystem, carried out risk assessment at the stage of adding assets to the ecosystem and in the process of their integration, analyzed existing control procedures aimed at risk mitigation within the framework of building an ecosystem, developed a checklist

for submission to the MTS PJSC collective bodies of information on the specific features of the transaction, taking into account its inherent risks, and prepared recommendations regarding the optimization and automation of processes.

During 2020, the Committee controlled the procedures providing for the Group's compliance with the requirements of Sarbanes-Oxley Act. Plan for 2020 and the results of activities of the Internal Control Systems Department for the first six months of the year and for 2020 as a whole were reviewed, including the results of testing and certification of the internal control system for reliability of the financial statements of the MTS Group. The Committee gave a positive assessment of the unit performance results.

The Committee discussed and took note of the report of the Internal Audit Unit on the results of assessing the effectiveness of the internal control system, risk management and corporate governance of the MTS Group for 2020.

The Committee approved the updated procedure for review of related party transactions. During 2020, the Committee conducted a preliminary review of MTS PJSC transactions with related parties and subsequent review of transactions of MGTS PJSC, MTS Armenia CJSC and RTC JSC with related parties in accordance with the procedure described in the Regulations on the Audit Committee. The results of analysis of economic feasibility and compliance with the requirements of the regulations when making such transactions carried out by the Internal Audit Block of CC of the MTS Group and subsidiary companies, respectively, were discussed and taken into account.

#### **In compliance and observance of the standards of business conduct and ethics**

The Committee reviewed and approved the functional strategy of the MTS Group in the field of business ethics and compliance for 2020–2022.

The report on implementation of the corporate anti-corruption compliance program of MTS PJSC and subsidiaries based on the results of the first six months of the year and for 2020 as a whole was reviewed. The Committee gave a positive assessment to the performance results of the Ethics and Compliance Department.

In December 2020, the Committee reviewed and took note of the 2021 plan for the development of a corporate anti-corruption compliance program at MTS PJSC and subsidiary companies.

The Committee reviewed and took into account the report on the status of the compliance program at MTS Bank PJSC and the strategic plan for development of the anti-corruption compliance function at MTS Bank PJSC.

The Committee reviewed the report on development of the Unified Compliance System of MTS PJSC for 2020.

The Committee discussed and took note of the updated approach to managing conflicts of interest at MTS PJSC.

#### **In internal audit**

During 2020, the Committee reviewed information about current operation of the Internal Audit Block.

The Committee reviewed and approved a plan to improve the efficiency and major initiatives aimed at improvement of the internal audit processes.

In July 2020, the Committee reviewed the main changes to the audit schedule and approved the revised audit schedule for 2020.

In 2020, the Committee paid attention to issues such as the use of data analysis tools in internal auditing and the development of new audit technologies. In May 2020, the Committee approved the revised budget of the unit for 2020, taking into account the costs of data analysis tools in internal audit. The Committee reviewed the results of development and implementation of a data analysis system and assessment of risk indicators by MTS PJSC suppliers using the Qlik Sense tool.

The Committee reviewed and approved the performance results of the internal audit of MTS PJSC and subsidiary companies in the first six months and for 2020 as a whole. The Committee gave a positive assessment to the results of the internal audit performance and believes that the key performance indicators and objectives of the internal audit for 2020 have been achieved and are in line with the expected results.

The Audit Committee reviewed and took into account the results of self-assessment of the internal audit unit for 2020, confirming compliance with the International Professional Standards of Internal Audit and the Code of Ethics of the Institute of Internal Auditors.

In December 2020, the Committee reviewed and approved the internal audit strategy, audit schedule, KPIs and budget for 2021, as well as took into account the audit schedules for 2021 of the internal audit units of significant subsidiaries.

### **In external audit**

The Audit Committee recommended Deloitte JSC and Touche CIS as the auditor of financial statements of MTS PJSC for 2020, which was confirmed by the recommendation of the Board of Directors and by shareholders of the Company at the Annual General Meeting of Shareholders

in June 2020. The Committee previously approved and recommended that the Board of Directors approve the remuneration of the auditor.

Evaluation of efficiency and quality of the audit process shall be prepared by the Committee according to the results of analysis of the auditor's reports. The Audit Committee discussed and took into account the results and conclusions of the external auditor based on the review of quarterly overviews of MTS Group financial information for Q1, Q2 and Q3 of 2020 and the annual audit, including conclusions on the effectiveness of the internal control system over the preparation of financial statements at the MTS Group. Based on the 2020 results, the Committee gave a positive assessment of the quality of audit performance.

The Audit Committee gave a positive assessment of the auditor's opinions based on the results of the audit of MTS PJSC financial statements for 2020 prepared in accordance with the Russian accounting standards, and consolidated financial statements of MTS PJSC and its subsidiaries for 2020 prepared in accordance with the international financial reporting standards.

The Committee exercised supervision over compliance of the auditors with the independence principles. During 2020, the Committee considered information on permissible auditing and non-auditing services, which was provided by the external auditor, and discussed with the auditor a possible impact of the service on independence of the auditor. Permissible auditing and non-auditing services were preliminarily approved by the Committee in accordance with the procedure described in the Regulations on the Audit Committee.

### **In prevention of fraud of the Group's employees and third parties**

The Audit Committee reviewed and took note of the main initiatives to improve the administration of the MTS Group Unified Hotline and the conduct of internal investigations, as well as the updated approach to the activities of the Discipline Committee and the application of disciplinary action.

The Committee reviewed the results of work of the Unified Hotline of the MTS Group of Companies in the first six months and for 2020 as a whole.

### **The Audit Committee made recommendations to the Board of Directors regarding the consideration and approval of the following items:**

- > restated Regulations on the Audit Committee under the Board of Directors of MTS PJSC;
- > appointment to the position of the Director for Internal Audit;
- > report on implementation of the corporate anti-corruption compliance program of MTS PJSC and subsidiaries for 2020;
- > risk management reports of MTS PJSC for the first six months and for 2020 and assessment of the risk management performance of the MTS Group in 2020;
- > report on risk management system at the MTS Group;
- > remuneration to Deloitte JSC and Touche CIS for auditing services in 2020;
- > major transactions with interest falling within the competences of review by the Board of Directors.

### **Work results in 2020**

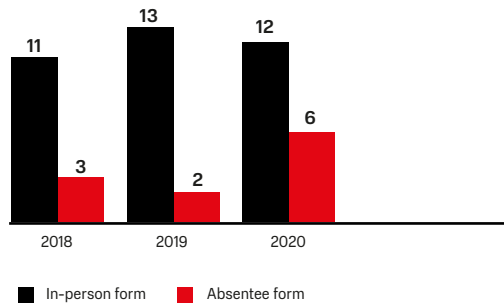
In the reporting year, the Audit Committee remained focused on the effectiveness of the systems for internal control, risk management, corporate governance, business ethics and compliance, overseeing the ensuring of completeness and reliability of the financial statements of the MTS Group. Given the constraints caused by COVID-19, the Committee paid particular attention to assessing the impact of such constraints on risk management, internal control, integrated security, preparation of financial statements, internal audit, business ethics and compliance processes.

The Committee monitors the development of strategic initiatives and the transformation of business into a digital ecosystem; at the instruction of the Audit Committee, a third party consultant completed a project on risk assessment in the development of the MTS ecosystem and an analysis of existing control procedures, prepared recommendations for optimizing and automating the processes.

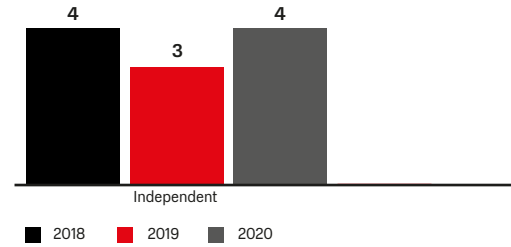
The Audit Committee continues its activities aimed at ensuring the effective functioning of the internal audit service and the external auditor, monitoring their independence and objectivity, and overseeing the quality of their activities.

The Audit Committee developed an operation plan for the next year in the main functional areas and approved it in December 2020.

### \\ Meetings of the Audit Committee in 2018–2020



### \\ Composition of the Audit Committee in 2018–2020



## REMUNERATION AND NOMINATION COMMITTEE



In the reporting year, the Remuneration and Nomination Committee performed its assigned function as a consultant to the Board of Directors of MTS PJSC in priority areas of personnel management, relying on international experience of corporate governance and best professional practices in its work.

The Committee's task is to assist in ensuring that the policy of MTS in the field of personnel management in general, and in such issues as compensation and remuneration, in particular, would correspond to up-to-date market practices and facilitate engagement of best candidates by the Company, to ensure that clear and understandable indicators and rules established by the Company's governing body were the basis for evaluating the employees' performance. The Committee summarizes the results of achieving annual key performance indicators and gives recommendations to the Board of Directors on short-term and long-term personnel remuneration systems, strategy and culture of the company, contributing to the growth of its efficiency and transformation into a digital ecosystem.

The Committee tracks the implementation of the Company's strategic development initiatives. An important goal is to ensure fair remuneration of outstanding results, on the one hand, and not to ignore the absence of efforts, on the other hand. Together with the Audit Committee, special attention is paid to compliance with the corporate governance rules, regulatory requirements and prevention of financial crimes. Much attention is paid to the implementation of the compliance requirements.

In accordance with the new strategy for developing and implementing the MTS ecosystem, one of the key tasks for the near future is to make sure that the organizational structure, the system of key performance indicators, long-term bonus payment programs and the entire life cycle of MTS employees are suitable for transformation of the company's HR strategy and culture. Determining and providing the best experience for employees, as well as attracting the best talents in the market, is a strategically important aspect of the work of the Remuneration and Nomination Committee. The corporate culture and its implementation in the context of change management remain one of the main tasks of the Committee.

The Committee is responsible for review of external and internal candidates for key management jobs at the Company, and for the assessment of independent candidates for the Board of Directors.

All members of the Committee are sure that investments in engaging the best candidates, stimulating the achievement of their potential and interest in the Company's growth, including through incentive programs, create a platform for long-term success.

**Regina Dagmar Benedicta von Flemming**  
Chairperson of the Remuneration and Nomination Committee