

Second-Party Opinion Report on the Alignment of MTS PJSC’s Series 001P-18 Exchange-Traded Bonds with the Social Bond Principles and the Adherence of Projects Financed/ Refinanced therewith to Internationally Accepted Principles and Standards for Social Financing

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Summary

In accordance with its methodology for providing a second-party opinion on the alignment of a social bond with the Social Bond Principles (the “SBP”), as administered by the International Capital Market Association (the “ICMA”), Expert RA confirms that Series 001P-18 exchange-traded bonds proposed by MTS PJSC (the “Bonds”) are aligned with the SBP.

The Bonds to be issued are fully aligned with the four core components of the SBP, namely.

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

Social Bond

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The company provided all information necessary for the external review (Second-Party Opinion). In the course of the review, the Agency did not find any evidence of false representations in the provided materials.

The company has provided documents that regulate its “social finance” activities.

Key Characteristics of the Issue:

Security type	Series 001P-18 exchange-traded interest-bearing, non-convertible bonds settled on a book-entry basis through a CSD
Issue identification number and assignment date	Not specified as at the publication date
Issue size	Not specified as at the publication date
Commencing date of placement	Not specified as at the publication date
Maturity date	Not specified as at the publication date

Rationale

Use of Proceeds. An auction bidding was announced in 2019 in Russia as part of the national “Digital Economy of the Russian Federation” program and the federal “Information Infrastructure” project. The bidding seeks to provide telecommunication services (Internet) to Russian socially important facilities, such as schools, incl. secondary vocational schools; rural medical posts; federal, regional and local governments; military commissariats; election commissions; police stations; fire fighting units; etc. (collectively referred to as SIFs). Such activities fall into the category of projects aiming to realize access to socially important public services. The ultimate objective is to connect at least 97 percent of Russian citizens to the Internet. This assumes the connection of around 100,000 SIFs, including 26,000 in 2019, 32,000 in 2020 and 42,000 in 2021.

MTS PJSC (MTS, or the Issuer) has won the biddings in eight constituent entities of the Russian Federation, namely, Amur, Kaliningrad, Kemerovo, Leningrad, Tambov, Tver and Yaroslavl Oblasts and the City of Moscow. Under a government contract, signed with the Russian Ministry of Digital Development, Communications and Mass Media, MTS is to provide Internet connectivity to 4,995 facilities with a total budgeted expenditure of around RUB 4.9 billion, which will hereinafter be identified as the Issuer’s Project. In accordance with its bidding documents, MTS is to install communication centers in populated areas and allow everyone interested to get connected. In addition, MTS is to deliver data transmission services. Contracts signed include unlimited Internet for SIFs through 2021. At the date of the Bond issuance, MTS will have already used RUB 2 billion out of its approved budget to set up its network. The Issuer claims that expected issue size will be within the approved project budget and that all Bond proceeds will be allocated to finance new costs and refinance costs already incurred to set up SIFs Internet connectivity under the project.

The project envisages the establishment of high-speed Internet in many remote and hard-to-reach areas that have never had it before. This includes the homes of ordinary members of the public. Internet connectivity provided by MTS will allow SIFs such as medical and educational institutions, regional and local governments, fire fighting units and police stations in eight Russian regions to function to maximum effect, thereby contributing to the social well-being. The Issuer’s Internet connectivity project will help eliminate the problems of uneven access to communication technologies and unequal distribution of opportunity, allow SIFs to deliver their functions effectively and enhance public access to digital technologies, including access to health care, educational, financial and other services.

In sum, the purpose of the Issuer's project is to provide access to socially important services and foster civil life development, which is consistent with the internationally accepted principles and standards for social financing (SBP) promoted by the International Capital Market Association (the "ICMA").

Expert RA also confirms that the project is in line with the Social Bond Principles.

According to the terms and conditions for the Bonds, bondholders have the right to demand redemption prior to the maturity date, if the Issuer violates the Use of Proceeds clause, which allows the proposed Bonds to be identified as "social bonds".

That said, Expert RA also confirms that the Issuer's project is in line with the Bank of Russia's Regulation No. 706-P, dated 19 December 2019, 'On the Standards of Securities Issuance'.

Process for Project Evaluation and Selection. In selecting eligible projects the Issuer was guided by the government contract, signed with the Russian Ministry of Digital Development, Communications and Mass Media and aiming to connect Web-based services to SIFs. Furthermore, the Issuer has implemented an ESG (Sustainable) Financing Procedure, which identifies the requirements for selecting a social impact project. The Procedure requires a social project included in the government contract to be screened for the suitability for refinancing/ continued financing. The selection is based on the ICMA principles that define the key categories of eligible social projects. Eligible projects must meet the social project criteria specified in ICMA's Social Bond Principles, seek to achieve specific outcomes and have qualitative and/ or quantitative performance indicators, depending on project category. The list of eligible projects is approved by MTS President's Sustainability and Social Responsibility Committee after each project is found to be meeting the criteria set in the ESG Financing Procedure. The process for Project Evaluation and Selection is in line with that recognized by the Social Bond Principles.

Management of Proceeds. The Issuer has approved an ESG Financing Procedure, which identifies the requirements for managing Bond proceeds. Bond proceeds will be deposited in a separate sub-account and used only for the purposes stated in the Bond Resolution. MTS President's Sustainability and Social Responsibility Committee Task Force has been established to monitor the use of proceeds and follow up on the project progress. The Issuer entertains the possibility of temporarily investing available free funds in the most liquid and short-term financial instruments in conformity with its internal rules and regulations. In sum, MTS's Management of Proceeds is in line with the Social Bond Principles.

Reporting. The Issuer has approved an ESG Financing Procedure, which identifies the requirements for disclosing information about the use of funds and the projects progress. The Issuer undertakes to submit such information for publication on the Moscow Exchange's web site and its own corporate web site at least once a year, but not later than the 15th July of the calendar year following the end of the Bond placement, in accordance with its Bond Resolution and until an investment equivalent to the size of the Bond issue is made. The information will include the list of project costs financed/ refinanced with Bond proceeds, the balances of unallocated proceeds, as well as project description overview and expected impact qualitative terms, and, where possible, additional information. In sum, MTS's Reporting is in line with the Social Bond Principles.

About the Company

Mobile TeleSystems (“MTS”, the “Issuer”) is Russia’s largest mobile and fixed network operator and leading provider of internet access, cable and satellite TV, digital services and mobile applications, financial and eCommerce services, as well as convergent IT solutions in the areas of system integration, internet of things, artificial intelligence, data processing and cloud-based computing.

87 million

Mobile telecom subscribers in Russia, Belarus and Armenia

240 thous. km

Total length of fiber-optic communication lines

200

Russian towns

10

Data centres

>20,3 million

Active users of the “My MTS” application

up to 20%

of CAPEX invested annually in new business opportunities

RUB 121,5 billion

MTS brand value

RUB 83,7 billion

2019 dividend paid

a TOP-15

sustainable development Russian company

A promoter of the responsible business conduct principles, MTS pays special attention to educating and training its partners in sustainable development and corporate social responsibility (CSR). To this end, MTS arranges public training conferences and offers the “Business Sustainable Development” tuition-free training course.

MTS adopted its current CSR strategy in 2017 as a follow-on of its corporate business strategy. Each aspect of the CSR strategy pertaining to the social, economic and environmental spheres accounts for the strategic objectives and key components of the company’s business strategy. The CSR strategy was updated in 2019 in connection with the actualization of business strategy, which is tightly linked to MTS’s development priorities.

In 2019, MTS was carrying out its sustainable development and CSR activities based on the adopted CSR strategy, corporate business and HR strategies, the United Nations’ Sustainable Development Goals (UN SDGs; to be achieved by 2030), the recommendations of ISO 26000: 2010, the ten principles of the UN Global Compact, the best international and Russian practices, and MTS’s many years’ experience in the CSR field.

MTS’s midterm sustainable development and CSR agenda will continue to prioritize efforts conducive to social, environmental and economic development.

In implementing the first stage of its updated CSR strategy, MTS is expected to continue focusing on inclusive programs, educational technologies, environmental initiatives and innovative products adopted to tackle social problems in the company’s service areas.

This is supported by the fact that MTS has social programs in place, which aim to eliminate

digital divide, enhance financial literacy, foster children's learning and creativity, solve key environmental issues and preserve the historical and cultural heritage.

The effectiveness of these efforts will be assessed using different criteria, including the company's ability to achieve the following UN SDGs:



**GOAL 10:
REDUCED
INEQUALITIES**



**GOAL 4:
QUALITY
EDUCATION**



**GOAL 12:
RESPONSIBLE
CONSUMPTION**



**GOAL 9:
INNOVATION AND
INFRASTRUCTURE**

Alignment with the Social Bond Principles

Use of Proceeds

In 2019, an auction bidding was announced in Russia as part of the national "Digital Economy of the Russian Federation" program and the federal "Information Infrastructure" project. The bidding seeks to provide telecommunication services (Internet) to Russian socially important facilities, such as schools, incl. secondary vocational schools; rural medical posts; federal, regional and local governments; military commissariats; election commissions; police stations; fire fighting units; etc. (collectively referred to as SIFs). The ultimate objective is to connect at least 97 percent of Russian citizens to the Internet. This assumes the connection of around 100,000 SIFs, including 26,000 in 2019, 32,000 in 2020 and 42,000 in 2021.

Pursuant to its CSR program, MTS continues to invest heavily in its mobile and fixed communication networks. The Issuer's impressive technological potential and network ensuring broad geographic reach predetermined its taking part in the bidding for plugging Russian SIFs into broadband Internet. MTS PJSC (MTS, or the Issuer) has won the biddings in eight constituent entities of the Russian Federation, namely, Amur, Kaliningrad, Kemerovo, Leningrad, Tambov, Tver and Yaroslavl Oblasts and the City of Moscow. Under a government contract, signed with the Russian Ministry of Digital Development, Communications and Mass Media, MTS is to provide Internet connectivity to 4,995 facilities with a total budgeted expenditure of around RUB 4.9 billion, thus leading to what is referred to above and hereinafter as the Issuer's Project. In accordance with its bidding documents, MTS is to install communication centers in populated areas and allow everyone interested to get connected. In addition, MTS is to deliver data transmission services. Contracts signed include unlimited Internet for SIFs through 2021.

The project is to be implemented in 2019-2021.

At the time of the Bond issuance, MTS will have already used RUB 2 billion out of its approved budget to set up its network. The Issuer claims that expected issue size will be within the approved project budget and that all Bond proceeds will be allocated to finance new costs and refinance costs already incurred to set up SIFs Internet connectivity under the project.

The connectivity project is to be completed in three stages as stipulated by the contract.

Stage Three (2021) differs from the preceding stages in that it encompasses more SIFs in regions that are more remote and harder-to-reach, and involves a greater level of complexity, in particular, the largest number of hub sites to be installed.

The bid specification identifies the project enabling technology as FOCL (Fiber-optic communication links, i.e. a method of communication, in which a signal is transmitted over optical dielectric waveguides known as «optical fiber» and notable for the highest data rates among the existing transmission media.

MTS is implementing its project simultaneously in all eight regions.

	2019 (Stage 1)	2020 (Stage 2)	2021 (Stage 3)	Total
Budgeted expenditures, RUB million	311.04	1770.69	2837.28	4919.01
of which:				
Amur Oblast	50.73	273.98	399.79	724.5
Kemerovo Oblast	56.94	229.28	419.62	705.84
Tver Oblast	79.4	500.69	971.4	1551.49
Leningrad Oblast	38.14	79.6	88.71	206.45
Kaliningrad Oblast	1.93	9.2	12.28	23.41
Yaroslavl Oblast	18.59	88.59	117.62	224.8
Tambov Oblast	30.59	148.9	355.78	535.27
City of Moscow	34.72	440.45	472.08	947.25

Region, number of connection points	2019 (Stage 1)	2020 (Stage 2)	2021 (Stage 3)	Total
Amur Oblast	215	264	346	825
Kemerovo Oblast	227	280	367	874
Tver Oblast	336	414	541	1291
Leningrad Oblast	111	136	177	424
Kaliningrad Oblast	41	50	65	156
Yaroslavl Oblast	134	165	214	513
Tambov Oblast	232	286	374	892
City of Moscow	6	7	7	20
Total	1302	1602	2091	4995

The project envisages the establishment of high-speed Internet in many remote and hard-to-reach areas that have never had it before. This includes both SIFs and homes of ordinary members of the public. The connection to MTS's Internet networks will allow 4,995 SIFs, including medical and educational institutions, regional and local governments, fire fighting units and police stations in eight Russian regions to function to maximum effect, thereby contributing to the social well-being. The Issuer's Internet connectivity project will help eliminate the problems of uneven access to communication technologies and unequal distribution of opportunity, permit the SIFs

to deliver their functions effectively and enhance public access to digital technologies, including access to health care, educational, financial and other services.

In sum, the Issuer's project aims to provide access to socially important services and foster civil life development, which is consistent with the internationally accepted principles and standards for social financing (SBP) promoted by the International Capital Market Association (the "ICMA").

Expert RA also confirms that the project is in line with the Social Bond principles.

According to the terms and conditions for the Bonds, bondholders have the right to demand redemption prior to the maturity date, if the Issuer violates the Use of Proceeds clause, which allows the proposed Bonds to be identified as "social bonds".

That said, Expert RA also confirms that the Issuer's project is in line with the Bank of Russia's Regulation No. 706-P, dated 19 December 2019, 'On the Standards of Securities Issuance'

Process for Project Evaluation and Selection

In selecting eligible projects the Issuer was guided by the government contract, signed with the Russian Ministry of Digital Development, Communications and Mass Media and aiming to connect Web-based services to SIFs. Furthermore, the Issuer has implemented an ESG (Sustainable) Financing Procedure, which identifies the requirements for selecting a social impact project. The Procedure requires a social project included in the government contract to be screened for the suitability for refinancing/continued financing. The selection is based on published ICMA principles that define the key categories of eligible social projects. In MTS's understanding, categories of eligible projects include, but are not limited to, providing and/or promoting:

- affordable basic infrastructure (e.g., clean drinking water, sewers, sanitation, transport, energy);
- access to essential services (e.g. healthcare, education and vocational training, financing, and financial services);
- employment generation;
- socioeconomic advancement and empowerment.

Eligible projects must meet the social project criteria specified in ICMA's Social Bond Principles, seek to achieve specific outcomes and have qualitative and/ or quantitative outcome indicators, depending on project category. The list of eligible projects is approved by MTS President's Sustainability and Social Responsibility Committee after each project is found to be meeting the criteria set in the ESG Financing Procedure. The process for Project Evaluation and Selection is in line with that recognized by the Social Bond Principles.

Management of Proceeds

The Issuer has approved an ESG Financing Procedure, which identifies the requirements for managing Bond proceeds. Bond proceeds will be deposited in a separate sub-account and used only for the purposes stated in the Bond Resolution. MTS President's Sustainability and Social Responsibility Committee Task Force has been established to monitor the use of proceeds and follow up on the project progress. The Issuer reserves the right to select the mode of distribution of proceeds between its subsidiaries and affiliates directly involved in the implementation of a social project. The Issuer entertains the possibility of temporarily investing available free funds in the most liquid and short-term financial instruments in conformity with approved internal Regulations. In sum, MTS's Management of Proceeds is in line with the Social Bond Principles.

Reporting

The Issuer has developed and approved an ESG Financing Procedure, which describes the process of disclosing information about the use of funds and the projects progress. The Issuer undertakes to submit such information for publication on the Moscow Exchange's web site and its own corporate web site at least once a year, but not later than the 15th July of the calendar year following the end of the Bond placement, in accordance with its Bond Resolution and until an investment equivalent to the size of the Bond issue is made. The information will include the following data at a minimum:

- the current status of a project to be financed/ refinanced with Bond proceeds;
- the balance of unallocated part of the net proceeds from Bond issuance;
- where possible, the Issuer will provide additional information, subject studies, and the project's expected impact in qualitative terms.

In sum, MTS's Reporting is in line with the Social Bond Principles.

Appendix

List of documents used to prepare the Second-Party opinion:

1. ESG Financing Procedure
https://mts.ru/upload/contents/10677/pocedura_ESG_finansirovaniya.pdf
2. ICMA's Social Bond Principles
<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Social-Bond-PrinciplesJune-2020-090620.pdf>
3. Business plan for the “Connection of Socially Important Facilities in Eight Constituent Entities of the Russian Federation to the Internet Network” quantitative project.
4. 2019 Sustainable Development Annual Report
<https://moskva.mts.ru/about/mts-dlya-obshhestva/novosti-i-otcheti/otchet-ustoychivogo-razvitiya/2019>
5. MTS's Corporate Social Responsibility Strategy for 2017–2020
<https://moskva.mts.ru/about/mts-dlya-obshhestva/principy-korporativnoj-socialnoj-otvetstvennosti/socialnaya-otvetstvennost/strategiya-socialnoj-otvetstvennosti>