

MOBILE TELESYSTEMS PJSC
Form 20-F
April 19, 2019

Use these links to rapidly review the document

[Table of Contents](#)

[PART III](#)

[TABLE OF CONTENTS](#)

[Table of Contents](#)

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

Form 20-F

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

or

y **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2018**

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 ⁽¹⁾

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, 2018.

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

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:

U.S. GAAP

Other

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International Financial Reporting Standards as issued
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

(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.

Table of Contents**Table of Contents**

<u>Cautionary Statement Regarding Forward-Looking Statements</u>	<u>1</u>
<u>Item 1. Identity of Directors, Senior Management and Advisors</u>	<u>3</u>
<u>Item 2. Offer Statistics and Expected Timetable</u>	<u>3</u>
<u>Item 3. Key Information</u>	<u>3</u>
<u>A. Selected Financial Data</u>	<u>3</u>
<u>B. Capitalization and Indebtedness</u>	<u>5</u>
<u>C. Reasons for the Offer and Use of Proceeds</u>	<u>5</u>
<u>D. Risk Factors</u>	<u>5</u>
<u>Item 4. Information on Our Company</u>	<u>73</u>
<u>A. History and Development</u>	<u>73</u>
<u>B. Business Overview</u>	<u>77</u>
<u>C. Organizational Structure</u>	<u>148</u>
<u>D. Property, Plant and Equipment</u>	<u>149</u>
<u>Item 4A. Unresolved Staff Comments</u>	<u>149</u>
<u>Item 5. Operating and Financial Review and Prospects</u>	<u>149</u>
<u>A. Operating Results</u>	<u>150</u>
<u>B. Liquidity and Capital Resources</u>	<u>172</u>
<u>C. Research and Development, Patents and Licenses, etc.</u>	<u>179</u>
<u>D. Trend Information</u>	<u>179</u>
<u>E. Off-balance Sheet Arrangements</u>	<u>181</u>
<u>F. Tabular Disclosure of Contractual Obligations</u>	<u>182</u>
<u>Item 6. Directors, Senior Management and Employees</u>	<u>183</u>
<u>A. Directors and Senior Management</u>	<u>183</u>
<u>B. Compensation of Directors and Senior Management</u>	<u>187</u>
<u>C. Board Practices</u>	<u>188</u>
<u>D. Employees</u>	<u>190</u>
<u>E. Share Ownership</u>	<u>191</u>
<u>Item 7. Major Shareholders and Related Party Transactions</u>	<u>192</u>
<u>A. Major Shareholders</u>	<u>192</u>
<u>B. Related Party Transactions</u>	<u>193</u>
<u>C. Interests of Experts and Counsel</u>	<u>195</u>
<u>Item 8. Financial Information</u>	<u>195</u>
<u>A. Consolidated Statements and Other Financial Information</u>	<u>195</u>
<u>B. Significant Changes</u>	<u>199</u>
<u>Item 9. Offer and Listing Details</u>	<u>200</u>
<u>A. Market Price Information</u>	<u>200</u>
<u>C. Markets</u>	<u>201</u>
<u>Item 10. Additional Information</u>	<u>201</u>
<u>A. Share Capital</u>	<u>201</u>
<u>B. Charter and Certain Requirements of Russian Legislation</u>	<u>201</u>
<u>C. Material Contracts</u>	<u>220</u>
<u>D. Exchange Controls</u>	<u>221</u>
<u>E. Taxation</u>	<u>222</u>
<u>F. Dividends and Paying Agents</u>	<u>231</u>
<u>G. Statement by Experts</u>	<u>231</u>
<u>H. Documents on Display</u>	<u>231</u>
<u>L. Subsidiary Information</u>	<u>231</u>
<u>Item 11. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>231</u>

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Table of Contents

<u>Item 12.</u>	<u>Description of Securities Other Than Equity Securities</u>	<u>236</u>
<u>D.</u>	<u>American Depositary Shares</u>	<u>236</u>
<u>Item 13.</u>	<u>Defaults, Dividend Arrearages and Delinquencies</u>	<u>239</u>
<u>Item 14.</u>	<u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	<u>239</u>
<u>Item 15.</u>	<u>Controls and Procedures</u>	<u>239</u>
<u>Item 16A.</u>	<u>Audit Committee Financial Expert</u>	<u>242</u>
<u>Item 16B.</u>	<u>Code of Ethics</u>	<u>242</u>
<u>Item 16C.</u>	<u>Principal Accountant Fees and Services</u>	<u>242</u>
<u>Item 16D.</u>	<u>Exemption from the Listing Standards for Audit Committees</u>	<u>243</u>
<u>Item 16E.</u>	<u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	<u>243</u>
<u>Item 16F.</u>	<u>Change in Registrant's Certifying Accountant</u>	<u>244</u>
<u>Item 16G.</u>	<u>Corporate Governance</u>	<u>245</u>
<u>Item 17.</u>	<u>Financial Statements</u>	<u>247</u>
<u>Item 18.</u>	<u>Financial Statements</u>	<u>247</u>
<u>Item 19.</u>	<u>Exhibits</u>	<u>248</u>

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 PJSC MTS 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) "MTS Bank" is to MTS Bank PJSC, our subsidiary which provides banking services; (ix) "UMS" is to Universal Mobile Systems LLC, our former subsidiary in Uzbekistan which was deconsolidated in 2016; (x) NVision our subsidiaries which provides integration services and (xi) "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 subsidiary as "MTS Bank." As MTS Belarus is an equity investee, our revenues and subscriber data do not include MTS Belarus.

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.

Table of Contents

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 ⁽¹⁾	Period End
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
2018	69.97	55.67	62.71	69.47

(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 2018	63.49	62.10
August 2018	68.53	62.35
September 2018	69.97	65.59
October 2018	66.97	65.22
November 2018	68.00	65.58
December 2018	69.52	66.24
January 2019	69.47	65.92
February 2019	66.70	65.26
March 2019	66.08	63.74

Source: CBR.

The exchange rate between the ruble and the U.S. dollar quoted by the CBR for April 18, 2019 was 63.95 rubles per U.S. dollar.

Table of Contents

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

Table of Contents

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**

On January 1, 2018 we adopted three new IFRS standards: IFRS 9, "Financial Instruments," IFRS 15, "Revenue from Contracts with Customers," and IFRS 16 "Leases." Prior period comparatives were not restated. The effects of new standards on our retained earnings are presented in Note 2 to our consolidated financial statements.

Our results of operations for the financial year ended December 31, 2018 are affected by acquisition of controlling stake in MTS Bank. In 2018, we increased effective ownership share in MTS Bank from 26.6% to 55.4% and obtained control over the entity. Consideration paid to our shareholder Sistema for additional share in MTS Bank amounted to RUB 8,273 million. The acquisition was accounted for as a transaction with entities under common control directly in equity.

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,				
	2018	2017	2016	2015	2014
Amounts in millions of Russian rubles, except share and per share amounts, industry and operating data and ratios					
Consolidated statements of profit or loss data:					
Services revenue	410,890	390,761	386,486	386,159	381,143
Sales of goods	69,403	52,150	49,206	40,480	29,535
Total operating revenues	480,293	442,911	435,692	426,639	410,678
Operating expenses:					
Cost of services	112,401	123,779	130,158	126,805	119,053
Cost of goods	63,869	45,623	45,574	36,555	25,445
Selling, general and administrative expenses	87,946	95,186	94,046	87,340	88,095
Depreciation and amortization	104,588	79,912	81,582	77,843	74,734
Operating share of the profit of associates	(3,799)	(3,210)	(3,115)	(3,456)	(3,459)
Provision for investment in distressed Ukrainian banks				1,698	5,138
Impairment of non-current assets	149	3,775		3,516	
Other expenses/ (income) ⁽¹⁾	(1,046)	1,746	(222)	2,415	1,814
Operating profit	116,185	96,100	87,669	93,923	99,858
Finance income	(5,981)	(5,548)	(5,273)	(8,368)	(4,519)
Finance costs	38,165	26,064	27,136	26,422	17,252
Currency exchange loss/(gain)	3,594	(1,301)	(3,241)	6,154	17,926
Non-operating share of the loss of associates	909	436	1,287	3,780	6,537
Change in fair value of financial instruments	(5,384)	(110)	(166)	(1,014)	95
Other expenses/(income), net	1,031	992	317	(54)	937

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Profit before tax	83,851	75,567	67,609	67,003	61,630
Income tax expense	16,969	18,977	15,138	13,931	15,909
Profit for the period from continuing operations	66,882	56,590	52,471	53,072	45,721
(Income)/Loss from discontinued operations, net of tax	59,050		4,021	5,668	(5,775)
Profit for the period	7,832	56,590	48,450	47,404	51,496

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Table of Contents

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	Amounts in millions of Russian rubles, except share and per share amounts, industry and operating data and ratios				
Attributable to:					
Owners of the company	6,848	56,042	48,474	49,489	51,306
Non-controlling interests	984	548	(24)	(2,085)	190
Dividends declared ⁽²⁾	51,958	51,958	51,958	52,011	51,247
Earnings per share, basic, RUB	3.65	28.68	24.37	24.88	25.80
Earnings per share, diluted, RUB	3.65	28.66	24.35	24.87	25.78
Earnings per share from continuing operations, basic, RUB	35.17	28.68	26.06	26.31	22.67
Earnings per share from continuing operations, diluted, RUB	35.13	28.66	26.04	26.29	22.66
Earnings per share from discontinued operations, basic, RUB	(31.52)		(1.69)	(1.43)	3.13
Earnings per share from discontinued operations, basic and diluted, RUB	(31.48)		(1.69)	(1.42)	3.13
Annual Dividends declared per share, RUB	26.00	26.00	25.99	25.17	24.80
Semi annual Dividends declared per share, RUB	2.6	10.4	11.99	5.61	6.20
Number of common shares outstanding	1,920,799,197	1,912,042,419	1,986,899,529	1,988,892,399	1,988,912,130
Weighted average number of common shares outstanding basic	1,873,562,676	1,953,778,999	1,989,281,930	1,988,728,000	1,988,757,022
Weighted average number of common shares outstanding diluted	1,875,720,966	1,955,558,196	1,990,693,983	1,990,195,552	1,989,977,971
Consolidated statement of cash flows data:					
Cash provided by operating activities	154,390	144,640	130,565	144,088	158,979
Cash used in investing activities	(78,389)	(81,510)	(57,302)	(145,356)	(105,008)
(of which capital expenditures) ⁽³⁾	(99,568)	(76,431)	(86,149)	(106,537)	(91,929)
Cash used in financing activities	(25,924)	(50,445)	(83,038)	(27,595)	(33,212)
Consolidated statement of financial position (end of period):					
Cash, cash equivalents and short-term investments	131,938	81,343	27,127	83,304	71,352
Property, plant and equipment, net	278,620	263,470	272,841	302,662	299,023
Right-of-use assets	149,007				
Total assets	915,993	551,070	544,470	653,378	599,304
Total debt (long-term and short-term) ⁽⁴⁾	368,135	291,713	273,274	334,073	280,570
Total shareholders' equity	77,565	124,205	143,948	168,371	178,622
Common stock less treasury stock	(44,608)	(22,444)	(548)	(24,261)	(24,257)
Financial ratios (end of period):					
Total debt/total capitalization ⁽⁵⁾	82.5%	70.1%	65.4%	66.4%	61.1%
Mobile industry and operating data:⁽⁶⁾					
Mobile penetration in Russia (end of period)	179%	179%	179%	176%	168%
Mobile penetration in Ukraine (end of period)	127%	131%	136%	134%	136%
Mobile subscribers in Russia (end of period, thousands) ⁽⁷⁾	78,011	78,291	80,032	77,277	74,562
Mobile subscribers in Ukraine (end of period, thousands) ⁽⁷⁾	19,655	20,805	20,856	20,431	20,221
Overall market share in Russia (end of period)	31%	31%	31%	31%	31%
Overall market share in Ukraine (end of period)	37%	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, 2018, 2017, 2016, 2015 and 2014 consisted of dividends in respect of the prior fiscal year (i.e., in respect of each of the years ended December 31, 2017, 2016, 2015 and 2014, respectively) and semiannual dividends in respect of the current fiscal year (RUB 5,196 million, RUB 20,783 million, RUB 23,961 million, RUB 11,592 million and RUB 12,812 million, respectively). Amounts include dividends on treasury shares RUB 3,022 million, RUB 1,319 million, RUB 220 RUB, 435 million and RUB 1,996 million, in respect of the years ended December 31, 2018, 2017, 2016, 2015 and 2014, respectively. At a meeting held on April 10, 2019, the Board recommended that an annual general meeting of shareholders approve annual dividends of RUB 19.98 per ordinary MTS share (RUB 39.96 per ADS), or a total of approximately RUB 39.93 billion, based on the full-year 2018 financial results.
- (3) Capital expenditures include purchases of property, plant and equipment and intangible assets.
- (4)

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Includes notes payable, bank loans and other debt. Prior period balances were restated to exclude capital lease obligations.

- (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. Mobile penetration and overall market share in Ukraine for the financial year 2018 are presented based on our own estimates.

Table of Contents

- (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, 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.

When conducting business in different CIS countries, we may face risks similar to those (and sometime even more substantial) we have in Russia and Ukraine.

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.

Table of Contents

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. 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 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

Table of Contents

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 4G/LTE services. The competitive situation in Ukraine may be further affected by (i) the planned introduction of a mobile number portability service ("MNP"); (ii) the possible emergence of new and development of existing virtual mobile network operators in the market; (iii) the regulator's plans to reduce tariffs for international roaming; and (iv) interconnect fees for termination of international traffic.

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 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.

Table of Contents

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 34 to our audited consolidated financial statements. In March 2019, the Group reached a resolution with the SEC and the United States Department of Justice ("**DOJ**") relating to the previously disclosed investigation of our former subsidiary in Uzbekistan.

We consented to the entry of an administrative cease-and-desist order (the "**Order**") by the SEC.

The United States District Court for the Southern District of New York approved a deferred prosecution agreement ("DPA") entered by the Group and a plea agreement entered into by our subsidiary in Uzbekistan. Under the agreements with the DOJ, we agreed to pay a total criminal penalty of USD 850 million (RUR 59.1 billion as of December 31, 2018) to the United States. We provided a provision of USD 850 million (RUB 55.8 billion as of the date of accrual), which was recognized as a part of discontinued operations in the consolidated statements of profit or loss for the year ended December 31, 2018.

See also " We have incurred and are continuing to incur costs and related management oversight obligations in connection with our obligations under the DPA and the SEC Order" and "Item 8. Financial Information A. Consolidated Statements and Other Financial Information 7. Litigation Uzbekistan."

We have incurred and are continuing to incur costs and related management oversight obligations in connection with our obligations under the DPA and the SEC Order.

We are subject to a DPA with the DOJ and the SEC Order. See "Item 8. Financial Information A. Consolidated Statements and Other Financial Information 7. Litigation Uzbekistan" and Notes 10 and 34 to our audited consolidated financial statements included elsewhere in this Annual Report on Form 20-F. In conjunction with the DPA and pursuant to the SEC Order, we are required to retain, at our own expense, an independent compliance monitor. The independent compliance monitor is in the process of being appointed. Pursuant to the DPA and the SEC Order, the monitorship will continue for a period of three years from the date of appointment and the term of the monitorship may be terminated early or extended depending on certain circumstances, as ultimately determined and approved by the DOJ and the SEC. The monitor will assess and monitor our compliance with the terms of the DPA and the SEC Order as well as review and evaluate the effectiveness of our policies, procedures, practices, internal accounting controls, record keeping and financial reporting as they relate to our current and ongoing compliance with the anti-bribery, books and records and internal accounting controls provisions of the FCPA and other applicable anti-corruption laws, and make recommendations reasonably designed to improve the effectiveness of our internal accounting controls and FCPA corporate compliance. See also " 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. 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."

Table of Contents

We have incurred significant costs in connection with the disposition of the matters covered in the DPA and SEC orders, including retention of legal counsel and other advisors and other costs related to the investigations undertaken in connection with these matters. We currently cannot estimate the additional costs that we are likely to incur in connection with compliance with the DPA and the SEC Order, including the ongoing obligations relating to the monitorship, our obligations to cooperate with the agencies regarding their investigations of other parties, and the costs of implementing the changes, if any, to our internal controls, policies and procedures required by the monitor. However, such costs could be significant. See also " We could be subject to criminal prosecution or civil sanction if we breach the DPA and the SEC Order, and we may face other potentially negative consequences relating to the investigations by, and agreements with, the DOJ and SEC and other authorities, including additional investigations and litigation."

We could be subject to criminal prosecution or civil sanction if we breach the DPA and the SEC Order, and we may face other potentially negative consequences relating to the investigations by, and agreements with, the DOJ and SEC and other authorities, including additional investigations and litigation.

Failure to comply with the terms of the DPA, whether such failure relates to alleged improper payments, internal controls failures, or other non-compliance, could result in criminal prosecution by the DOJ, including for the matters addressed in the DPA. Under such circumstance, the DOJ would be permitted to rely upon the admissions and the waiver of certain defenses we made in the DPA. Similarly, breach of the SEC Order could result in additional penalties against the Company.

Criminal prosecution by the DOJ as a result of a breach of the DPA or penalties imposed as a result of noncompliance with the SEC Order could subject us to penalties and other costs and could have a material adverse effect on our business, financial condition, results of operations, cash flows or prospects.

We may also face other potentially negative consequences relating to the investigations by, and agreements with, the DOJ, SEC, and other authorities. None of the DPA and the SEC Order prevents these or any other authorities from carrying out certain additional investigations with respect to the facts not covered in the agreements or in other jurisdictions, or prevents authorities in other jurisdictions from carrying out investigations related or unrelated to the matters which being investigated. Additionally, on March 19, 2019, a proposed class action complaint, captioned *Salim v. Mobile TeleSystems PJSC et al.*, case number 1:19-cv-01589, was filed in the United States District Court for the Eastern District of New York against us and certain of our managers. The complaint was filed by an individual securities holder on behalf of himself and all similarly situated securities holders and alleges violations of Sections 10(b) and 20(a) and Rule 10b-5 of the Exchange Act with respect to certain public disclosures made by us regarding our former business in Uzbekistan and investigations carried out by the SEC and DOJ related thereto. The complaint further alleged that such disclosure omissions led to a decline in the market value of our securities resulting in losses and damages to the plaintiff and other securities holders. The plaintiff seeks damages in an unspecified amount, prejudgment and post-judgment interest and attorneys' fees, expert fees and other costs and other and further relief.

Any collateral investigations, litigation or other government or third party actions resulting from these, or other, matters could have a material adverse effect on our business, financial condition, results of operations, cash flows or prospects. In addition, any ongoing media and governmental interest in the investigations, the agreements and claims could impact the perception of us and result in reputational harm.

Table of Contents

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 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

Table of Contents

complex IT solutions providers in Russia, NVG JSC ("N**Vision Group**