

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. [Reserved]

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 occurs, our business, prospectus, 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 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, 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Federation and other CIS countries are subject to rapid change and that the information set out herein may become outdated relatively quickly.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.

There are 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”).

For example, in September 2020, martial law was declared in Armenia due to escalation of the conflict in Nagorno-Karabakh. Continued tensions or further escalation of the conflict could have a negative effect on the Armenian economy as well as our business, financial position and results of operations. See also “Political and Social Risks—Further deterioration in relations between Russia and other states that were part of Soviet union as republics, as well as other geopolitically related disagreements and allegations between Russia and other countries and sanctions imposed as a result thereof, could materially adversely affect our business, financial condition, results of operations, prospects and the value of our shares and ADSs.”

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.

Risks Relating to Our Business

The telecommunications and digital 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 as well as the digital services sector are subject to rapid and significant changes in technology and are characterized by the continuous introduction of new products and services. The mobile telecommunications and digital services industries in Russia are also experiencing significant technological change, as evidenced by the constant technological evolution of standards for radio telecommunications, such as Wi-Fi, Enhanced Data Rates for Global Evolution (“EDGE”), Universal Mobile Telecommunications System (“UMTS”), and Long Term Evolution (“LTE”), 5G, 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 telecommunication services markets (including the largest for MTS mobile communications market) and digital services markets where we operate, are highly competitive, particularly in Russia.

Competition is generally based on price, product functionality, range of service offerings and customer service.

Generally, increased levels of competition, including potential entry of new companies particularly new mobile operators, government-backed operators, mobile virtual network operators, operators of satellite TV and alternative fixed line operators in the markets where we operate, as well as the strengthening of existing companies, increased use of IP-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 and other digital markets. This in turn could result in reduced operating margins and a loss of market share and 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” (“VEON”), 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 “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. For instance, in 2018, the Russian government made Rossetelecom the only provider of Internet services for state and municipal medical institutions in 2018 and 2019.

In November 2019, the Board of Directors of Rostelecom approved a transaction to consolidate 100% of LLC “T2 RTK Holding”, which was completed in 2020 and resulted in increasing competition.

In the area of digital services we compete with technological companies, such as Yandex Group, Sber Group, Mail.ru Group and others, which are focused on developing digital services, as part of either new or existing core elements of their business. Despite the fact that in Russia, local technological companies are currently successfully competing with global leaders such as Google, Apple, Amazon and Alibaba Group, etc., further penetration of global players into local markets of digital services, including Russia, may intensify competition in these markets. Digital markets are growing strongly, driven both by a natural trend and the additional impact of the COVID-19 pandemic, which has dramatically increased online consumption and the importance of digital sales channels. Due to these market dynamics, current positions of market participants are subject to significant change in the near term.

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

In Belarus, our associate, MTS Belarus, while maintaining its leadership in the market in 2021, faces increasing competition and aggressive pricing from the main competitors – Best CJSC, a subsidiary of System Capital Management and Turkcell Iletisim Hizmetleri A.S. (“Turkcell”), which operates in Belarus under the “life:)” brand and A1 (a subsidiary of A1 Telekom Austria Group) which actively promotes convergent services. Additionally, in 2011, the government of the Republic 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.

The change in ownership structure of Belarusian Cloud Technologies LLC (beCloud brand), which is the unified 4G infrastructure operator in Belarus, was effected at the end of 2021. The state acquired full control over the beCloud operation: Republican unitary enterprise “National traffic exchange center” increased its ownership up to 60%, the Republican Unitary Enterprise Beltelecom (owns 51% stake in Mobile TeleSystems JLLC) acquired a 40% stake. In January 2022, Beltelecom gained a license to provide mobile communications services, which will allow the company to compete in the mobile communications market.

We also face competition in Armenia. In October 2020, VEON telecommunications holding (Beeline trademark) reached an agreement to sell its business in Armenia to the local telecommunications company Team LLC. A possible sale of a Rostelecom subsidiary in Armenia, which provides fixed line service, was announced in January 2022. If one of the competitors buys this asset, it could have negative effect on our business, financial condition and results of operations in Armenia.

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.

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 or any third party acting on our behalf or in our interests 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 February 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 (RUB 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 statement 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," "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" 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 the DPA with the DOJ and the SEC Order. See “Item 8. Financial Information–A. Consolidated Statements and Other Financial Information–7. Litigation–Uzbekistan” and Note 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. Pursuant to the DPA and the SEC Order, the monitorship was initially due to continue for a period of three years from the date of appointment and the term of the monitorship could be terminated early or extended depending on certain circumstances, as ultimately determined and approved by the DOJ and the SEC. We have not received notice from the SEC, the DOJ or the monitor of any breach of the terms of the DPA or SEC the Order. However, given a variety of factors, including the COVID-19 pandemic we have agreed to a one-year extension of the DPA and the monitorship with the DOJ and the SEC to (i) provide us with adequate time to implement necessary enhancements to certain critical components of our anti-corruption compliance and ethics program and (ii) allow the monitor sufficient time to be able to complete its review of our remedial efforts, including our implementation of the monitor’s recommendations and an assessment of the sustainability of our remedial actions. The term of the monitorship will continue until September 2023. The monitor assesses and monitors our compliance with the terms of the DPA and the SEC Order as well as reviews and evaluates 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 makes 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.”

We have incurred significant costs in connection with the disposition of the matters covered in the DPA and SEC order, 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 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 alleging 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 was seeking damages in an unspecified amount, prejudgment and post-judgment interest and attorneys' fees, expert fees and other costs and other and further relief. On March 1, 2021 the United States District Court of Eastern District of New York granted MTS's motion to dismiss with prejudice and dismissed the complaint in full.

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.

The outbreak of COVID -19 may have a material adverse effect on our business, financial condition, results of operations and prospects

A novel strain of the coronavirus, COVID-19, was discovered in Wuhan, China in December 2019 and on 11 March 2020, was declared by the World Health Organization to be a global pandemic. It has adversely affected and continues to affect the economies and financial markets of many countries, including Russia and CIS and has resulted in a series of measures implemented by governments around the world aimed at mitigating the further spread of the virus. These measures include restrictions on travel, closure of national borders, imposition of quarantines, introduction of import restrictions, prolonged closures of workplaces and curfews or other social distancing measures. The second and subsequent waves of the COVID-19 pandemic resulted in further growth of number of cases and death toll in Russia and other countries. There is still significant uncertainty regarding the impacts and duration of the COVID-19 pandemic. If the spread of COVID-19 persists for a significant period or the infection rates stagnate or increase, this could lead to renewed nationwide lockdowns, which could have a material negative impact on the global and Russian economies. For example, in Armenia the COVID-19 quarantine was extended until June 20, 2022. The continuation of quarantine measures imposed by the Armenian government due to the COVID-19 pandemic could negatively affect our financial results in that country.

The impact of COVID-19 on the Group is limited so far. However, due to the uncertainty of the duration and degree of impact of the COVID-19 pandemic, we continue to evaluate various scenarios and their potential impacts on Group financials. We have also carried out risk assessments for each of our business units, considering potential strategic, operational and regulatory related impacts. We have incorporated COVID-19 commentary below, which gives an overview of the related uncertainties and potential impacts on the Group.

Clients and counterparties

Global economic downturn caused by the novel coronavirus pandemic could affect customer spending habits, decrease of demand on our products and services, as well as affect financial condition of our counterparties and their ability to fulfill their obligations. In addition, travel restrictions imposed by a number of countries and voluntarily travel limitation may lead to a decrease in roaming services provided and our roaming revenue from our subscribers. See also "We may be adversely affected by the current economic environment."

Development of Our Network Infrastructure

The lack or limited access to residential buildings, for example, due to COVID-19 impact, may affect projects for construction and modernization of fixed-line network. For more information, see "We may be required to make significant investments beyond those that are currently planned to preserve our competitive advantage in response to the rapid evolution of fixed network technology."

Financial Stability of Our Subsidiaries, including MTS Bank

Uncertainty on the international financial market amid COVID-19 pandemic may have material adverse effect on the financial condition of MTS Bank and its customers, in particular, it may result in an increase of non-performing loans and loan provision charges, loan losses and write-offs, an increase in exchange rate risk and losses, etc. For more information, see “–MTS Bank’s business entails regulatory and operational risks.”

Personnel

If the COVID-19 pandemic adversely affects our businesses and liquidity in the future, we may fail to retain employees and attract suitable talents to the company. The productivity of our employees may be reduced due to remote work. See also “–Our competitive position and future prospects depend on our senior managers and other key personnel and our inability to attract, retain and motivate qualified key personnel could have a material adverse effect on our business, financial condition and results of operations.”

Moreover, due to stricter safety standards, our cost of compliance with COVID-19 related safety requirements may increase.

IT Technology and Cyber Security

Despite the fast development of the pandemic and the extremely rapid transfer of our personnel to distant work, we managed to fully maintain operation of our information security units and ensure continuous monitoring of compliance with local regulations on information security. However, no assurance can be given that these measure will be sufficient in the future and no new challenges will emerge. If we are required to develop any additional measures to protect the company and its business processes, it may result in the significant increase in operating costs. See also “–Breach of information confidentiality, integrity and availability may lead to interruption of business critical processes, a loss of market share, and claims from subscribers, regulators, and partners, which could materially adversely affect our reputation, business, financial condition, results of operations and prospects.”

We have a significant shareholder, which may limit your ability to influence corporate matters and may give rise to conflicts of interest.

Sistema, which is a public company, owns approximately 42% of the Company’s ordinary shares. As a result, Sistema exerts, and may continue to exert, influence over us and any action requiring the approval of the holders of our ordinary shares. 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 could be affected by Sistema’s activity and (or) its ratings. See also “Item 5–Operating and Financial Review and Prospects–B. Liquidity and Capital Resources–Credit Rating Discussion.”

Sistema, as well as other our shareholders, have a right regulated by applicable law 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.

Difficulties with operational management of 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 and regions that represent new operating environments for us. 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 our activities in the countries of our current presence and countries into which we may expand may be associated with greater political, economic, social and legal risks.

For example, see “Legal Risks and Uncertainties—An outcome of the proceedings relating to sustaining operations of our subsidiary in Turkmenistan is unpredictable” 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, as well as other complementary businesses. In 2017-2021, our acquisitions focused on various segments, including communication and software development companies, providers of cloud services, as well as management investment and other non-telecom companies.

These and other business combinations entail a number of risks that could materially and adversely affect our business, financial condition, results of operations and prospects, including the following:

- assumption of the acquired target’s liabilities and contingencies;
- failure to realize any of the anticipated benefits or synergies from any acquisitions or investments we complete;
- problems connected with integrating the acquired businesses, technologies or products into our operations;
- incurrence of debt to finance acquisitions and higher debt service costs related thereto;
- difficulties in retaining business relationships with suppliers and customers of the acquired companies;
- risks associated with businesses and markets in which we lack experience, including political, economic, social, legal and regulatory risks and uncertainties;
- competition risks;
- potentially incorrect assessment of the value of any acquired target resulting from the facts we could not have known at the time of evaluation (subsequently discovered facts);
- more onerous government regulation;
- potential loss of key assets of the acquired company;
- potential loss of key employees of the acquired company;
- potential write-offs of acquired assets; and

- lawsuits arising out of disputes over ownership of acquired assets and/or the enforcement of indemnities relating to the title to such assets.

See also “Legal Risks and Uncertainties—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” and “Risks Relating to our Financial Condition—We may be adversely affected by the current economic environment.”

In addition, companies that we acquire may not have internal policies, including accounting policies and internal control procedures that are compatible, compliant or easily integrated with ours.

If any of our future business combinations is structured as a merger with another company, or we merge with or absorb a company subsequent to its acquisition by us, such a merger would be considered a corporate reorganization under Russian law. This would entitle our creditors to file a claim seeking to accelerate their claims or terminate the respective obligations and seek damages. The creditors would need to prove in court that we will not perform our obligations in due course and the amount of damages suffered. Secured creditors would also be required to prove that the security provided by our shareholders, any third parties or us is not sufficient to secure our obligations. Creditors whose claims are secured by pledges do not have the right to claim additional security.

As of December 31, 2017, we held a 26.61% stake in MTS Bank. In 2018, we acquired a 28.63% stake in MTS Bank from Sistema for RUB 8.27 billion, thus increasing our effective ownership in MTS Bank to 55.4%. In February 2019, we acquired a 39.48% stake in MTS Bank for RUB 11.4 billion, as a result of which our effective ownership in MTS Bank reached 94.97%. In December 2019, we increased our stake in MTS Bank up to 99.9% by acquiring it from Sistema. The increase of our share in MTS Bank is in line with our strategy to diversify the business, achieve synergies and develop innovative financial services.

In 2019-2021, we also acquired certain companies such as United Russian Studios JSC, JUST AI Limited, Zelenaya Tochka Group and others. See “Item 4—Information on Our Company—A. History and Development” for further information.

These acquisitions have allowed us to diversify our business. However, additional risks relating to acquired companies’ liabilities and non-achievement of initial financial and operational targets may arise in connection with these acquisitions. See also Note 5 to our audited consolidated financial statements.

We may also be involved in various litigation to protect our title or other rights related to acquired businesses and incur loss.

In addition, a merger or any corporate reorganization or business combination that constitutes a “major transaction” under Russian law would trigger the right of our shareholders who abstain from voting on or vote against such reorganization or transaction to sell, and our obligation to buy, their shares in an amount representing up to 10% of our net assets as calculated under Russian Accounting Standards. See “Legal Risks and Uncertainties—Shareholder rights provisions under Russian law could impose additional obligations and costs on us, which could have a material adverse effect on our business, financial condition, results of operations and prospects.”

If we cannot successfully develop our network or integrate the acquired companies, we will be unable to expand our subscriber base and maintain our profitability.

Our ability to increase our subscriber base depends upon the success of our network expansion (including fixed-line networks).

We have expended considerable amounts of resources to enable both organic expansion and expansion through acquisitions, and we plan to continue to do so. Limited information regarding the markets into which we have or are considering expanding, through either acquisitions or new licenses, complicates accurate forecasts of future revenues from those regions, increasing the risk that we may overestimate these revenues. In addition, we may not be able to integrate previous or future acquisitions successfully or operate them profitably. Any difficulties encountered in the transition and integration process and in the operation of acquired companies could have a material adverse effect on our results of operations.

The build-out of our network is also subject to risks and uncertainties, which could delay the introduction of services in some areas and increase the cost of network construction, including difficulties in obtaining base station sites on commercially attractive terms. Further, telecommunications equipment used in Russia and other CIS countries is subject to governmental certification and periodic renewals of the same. We are also required to obtain permits and governmental certification for the operation of telecommunications equipment and/or permission for the import and export of certain network equipment, which can result in procurement delays and slower network development. The failure of any equipment we use to receive timely certification or re-certification, as applicable, could hinder our expansion plans. See also “—Risks Relating to our Financial Condition—If we are unable to obtain adequate capital, we may have to limit our operations substantially, which could have a material adverse effect on our business, financial condition, results of operations and prospects.” In particular, in 2019 considerable changes to the Federal law No. 412 “On Accreditation in the National Accreditation System” dated December 28, 2013, which increased powers (authority) of Rosaccreditation relating to control over unfairly accredited persons, came into force. These changes introduced stricter requirements to accredited persons’ activities and accreditation experts and provide for additional basis for suspension and termination of accreditation. As a result, these changes may lead to an increased cost of certification services and increase time needed for acquiring certifications, which may affect delivery time of certified equipment in Russia.

For example, the import and export of products containing cryptographic hardware is subject to special documentation requirements and approvals. As telecommunications networks comprise various components with cryptographic hardware, we must comply with these requirements in order to import such components. Moreover, where imported equipment does not contain cryptographic hardware, the federal customs service requires manufacturers to provide written confirmation regarding the absence of such hardware. The range of goods requiring the provision of such “certificates of conformance” by suppliers and manufacturers prior to their import into Russia has also been expanded to cover most of our key network components, and imported radioelectronic equipment is required to be licensed by the Russian Ministry of Industry and Trade.

Our inability to develop additional sources of revenue and competitive services could have a material adverse effect on our business, financial condition, results of operations and prospects.

Until recently, customer growth has been our principal source of revenue growth. Currently, however, increasing competition, market saturation and technological development lead to the increased importance of digital services based on mobile Internet, smart home, artificial intelligence, cloud services, big data solutions, Internet of things and media services. As a result, we will need to focus on the development of new services based on the abovementioned technologies. We invest in new businesses, such as artificial intelligence, financial technologies, big data, IoT (in particular, we participate in realization of national program “Digital Economy of the Russian Federation”), cloud services and others. Decrease or absence of demand for new services, as well as competition increase on current markets, or new companies’ entries may lead to revenue decrease and necessity to revise our strategy regarding new businesses, which may require additional investments. Our inability to develop additional sources of revenue could have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, in September 2021 our shareholders approved the separation of our passive infrastructure as well as a significant share of our active network and digital infrastructure into the wholly-owned subsidiaries. For more information, please see “Item 4. Information on Our Company—B. Business Overview—Business Strategy”. An inability to realize the anticipated benefits of this separation could have an adverse effect on our business, financial condition, results of operations and prospects.

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.

Our ability to provide commercially viable services depends on our ability to continue to interconnect cost-effectively with zonal, intercity and international fixed-line and mobile operators in Russia and other countries in which we operate. Interconnect fees are established by agreements with network operators and vary depending on the network used, the nature of the call and the call destination.

Although Russian legislation requires that operators of public switched telephone networks that are deemed to be “substantial position operators” cannot refuse to provide interconnect services or discriminate against one operator over another, we believe that, in practice, some operators attempt to impede wireless operators by delaying interconnect applications and establishing technical conditions for interconnecting that can be met only by certain operators.

Any difficulties or delays in interconnecting cost-effectively with other networks could hinder our ability to provide services at competitive prices, or at all, causing us to lose our market share and revenues, which would have a material adverse effect on our business and results of operations. See also “If we or any of our mobile network operator subsidiaries operating in Russia are identified as an operator occupying a “substantial position,” the regulator may reduce our interconnect tariffs which, in turn, may have a material adverse effect on our financial condition and results of operations.”

In addition, as part of the restructuring of Svyazinvest, a fourth national mobile operator in Russia was established by the combination of “Tele2 Russia” and the mobile assets of Rostelecom in 2014, which started its operations in 2015 under the “Tele2” brand. As Svyazinvest controlled regional fixed-line operators in all regions of Russia (other than Moscow), a mobile operator established as part of the Svyazinvest group (mobile assets were consolidated into LLC “T2 RTK Holding”) may receive preferential terms for interconnecting with these operators, which would allow it greater flexibility in setting tariffs and could put us at a competitive disadvantage. See also “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.”

We may not realize the benefits we expect to receive from our investments in 4G and 5G wireless services and Internet of Things (IoT) technologies, which could have a material adverse effect on our business and results of operations.

In July 2012, the Federal Service for Supervision in the Area of Communications and Mass Media awarded MegaFon, VEON, Rostelecom (under Tele2 brand) and us a license to provide 4G services in the Russian Federation.

In December 2017, the State Commission for Radio Frequencies issued a decision allowing the use of frequency bands previously allocated for LTE mobile communications for NB-IoT technology. In the second half of 2018 and March 2020, State Commission for Radio frequencies awarded additional frequencies and determined the procedure for the use of radio electronic means, operating in the range of 800 MHz under LPWAN group of standards (Low-power Wide-area Network) relating to IoT technology. In March 2020, the Commission allowed indefinite range of persons and entities to use the 24.25-24.65 GHz frequency band under the 5G standard for radio electronic means. This decision allows the construction of local communication networks under the 5G/IMT-2020 standard, which could lead to increased competition in our certain business areas. In July 2020, we received the first license to provide 5G-based services in this frequency band. In November 2020, the State Commission for Radio frequencies clarified the terms regarding mandatory use of equipment of Russian origin in the 24.25-24.65 GHz frequency band, which may affect the possibility of using these frequencies.

In August 2021, the State Commission for Radio frequencies prolonged permits to use the frequencies of 700 MHz, 800 MHz, and 2600 MHz for LTE networks for another 10-year term. The main conditions for the prolongation includes:

- for 800 MHz, and 2600 MHz range: operators must provide network coverage of settlements with a population of more than 1,000 persons and federal highways until September 2031 in accordance with the schedule;
- for 700 MHz range in case of its reallocation for mobile telecommunication services: operators must provide network coverage of settlements with a population of more than 500 persons and regional highways until the end of 2031 in accordance with the schedule;
- starting from 2023, operators will have to use local equipment.

The aforementioned changes, on the one hand, allow operators to use the necessary radio frequency resources, and on the other hand, could require additional costs for network construction. The 4G wireless services provide faster, higher quality data transfer and/or streaming capabilities, as compared to 2G and 3G, and 5G wireless services pose a similar advantage over 4G. Historically, mobile operators that are developing 4G networks experienced various difficulties and challenges, including a limited supply of compatible handsets, limited international roaming capabilities, as well as various software and network related problems. We may experience similar problems or encounter new difficulties when developing our 4G and 5G networks (including NB-IoT) and may be unable to fully resolve them. For example, we cannot be certain that:

- we will be able to build-out our 4G (including NB-IoT) and 5G networks in a timely manner or within the time frame stipulated by the license terms;

- our 4G (including NB-IoT) and 5G networks will deliver the quality and level of service that our customers demand or expect;
- we will be able to provide all contemplated 4G services (including NB-IoT) and 5G at reasonable prices and within a reasonable timeframe;
- manufacturers and content providers will develop and offer new marketable products and services for our 4G and 5G networks (including NB-IoT) on a timely basis;
- demand for our 4G services (including NB-IoT) will not be lower than expected;
- our 4G and 5G networks will be commercially viable in all of the locations we are required to operate pursuant to our licenses;
- our competitors will not offer similar services at lower prices; and
- changes in governmental policies, rules, regulations or practices will not affect our network rollout or our business operations.

See also “If we cannot successfully develop our network or integrate the acquired companies, we will be unable to expand our subscriber base and maintain our profitability.”

In addition, Russian military and other authorities also use frequencies in the 4G and 5G spectrum, which may limit the availability of 4G and 5G frequencies for commercial use in certain areas. During the construction of our networks, there is also a risk that the frequencies assigned to us for commercial use may overlap with those used by the Russian military and other authorities. For example, conflicts over the availability of frequency reserved for military use in Moscow caused delay in the commercial launch of 3G services by all 3G license-holders in Moscow, despite the fact that some of these frequencies were cleared for commercial use in 2009. If a similar conflict were to occur, it could cause problems or delays in the development and operation of our 3G and 4G networks in Russia.

Potential competition from other 4G and LPWAN providers, together with any problems relating to the rollout of our 4G and 5G networks and provision of 4G and 5G services in the future, could materially adversely affect our business, financial condition and results of operations.

In December 2013, July 2014 and in July 2017, the State Commission for Radio Frequencies introduced several modifications to the conditions of using the frequency band for mobile radio communication networks. These changes resulted in the implementation of the principle of technological neutrality for frequency bands 900 MHz (UMTS and LTE), 1800 MHz (LTE) and 2100 MHz (LTE), and included the imposition of certain additional obligations on network operators. Pursuant to these modifications, in case of using frequencies on the terms of technological neutrality principle, we are, *inter alia*, obliged to provide network coverage to settlements with lower subscriber numbers, where the commercial rationale for doing so may otherwise be limited. Such changes lead to additional costs for the construction of our 3G and 4G wireless networks and may therefore adversely affect our business, financial condition and results of operations. Moreover, the rules on the Russian-produced telecommunication equipment usage, which require to operate only equipment included in the Unified register of the Russian radio-electronic products, could affect implementation of the Internet of things (IoT) technology and 5G networks deployment.

If we are unable to successfully develop and/or deploy 4G and 5G wireless services in the countries in which we operate, or if any operators in those markets obtain a significant technological and/or commercial advantage over us in 4G and 5G wireless services, it may have a material adverse effect on our business and results of operations in the long term.

Currently, the ability to develop 4G/LTE and 5G networks is one of the key factors of the operator's competitiveness in the market of mobile services in Russia and other countries where we operate. The cost of 4G/LTE and 5G network deployment and quality of services (including data speed and quality of radio coverage) depends on the band and the width of frequency range given to an operator.

In 2012 outside of the auction process, the State Commission for Radio Frequencies granted Scartel (operating the "Yota" retail brand) a paired range of LTE frequencies (2x30 MHz) in the 2.5 2.7 GHz band for use in the entire territory of Russia. The remaining frequencies, 40 MHz of the 2.5 2.7 GHz band, were allocated evenly during the auction among four major market participants (VEON, MegaFon, Rostelecom and us). Initially, it was planned that all operators would receive equal access to the Scartel infrastructure, which would allow each operator to reduce its 4G/LTE network development costs.

On October 1, 2013, MegaFon acquired Maxiten Co Limited, which had acquired 100% of shares in Scartel and Yota Ltd. from Garsdale. The transaction was approved by a general shareholders' meeting of MegaFon and by the Federal Antimonopoly Service (the "FAS"). As a result of this transaction, MegaFon obtained a competitive advantage in terms of LTE network development costs and may also obtain an advantage in LTE network performance. In addition, as a result of this deal, MegaFon consolidated the financial and operational indicators of Scartel/Yota, which increased its formal market share in the mobile communications market.

Significant material resources for the introduction of such technologies may be required, which could have a material adverse effect on our business and results of operations. Furthermore, the limited number of available frequencies may prevent us from realizing the full benefits we expect to receive from the development of a 4G network, because our network capacity would be constrained and our ability to expand limited.

In 2019, Rosletelcom PJSC received a LTE frequency in the 2.3-2.4 GHz band outside of the auction process. In July 2020, the State Commission for Radio frequencies allowed Rostelecom PJSC to share this frequency band with T2 Mobile LLC (Tele2), which gave an advantage to these operators. However, in December 2020, the State Commission for Radio frequencies changed its decision relating to permission for the commercial use of this range. These developments reflect ongoing discussions on allocation frequencies in order to construct 5G network in Russia, deployment of which has been actively negotiated by operators and regulators since 2017. The greater part of frequency spectrum suitable for 5G network in Russia, is partially or fully occupied by other users (for example, satellite communication companies use the most suitable frequencies for 5G in 3.5 GHz band), including state-owned companies. Significant expenses and time may be required to clear frequencies, however the frequency conversion mechanism has not been fully defined yet and if it will be realized, there is no assurance that sufficient frequencies optimal for 5G deployment will be cleared in low- band spectrum ("sub-6").

As a solution, the regulator is considering creation of a Single Infrastructure Operator, which will be assigned with the 5G frequencies, and, as one of the discussed variants, will construct a single 5G network in Russia mainly using equipment produced in Russia and will maintain this network. It is planned that the Single Infrastructure Operator will operate as a technological platform based on which independent market players will develop and provide a wide range of services to clients. According to market players and certain industry experts, this solution has variety of advantages as well as some disadvantages and risks as compared to traditional network deployment by operators on a free and non-discriminatory basis.

Final regulator decision on frequency allocation for 5G will significantly affect process of mobile communication market development and may lead to occurrence of certain difficulties, including extension of time needed for putting 5G network into operation, increase in capital and operating expenditures, failure to realize all 5G technological advantages caused by separation of 5G and earlier generation network infrastructure, realization of market advantages by certain players due to non-equal frequency allocation or obtaining of other technological advantages connected with frequency allocation. All of these factors may affect our ability to develop 5G network, which in turn may have a material adverse effect on our business.

Moreover, if we cannot develop a commercially viable 4G and 5G networks, and one of our competitors does, that competitor would have an advantage over us, which in turn may have a material adverse effect on our business.

Disruptions on our networks and information systems could lead to a loss of subscribers, damage to our reputation, violations of the terms of our licenses and subscriber contracts, penalties and have a material adverse effect on our business and financial condition.

We are able to maintain our operations only to the extent that our network infrastructure, information systems and data processed therein is protected from unlawful actions, including hacker and targeted attacks, technical malfunctions, power failures and natural disasters. Any failure, accident or network or information systems security breach, that causes interruptions in our operations could impair our ability to provide services to our customers or may influence other business processes, any of which could materially adversely affect our reputation, business and results of operations.

In addition, to the extent that any disruption or network or elements of information systems security breach results in a loss of or damage to customers' personal data, or inappropriate disclosure of confidential information, we may incur liability as a result, including costs to remedy the damage caused by these business-interruptions or elements of information systems security breaches.

While we maintain backup systems for our telecommunications and infrastructure equipment, network and data management, operations and maintenance systems, these systems may not ensure recovery in the event of a network or information systems failures. In particular, in the event of extensive software and/or hardware failures, significant disruptions to our systems could occur, leading to our inability to provide services in full. The quality of our services in roaming (including roaming between networks) also depends, inter alia, on the network quality of our roaming partners, which is out of our control. Disruptions in our provision of services could lead to a loss of subscribers, damage to our reputation, violations of the terms of our licenses and subscriber contracts and penalties.

Our computer and communications hardware is protected through physical and software safeguards. However, it is still vulnerable to fire, storm, flood, loss of power, telecommunications failures, physical or software break-ins, viruses and similar events. Although our computer and communications hardware is insured against fire, storm and flood, we do not have business interruption insurance to protect us in the event of a catastrophe, even though such an event could have a material adverse effect on our business.

Failure to fulfill the terms of our licenses could result in their suspension or termination, which could have a material adverse effect on our business and results of operations.

Each of our mobile licenses requires service to be offered by a specific date and some contain further requirements as to territorial coverage to be reached by specified dates.

In addition, all of our mobile licenses require us to comply with various telecommunications regulations relating to the use of radio frequencies and numbering capacity allocated to us, network construction, interconnect rules and technical requirements relating to compliance with law enforcement authorities' requests, among others. If we fail to comply with the requirements of Russian or other applicable legislation or meet any terms of our licenses, our licenses and other authorizations necessary for our operations may be suspended or terminated, which could significantly limit our operations. In addition to the impact on our operations, the suspension or loss of certain licenses could also constitute an event of default under certain of our debt obligations and cause certain of our debt to be accelerated.

The Russian government enacted its Decree No. 2385 dated December 30, 2020, as amended, which came into force starting from January 1, 2021. (The validity of the document is limited to January 1, 2027.) It replaced the previously existing regulation on licensing activities in the communication services sector and introduced certain new mandatory licensing requirements and grounds for license termination.

A suspension or termination of our licenses or other necessary governmental authorizations, as well as regulatory changes of licensing requirements could therefore have a material adverse effect on our business and results of operations.

Failure to renew our licenses, or receive renewed or new licenses with similar terms to our existing licenses, could have a material adverse effect on our business and results of operations.

Our telecommunications licenses have their expiration dates in various years. For a list of the telecommunications licenses held by us, see "Item 4. Information on Our Company-B. Business Overview-Licenses."

These licenses may be renewed upon application to the relevant governmental authorities. Government officials in Russia and the other countries in which we operate consider the compliance with license requirements and the conditions of using the allocated frequency range when deciding whether to renew a license.

Additionally, new mandatory conditions, which relate to the need for further development of the communication network in order to provide licensed communication services for potential users of the communication service in sparsely populated residential areas, may be introduced when deciding whether to renew a license. These new conditions will require additional investment. Moreover, we may be subject to penalties or our licenses may be suspended or terminated for non-compliance with any such new license requirements. The suspension or loss of certain licenses could significantly limit our operations and cause certain of our debt to be accelerated.

If frequencies currently assigned to us are revoked, or if we fail to obtain renewals of our frequency allocations, our network capacity will be constrained and our ability to expand limited, resulting in a loss of market share and revenues.

There is a limited radio frequency spectrum available for wireless operators in each of the regions in which we operate or hold licenses to operate. We are dependent on access to adequate spectrum allocation in each market in which we operate in order to maintain and expand our subscriber base. If frequencies are not allocated to us in the future in the required quantities, with the geographic span and for time periods that would allow us to provide wireless services on a commercially feasible basis throughout all of our license areas, our business, financial condition, results of operations and prospects may be materially adversely affected.

According to the decision of the State Commission for Radio Frequencies No. 13-22-01 dated December 11, 2013, the terms of radio frequency bands usage by radio electronic facilities for mobile communication were supplemented with a requirement to provide the settlements of over 1,000 people with communication services within seven years (depending on the used frequency range and radio technology). If we are not able to fulfill these requirements, our authorizations for the use of radio frequency spectrum might be either terminated or not prolonged in extrajudicial procedure.

A loss of allocated spectrum, which is not replaced by other adequate allocations, could also have a substantial adverse impact on our network capacity. In addition, frequency allocations are often issued for periods that are shorter than the terms of the licenses, and such allocations may not be renewed in a timely manner, or at all. If our frequencies are revoked, or if we are unable to renew our frequency allocations, our network capacity would be constrained and our ability to expand limited, resulting in a loss of market share and revenues.

An increase in the fees for frequency spectrum usage could have a negative effect on our financial results.

The Russian and the CIS legislation requires us to make payments for frequency spectrum usage. A number of projects implemented by MTS in 2016 - 2018, as well as a number of normative acts previously adopted by the Ministry of Communications, resulted in expansion of the range of frequencies that have to be paid for.

The fees for frequency spectrum usage are calculated based on the total frequency band allocated to each operator in each region with such frequency spectrum usage determined with reference to the decision of the State Commission for Radio Frequencies, frequency allocation decisions or to the license conditions.

Fees are directly calculated according to the "Methodology of calculation of a single fee and annual fee for the use of the radio spectrum of the Russian Federation" approved by the order of the Ministry of Communications dated June 30, 2011 No. 164. The rates and coefficients of the aforementioned Methodology used for calculating fees for frequency spectrum, are subject to revision at least once every two years. The Ministry of Communications developed and circulated for discussion a draft order "On Amendments to the Methodology for establishing of single fee and annual fee for the use of radio frequency spectrum in the Russian Federation". The order provides for, inter alia, imposition of payment for radio frequency spectrum usage for 5G technology. Currently, key coefficients, which define the payment amount for using 5G technology, have not been approved. In case of the exchange of radio frequency spectrum between operators in the ranges with high fragmentation (GSM 900/1800) operators are obliged to pay a one-time fee for the new assigned ranges of the radio frequency spectrum as well as change coefficients used for calculating the fee for the spectrum that may lead to significant additional expenses..

Any significant increase in the fees payable for the frequency channels that we use or additional frequency channels that we need in Russia or the CIS could have a negative effect on our financial results.

If we are unable to maintain our favorable brand image, we may be unable to attract new subscribers and retain existing subscribers, which may lead to a loss of market share and revenues.

Developing and maintaining awareness of our brands is critical to informing and educating the public about our current and future services and is an important element in attracting new subscribers.

We believe that the importance of brand recognition is increasing as our markets become more competitive. Successful promotion of our brands will depend largely on the effectiveness of our marketing efforts and on our ability to provide reliable and useful products and services at competitive prices. Brand promotion activities may not yield increased operating revenues and, even if they do, such operating revenues may not offset the operating expenses we incur in building our brands.

Furthermore, our ability to attract new subscribers and retain existing subscribers depends, in part, on our ability to maintain what we believe to be our favorable brand image. Negative publicity or rumors regarding our company, our shareholders and affiliates or our services could negatively affect our brand image, which could lead to a loss of market share and revenues. Failure to successfully and efficiently promote and maintain our brands may limit our ability to attract new subscribers and retain our existing subscribers and materially adversely affect our business and results of operations.

MTS Bank's business entails regulatory and operational risks.

MTS Bank's operations are subject to regulation by various government and banking authorities in connection with obtaining and renewing various licenses and permits, as well as with ongoing compliance with existing laws and regulations and with the terms and conditions of MTS Bank's licenses and permits. MTS Bank has the required license in connection with its banking activities issued by the CBR.

Requirements imposed by regulators, including capital adequacy requirements, which are designed to ensure the integrity of the financial markets and to protect customers and other third parties with whom MTS Bank deals, may limit MTS Bank's activities, including its lending, and may increase MTS Bank's costs of doing business, or require MTS Bank to seek additional capital in order to maintain CBR capital adequacy requirements or different varieties of funding to satisfy the CBR's liquidity requirements. The CBR may also amend the capital adequacy requirements and increase the capital adequacy ratios applicable to Russian banks at any time and, in such circumstances, MTS Bank may be forced to seek additional capital or alternative sources of financing to comply with these requirements. Such additional capital or alternative sources of financing may not be available or may only be available on commercially unacceptable terms.

If MTS Bank's capital position were to decline below the minimum statutorily required levels of capital adequacy, its banking licenses could be suspended or revoked and it could encounter difficulties in continuing to operate its business and obtaining funding, which could materially adversely affect its business, financial condition, results of operations and prospects. MTS Bank's capital adequacy level may decrease organically with the growth of business or the payment of dividends. In addition, any breach of regulatory requirements in the Russian Federation could expose MTS Bank to potential liability and other sanctions, including the loss of general banking license. If the CBR were to suspend or revoke MTS Bank's general banking license, then this would render MTS Bank unable to perform any banking operations and/or would lead to winding-up of its business. Our shareholding in MTS Bank may require us to make subsequent investments in the share capital of the bank in order to sustain growth of MTS Bank's business as well as to comply with the capital adequacy requirements and relevant banking regulations. See also "—Political and Social Risks—Further deterioration in relations between Russia and other states that were part of Soviet union as republics, as well as other geopolitically related disagreements and allegations between Russia and other countries and sanctions imposed as a result thereof, could materially adversely affect our business, financial condition, results of operations, prospects and the value of our shares and ADSs."

Uncertainty in the international financial markets, possible further tightening in credit conditions and contraction of the global economy and markets in which MTS Bank operates (including the impact of COVID-19), could adversely impact, should the market conditions continue to worsen, MTS Bank's business and operating results due to:

- decreases in MTS Bank's net interest income;
- decreases in the demand for MTS Bank's credit products as a result of higher interest rates;
- significantly increased non-performing loans and loan provision charges, loan losses and write-offs;
- decreases in the business activity of Russian companies and the credit-worthiness of Russian companies and individuals;
- increases in borrowing costs and reduced, or zero, access to the capital markets due to unfavourable market conditions;
- currency volatility;
- liquidity constraints;

- outflows of deposits from accounts;
- significant declines in the market values of securities held in MTS Bank's trading and available for sale portfolios; and
- deterioration of capital adequacy.

Any of the factors discussed in the preceding paragraphs could adversely affect the financial condition of MTS Bank and its customers and may result, among other things, in a reduction in MTS Bank's capital adequacy ratios and profits, pressure on credit risk concentration levels, an increase in exchange rate risk and losses, higher funding costs, a change in the strategy of MTS Bank or curtailment of some business operations due to increased risks. Moreover, any of these factors may cause a decrease in customer funds, a reduction in the demand for loans, foreign currency, investment and other banking transaction services that customers carry out with MTS Bank, as well as a general deterioration in the quality of MTS Bank's loan book and/or a reduction in the market values of securities or other assets held on MTS Bank's balance sheet, leading to possible defaults of such loans and/or the need for increased loan provisions. Should any of this take place, this could materially adversely affect our business, financial condition and results of operations.

Failure to monitor, manage and prevent MTS Bank's operational and technological risks, could have a material adverse effect on our business, financial condition and results of operations.

MTS Bank is exposed to technological risks as banking business requires the development of sufficient communication channels and software, the creation of large automated systems and considerable computer capacity located throughout the Russian Federation. MTS Bank invests considerable time and money in order to upgrade its technologies in a timely manner, centralize its information systems, create appropriate reserves and duplicate capacities, develop internal audit functions and control the operation of its hardware and software, however MTS Bank's IT systems are significantly less developed in certain respects than those of banks in more developed countries. The lack of immediately available consolidated financial and operating data may hinder the ability of MTS Bank's management to make decisions, to react promptly to changes in market conditions and to detect fraud and non-compliance with internal procedures. In addition, insufficient integration of the IT system increases MTS Bank's operational risks and the costs of further business development.

MTS Bank's ability to operate its business depends on its ability to protect the computer systems and databases which MTS Bank operates and uses from the intrusion of third parties who may attempt to gain access to MTS Bank's computer systems, networks or databases through the Internet or otherwise. In addition, MTS Bank is exposed to risk of fraud by employees or outsiders, mismanagement, unauthorized transactions by employees and operational errors, including clerical or record keeping errors or errors resulting from faulty computer or telecommunications systems. Given MTS Bank's high volume of transactions, errors may be repeated or compounded before they are discovered or rectified. In addition, a number of transactions at MTS Bank are processed manually, which may further increase the risk that human error or employee tampering or manipulation will result in losses that are difficult to detect. There can be no assurance that MTS Bank will be able at all times to successfully monitor, prevent and manage its operational and technological risks in the future. Any failure to do so could materially adversely affect our business, financial condition and results of operations.

MTS may potentially enter into agreements with members of the Sistema group (i.e. related parties transactions) on terms which are different from those that would be obtainable on an arm's length basis.

We have purchased interests in certain companies from Sistema, for example, United Russian Film Studios JSC and MTS Bank PJSC. We are entering into agreements with other companies within the Sistema group for supply of switching and subscriber network equipment, power supply devices, medical services, license agreements, agreements on providing access to the infrastructure for installation of communication equipment, leasing of non residential real estate, rent of cloud services and other services. According to the applicable Russian legislation, and notwithstanding MTS's effective control procedures in respect of related parties transactions, such as verification whether such transactions comply with the terms on a market, including mandatory procedures with respect to consideration of related parties transactions with the companies within the Sistema group by the Audit Committee, a number of transactions with the companies within the Sistema group may potentially be concluded on terms, which are different from those that would be obtainable on an arm's length basis.

See "Item 7—Major Shareholders and Related Party Transactions—B. Related Party Transactions" and Note 31 to our audited consolidated financial statements.

In the event that our past or future interested party transactions are successfully challenged, our business, financial condition, results of operations and prospects could be materially adversely affected.

We own less than 100% of the equity interests in some of our subsidiaries. In addition, certain of our wholly owned subsidiaries have had other shareholders in the past. We and our subsidiaries in the past have entered into, and continue to enter into, transactions that may be considered to be “interested party transactions” for the purposes of Russian law, requiring in some cases consent or approval by disinterested directors, disinterested independent directors, disinterested shareholders or owners of voting shares, depending on the nature of the transaction and parties involved. The provisions of Russian law No. 208 “On Joint-Stock Companies” dated December 26, 1995, as amended (the “Joint Stock Companies Law”) relating to “interested party transactions” was amended in 2016 and may be subject to different interpretations taking into account, inter alia, the insufficiency of court practice in respect of the new amendments. As a result, it is possible that our and our subsidiaries’ interpretation and application of these provisions could be subject to challenge. Any such challenge, if successful, could result in the invalidation of transactions, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Moreover, due to the adoption of Federal Law No. 55-FZ dated March 14, 2022, until December 31, 2022 only shareholders holding alone or with other holders 5% or more of the voting shares have the right to appeal to the court with claims to challenge major and interested party transactions, as well as claims against a member of the Board of Directors or a member of any executive body of the Company. Before the adoption this Federal Law, shareholders holding alone or with other holders 1% or more of the voting shares had the right to file such lawsuits.

In the event that our minority shareholders or the minority shareholders of our subsidiaries do not consent to or approve certain transactions or other matters requiring their consent or approval we could be limited in our operational flexibility, and our business, financial condition, results of operations and prospects could be materially adversely affected.

Russian law requires a three-quarters majority vote of the holders of voting stock present at a shareholders’ meeting to consent to or approve certain transactions and other matters, including, for example, charter amendments, major transactions involving assets in excess of 50% of the total assets of the company, purchase of offered shares by the company and certain share issuances. In addition, a 95% or a unanimous vote is required to approve certain matters, for example, certain charter amendments regarding shareholders’ rights. A majority of disinterested shareholders participating in the voting is required to consent to or approve an “interested party transaction” in certain cases. In the event that our minority shareholders or minority shareholders of our subsidiaries do not consent to or approve such transactions or other matters requiring their consent or approval, we could be limited in our operational flexibility, and our business, financial condition, results of operations and prospects could be materially adversely affected.

Our competitive position and future prospects depend on our senior managers and other key personnel and our inability to attract, retain and motivate qualified key personnel could have a material adverse effect on our business, financial condition and results of operations.

Our ability to maintain our competitive position and to implement our business strategy is dependent to a large degree on the services of our senior management team and other key personnel.

Moreover, competition in Russia and in the other countries where we operate for personnel with relevant expertise is intense due to the relatively small number of qualified individuals. The loss of any our senior management team members or an inability to attract, retain and motivate qualified key personnel could have a material adverse effect on our business, financial condition and results of operations. We structure our compensation packages in a manner consistent with the evolving standards of the labor markets in these countries. We are not insured against the detrimental effects to our business resulting from the loss, dismissal, or unavailability of our key personnel, resulting from a number of reasons, including but not limited to COVID-19 (for more information see “The outbreak of COVID-19 may have a material adverse effect on our business, financial condition, results of operations and prospects”). In addition, it is not common practice in Russia and the other countries where we operate to purchase key-man insurance policies, and we do not carry such policies for our senior management and other key personnel.

The entry of mobile virtual network operators into the Russian mobile communications market could increase competition and subscriber churn, resulting in a possible loss of our market share and decreased revenue.

On December 29, 2008, the Ministry of Communications and Mass Media adopted an order establishing the requirements for mobile virtual network operators (“MVNOs”). In 2017, new requirements relating to services of mobile radio communication and

telephone communications while using business models of mobile radio communication and telephone communications virtual networks were adopted. MVNOs are companies that provide mobile communications services but do not own the radio frequencies and, in some cases, the network infrastructure required to do so. According to the order, MVNOs in Russia must be licensed, and their use of frequencies and infrastructure and rendering of services is to be done pursuant to agreements entered into between MVNOs and existing frequency holders. However, existing frequency holders are under no obligation to enter into such agreements with the MVNOs.

By introducing this regime, the Ministry aims to increase competition in the Russian mobile services market, which is currently dominated by MTS, VEON and MegaFon. The existing frequency holders, including us, may receive revenues from MVNOs for the use of our frequencies and network infrastructure. However, in the event we lose either subscribers to MVNOs that lease their frequencies and infrastructure from other operators or MVNOs that lease their frequencies and infrastructure from us, we will be deprived of the revenue streams from both the subscribers and the MVNOs. The MVNOs may also establish aggressive tariffs, which could result in increased subscriber churn and/or driving down the tariffs of all mobile operators.

For example, Skartel (under the “Yota” brand), Rostelecom, Tinkoff Bank operate as MVNOs in the Russian mobile communications market.

It is currently unclear how the emergence of new MVNOs in the market or any of the foregoing trends might affect market competition and subscriber churn, but this could have a material adverse effect on our business, financial condition, results of operations and prospects.

A finding by the FAS that we have acted in contravention of antimonopoly legislation could have a material adverse effect on our business, financial condition and results of operations.

Our businesses have grown substantially through the acquisition and formation of companies, many of which required the prior approval of, or subsequent notification to, the FAS or its predecessor agencies.

In part, relevant legislation in certain cases restricts the acquisition or formation of companies by groups of companies or individuals acting in concert without such prior the FAS approval. While we believe that we have complied with the applicable legislation for our acquisitions and formation of new companies, this legislation is sometimes vague and subject to varying interpretations. If the FAS were to conclude that our acquisition or formation of a new company was done in contravention of applicable antimonopoly legislation, which has led or may lead to restriction of competition, including emergence or strengthening of the company’s dominant position, or find prescriptions of the FAS, issued as part of the transaction approval, not fulfilled, it could file a claim to liquidate or reorganize in the form of separation or division of an acquired or established company. Moreover, the FAS may impose administrative sanctions for non-compliance with antimonopoly law when acquiring or creating a company. These could have a material adverse effect on our business, financial condition and results of operations.

In recent years, the FAS has been investigating mobile operators, including MTS, for suspected violations of antimonopoly laws. For example, see “Item 8–Financial Information–A. Consolidated Statements and Other Financial Information–7. Litigation–Antimonopoly Proceedings” and “–Changes to the rules and regulations involving roaming charges in Russia may adversely affect our financial condition and results of operations.”

If the FAS finds that we have violated or otherwise acted in contravention of antimonopoly legislation, this could have a material adverse effect on our business, financial condition, results of operations and prospects.

If we are found to have a dominant position in the markets where we operate and are determined to have abused this position, the FAS may be entitled to regulate our subscriber tariffs and impose certain restrictions on our operations.

Under Russian legislation, a company controlling over 35% of a market may be found by the FAS to hold a dominant position in such market. In case of collective dominance of legal entities and in certain instances provided by law, a company could be also categorized by the FAS as dominant under certain conditions even if its share of the corresponding market is less than 35%, but equals to or is higher than 8%. Current Russian legislation does not clearly define “market” in terms of the types of services or the geographic area. In 2016, as a result of certain amendments to the Federal Law No. 135 “On the Protection of Competition,” the register of business entities having more than 35% of a certain commodity market or otherwise occupying a dominant position in the markets in which they operate, which previously listed MTS as occupying a dominant position in certain markets, was repealed. At the

same time, the FAS continues to conduct market analysis in order to identify entities holding a dominant position in the markets in which they operate.

Companies recognized as natural monopolies are also considered to have a dominant position in their respective markets. One of our subsidiaries, MGTS, is categorized as a natural monopoly in the Moscow telecommunications market. As a result, MGTS' tariffs are now subject to regulation by the FAS. In addition, as a natural monopoly, MGTS is obliged to comply with the rules of non-discriminatory third party access to its infrastructure. See also "Change of regulated tariffs may lag behind MGTS' real expenses growth, which may negatively impact profitability of our business."

In the event that we are found in the future to have a dominant position in the markets where we operate and are either determined to have abused the dominant position or found to have committed concerted actions in the market and/or concluded anti-competitive agreements, the FAS will have a right to impose certain restrictions on our operations in such markets. See "Item 4–Information on Our Company–B. Business Overview–Regulation of Telecommunications in the Russian Federation–Regulation in the Russian Federation–Competition, Interconnect and Pricing" for additional information.

If we are found to have violated antimonopoly legislation, an order requiring us to transfer any illegally obtained revenue to the federal budget may be issued in relation to such violations.

According to the Code of Administrative Offences of the Russian Federation, a company may be subject to either fixed penalty fine up to RUB 1 million or fine based on total turnover in the market where the violation is conducted, depending on the nature of violation of antimonopoly legislation. The level of fine ranges from 3% to 15% of revenue in the market where the violation is conducted for cartel agreements, from 1% to 15% of revenue for abuse of dominant position, from 1% to 5% of revenue for other anticompetitive agreements and from 1% to 3% of revenue for coordinated actions. Moreover, if the FAS finds actions of a company insufficient to rectify past violations of antimonopoly laws, it could file a claim for liquidation of this company or its reorganization in the form of division or separation.

If we or any of our subsidiaries were found by the competition authority to be business entities occupying a dominant market position, the competition authority would have a power to impose certain restrictions on our or our subsidiaries' businesses. In particular, the authorities may impose on us tariffs at levels that could be competitively disadvantageous. If we or any of our subsidiaries were found by the FAS to be business entities occupying a dominant market position with a market share exceeding 70% and determined to abuse such dominant position, the Russian government would have a right to determine the rules of non-discriminatory access to goods or services offered by us. Additionally, geographic restrictions on our expansion could reduce our subscriber base and prevent us from fully implementing our business strategy, which may materially adversely affect our business, financial condition, results of operations and prospects.

If we or any of our mobile network operator subsidiaries operating in Russia are identified as an operator occupying a "substantial position," the regulator may reduce our interconnect tariffs which, in turn, may have a material adverse effect on our financial condition and results of operations.

In addition to the regulation of dominant operators by the FAS, the Federal Law on Communications provides for the special regulation of telecommunications operators occupying a "substantial position" (i.e., operators which, together with their affiliates, have 25% or more of installed capacity or capacity to carry out transmission of not less than 25% of traffic in a geographically defined zone within the Russian Federation). These regulations provide for governmental regulation of the key terms of such operators' interconnect agreements, including the interconnect tariffs. In addition, such operators are required to develop standard key terms of interconnect agreements and publish them as a public offer made to all operators who intend to interconnect to the networks of those operators. Refusal of such operators to conduct an interconnect agreement is prohibited, except in cases where such agreement would contradict the terms of their license or other regulatory acts in respect of the unified communications network in the Russian Federation.

For additional information, see "Item 4–Information on Our Company–B. Business Overview–Regulation of Telecommunications in the Russian Federation–Regulation in the Russian Federation."

At present, the foregoing regulations apply only to fixed-line operators in Russia, including our fixed-line business. Draft legislation was introduced in 2008 that would extend the law to apply to mobile operators. Although the proposed law was not adopted, the risk that similar legislation will be proposed and adopted in the future remains. If any legislation that extends the

foregoing regulations to mobile operators is adopted, and we and any of our mobile network operator subsidiaries operating in Russia are identified as operators occupying a “substantial position,” regulators may reduce our interconnect tariffs which, in turn, may have a material adverse effect on our revenues, financial condition and results of operations.

In addition, MGTS is categorized as fixed-line operator occupying a substantial position in the Moscow telecommunications market and its interconnect tariffs are therefore subject to state regulation. In February 2013, Comstar-UTS was removed from the list of “substantial operators” in Moscow and MTS was not included therein. There is however a possibility that we could be categorized as fixed-line operator occupying a “substantial position” in Moscow due to our affiliation with MGTS and because of our integration with Comstar-UTS. As a result of the state regulation of the relevant interconnect rates, we, as “substantial operators,” may be unable to increase these in line with economic developments or any increases of our relevant costs, resulting in a material adverse effect on our financial condition and results of operations. See also “—Change of regulated tariffs may lag behind MGTS’ real expenses growth, which may negatively impact profitability of our business.”

Change of regulated tariffs may lag behind MGTS’ real expenses growth, which may negatively impact profitability of our business.

In addition to holding a “substantial position” in the Moscow telecommunications market, MGTS is included in the register of natural monopolies in the telecommunications market. Consequently, tariffs for basic services rendered to public switched telephone networks subscribers (fees for providing access to a local telecommunications network, monthly fees for granting subscriber line in a constant use and monthly fees for providing a local telephone connection) are subject to regulation.

Although MGTS is permitted to petition the FAS for increases in tariffs based on such criteria as inflation, increased costs and the need for network investments, it is possible that future requested increases may not be granted or that the FAS may not adequately take such factors into account in setting tariffs. If the permissible tariffs applicable to MGTS do not adequately compensate MGTS for the costs of providing services, our business and results of operations could be materially adversely affected. See also “—If we or any of our mobile network operator subsidiaries operating in Russia are identified as an operator occupying a “substantial position,” the regulator may reduce our interconnect tariffs which, in turn, may have a material adverse effect on our financial condition and results of operations.”

Changes to the rules and regulations involving roaming charges in Russia may adversely affect our financial condition and results of operations.

In September 2018, the Board of sectoral ministries of communications of the Russian Federation and the Republic of Belarus approved a Roadmap aimed at reducing roaming charges between two countries. In December 2018, the Russian party drafted a new project of the Roadmap aimed at cancellation of international roaming in the territory of the Union State in 2019. Later, as a result of negotiations between Russia and Belarus a new project of Roadmap, which assumes cancellation of roaming charges in the territory of the Union State in 2020, was developed. In December 2019, a new version of Roadmap was approved, according to which, cancellation of roaming charges in the territory of the Union State will take place in September 2020. In order to implement the Roadmap, we significantly reduced roaming charges in November 2020. This affected our revenues from roaming charges in Belarus.

In July 2017, the FAS sent a warning to mobile operators, in which it demanded to cancel intra-network roaming. In March 2018, the FAS opened an antimonopoly case against VEON, MTS and MegaFon (in connection with the non-fulfilment of the warning). In August 2018, the FAS found MTS, VEON and MegaFon to have violated the antimonopoly legislation. In December 2018, the FAS imposed a fine in the amount of RUB 737,500 on each of MTS, VEON and MegaFon. As of September 30, 2018 MTS changed charging principles for communication services outside “home” region for all subscribers.

In August 2017, the FAS opened an antimonopoly case against VEON, MTS, MegaFon and T2 Mobile LLC on the grounds of establishing and maintenance of monopolistically high prices for communication services in national roaming and inter-operator roaming agreements. On February 22, 2018 the FAS rendered a decision and found MTS responsible for establishing monopolistically high prices for subscribers for communication services in national roaming. VEON, MegaFon and T2 Mobile were also found guilty for establishing monopolistically high prices for subscribers for communication services in national roaming. In September 2018, following the examination of the case, the FAS imposed administrative fines in respect of each of the operators. The case related to inter-operator roaming agreements against MTS was canceled due to the fact that there had been no violation. See also “—A finding by the FAS that we have acted in contravention of antimonopoly legislation could have a material adverse effect on our business, financial condition and results of operations.”

On December 27, 2018, the Federal Law No. 527 was adopted, under which the intra-network roaming is cancelled, and MTS is obliged to provide subscribers with communication services on its network under the same conditions, regardless of whether a subscriber is in or outside the bounds of his "home network" when moving across the country. In addition, this law excludes the possibility of charging subscribers for incoming calls in intra-network and national roaming. The law came into force on June 1, 2019 and affected our revenue from intra-network and national roaming charges. Any similar regulatory changes which could limit our ability to charge fees for the services provided could have material adverse effect on our business and financial condition.

An action plan to establish conditions necessary for setting fair tariffs for international roaming services on the territories of the Eurasian Economic Union states in the first quarter of 2025 was adopted by the Decree No.19 of the Eurasian Economic Commission Board dated October 29, 2021. Although it is currently unclear how the Decree and its implementation might affect our operations, it could have a material adverse effect on our business, financial condition, results of operations and prospects. Any material fines imposed on us or changes to the roaming charges may adversely affect our financial condition and result of operations.

Compliance with the new regulations on IMEI numbers may present us with technical difficulties and may lead to the expenditure of significant resources.

A draft law that provides obligatory registration of a user terminal on an International Mobile Equipment Identity ("IMEI") numbers database was rejected in 2015.

If similar initiatives are proposed in the future, we may be required to develop a system to monitor IMEI numbers and may need to establish and maintain a database of IMEI numbers, which would necessitate the expenditure of significant technical and financial resources.

However, the Federal Law No. 533 dated December 30, 2020, which came into force starting from June 1, 2021, introduced amendments to the Law "On Communications", including the IMEI concept. According to the law, the subscriber has a right to add information on his number and/or the IMEI in the Integrated Identification and Authentication System (IIAS). If the subscriber lost his device, he may report this to the operator through the IIAS. Subject to the confirmation of an IMEI number, the operator should stop providing services for such device.

Currently, there are no practical ways to confirm the uniqueness of the equipment identifier because an IMEI number may be used by several mobile manufacturers. It is currently unclear how these amendments might affect our activities, but this could have a material adverse effect on our business, financial condition and results of operations.

The accession of Russia to the World Trade Organization (the "WTO") may lead to legislative and business changes.

On August 22, 2012, the Russian Federation became a member of the WTO. This may lead to potentially significant changes in Russian legislation including, among others, regulation of foreign investments in Russian companies, competition laws, telecommunications laws, changes in the taxation system and customs regulations in Russia. In addition, the implementation of the WTO rules may lead to increased competition in the markets where we operate. During the period of 2012 to 2021, Russia adopted certain changes to its legislation related to the accession to the WTO, for example, regarding intellectual property laws, tax legislation; however, it is still unclear if, and when, all necessary legislative changes related to the WTO accession will take place. If further new legislation is implemented in Russia as a result of its accession to the WTO, this could have a material adverse effect on our financial condition and results of operations.

We may be required to make significant investments beyond those that are currently planned to preserve our competitive advantage in response to the rapid evolution of fixed network technology.

One of our subsidiaries, MGTs, has devised a number of projects aimed at developing communications networks and expanding availability of telecommunications services for customers. The likely shortage of free cash flow during the current economic downturn could halt such investment programs for the development of new products and services, and possibly lead to a decrease in the number of projects and cutbacks in development programs in the New Moscow and Moscow regions.

The company completed its project on connection of its subscribers to broadband optical networks employing the Gigabit-capable Passive Optical Network ("GPON") technology in Moscow, however, the network development still continues in Moscow and Moscow region. In addition, transition to a single converged network and BRAS (Broadband Remote Access Server) expansion are being performed. See "Item 4—Information on Our Company—A. History and Development—Capital Expenditure" for further information. The lack or limited access to residential buildings, for example, due to COVID-19 impact, may affect these projects on construction and modernization of fixed-line network. For more information see "—The outbreak of COVID-19 may have a material adverse effect on our business, financial condition, results of operations and prospects."

We engage contractors for the construction and upgrade of our network. Due to the currently unfavorable market conditions, some of our contractors may face a lack of own current assets and/or external finance sources, as well as other reasons, which may lead to the contractor's inability to fulfill contract obligations or, in some cases, lead to bankruptcy. This may negatively affect the terms of our projects' implementation and lead to higher costs. If we are not able to expand and upgrade our network infrastructure in a timely manner and offer new services, or if it is required to make significant investments beyond those that are currently planned, our business, financial condition, results of operations and prospects could be materially adversely affected.

Our intellectual property rights are costly and difficult to protect.

We regard our copyrights, trademarks, patents and similar intellectual property rights, including our rights to certain domain names, as essential to our continued success. We rely upon legislation on intellectual property, trade secret protection laws, as well as confidentiality and/or license agreements or contracts with our employees, customers, partners and others, to protect our proprietary rights. Nonetheless, intellectual property rights are particularly difficult to protect in the markets where we operate. In these markets, the regulatory agencies responsible for the protection of intellectual property rights are inadequately funded, legislation is underdeveloped, piracy and infringement are commonplace, and enforcement of court decisions is problematic.

Litigation may be necessary to enforce our intellectual property rights, to determine the validity and scope of rights of others, or to defend against claims of infringement. Any such litigation may result in substantial costs and diversion of resources and, if decided unfavorably to us, could have a material adverse effect on our business. We also may incur substantial acquisition or settlement costs to the extent that it would strengthen or expand our intellectual property rights or limit our exposure to intellectual property claims of third parties.

Breach of information confidentiality, integrity and availability may lead to interruption of business critical processes, a loss of market share and claims from subscribers, regulators, and partners which could materially adversely affect our reputation, business, financial condition, results of operations and prospects.

We ensure the security of restricted information processing in corporate information systems, including when working remotely (for example, distant work period). However, unauthorized actions of our employees and partners that violate information security policy, as well as illegal actions of third parties may lead to breach of information confidentiality, integrity and availability, including subscriber data leakage, and, as a result, to interruption of business-critical processes, a loss of market share, claims from subscribers, regulators, and partners what could materially adversely affect our reputation, business, financial condition, results of operations and prospects.

Despite the measures taken, we cannot completely exclude the possibility of such incidents occurring in the future. See also "—Legal Risks and Uncertainties—Russian and foreign legislation on personal data and information security in information systems and communication networks may turn out to be hard to implement and require significant resources. Inability to comply with the requirements may lead to sanctions."

Alleged medical risks of cellular technology may subject us to negative publicity or risk of litigation, decrease our access to base station sites, diminish subscriber usage and hinder access to additional financing.

Electromagnetic emissions from transmitter masts and mobile handsets may harm the health of individuals exposed for long periods of time to such emissions. The actual or perceived health risks of transmitter masts and mobile handsets could materially adversely affect us or our subsidiaries by reducing subscriber growth, reducing usage per subscriber, increasing the number of product liability lawsuits, increasing the difficulty of obtaining or maintaining sites for base stations and/or reducing the financing available to the wireless communications industry. Each of these potential risks may adversely affect our business, financial condition, results of operations and prospects.

Effects of climate change may impose risk of damage to our infrastructure, our ability to provide services, additional costs and have a material adverse effect on our business and financial condition.

Extreme weather events precipitated by long-term climate change have the potential to directly damage network facilities or disrupt our ability to build and maintain portions of our network and could potentially disrupt suppliers' ability to provide products and services required to provide reliable network coverage. Any such disruption could delay network deployment plans, interrupt service for our customers, increase our costs and have a negative effect on our operating results, financial condition and our business. The potential physical effects of climate change, such as increased frequency and severity of storms, floods, fires, freezing conditions, sea-level rise, and other climate-related events, could adversely affect our operations, infrastructure, and financial results. Operational impacts resulting from the potential physical effects of climate change, such as damage to our network infrastructure, could result in increased costs and loss of revenue. We could incur significant costs to improve the climate resiliency of our infrastructure and otherwise prepare for, respond to, and mitigate such physical effects of climate change. We are not able to accurately predict the materiality of any potential losses or costs associated with the physical effects of climate change.

Effects of climate change may lead to regulatory changes and additional requirements from customers, investors and other stakeholders that may have a negative effect on our business, financial condition, results of operations and reputation.

Due to the nature of our operations, we may be impacted by regulatory developments related to climate change, including, for example, the introduction of national carbon regulation, and the revision of plans for the contract on the provision of renewable energy capacity, which may lead to an increase in the price of purchased electricity. In addition, the introduction of carbon pricing in various jurisdictions may lead to an increase in the prices of purchased equipment, and the lack of a public position regarding the setting of decarbonization goals and the development of appropriate action plans may lead to a deterioration of market positions and a decrease in the confidence of interested parties. In addition, in case of the lack of response to customer requirements regarding the company's decarbonization goals and the availability of low carbon telecommunications solutions it may lead to a decrease in revenue.

Further, customers, consumers, investors and other stakeholders are increasingly focusing on environmental issues, including climate change, water use, deforestation, plastic waste, and other sustainability concerns. Concern over climate change or other environmental, social and governance (ESG) matters may result in new or increased legal and regulatory requirements to reduce or mitigate impacts to the environment and reduce the impact of our business on climate change. Further, climate change regulations may require us to alter our proposed business plans or increase our operating costs due to increased regulation or environmental considerations, and could adversely affect our business and reputation.

Risks Relating to our Financial Condition

We may be adversely affected by the current economic environment.

Macroeconomic challenges, resulting from a number of reasons, including but not limited to, the COVID-19 pandemic, credit market crisis (including uncertainties with respect to financial institutions and the global capital markets), instability of prices for major export commodities (including oil and metals) and other factors, currently affecting many of the markets in which we operate, may negatively impact our clients' disposable incomes and our vendors' cash flows. See also "–Ruble volatility and regulatory changes in foreign currency regulation could increase our costs, decrease our available funds or make it more difficult for us to comply with financial covenants and to repay our debts and would affect the value of dividends received by holders of ADSs".

Consequently, customers may modify or decrease their usage of our services and products or fail to pay the outstanding balances on their accounts, and vendors may significantly increase their prices, eliminate vendor financing, reduce their output or fail to supply equipment, subscriber devices and services on a timely basis.

We may also experience increases in accounts receivable and bad debt among corporate subscribers, some of whom may face liquidity problems and potential bankruptcy, as well as the potential bankruptcy of our corporate partners. The deterioration of economies in the countries of our operation may lead, inter alia, to insolvency of financial institutions, which in turn may affect our business and financial condition.

A decline in subscriber usage, an increase in bad debts, material changes in equipment pricing or financing terms or the potential bankruptcy of our corporate subscribers or partners may have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, a further deterioration in macroeconomic conditions could require us to reassess the value of goodwill on certain of our assets, recorded as a difference between the fair value of the assets of business acquired and its purchase price. This goodwill is subject to impairment tests on an ongoing basis. The weakening macroeconomic conditions in the countries in which we operate and/or a significant difference between the performance of an acquired company and the business case assumed at the time of acquisition could require us to write down the value of the goodwill or portion of such value. Future write-downs relating to the value of the goodwill or portion of such value could have a material adverse effect on our financial condition and results of operations. Likewise, the current geopolitical situation in Russia and Ukraine might also have an impact on the value of our business goodwill. See also “Political and Social Risks—Further deterioration in relations between Russia and other states that were part of Soviet union as republics, as well as other geopolitically related disagreements and allegations between Russia and other countries and sanctions imposed as a result thereof, could materially adversely affect our business, financial condition, results of operations, prospects and the value of our shares and ADSs.”

Continued turmoil in the credit markets could cause our business, financial condition, results of operations and the value of our shares and ADSs to suffer.

Sanctions introduced by the United States, European Union, United Kingdom and other countries with respect to the Russian Federation coupled with an economic downturn caused a significant capital outflow, ruble depreciation, a rise of credit rates in the domestic market and a lack of available financing.

In June 2019 the Central Bank of Russia decided to decrease the key rate by 0.25 p.p. (down to 7.5%), and taking into account decrease of inflation rate key rate decrease continued and in July 2020 reached 4.25%. During 2021 the key rate grew up several times and in December 2021 it reached 8.5%. In February 2022, the Bank of Russia raised the key rate up to 9.5%, and later - up to 20%. Further growth of the key rate may negatively affect the cost of funding. See also “Political and Social Risks—Further deterioration in relations between Russia and other states that were part of Soviet union as republics, as well as other geopolitically related disagreements and allegations between Russia and other countries and sanctions imposed as a result thereof, could materially adversely affect our business, financial condition, results of operations, prospects and the value of our shares and ADSs.”

A continuation or repetition of the downturn in the global financial markets as well as a toughening or extension of international sanctions against Russia and the resulting volatility of the trading price of our shares and ADSs may negatively impact our ability to obtain financing on commercially reasonable terms, either domestically or overseas, and could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our inability to generate sufficient free cash flow to satisfy our debt service obligations or to refinance debt on commercially reasonable terms, could materially adversely affect our business, financial condition, results of operations and prospects.

We have an amount of outstanding indebtedness, primarily consisting of the obligations we entered into in connection with our notes and bank loans. For information about our debt and finance cost, see “Item 5—Operating and Financial Review and Prospects—A. Operating Results.”

Our ability to service, repay and refinance our indebtedness and to fund planned capital expenditure will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, we may default under the terms of our financial indebtedness, and the holders of our indebtedness would be able to accelerate the maturity of such indebtedness, potentially causing cross-defaults under and acceleration of our other indebtedness. The existing debt servicing is becoming more difficult due to our dependence on floating interest rates in the financial markets.

We may not be able to generate sufficient cash flow or access domestic or international capital markets, or incur additional loans to enable us to service or repay our indebtedness or to fund our other liquidity needs. We may be required to refinance all or a portion of our indebtedness on or before maturity for a number of reasons. This, in turn, may force us to sell assets, reduce or delay capital expenditure or seek additional capital. Refinancing or additional financing may not be available on commercially reasonable terms or at all, and we may not be able to sell our assets or, if sold, the proceeds therefrom may not be sufficient to meet our debt service obligations. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance debt on commercially reasonable terms, would materially adversely affect our business, financial condition, results of operations and prospects. See “Item 5—Operating and Financial Review and Prospects—B. Liquidity and Capital Resources.”

Ruble volatility and regulatory changes in foreign currency regulation could increase our costs, decrease our available funds or make it more difficult for us to comply with financial covenants and to repay our debts and would affect the value of dividends received by holders of ADSs.

The ruble volatility can be explained by external geopolitical factors, limited financial markets, change in oil prices, change in internal consumption and other factors.

As of December 31, 2019, ruble amounted to 61.91 per one U.S. dollar. As of December 31, 2020 and December 31, 2021, the ruble exchange rate was RUB 73.88 per 1 US dollar and RUB 74.29 per 1 US dollar, respectively. As of April 2, 2022, the ruble has dropped down to RUB 83.43 per 1 US dollar. See also “—Fluctuations in the global economy may materially adversely affect the economies of the countries where we operate and our business in these countries.” and “—Political and Social Risks—Further deterioration in relations between Russia and other states that were part of Soviet union as republics, as well as other geopolitically related disagreements and allegations between Russia and other countries and sanctions imposed as a result thereof, could materially adversely affect our business, financial condition, results of operations, prospects and the value of our shares and ADSs.”

See also “—Changes in the exchange rate of local currencies in the countries where we operate against the Russian ruble, as well as changes in the exchange rate of the Russian ruble and local currencies against the U.S. dollar and/or euro could adversely impact our financial results.”

The stability of the ruble will depend on many political and economic factors. These include the ability of the government to finance the deficit of the state budget without recourse to monetary emissions and to control the level of interest rates and inflation. Furthermore, changes in foreign currency regulation may affect our ability to fund payments denominated in foreign currency and result in us entering into supplementary agreements with our foreign counterparts.

A significant portion of our capital expenditure and liabilities are either denominated in or tightly linked to the U.S. dollar. Conversely, a majority of our revenues are denominated in rubles. As a result, devaluation of the ruble against the U.S. dollar can adversely affect us by increasing our costs in rubles, both in absolute terms and relative to our revenues, and make it more difficult to comply with the financial ratios contained in our various loan agreements or fund cash payments on our indebtedness on time. It also reduces the U.S. dollar value of tax savings arising from tax incentives for capital investment and the depreciation of our property, plant and equipment, since their basis for tax purposes is denominated in rubles at the time of the investment. Increased tax liability would also increase total expenses, which would have an adverse impact on our results.

We also anticipate that any dividends we may pay in the future on the shares represented by the ADSs will be declared and paid to the depository in rubles and will be converted into U.S. dollars by the depository and distributed to holders of the ADSs. Accordingly, the value of dividends received by holders of ADSs will be subject to fluctuations in the exchange rate between the ruble and the U.S. dollar. Any further depreciation of the ruble against the U.S. dollar could therefore materially adversely affect our financial condition, results of operations and prospects and the value of our ADSs. See also “Item 11—Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Risk.”

Changes in the exchange rate of local currencies in the countries where we operate against the Russian ruble, as well as changes in the exchange rate of the Russian ruble and local currencies against the U.S. dollar and/or euro could adversely impact our financial results.

Our expenditure, including capital expenditure, is denominated in, or closely linked to, the Ruble, the U.S. dollar, euro and/or yuan, while substantially all of our revenues are denominated in local currencies of the countries where we operate. The devaluation of local currencies against the Russian ruble can adversely affect our revenues reported in Russian rubles and increase our costs in terms of local currencies. In addition, local regulatory restrictions on the purchase of hard currency in the majority of countries where we operate may delay our ability to purchase equipment and services necessary for network expansion which, in turn, may cause difficulty in expanding our subscriber base in those countries. Further, a portion of our cash balances is held in jurisdictions outside Russia, and as a result of currency exchange controls in those jurisdictions, these cash balances may not always be readily available for our use.

In addition, a portion of our liabilities and borrowings (including our U.S. dollar denominated notes) are also either denominated in or tightly linked to the U.S. dollar or euro. A significant part of these is hedged through financial instruments with various banks, though the risk that such hedging is not fully effective remains.

On July 1, 2016, Belarus redenominated its currency on a scale of 10,000:1. As of December 31, 2019 and December 31, 2020, the official exchange rate published by the National Bank of the Republic of Belarus amounted to 2.10 and 2.58 Belarusian rubles per one U.S. dollar, respectively. As of December 31, 2021, the official exchange rate was 2.55 Belarusian rubles per 1 U.S. dollar. As of April 5, 2022, the exchange rate reached 2.95 Belarusian rubles per 1 US dollar. The possible devaluation of the Belarusian ruble in the future may adversely affect our revenues from this market.

See also “Inflation could increase our costs and adversely affect our results of operations” and “Item 11—Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Risk.”

If we are unable to obtain adequate capital, we may have to limit our operations substantially, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We have to make significant capital expenditure, particularly in connection with the development, construction and maintenance of, and the purchasing of necessary software for, our mobile and fixed-line networks. For information about our capital expenditures, see “Item 4—Information on Our Company—A. History and Development—Capital Expenditure.” Further, the acquisition of 3G and 4G licenses and frequency allocations and the build-out of our 3G, 4G and broadband Internet networks will require additional capital expenditure.

However, future financings and cash flow from our operations may not be sufficient to meet our planned needs in the event of various unanticipated potential developments, including the following:

- a lack of external financing sources;
- changes in the terms of existing financing arrangements;
- construction of the wireless networks at a faster rate or higher capital cost than anticipated;
- pursuit of new business opportunities or investing in existing businesses that require significant investment;
- acquisitions or development of any additional wireless licenses;
- slower than anticipated subscriber growth;
- slower than anticipated revenue growth;
- regulatory developments;

- changes in existing interconnect arrangements; or
- a deterioration in the economies of the countries where we operate.

During the period from 2014 to 2022, the United States and the European Union announced sanctions applying to a number of Russian and Ukrainian individuals and associated institutions. The sanctions may be extended and our ability to gain external funding may be affected. See also “–Political and Social Risks–Further deterioration in relations between Russia and other states that were part of Soviet union as republics, as well as other geopolitically related disagreements and allegations between Russia and other countries and sanctions imposed as a result thereof, could materially adversely affect our business, financial condition, results of operations, prospects and the value of our shares and ADSs.”

Our indebtedness and the limits imposed by covenants in our debt obligations could limit our ability to obtain additional financing and thereby constrain our ability to invest in our business and place us at a possible competitive disadvantage. If we cannot obtain adequate funds to satisfy our capital requirements, we may need to limit our operations significantly, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Inflation could increase our costs and adversely affect our results of operations.

The Russian economy has been characterized by high rates of inflation, which over the past few years have been mainly driven by weakening of national currencies, restrictions on foreign trade and acceleration in food prices.

In 2014, the Bank of Russia implemented an inflation targeting program. As a result of this, inflation in Russia reached 3.0% in 2019 and 4.9% in 2020. In 2021, there was a significant increase in inflation in the US and the Eurozone, covering a wide range of goods, increased inflationary pressure due to rising costs in the global economy. In Russia, this factor also fueled inflationary expectations and hampered the transition to a steady slowdown in inflation. As a result, inflation in Russia reached 8.39% in 2021.

According to the March macroeconomic survey of the Bank of Russia the inflation in Russia may reach 20% in 2022.

At the end of 2019 and 2020, inflation in Belarus amounted to 4.7% and 7.4%, respectively. For the year ended 31 December 2021, the annual rise of consumer prices published by the National Bank of the Republic of Belarus amounted to 9.8%.

High rates of inflation in Russia and other countries of our operation could increase our costs and decrease our operating margins. See also “Item 5–Operating and Financial Review and Prospects–A. Operating Results–Certain Factors Affecting our Financial Position and Results of Operations–Inflation.” and “–Political and Social Risks–Further deterioration in relations between Russia and other states that were part of Soviet union as republics, as well as other geopolitically related disagreements and allegations between Russia and other countries and sanctions imposed as a result thereof, could materially adversely affect our business, financial condition, results of operations, prospects and the value of our shares and ADSs.”

See also “–Changes in the exchange rate of local currencies in the countries where we operate against the Russian ruble, as well as changes in the exchange rate of the Russian ruble and local currencies against the U.S. dollar and/or euro could adversely impact our financial results” and “Item 11–Quantitative and Qualitative Disclosures about Market Risk–Foreign Currency Risk.”

Indentures relating to some of our notes contain, and some of our loan agreements contain, restrictive covenants, which limit our ability to incur debt and to engage in various activities.

Covenants in the agreement relating to our Eurobonds due 2023 limit our ability to create liens on our properties, merge or consolidate with another person or convey our properties and assets to another person.

Some of our loan agreements contain similar and other covenants, including, in relation to the incurrence of indebtedness, creation of liens and disposal of assets. We may also incur additional credit obligations providing for similar covenants. Failure to comply with these covenants may cause a default and result in the debt becoming immediately due and payable, which would materially adversely affect our business, financial condition and results of operations.

A material adverse effect on our financial condition and results of operations could occur if redemption rights of our noteholders are invoked.

Under the terms of our outstanding notes, upon occurrence of the circumstances described below, our noteholders will have the right to require us to redeem notes not previously called for redemption. The price we will be required to pay upon such event will be 101% of the principal amount of the notes, plus interest accrued prior to the redemption date. Such redemption scenario could be triggered in any of the following circumstances:

- with respect to the notes due 2023, any person acquires beneficial or legal ownership of, or control over, more than 50% of our issued shares, ownership of or control over more than 50% of the voting interests in our share capital or obtains the power to elect not less than half of our directors, provided that the following transactions would not be deemed to trigger a right of noteholders to require redemption of our notes:
- any acquisition by Sistema or its subsidiaries that results in the 50% threshold being exceeded;
- any acquisition by us, our subsidiary or our employee benefit plan; and
- a contribution by Sistema of all or part of its ownership interest in us into a partnership, joint venture or other indirect holding vehicle as long as any other person who is an owner of or party interested in that partnership, joint venture or other indirect holding vehicle does not acquire beneficial ownership of or control over more than 50% of our issued shares, does not acquire ownership of or control over more than 50% of the voting interests in our share capital and does not obtain the power to elect not less than half of our directors.

Some of our loan agreements contain similar redemption provisions triggered by occurrence of similar events. If such events occur, and our noteholders and other debt holders exercise their right to require us to redeem all of their notes or debt, such event could have a material adverse effect on our financial condition and results of operations.

In addition, under certain of our debt agreements, an event of default may be deemed to have occurred and/or we may be required to make a prepayment if Sistema disposes of its stake in our company and a third party takes a controlling position in our company. The occurrence of any such event of default or failure to make any required prepayment, which leads to an event of default, could trigger cross default / cross acceleration provisions under certain of our other debt agreements. In such event, our obligations under one or more of these agreements could become immediately due and payable, which would have a material adverse effect on our business and our shareholders' equity. If Sistema were to dispose of its stake in us, our company may be deprived of the benefits and resources that it derives from Sistema, which could harm our business.

Risks Relating to Economic Risks in Our Countries of Operation

Economic instability in the countries where we operate could adversely affect our business.

Since the dissolution of the Soviet Union in 1991, the economies of Russia and other countries where we operate have experienced periods of considerable instability. For example, GDP level significantly impacted basic commodity prices as was detected during the crisis in 2008 and 2009.

The Federal State Statistics Service estimated that the Russian economy grew by 2.2% in 2019. However, the Russian GDP decreased by 2.7% in 2020 due to COVID-19 outbreak as well as a drop in global demand for energy resources. In 2021 Russian GDP grew by 4.7%. According to the March macroeconomic survey of the Bank of Russia, the GDP may decrease by 8% in 2022. See also "Political and Social Risks—Further deterioration in relations between Russia and other states that were part of Soviet union as republics, as well as other geopolitically related disagreements and allegations between Russia and other countries and sanctions imposed as a result thereof, could materially adversely affect our business, financial condition, results of operations, prospects and the value of our shares and ADSs."

Any future economic downturns in Russia or the other countries where we operate, could lead to a decrease in demand for our services and, consequently, in our revenues, and negatively affect our liquidity position and ability to obtain further debt financing, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

The Russian banking system remains underdeveloped, the number of creditworthy banks in Russia is limited and another banking crisis could place severe liquidity constraints on our business.

Russia's banking and financial services systems are less developed or regulated as compared to other countries, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent application. The August 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. Many Russian banks currently do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags far behind internationally accepted norms. Aided by inadequate supervision by the regulators, certain banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. Furthermore, in Russia, bank deposits made by corporate entities are generally not insured.

In recent years, there has been a rapid increase in lending by Russian banks, which has been accompanied by a deterioration in the credit quality of the borrowers. In addition, a robust domestic corporate debt market is leading Russian banks (including the banks with which we conduct banking transactions) to hold increasingly large amounts of Russian corporate ruble bonds in their portfolios, which is further deteriorating the risk profile of Russian bank assets. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturn or economic slowdown. In addition, the CBR has from time to time revoked the licenses of certain Russian banks, which resulted in market rumors about additional bank closures and many depositors withdrawing their savings. Recently, a number of banks and credit institutions have lost their licenses due to the deficiency of capital and failure to meet the CBR requirements. In 2014-2018, for instance, the CBR revoked the licenses of a number of Russian banks for reasons associated with implementing high-risk lending policies, loss of liquidity and non-compliance with anti-money laundering legislation. A combination of these factors may result in a significant deterioration in the financial fundamentals of Russian banks, notably liquidity, asset quality and profitability. In addition, the Russian banking sector may experience instability and weaker financial results due to the ongoing volatility in the global financial and commodity markets, as well as any decline in the Russian economy as a result of COVID-19 and the decline in oil prices.

There is currently a limited number of sufficiently creditworthy Russian banks and few ruble denominated financial instruments in which we can invest our excess ruble cash. We hold the bulk of our excess ruble and foreign currency cash in Russian banks, including subsidiaries of foreign banks.

In the event of a banking crisis, Russian companies may be subject to severe liquidity constraints due to the limited supply of domestic savings and the withdrawal of foreign funding sources that may occur during such crisis. Another banking crisis or the bankruptcy or insolvency of the banks from which we receive or with which we hold our funds could result in the loss of our deposits or affect our ability to complete banking transactions in Russia, which could have a material adverse effect on our business, financial condition and results of operations. See also "Political and Social Risks—Further deterioration in relations between Russia and other states that were part of Soviet union as republics, as well as other geopolitically related disagreements and allegations between Russia and other countries and sanctions imposed as a result thereof, could materially adversely affect our business, financial condition, results of operations, prospects and the value of our shares and ADSs."

The physical infrastructure in Russia and the other countries where we operate is generally in poor condition, which could disrupt our normal business activities and adversely impact our results.

The physical infrastructure in Russia and the other countries where we operate does not always meet modern technical requirements, has not been always funded and maintained over the past years.

Particularly affected are the rail and road networks, power generation and transmission systems, communication systems and building stock. For example, in August 2009, a major accident occurred at Russia's largest power plant, the Sayano-Shushenskaya hydroelectric power station, resulting in flooding of the engine and turbine rooms and the death of 75 people. Power generation from the station ceased completely following the incident, which led to a major power outage in the nearby residential areas and at certain industrial facilities as well as pollution of the rivers and soil as a result of an oil spill from the transformer.

In addition, the road conditions throughout our countries of operation may be poor with many roads not meeting minimum quality and safety standards, causing disruptions and delays in the transportation of goods to and within these countries. The governments of the countries where we operate are actively considering plans to reorganize their national rail, electricity and

communications systems. Any such reorganization may lead to additional costs and increased tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. The deterioration or insufficient renewal of the physical infrastructure in the countries where we operate harms the national economies, adds costs to doing business in these countries and impedes companies to operate effectively. These difficulties can impact us directly; for example, we keep portable electrical generators to help us maintain base station operations in the event of power outages. Further deterioration of the physical infrastructure in Russia and the other countries where we operate could have a material adverse effect on our business, financial condition and results of operations. In addition, the increased charges and tariffs that may result from the government reorganization may also have a material adverse effect on our business, financial condition and results of operations.

Fluctuations in the global economy may materially adversely affect the economies of the countries where we operate and our business in these countries.

The economies of the countries where we operate are vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and the other countries where we operate, and businesses in these countries could consequently face severe liquidity constraints. Additionally, as Russia produces and exports large amounts of oil and gas, the Russian economy is especially vulnerable to the price of oil and gas on the world market and a decline in the price of oil and gas could negatively impact its economy. See also “—Ruble volatility and regulatory changes in foreign currency regulation could increase our costs, decrease our available funds or make it more difficult for us to comply with financial covenants and to repay our debts and would affect the value of dividends received by holders of ADSs”. In addition, recent military conflicts and international terrorist activity have significantly impacted the oil and gas prices globally, and pose additional risks to the Russian economy. Russia is also a major producer and exporter of metal products and its economy is vulnerable to world commodity prices and the imposition of tariffs and/or anti-dumping measures by the United States, the European Union or other principal export markets.

Although our results have not been materially affected by the pandemic to date, there can be no assurance that our business could be materially affected. For more information see “—The outbreak of COVID-19 may have a material adverse effect on our business, financial condition, results of operations and prospects.”

The disruptions recently experienced in the domestic and international capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in emerging markets, including us, may be particularly susceptible to these disruptions and reductions in the availability of credit or increases in financing costs. To the extent that the current market downturn continues or worsens, it may lead to constraints on our liquidity and ability to obtain debt financing, which may have a material adverse effect on our business, financial conditions and results of operations. See also “—Political and Social Risks—Further deterioration in relations between Russia and other states that were part of Soviet union as republics, as well as other geopolitically related disagreements and allegations between Russia and other countries and sanctions imposed as a result thereof, could materially adversely affect our business, financial condition, results of operations, prospects and the value of our shares and ADSs.”

Political and Social Risks

Political and governmental instability in Russia and other countries of our operations could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

The political and economic situation in Russia has been negatively affected by the global financial crisis, the economic sanctions imposed by the United States, the European Union, Great Britain and other countries, the ongoing volatile economic conditions as well as the continuing impact of COVID-19 pandemic. Other countries where we operate may pose similar challenges. Current and possible future political changes in Russia and other countries where we operate, major policy shifts or a lack of consensus between the various branches of power and powerful economic groups could disrupt or reverse economic and regulatory reforms. This could, in turn, lead to further political instability or conflicts among powerful economic groups, which could have a material adverse effect on our business, financial condition, results of operations, prospects and the value of our shares and ADSs. For example, after the presidential elections, which took place on August 9, 2020, protests began in Belarus. Moreover, the United States, the European Union, Great Britain and other countries have imposed additional sanctions on certain Belarusian persons and entities. Further destabilization of the political and social situation can negatively affect our business, financial position and operations. A deterioration of the socio-political situation in Russia could also trigger an event of default under some of our loan agreements.

On July 4, 2020, the Law of the Russian Federation on Amendment to the Constitution of the Russian Federation came into force which implemented a number of constitutional reforms aimed at altering the balance of power between the legislative, executive and judicial branches and introducing certain other changes to the Constitution of the Russian Federation. This Law, among other things, prioritizes the Constitution of the Russian Federation over international treaties and the decisions of international bodies, strengthens the Russian State Council as an advisory board to the Russian President and grants the Russian Federal Council with authority to terminate the powers of the judges of the Constitutional Court of Russia upon the recommendation of the Russian President. These amendments to the Constitution may have a significant impact on the Russian political landscape and regulatory environment and lead to other changes that are currently difficult to predict. See also “Further deterioration in relations between Russia and other states that were part of Soviet union as republics, as well as other geopolitically related disagreements and allegations between Russia and other countries and sanctions imposed as a result thereof, could materially adversely affect our business, financial condition, results of operations, prospects and the value of our shares and ADSs.”

Potential conflict between central and regional authorities could create an uncertain operating environment hindering our long-term planning ability.

The Russian Federation is a federation of units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. A lack of consensus between the federal government and local or regional authorities could result in the enactment of conflicting legislation at various levels and may lead to political instability. In particular, conflicting laws have been enacted in the areas of privatization, land legislation and licensing. Some of these laws, as well as governmental and administrative decisions implementing them and certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus may hinder our long-term planning efforts and create uncertainties in our operating environment, both of which may prevent us from effectively and efficiently implementing our business strategy.

Additionally, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, which can halt normal economic activity and disrupt the economies of neighboring regions. The further intensification of violence, including terrorist attacks and suicide bombings, or its spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some parts or the whole of Russia. Moreover, any terrorist attacks and the resulting heightened security measures are likely to cause disruptions to domestic commerce and exports from Russia. Any of these factors could materially adversely affect our business and the value of our shares and ADSs.

Further deterioration in relations between Russia and other states that were part of Soviet union as republics, as well as other geopolitically related disagreements and allegations between Russia and other countries and sanctions imposed as a result thereof, could materially adversely affect our business, financial condition, results of operations, prospects and the value of our shares and ADSs.

In February and March 2022, as a result of the ongoing geopolitical conflict in Ukraine, the EU, the U.S., the UK and certain other countries have imposed new significant sanctions and export controls on Russia, particular sectors of Russian economy, and some Russian and Belarusian persons and entities. The continuation or expansion of such restrictions as well as uncertainty due to changes in the regulatory environment in Russia may raise additional compliance and operational challenges for the Company and adversely affect the business of the Company and its customers. In addition, a number of western companies and exchanges have taken further action suspending, stopping, or restricting their operations in Russia by their own initiative. On February 28, 2022, trading on the Moscow Exchange in all equity securities was suspended (including the Company's ordinary shares), which was later suspended until the limited resumption of stock trading on MOEX on March 24, 2022, and the full resumption of stock trading on MOEX on March 28, 2022. Also, on February 28, 2022, the New York Stock Exchange halted trading in the Company's ADRs and stocks of certain other Russian companies.

In addition, on February 24, 2022, the U.S. Department of Commerce, Bureau of Industry and Security ("BIS") issued a final rule imposing enhanced export controls on Russia, and a license generally is now required for the export, reexport or transfer (in country) of a number of items subject to the Export Administration Regulations ("EAR") to Russia, including electronics, computers, telecommunications and information security, sensors and lasers, navigation and avionics, marine, and aerospace and propulsion. Most export license applications for Russia will now be subject to a policy of denial, and applications may be reviewed on a case-by-case basis if they relate to flight safety, maritime safety, humanitarian needs, civil telecommunications infrastructure, government space cooperation and government-to-government activities. On March 2, 2022, BIS issued additional export controls relating to Belarus and further expanding the scope of certain export controls relating to Russia.

On February 25, 2022, the European Union published a package of export control measures against Russia, and the package, *inter alia*, imposes further restrictions on the export of dual-use goods and technology to Russia and other goods and technology which might contribute to Russia's technological enhancement of its defense and security sector. These measures cover equipment related to the manufacturing of electronic components and materials and other specially designed components and accessories, with certain limited exceptions.

On February 28, 2022, the UK removed Russia as a permitted destination from numerous open general export licenses, and suspended the approval of new export licenses for dual-use items to Russia. On March 1, 2022, a number of further amendments were made, expanding the scope of the existing ban on the export, supply and delivery, making available and transfer of military goods and technology to and for use in Russia, to include certain electronics, computers, telecommunications equipment and information security, sensors and lasers, marine-related items and aerospace and propulsion-related items, with certain exceptions.

In addition, the U.S., the EU, the UK, and other countries have imposed a number of sanctions relating to Russia and Russian parties, including: (i) sanctions that block the property of certain Russian entities and individuals, including a number of financial institutions; (ii) targeted sanctions that prohibit certain debt and/or equity or other transactions with identified companies (including those operating in the Russian financial, energy, and defense sectors); (iii) restrictions on transactions with the Russian Central Bank, National Wealth Fund, Ministry of Finance, and (iv) territorial sanctions restricting investment in and trade with Crimea, Donetsk, and Luhansk. In addition, a number of Russian financial institutions have been removed from the SWIFT messaging system.

Moreover, the restrictions introduced by the U.S., the EU, the UK and other countries may impact supply chain and cost of delivery of equipment and other products, and our business and financial condition.

In particular, pursuant to Decrees of the President of the Russian Federation, Orders of the Russian Government and acts of the Central Bank of Russia a special procedure is established for the execution by residents of certain contracts with foreign legal entities and individuals, including foreign legal entities and individuals from the U.S., the EU, the UK and other countries, that committed unfriendly actions against Russia and Russian persons (hereinafter referred to as foreign persons). In particular, transactions for the provision of credits and loans to foreign persons, as well as transactions that concern the ownership title to securities and real estate are subject to restrictions. Such transactions may be carried out subject to permits issued by the special Government Commission.

Furthermore, a special procedure has been established for the fulfillment by residents (debtors) of their obligations in excess of 10 million rubles (or equivalent of this amount in foreign currency) per month on credits, loans and financial instruments (including payment of bond coupons and dividends) to foreign persons (creditors). These obligations are fulfilled by the debtor with the permission of the Central Bank of Russia (for credit organizations), the Finance Ministry of the Russian Federation (for other debtors) or in rubles through special accounts of type "S". In addition, the Central Bank of Russia is authorized to set limits on the amount of funds for transfers by non-residents from their accounts opened in the Russian Federation to the accounts of other non-residents, as well as for the purchase by non-residents of foreign currency in the foreign exchange market of Russia. Additionally, a ban on transfers by non-resident individuals and legal entities from states that have imposed restrictive measures against Russia (with certain exceptions) of funds held on their accounts opened in Russia to any accounts opened outside the Russian Federation was introduced on April 1, 2022 until September 30, 2022. As a result, any foreign individuals and entities that are the holders of ADRs as of the relevant record date for payment of dividends may be ineligible to receive such dividends in foreign currency. These developments could materially adversely affect the liquidity in, and the value of, our ADRs.

In addition, on March 29, 2022, it was reported that the Ministry of Economic Development of the Russian Federation has proposed a draft law requiring Russian companies to terminate foreign depositary programs, under which the depositary receipts of such companies (including the Company) are listed on foreign stock exchanges. The termination of our depositary program would result in the cancellation of our ADRs, with the underlying shares represented by those ADRs being distributed to shareholders, and the delisting of our ADSs from the NYSE. The underlying shares would continue to be listed on MOEX, which would remain the sole listing venue of our equity securities. The mechanics and timing relating to how the ADRs will be converted into the underlying shares and how such underlying shares are to be traded following their withdrawal from our depositary program remains uncertain. Recipients of such underlying shares may also be subject to restrictions on holding these (either as a matter of applicable law or their own policies). The adoption of this legislation could materially adversely affect the liquidity in, and the trading price of, our ADSs and ordinary shares.

Moreover, on April 3, 2022 certain deputies of the State Duma and members of the Federation Council of the Federal Assembly of the Russian Federation announced amendments to the Criminal Code of the Russian Federation that would establish criminal liability for complying with foreign sanctions on the territory of the Russian Federation. If such amendments were adopted, they could limit MTS's access to foreign supplies of materials and equipment, as foreign counterparties may be unable to work with MTS, which could have a material adverse effect on our business, financial condition, results of operations, prospects and the value of our shares and ADSs.

In addition, the operations of MTS Bank, the MTS Group's subsidiary, are susceptible to the risks, including those resulting from sanctions and other regulatory measures, that may affect the MTS Group's borrowers' ability to repay amounts due to the MTS Group, which may be impacted by the overall macroeconomic environment and business climate. Adverse changes in economic conditions may result in deterioration in the value of collateral held against loans and other obligations.

The aforementioned geopolitical events, and any continuation of tensions, has had and may continue to have a negative impact on the volatility and trading price of the Group's shares and ADRs. Developments relating to these matters are highly unpredictable, occur swiftly and often with little notice, and are mostly outside the control of the MTS Group. The risk that any MTS Group member, or individuals holding positions within the MTS Group as well as its counterparties, may be affected by future sanctions designations cannot be excluded. Current and future risks to the MTS Group include, among others, the risk of reduced or blocked access to capital markets and ability to obtain financing on commercially reasonable terms (or at all), the risk of restrictions on the import of certain equipment and software, as well as the risk of further depreciation of the Russian ruble against other currencies (which has already occurred to a certain extent), which may adversely impact the Company's investment process as a significant portion of its capital expenditures are denominated in or linked to foreign currencies. In addition, rate hikes by the Central Bank of Russia, which has increased its key rate to 20% on February 28, 2022, will and may continue to increase the Company's financing costs due to the impact on floating-rate credit facilities.

Moreover, operations of MTS Belarus, that is also a part of MTS Group, are also susceptible to risks described above, as well as to specific sanctions risks arising from the EU, the U.S., the UK and certain other countries' sanctions and export controls regimes imposed at Belarus in February and March 2022.

Crime and corruption could disrupt our ability to conduct our business and thus materially adversely affect our operations.

The political and economic changes in recent years in the countries where we operate have resulted in significant dislocations of authority. In addition, the local and international press have reported high levels of corruption, including the bribing of officials for the purpose of initiating investigations by government agencies. Press reports have also described instances in which government officials engaged in selective investigations and prosecutions to further the commercial interests of certain government officials or certain companies or individuals. Additionally, some members of the media in the countries we operate in regularly publish disparaging articles in return for payment. The depredations of organized or other crime or demands of dishonest officials could result in negative publicity, disrupt our ability to conduct our business and could thus materially adversely affect our business, financial condition, results of operations and prospects. Any actions which could result in a negative effect on investor confidence in Russia's business and legal environment could have a further material adverse effect on the Russian securities market and prices of Russian securities or securities issued or backed by Russian entities, including the shares.

Actions of fraudsters aimed against subscribers cause additional risks for operators. Despite our efforts to detect and prevent fraud, some forms of rendering services (for example, offering payments via external Internet sources) might entail risks of fraudulent charge-offs from subscribers' personal accounts. Such fraud actions could negatively affect our reputation and lead to an increase in subscriber churn, which could materially adversely affect our business, financial condition, results of operations and prospects.

Social instability could increase support for renewed centralized authority, nationalism or violence and thus materially adversely affect our operations.

The failure of the government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labor and social unrest. Labor and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralized authority; increased nationalism, including restrictions on foreign involvement in the economies of the countries where we have operations; and increased violence. An occurrence of any of the foregoing events could restrict our operations and lead to the loss of revenues, materially adversely affecting our operations.

Legal Risks and Uncertainties

Weaknesses relating to the legal system and legislation in the countries where we operate create an uncertain environment for investment and business activity, which could have a material adverse effect on the value of our shares and ADSs.

Each of the countries we operate in is still developing the legal framework required to support the market economy. The following risk factors relating to these legal systems create uncertainties with respect to the legal and business decisions that we make, many of which do not exist in countries with more developed market economies:

- inconsistencies between and among the constitution, federal and regional laws and subordinate legislation (presidential decrees and governmental, ministerial and local orders, decisions and resolutions) and other acts;
- legislation ambiguities which do not allow to predict how these provisions should be followed and how an authorized body or a court will interpret these provisions;
- the lack of judicial and administrative guidance on interpreting certain legislation as well as conflicting interpretations of supreme general jurisdiction and arbitrazh courts;
- the lack of necessary legislation in the reality of digital economy and rapid developing of new technologies;
- the relative inexperience of judges and courts in interpreting certain aspects of legislation;

- the lack of an independent judiciary;
- a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions such as suspension or termination of our licenses; and
- poorly developed bankruptcy and liquidation procedures and court practice that create possibilities of abuse.

The recent nature of much of the legislation in the CIS countries, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of these legal systems in ways that may not always coincide with market developments place the enforceability and underlying constitutionality of laws in doubt and result in ambiguities, inconsistencies and anomalies. In addition, legislation in these countries often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. All of these weaknesses could affect our ability to enforce our rights under our licenses and contracts, or to defend ourselves against claims by others. Moreover, it is possible that regulators, judicial authorities or third parties may challenge our internal procedures and bylaws, as well as our compliance with applicable laws, decrees and regulations.

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.

If we are unable to protect our business entities in the countries in which we operate from the withdrawal or suspension or regulatory scrutiny, this may adversely affect our business, financial condition and results of operations. For example, in June 2012, the authorities of the Republic of Uzbekistan began audits of the financial and operating activities of our wholly owned subsidiary, Uzdunrobita. Further various claims for violation of tax, antimonopoly and industry legislation were made against Uzdunrobita, which resulted in significant amounts of fines and penalties, revocation of all licenses and suspension of services. Total amount of damages was calculated and determined on the basis of all the aforementioned claims against Uzdunrobita and amounted to approximately RUB 18,375 million payable in equal installments over eight months.

Uzdunrobita paid two scheduled installments in November and December 2012 totaling approximately RUB 4,583.4 million. On January 14, 2013, further to its partial payment of the third installment due in January 2013 totaling approximately RUB 481 million and constituting the remaining amount of cash held in its bank accounts, Uzdunrobita filed a petition for voluntary bankruptcy to the Tashkent Economic Court on the grounds of its inability to meet further obligations.

On April 22, 2013, the Tashkent Economic Court declared Uzdunrobita bankrupt and initiated a liquidation process. Uzdunrobita was later liquidated. In 2012, we filed a claim against the Republic of Uzbekistan in the International Center for Settlement of Investment Disputes ("ICSID"), part of the World Bank Group, in Washington, D.C.

On July 31, 2014, we and the Republic of Uzbekistan signed a settlement agreement (the "Settlement Agreement") and MTS agreed to reenter the Uzbekistan market through a joint enterprise with MTS holding a 50.01% in the charter capital of the joint enterprise, while the remaining 49.99% belongs to a state-owned unitary enterprise established and managed by the State Committee for Communications, Development of Information Systems and Telecommunications Technologies of the Republic of Uzbekistan. The Settlement Agreement is governed by English law and provides for the resolution of any disputes arising out of the Settlement Agreement in the International Court of Arbitration under International Chamber of Commerce in Paris.

On September 24, 2014, in accordance with the Settlement Agreement, the authorities of the Republic of Uzbekistan granted the joint enterprise 2G, 3G and LTE licenses, provided necessary frequencies and numbering capacity, fostered entrance into lease agreements for communication channels and issued all permissions required to the joint enterprise so it could operate and offer full telecommunications services throughout Uzbekistan. The joint enterprise has also received guaranties for investment protection and return of investments in accordance with the laws of the Republic of Uzbekistan.

In November 2014, ICSID discontinued international arbitration proceedings between MTS and the Republic of Uzbekistan following the submission of a joint application by both parties.

On December 1, 2014, the joint enterprise, named UMS, launched sales of SIM cards through its proprietary network of 20 stores and through another 230 independent locations throughout Uzbekistan and started provision of 2G/3G telecommunications services on the entire territory of Uzbekistan. On August 5, 2016, we sold our 50.01% stake in UMS to the State Unitary Enterprise

Centre of Radio Communication Radio Broadcasting and Television of the Ministry of Development of Information Technologies and Communications of the Republic of Uzbekistan. The loss on disposal of investment in Uzbekistan was recorded in the financial report for the third quarter of 2016.

See also “Political and Social Risks—Further deterioration in relations between Russia and other states that were part of Soviet union as republics, as well as other geopolitically related disagreements and allegations between Russia and other countries and sanctions imposed as a result thereof, could materially adversely affect our business, financial condition, results of operations, prospects and the value of our shares and ADSs”.

An outcome of the proceedings relating to sustaining operations of our subsidiary in Turkmenistan is unpredictable.

In December 2010, the Group suspended its operations in Turkmenistan following notification by the Ministry of Communications of Turkmenistan of a decision to suspend licenses held by BCTI, the Group’s wholly owned subsidiary in Turkmenistan, initially for a period of one month starting from December 21, 2010, and then permanently.

On May 24, 2012, we concluded an agreement with the state-owned telecom operator Turkmentelekom relating to our terms of operations in Turkmenistan, which resulted from negotiations between the Turkmenistan government and ministries. The agreement had a five-year term and could be extended for the following five years, provided certain terms and conditions are satisfied. Under this agreement, we were obliged to pay Turkmentelekom a monthly amount calculated as 30% of our net profit in Turkmenistan based on accounting rules of Turkmenistan.

On July 25, 2012, we, our subsidiary BCTI, the Republic of Turkmenistan, the Ministry of Communications of Turkmenistan, the state-owned company, Turkmentelecom, and a mobile operator, Altyn Asyr, signed a settlement agreement (which included the dismissal of all international lawsuits) concerning the suspension of our operations in Turkmenistan in December 2010.

In August 2012, we restarted our mobile communication network in Turkmenistan and resumed providing services to subscribers who had not canceled their contracts. Since October 1, 2012 we resumed our operations in Turkmenistan entirely and started entering into contracts with new subscribers.

MTS-Turkmenistan was compelled to suspend communication services in Turkmenistan from 00:00 September 29, 2017, due to the actions of the Government of Turkmenistan, the Ministry of Communications of Turkmenistan, the state-owned telecommunications company, Turkmentelekom, and its wholly-owned subsidiary, Altyn Asyr, the state owned mobile operator in Turkmenistan. These actions resulted in the disconnection of international and long-distance zonal communication services and Internet access.

In July 2018, we filed a Request for Arbitration against the Sovereign State of Turkmenistan with the ICSID in order to protect its legal rights and investments in Turkmenistan. The Tribunal for these proceedings was constituted on December 18, 2018 and the Company subsequently filed its Memorial (statement of claim) with ICSID on March 29, 2019. See also Note 34 to our audited consolidated financial statements and “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—7. Litigation—Turkmenistan.”.

Unless resolved to our satisfaction, we intend to vigorously pursue our claims in arbitration and seek all available remedies.

Russian companies can be forced into liquidation on the basis of formal non-compliance with certain legal requirements.

Certain provisions of Russian law may allow government authorities to seek a court order for the liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation, reorganization or during its operation.

For example, under Russian corporate law, if the net assets of a Russian joint stock company calculated on the basis of Russian accounting standards are lower than its charter capital as at the end of its third or any subsequent financial year, the company must either decrease its charter capital or be placed in liquidation. If the company fails to comply with these requirements, governmental or local authorities can seek the involuntary liquidation of such company in court, and the company’s creditors will have the right to accelerate their claims or demand early performance of the company’s obligations as well as demand compensation of any damages.

However, pursuant to the Federal Law No. 46-FZ dated March 8, 2022 “On Amendments to Certain Legislative Acts of the Russian Federation,” a reduction in the value of the net assets of a Russian joint stock company below the size of its charter capital at the end of 2022 will not require the liquidation of the company.

The existence of negative assets may not accurately reflect the actual ability to pay debts as they fall due. Many Russian companies have negative net assets due to very low historical asset values reflected on their Russian accounting standards balance sheets; however, their solvency, i.e., their ability to pay debts as they fall due, is not otherwise adversely affected by such negative net assets. Some Russian courts, in deciding whether or not to order the liquidation of a company for having negative net assets, have looked beyond the fact that the company failed to fully comply with all applicable legal requirements and have taken into account other factors, such as the financial standing of the company and its ability to meet its tax obligations, as well as the economic and social consequences of its liquidation. Nonetheless, creditors have the right to accelerate claims, and file damages claims, and governmental or local authorities may seek the liquidation of a company with negative net assets.

Courts have, on rare occasions, ordered the involuntary liquidation of a company for having net assets less than the minimum charter capital required by law, even if the company had continued to fulfill its obligations and had net assets in excess of the minimum charter capital at the time of liquidation.

The amount of net assets in accordance with the local accounting standards of some of our subsidiaries is less than the minimum charter capital required by law. Although these subsidiaries continue to meet all of their obligations to creditors, there is a minimal risk of their liquidation while the net assets remain below the minimum legal requirements.

There have also been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or non-compliance with provisions of Russian law have been used as a basis to seek the liquidation of a legal entity. Weaknesses in the Russian legal system create an uncertain legal environment, which makes the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict. If involuntary liquidation were to occur, such liquidation could lead to significant negative consequences for our group.

Insufficient adherence to the independence and competitiveness of the judicial process, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent us or holders of our securities from obtaining effective redress in a court proceeding.

The judicial bodies in the countries where we operate are not always completely independent or immune from economic and political influences, and are often understaffed and underfunded. Judges and courts are often inexperienced in the area of business, corporate and industry (telecommunications) law. Judicial precedents generally have no binding effect on subsequent decisions, and not all court decisions are readily available to the public or organized in a manner that facilitates understanding. The judicial systems in these countries can also be slow or unjustifiably swift.

Enforcement of court orders can, in practice, be very difficult to achieve. All of these factors make judicial decisions in these countries difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political and commercial aims or infighting. We may be subject to such claims and may not be able to receive a fair hearing. Additionally, court orders are not always enforced or followed by law enforcement agencies. Furthermore, recognition and enforcement of arbitral awards in countries where we operate is subject to compliance with corresponding rules of civil procedure and applicable laws, and courts in the countries where we operate may interpret applicable regulations in a manner which would result in denial of such recognition and enforcement.

These uncertainties also extend to property rights. For example, during Russia transformation from centrally planned economy to market economy, legislation has been enacted in the country to protect private property against uncompensated expropriation and nationalization.

However, there is a risk that due to the lack of experience in enforcing these provisions and due to political factors, these protections would not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of our entities, their assets or portions thereof, potentially without adequate compensation, would have a material adverse effect on our business, financial condition, results of operations and prospects.

Selective or arbitrary government action could have a material adverse effect on our business, financial condition, results of operations and prospects.

Governmental authorities in the countries where we operate have a high degree of discretion and, at times, act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that is inconsistent with legislation or influenced by political or commercial considerations.

Selective or arbitrary governmental actions have reportedly included the denial or withdrawal of licenses, sudden and unexpected tax audits and claims, criminal prosecutions and civil actions. Federal and local government entities have also used ordinary defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations or to void transactions. Moreover, the government also has the power in certain circumstances, by regulation or government acts, to interfere with the performance of, nullify or terminate contracts.

In addition, the Russian tax authorities have brought tax evasion claims relating to Russian companies' use of tax-optimization schemes, and press reports have speculated that these enforcement actions have been selective. Selective or arbitrary government action, if directed at us, could have a material adverse effect on our business, financial condition, results of operations and prospects.

Failure to comply with existing laws and regulations as well as requirements of international and regional standards or to obtain all approvals, authorizations and permits required to transmit television channels or operate telecommunications equipment, or the findings of government inspections or increased governmental regulation of our operations, could result in a disruption in our business and substantial additional compliance costs and sanctions.

Our operations and properties are subject to regulation by various government entities and agencies in connection with obtaining and renewing various licenses, approvals, authorizations and permits, as well as with ongoing compliance with existing laws, regulations and standards. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licenses, approvals, authorizations and permits and in monitoring licensees' compliance with the terms thereof. Russian authorities have the right to, and frequently do, conduct periodic inspections (planned and unscheduled) of our operations and properties throughout the year. Any such future inspections may conclude that we or our subsidiaries have violated laws, decrees or regulations, and we may be unable to refute such conclusions or remedy the violations. See also "The regulatory environment for telecommunications in Russia and other countries where we operate or may operate in the future is uncertain and subject to political influence or manipulation, which may result in negative and arbitrary regulatory and other decisions against us on the basis of other than legal considerations and in preferential treatment for our competitors."

Primarily due to delays in the issuance of permits, approvals and authorizations by regulatory authorities, it is frequently not possible to procure all of the permits for each of our base stations or other aspects of our network before we put the base stations into commercial operation or to amend or maintain all of the permits when we make changes to the location or technical specifications of our base stations.

We are constantly in the process of registration and re-registration of ownership over certain infrastructure facilities. For example, MGTS carries out measures aimed at registration of ownership rights to the cable line structures (CLS). At the same time, MGTS is not insured against the risks of challenging the ownership rights by third parties. MGTS performs legal registration of its ownership rights to minimize the risk. In case of receiving reasonable claims, MGTS reconciles cable line objects to distinguish the ownership rights. MGTS is ready to assert its rights to CLS in court when necessary.

In addition, we may be unable to transmit certain television channels if entities that provide television content to us do not possess the requisite licenses. In case such providers of television content do not obtain the required licenses, or have their existing licenses suspended or terminated, our selection of potential television channels for transmission could be significantly limited. The Federal Law No. 257 "On Amending Federal Law "On Mass Media" and Federal Law "On Communications" dated July 13, 2015 introduced a number of amendments to the national mandatory free television channels list. Requirements on sequence of channels, sound and image quality and signal reception points of national mandatory free television channels were adopted in September 2015. In October 2020, the Ministry of Digital Development, Communications and Mass Media adopted its Order dated July 31, 2020 No. 369 "On Determining the Requirements for the Quality of Sound and (or) Image of Mandatory Public TV and (or) Radio Channels"

which updated the existing quality requirements. The inability of operators to comply with such requirements may lead to suspension or termination of a license.

Furthermore, we could be subject to fines and other penalties, including forced suspension of our cable network operators' activity for up to 90 days. In some cases of our service provision (for example, those employing GPON technology) power failures in subscribers' households may lead to non-compliance with rules regulating local telephony communication services. Any of these consequences could have a material adverse effect on our business, financial condition and results of operations.

On June 1, 2018, Federal Law No. 245 "On Amendments to the Federal Law" On Communications" entered into force and is aimed at further aligning the process of entering into a contract for the provision of mobile radiotelephone communication services without appropriate identification of a subscriber (i.e., a user) of communication services. Operators may be subject to penalties and other sanctions, including the suspension of an operator's activity for up to 90 days, for non-compliance with the Law.

Our failure to comply with existing laws and regulations of the countries where we operate as well as requirements of international and regional standards or to obtain all approvals, authorizations and permits required to operate telecommunications equipment, or the findings of government inspections including the State Labor Inspection Service may result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of our licenses, approvals, authorizations and permits, or in requirements that we cease certain of our business activities, or in criminal and administrative penalties applicable to our officers. We have also engaged in certain disputes, which could require us to pay damages or settlements. We may incur expenses in defending these lawsuits. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—7. Litigation".

Moreover, an agreement or transaction entered into in violation of law may be invalidated and/or unwound by a court decision. Any such decisions, requirements or sanctions, or any increase in governmental regulation of our operations, could result in a disruption of our business and substantial additional compliance costs and could materially adversely affect our business, financial condition, results of operations and prospects. In addition, we may assume risks of potential claims from subscribers and regulating authorities regarding former activities of the acquired or merged businesses.

Generally, communication networks are vulnerable to physical or software break-ins, viruses, unauthorized interferences and similar events. Should such events occur with respect to our network elements, we may become subject for additional inspection by the regulatory authorities. Although we obtain all necessary permissions and certificates for the operation of our equipment and provide measures to protect confidential information, our failure to fully comply with all legislation requirements could result in the imposition of fines or penalties, additional government regulations, substantial additional compliance costs, disruption of our business including its suspension or termination, and other adverse effects.

We provide certain common contractual protections to the purchaser under the VF Ukraine Sale Agreement and are subject to certain post-closing obligations.

In December 2019, we sold our telecommunication business in Ukraine under an agreement entered into with Telco Solutions and Investments LLC, as purchaser, an entity affiliated with telecommunication company Bakcell LLC, which is a part of the NEQSOL Holding international group of companies (the "Sale Agreement"), see "Item 4—Information on our Company—A. History and Development" and Note 11 to our audited consolidated financial statements for details of the transaction. We provide certain common contractual protections to the purchaser and are subject to certain post-closing obligations under the Sale Agreement. Further, the Sale Agreement contains a post-completion price adjustment mechanism. As a result of applying this mechanism, the purchase price was adjusted in our favor so we were not required to pay any sum to the purchaser.

Although we do not anticipate any further material price adjustments or other liability under the Sale Agreement, there can be no assurance that a liability will not emerge in the future, in which case it could have an adverse effect on our financial position and results of operations.

There is insufficient minority shareholder protection in Russia.

Minority shareholder protection under Russian law principally derives from (a) supermajority shareholder approval requirements for certain corporate actions, (b) the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of actions, (c) the ability of a shareholder

to sell his shares at a fair price when the control is changed, the company is acquired at a price determined in accordance with the requirements of the current legislation, (d) shareholders' right to challenge decisions of the company's management bodies in certain circumstances, and (e) shareholders' right to challenge transactions which caused company's loss. Companies are also required under Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. In practice, enforcement of these protections has not always been effective. Shareholders of some companies have suffered as a result of fraudulent bankruptcies initiated by hostile creditors.

The supermajority shareholder approval requirement is met by a vote of 75% of all voting shares that are present at a shareholders' meeting. Thus, controlling shareholders owning slightly less than 75% of outstanding shares of a company may have a 75% or more voting power if certain minority shareholders are not present at the meeting. In situations where controlling shareholders effectively have 75% or more of the voting power at a shareholders' meeting, they are in a position to approve amendments to the charter of the company or significant transactions including asset transfers, which could be prejudicial to the interests of minority shareholders. It is possible that our controlling shareholder in the future may not operate us and our subsidiaries for the benefit of minority shareholders, and this could have a material adverse effect on the value of our shares and ADSs.

While the Federal Law on Joint Stock Companies provides that shareholders owning not less than 1% of the company's outstanding common stock may bring an action for damages caused to a company by its CEO, member of the Board of Directors or its Management Board and certain other officials acting on behalf of the company, minority shareholders may have difficulties with proving such damages with the court and as a consequence their claims may be denied by the court. In 2009, legislation was adopted which contemplates class action litigation, in 2015 mechanism of class action regarding corporate disputes was introduced and in 2019 this mechanism was updated and specified. Although there have been several disputes in the past few years, Russian courts do not have a clear and consistent approach in regards to class action litigation. In addition, the issue of claims by shareholders against the company to compensate the shareholders for their losses is not clearly regulated by the current legislation.

Moreover, due to the adoption of Federal Law No. 55-FZ dated March 14, 2022, until December 31, 2022 shareholders holding alone or with other holders 5% or more of the voting shares have the right to appeal to the court with claims to challenge major and interested party transactions, as well as claims against a member of the Board of Directors or member of any executive body of the Company. Before the adoption of this Federal Law, shareholders holding alone or with other holders 1% or more of the voting shares had the right to file such lawsuits.

Accordingly, your ability to pursue legal redress against us may be limited, reducing the protections available to you as a holder of our shares and ADSs.

According to Russian legislation, shareholders/participants of Russian companies have an opportunity to demand either liquidation of a company in a judicial proceeding or exclusion of other shareholder/ participant (except for public joint stock companies) from the company.

According to the amendments to the Civil Code of the Russian Federation, which came into effect on September 1, 2014, shareholders and participants of Russian companies have, inter alia, the following rights, which can be executed via judicial proceedings:

- to demand the liquidation of a company in case of failure to achieve a corporate purpose for which it was created, including a case when an operation of a company becomes impossible or is substantially hampered; and
- to demand exclusion of a shareholder or a participant (except for the public joint stock companies, including MTS) whose actions/inactivity either cause significant harm or hampers the company's operations.

In this regard, we cannot rule out the possibility of such claims being filed against us. Should such claims be brought, this may have a negative impact on our business, financial condition and results of operations.

Shareholder liability under Russian legislation could cause us to become liable for both obligations of our subsidiaries and losses of the legal entities in which we have a practical possibility of determining actions.

The Civil Code of the Russian Federation, the Joint Stock Companies Law and the Federal Law "On Limited Liability Companies" generally provide that shareholders in a Russian joint stock company or members of a limited liability company are not

liable for the obligations of the company and bear only the risk of loss of their investment. This may not be the case, however, when one entity is capable of determining decisions made by another entity. The entity capable of determining such decisions is deemed an "effective parent." The entity whose decisions are capable of being so determined is deemed an "effective subsidiary." The effective parent bears joint and several liability for transactions concluded by the effective subsidiary in carrying out its decisions or decisions made with its consent. However, joint and several responsibility of the effective parent is excluded in case of voting of the effective parent on the approval of the transaction at a general shareholders' meeting of the effective subsidiary, as well as the approval of the transaction by the body of the effective parent, if the need for such approval is envisaged in the charter of the effective subsidiary and/or the effective parent. In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the action or failure to act of an effective parent. This is the case no matter how the effective parent's ability to determine decisions of the effective subsidiary arises.

Accordingly, we could be liable in some cases for debts of our subsidiaries and losses of the legal entities to the extent that we had any power of determining such subsidiaries' actions that caused such losses. This liability could have a material adverse effect on our business, results of operations and financial condition.

Shareholder rights provisions under Russian law could impose additional obligations and costs on us, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Russian law provides that shareholders that vote against or did not participate in voting on certain matters have the right to sell their shares to the company at market value in accordance with Russian law. The decisions that trigger this right to sell shares include:

- decisions with respect to a reorganization;
- the approval by shareholders of a "major transaction," which involves property in excess of 50% of the balance sheet value of the company's assets calculated according to Russian accounting standards, regardless of whether the transaction is actually consummated (including those which are simultaneously interested-party transactions), except for transactions undertaken in the ordinary course of business;
- the amendment of our charter in a manner that limits shareholder rights;
- the amendment of our charter in a manner that excludes reference to the entity's public status, approved simultaneously with a decision on applying to the CBR on release from obligation to disclose information under the laws of the Russian Federation on securities; and
- a decision on applying for delisting of shares and convertible securities from a stock exchange.

For example, during 2015-2021 we repurchased MTS ordinary shares, for more details see "Item 16E-Purchases of Equity Securities by the Issuer and Affiliated Purchasers." Our obligation to purchase shares in these circumstances, which is limited to 10% of the company's net assets calculated in accordance with Russian accounting standards at the time the matter at issue is voted upon, could have a material adverse effect on our business, financial condition, results of operations and prospects. Under Russian law, if we are unable to sell the repurchased shares at a price equal to or exceeding the market price within one year of the date of repurchase, we will have to reduce our charter capital accordingly.

The Strategic Foreign Investment Law imposes certain restrictions on us and our existing and potential foreign shareholders, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

On May 7, 2008, the Federal Law "On the Procedure for Foreign Investment in Commercial Organizations of Strategic Importance for the Defense and Security of the State," or the Strategic Foreign Investment Law, came into force in Russia. This law sets forth certain restrictions relating to foreign investments in Russian companies of "strategic importance." Among others, companies with a dominant position in the Russian telecommunications market are considered to be strategically important and foreign investments in such companies are subject to regulations and restrictions to these companies set out by the Strategic Foreign Investment Law. For purposes of the Strategic Foreign Investment Law, a mobile telecommunications provider is deemed to be dominant if its market share in the Russian market exceeds 25%, as may be determined by the FAS. In addition, a company may be considered to be strategically important due to our offering of services involving the use of cryptographic technologies.

Starting from the effective date of the Strategic Foreign Investment Law, a foreign investor (including Russian citizens having foreign citizenship according to the amendments which came in force on July 1, 2017) seeking to obtain direct or indirect control over a strategically important company is required to have the respective transaction pre-approved by a special governmental commission on control of foreign investments. On December 6, 2014, the amendments to the Strategic Foreign Investment Law came into effect. The law stipulates that foreign investors are obliged to obtain prior approval of transactions envisaging the acquisition of right of ownership, possession or use of property classified as the fixed production assets of a strategic company and the value of which represents 25% or more of the balance sheet value of the assets of such company as of the last reporting date, according to accounts. In addition, foreign investors are required to notify this authorized governmental body about any transactions undertaken by them resulting in the acquisition of 5% or more of the charter capital of strategically important companies. Within 180 days from the effective date of the Strategic Foreign Investment Law, foreign investors having 5% or more of the charter capital of strategically important companies were required to notify the authorized governmental body about their current shareholding in such companies.

Commencing December 6, 2014, a foreign investor is also obliged to notify the authorized governmental body about the fact of conducting the pre-approved transactions. With effect from July 1, 2017, according to the amendments, offshore companies (and companies under their control) are prohibited from obtaining control over a strategically important company and are obliged to have any acquisition of 25% or more of right of ownership of voting shares pre-approved. According to the amendments that came into force on July 1, 2017, certain sanctions may be imposed in respect of such transactions conducted without notification, for example, a deprivation of the foreign investor of any voting rights at a shareholders' meeting of strategically important companies through judicial proceedings brought by an authorized governmental body.

As we are classified as a strategically important company, our current and future foreign investors are subject to the notification requirements described above and our current and potential investors may be limited in their ability to acquire a controlling stake in, or otherwise gain control over, us. Such increase in governmental control or limitation on foreign investment could impair the value of your investment and could hinder our access to additional capital.

Regulatory changes in Russia as well as regulatory changes at the international level may have a material adverse effect on our financial condition and results of operations.

Following an amendment to the Federal Law on Communications, which became effective July 1, 2006, fixed-line operators began charging their subscribers for calls to mobile phone users and started to transfer a percentage of the charge to mobile operators terminating such calls. The percentage transferred to mobile operators is established by the regulator and is known as the "settlement rate."

The Ministry of Communications and Mass Media is considering altering the approach to inter-carrier settlements in Russia and the subsequent lowering of the settlement rate. Any reduction of the settlement rate by the regulator could have a negative impact on our average monthly service revenues per subscriber and margins. Over the past few years the government authorities developed a number of new initiatives, which have not yet been implemented or were implemented recently and a lack of law enforcement practice may cause difficulties in interpreting these developments and lead to additional burden for telecommunications operators. In December 2018, the Ministry of Communications developed new initiatives relating to the reframing of interaction between operators. It is unclear yet how this proposal may be implemented, however it may potentially lead to a reduction in traffic transmission revenues and margin. The final decision on the implementation of this proposal has not been made yet. The agreement on the conditions of inter-carrier mutual settlements while delivering international communication services in CIS-countries was signed on the CIS Heads of Government Council meeting held in Dushanbe on October 30, 2015 (the "Agreement"). The enforcement of certain provisions of the Agreement may adversely affect our operation in terms of the execution of inter-carrier mutual settlements among CIS-operators. In order to be implemented, the corresponding provisions should be introduced to the Russian legislation. To date, the provisions have not been implemented yet.

According to Government Regulation No. 1240 dated November 24, 2014, starting from January 1, 2015, federal public bodies were vested with a right to make decisions on using data transmission network of government bodies, which is a part of infrastructure ensuring information and technological interaction with the information systems used for rendering state and municipal electronic services for the purposes of exercising public functions. To date, the single operator of infrastructure of electronic state services is Rostelecom. Adoption of the Regulation may adversely affect our revenues with regard to the B2G market segment due to competitive disadvantage.

With the entry into force of the Treaty on the Eurasian Economic Union (the “EEU”) on January 1, 2015, a supra-national antimonopoly body empowered to control compliance with general competition rules on cross-border markets and to apply antitrust measures was established. Should violations with respect to companies operating on cross-border markets be identified, this might lead both, to imposition of fines in accordance with the legislation of the EEU and adoption of the decisions for compulsory execution.

The amendments introduced to Article 5 of the Federal Law No. 115 “On Combating Legalization (Laundering) of Criminally Gained Income and Financing of Terrorism” dated August 7, 2001, entered into force on March 1, 2015. The list of organizations carrying out cash/other property operations, to whom the law requirements are applied, was expanded according to those amendments. In addition to telecommunications operators entitled to independently render mobile radio telecommunications services, the telecommunications operators occupying “substantial position” in public switched telephone networks entitled to independently provide data transmission services and render services on the basis of contracts with individual subscribers, have been also included in the list. A telecommunications operator which meets the specified criteria is obliged to provide the Federal Financial Monitoring Service with the information on cash/other property operations (that is subject to compulsory control or that seems suspicious while implementing the rules of internal control), as well as to take measures for freezing of cash assets / other property (in case there is an information on its involvement in extremist activities or terrorism). Lack of law enforcement practice may cause difficulties in interpreting the above- mentioned amendments and lead to additional burden for telecommunications operators.

On July 8, 2017, the Federal Law No. 110 “On Amendments to Article 66 of the Federal Law “On Communications” and Article 35 of the Federal Law “On Mass Media” dated June 7, 2017 came into force, which requires operators to transmit warning signals to telecommunications services users or inform them about dangers arisen by threat of occurrence of emergencies or occurrence of emergencies. Expenditure related to the transmission of warning signals is not compensated to operators.

On April 4, 2016, the Ministry of Communications of the Russian Federation adopted the order No. 135 “On the Approval of Requirements for Communication Networks Operation With Respect to the Use of Services Provided by Third Parties.” The order came into force on July 26, 2017.

According to the requirements, a telecommunications operator is obliged (on a quarterly basis) to provide authorities with data on foreign companies and foreign citizens that are engaged to provide works or services related to exploitation and management of its communication network. In addition, a telecommunications operator is obliged to store information concerning all actions on communication facilities executed by servicing staff or third parties engaged in exploitation and management of communication networks both from workplaces and with the use of a remote access.

The Federal Law No. 374 “On the Introduction of Amendments to Certain Legislative Acts of the Russian Federation with Respect to Setting up of Additional Counter-terrorism Measures and Public Security Enforcement” was adopted on July 6, 2016. Pursuant to that law, operators are obliged to store information on the facts of receiving, transferring, delivery and/or processing of voice information and text messages, as well as images, sounds, video- and other messages of telecommunications services users (for a three-year period) and the contents of such communications, including voice data, text messages, pictures, sounds, video or other communications (for up to six months). The requirement relating to the storage of messages contents entered into force on July 1, 2018. The Government regulation “On Rules, Terms and Volume of Voice Information, Text Messages, Images, Sounds, Video- and Other Messages of Telecommunications Services Users to be Stored” was adopted on April 12, 2018 (the “Rules on Storage”). According to this regulation, commencing July 1, 2018, communication operators that render intercity and international communication services (as well as personal radio call services, mobile radio services in a public communication network, mobile radiotelephone and satellite communication services, data transmission services for the purposes of transferring voice information, zonal and local telephone communication services) are required to store voice information and text messages, for a period of six months from the moment of the end of their receipt, transfer, delivery and/or processing. Starting from October 1, 2018, operators that render telematics services, as well as data transmission services (except for data transmission services for the purposes of transferring voice information) are obliged to store telecommunication messages by using data storage technical equipment in the volume of electronic communication messages sent and received by the operator’s subscribers (the actual traffic) during 30 days before the commissioning date of the technical equipment. Moreover, the capacity of the data traffic storage system is required to be increased by 15% annually during 5 years from the date the data storage technical equipment was put into operation. Significant additional costs will be required in order to comply with these requirements.

With effect from October 1, 2019 the Federal Law No. 191 "On Introduction of Changes to Certain Legislative Acts of the Russian Federation" dated July 18, 2019 came into force and assumes important changes to the procedural legislation regarding class actions in Russia. According to the law, consumers have a right to file class action lawsuits with the courts of general jurisdiction. Moreover, the law provides changes relating to class actions in arbitration proceeding, specifically, a "group" is defined as those having common or homogeneous rights. The law is aimed at harmonization of civil and arbitration proceedings as well as boosting the effectiveness of the Arbitration Procedure Code ("APC") clauses, therefore the changes are generally consistent with the Civil Procedure Code ("CPC") developments. These changes allow mass consumer claims in case the amount of each individual claim is small, but the total amount of all claims is significant, that could additionally motivate to initiate lawsuits, inter alia, by using litigation funding (investment) tools. The law expanded the list of persons who can advocate the interests of a group of persons. Claims might be filed by, inter alia, Rospotrebnadzor, FAS, Bank of Russia, stakeholders and other persons as well as by a group of consumers, whose interests are suffered as a result of violation of competition legislation. Any class actions filed against us could have a material adverse effect on our business, financial condition and results of operations.

In November 2019, the Federal Law No. 90 "On certain amendments to the Federal Law "On communications" and the Federal Law "On information, information technologies and information protection" dated May 1, 2019 (the "Sovereign Internet Law") aimed at ensuring stable, secure and integral functioning of the Internet in the territory of the Russian Federation, came into force. Under the Sovereign Internet Law, operators, installed equipment on their networks, which could adversely affect the networks' stability and the quality of provided communication services. The Sovereign Internet Law is broadly drafted, and although the Russian authorities have already adopted necessary implementing acts, practical issues may require further subordinate legislation to be adopted further clarifying the provisions of the law. Furthermore, additional costs for maintenance and operation of this equipment may be required from the operators.

On January 14, 2019, the Government of the Russian Federation published a list of instructions aimed at encouraging the procurement of telecommunication equipment of Russian origin. According to the document, ministries should prepare proposals by May 1, 2019, relating to an increase in the import customs duty rate to a level of up to 20% with respect to telecommunication equipment. Currently, there can be no certainty as to the form of the implementation of these initiatives; therefore, it is difficult to assess how such changes will affect the company's operations. Should the import customs duty rate increase in respect of the equipment we purchase, this may have a material adverse effect on our financial condition and results of operations.

The Federal Law No. 533 dated December 30, 2020, which came into effect from June 1, 2021, introduced amendments to the Law "On Communications" clarifying the contracting process with subscribers, including the following changes:

- the possibility to conclude contract with subscribers using a simple electronic signature obtained in operator's offices is excluded;
- a contract for devices with eSIM can be concluded via the Internet only using a unified biometric system and an advanced qualified electronic signature;
- rendering services for corporate clients is possible only if data on individuals using a subscriber's numbers is entered into the Integrated Identification and Authentication System (IIAS). Operators have the obligation to check if such information is present in the IIAS starting from December 1, 2021 and stop providing services to clients in case the information is inaccurate;
- rendering telecommunication services to corporate clients for M2M devices is possible only if data on a subscriber's number, address of a corporate client or device location as well as other information is entered into the IIAS. This may affect the M2M services development, including IoT projects;
- Roskomnadzor is responsible for developing an information system for monitoring the contracting process between operators and their subscribers. An operator will have the obligation to report certain information via this system unilaterally. Modification of business processes and IT systems for connection to the monitoring system may be required from operators. Federal Law No. 319 determines information, which operators are obliged to transfer to Roskomnadzor, including information about subscribers (users), volume and period of providing telecommunication services etc.

In July 2021 the Russian President signed the Federal Law No. 319, according to which free access must be organized starting from December 1, 2021, to the websites of domestic socially significant Internet resources, including the websites of state bodies, non-budgetary funds, state and municipal service portals and other websites that will be determined by the Government Commission. In furtherance of the abovementioned Federal Law, the Government adopted Decrees No. 2531 dated December 29, 2021 and No. 2469 dated December 25, 2021, containing the Rules for maintaining a list of domestic socially significant information resources and establishing the Government Commission, including its tasks, rights and decision-making procedures. The conditions under which the operator provides free access are regulated by the rules for the rendering of telecommunication services. In January 2022 the Government Commission determined the list of domestic socially significant information resources and included the "Vkontakte" social networking system and the "Gosuslugi" Integrated Identification and Authentication System in the list. We provide free access to these resources on our mobile network. This could potentially have a material adverse effect on our business, financial condition and results of operations.

The Federal Law No. 319 dated July 02, 2021 introduced amendments to the Law "On Communications" expanding the list of requirements for operators, including:

- a register of communication lines, crossing the Russian state border, and communication facilities, to which these communication lines are connected, will be formed. Operators will have to comply with requirements established by Roskomnadzor for such lines and communication facilities, and send a notification of their fulfillment to Roskomnadzor in order to include the relevant information in the register. Operators do not have a right to connect communication lines to communication facilities and communication facilities to communication lines, if there is no information about them in the register.
- operators are obliged to connect and send/receive information through a system developed by the radio frequency service. This information will be used to monitor compliance by operators with the requirements of the Federal Law "On Communications".

The Federal Law No. 465 dated December 30, 2021 introduced amendments to the Law "On Communications", according to which:

- operators are obliged to transmit free SMS messages with a confirmation code to citizens and legal entities in case of their authentication through the Integrated Identification and Authentication System (IIAS) as well as in case of their significant actions using the IIAS;
- the special features of providing communication services, connection services and traffic transmission services (for example, pricing) for the needs of state authorities, the needs of the country's defense, state security and law enforcement have also been extended to other state bodies, local governments and organizations (customers), if they: conclude contracts for such services in accordance with the legislation of the Russian Federation on the contract system; pay for them using the funds of the budget system of the Russian Federation.
- operators are prohibited to suspend and (or) terminate the provision of telecommunication services to the above-mentioned customers after the expiration of the contract.

The Federal Law No. 480 dated December 30, 2021 establishes administrative sanctions for non-compliance with obligations related to the transfer of a subscriber number and (or) a unique identification code, termination of rendering communication services and (or) services for traffic transmission (it entered into force on December 30, 2021) as well as connection by operators to the system for ensuring their compliance with requirements for the provision of communication services and services for traffic transmission in the public communication network (it will come into force on January 1, 2023).

Currently, the Russian Civil Code is undergoing the process of substantial revisions with new provisions being introduced relating to a number of sectors. Particularly, Federal Law No. 430 dated December 21, 2021 (excluding certain provisions) will come in force on March 1, 2023 and, among other things, supplement the Civil Code of the Russian Federation with chapters on real estate and rights to buildings, structures, objects under construction, premises. The regulation also defines the types and concepts of immovable things, land, buildings, structures, and premises, as well as the general principles for the formation of immovable things.

At present, the potential interpretation of these amendments by state authorities (including the courts), along with their impact on our activities are unknown.

A roadmap for 2018-2020, for the development of competition in economic sectors of the Russian Federation and the transition of particular sectors from the state of natural monopolies to the competitive market was approved by the Order of the Government of the Russian Federation No. 1697-r dated August 16, 2018. The roadmap provides for the adoption of a number of regulatory legal acts, inter alia, in the telecommunication sphere. Currently, it is difficult to assess how such changes and their interpretation by state bodies, particularly by courts, may affect our operation.

Russian companies are obliged to pay various and significant taxes including income tax, VAT, real estate tax, excise tax, payroll tax and others. Along with tax liabilities there are different obligatory non-tax payments. These include payments into Universal Service Fund, which currently amounts to 1.2% of our annual revenue on telecommunications services. Furthermore, potential regulatory changes that may be enacted in the future, such as the introduction of new rules regulating MVNOs, new rules concerning our pricing policy and others, could weaken our competitive position in the mobile telecommunications market. Changes in tax laws and non-tax regulations may lead to the growth of our tax burden and increase of our costs and may, as a result, materially adversely affect our financial condition and results of operations.

The failure of our subsidiaries that are subject to regulations as natural monopolies to comply with the requirements of the Federal Law No. 223 "On Procurement Process," inter alia, in case of collective tendering can lead to application of certain liability measures with respect to our subsidiaries.

One of our subsidiaries, MGTs, is categorized as a natural monopoly in the Moscow telecommunications market. According to the Federal Law No. 223 "On Procurement Process," natural monopolies are obliged to conduct the procurement process in accordance with the principles of transparency and non-discrimination and unjustified limitation of competition. If our subsidiaries that are under additional regulations as natural monopolies are found failing to comply with the law on procurement process, inter alia in case of collective tendering with us, our subsidiaries can be subject to certain liability measures, according to Russian legislation. See also "– Risks Relating to Our Business–If we are found to have a dominant position in the markets where we operate and are determined to have abused this position, the FAS may be entitled to regulate our subscriber tariffs and impose certain restrictions on our operations."

Russian and foreign legislation on personal data and information security in information systems and communication networks may turn out to be hard to implement and require significant resources. Inability to comply with the requirements may lead to sanctions.

Communication operator activity in the sphere of information security in the Russian Federation is represented by the following legal acts: Federal laws "On Communication," "On Information, Information Technologies and Information Protection," "On Personal Data," "On Trade Secret," "On Electronic Signature," by-laws of the Government, FSTEC, FSS, Ministry of Communication and The Federal Service for Supervision of Communications, Information Technology and Mass Media of the Russian Federation, among others. Main risks, posed by organization of processing and providing security of personal data include the following factors:

- ambiguity of applicability of legislation on communication, personal data, trade secret, etc. to a single object of legal regulation. Data may be simultaneously attributed to different categories of limited access information, which fall under different information security requirements under different sections of the Russian legislation;
- responsibility of personal data operators for the actions of the third parties, processing personal data at the request of personal data operators;
- ambiguity of the criteria for determining personal data protection level during its processing in the information systems (for example, in case undocumented possibilities in system and/or applied software exist), set by Government Decree No. 1119, dated November 1, 2012;
- high level of requirements to the personal data protection;
- significant costs on creation of information protection system and support of protection level;

- necessity to use the means of information protection, which have undergone a special conformity assessment procedure; replacement of the existing means of information protection with the ones, certified by FSTEC and FSS of Russia may require additional costs on certification of the existing means of information protection and later on certificates renewal (because of the limited period of certificates validity);
- in case of failure to comply with requirements for confirmation of licenses for the technical and cryptographic protection activity of confidential information by FSTEC of Russia or FSS of Russia, the company would not be able to provide the corresponding commercial services to the third parties; and
- ambiguity of the requirement of Federal law No. 152 to localize processing of the Russian citizens personal data on the territory of Russia, keeping the possibility of cross-border transfer of this data.

In case of non-compliance with the Russian legislation on information security and personal data protection, the company cannot rule out the possibility of imposing sanctions by the regulatory bodies in the form of fines, confiscation of uncertified means of information protection, suspension of business processes for 90 days as well as suspension or withdrawal of the license, allowing to provide communication services, technical and cryptographic protection of confidential information.

In addition, it is possible that subscribers will file legal claims, seeking to reimburse tangible and moral damage in connection with the violation of the legislation requirements.

With effect from May 25, 2018, the General Data Protection Regulation came into force in the European Union. Our basic business processes and our subsidiaries were audited in order to determine applicability and compliance with the GDPR requirements. In addition, a control mechanism for determination of compliance with the specified requirements was proposed to be established for new business processes (if they are initiated). In case of launching services and products, to which the GDPR will apply, we must ensure these services and products comply with the GDPR requirements.

Federal Law No. 519-FZ dated December 30, 2020, which came into force from March 1, 2021, established specific regulation for processing of personal data, permitted by the personal data subject for distribution. The Law established certain consent requirements for such personal data processing. For example, the consent should be obtained separately from other consents. An operator must provide the opportunity for the subject to determine the list of personal data for each personal data category specified in such consent. Lack of response or inaction of the personal data subject cannot be considered as consent to the processing of personal data, authorized by him for disclosing. The personal data subject has a right to request any personal data operator to remove his personal data from public access without additional proving the fact of illegal processing of his personal data.

If the resources required to maintain, develop and implement data protection and information security systems meeting the legislation requirement are greater than expected, or we fail to comply with the data protection laws despite our best efforts to do so, our business, financial condition and results of operations could be materially adversely affected.

The Ministry of Digital Development, Communications and Mass Media of the Russian Federation prepared draft amendments to the Federal Law No. 149-FZ "On Information, Information Technology and Data Protection" dated July 27, 2006 aimed at unifying the approach to big data processing. Currently there is no clarity as to the requirements to the big data processing and when the announced draft law and subordinate legislation may be adopted, hence we are not able to estimate their potential impact on the Group.

The Federal Law No. 441 was adopted on December 30, 2021. According to the Law, if we continue to collect and process biometric personal data to authenticate personal data subjects, we will have to be accredited by September 1, 2022 in accordance with the requirements of legislation on information, information technology and information protection. In addition, we must check the compliance of organizational and technical measures for the processing (including collection) and protection of personal biometric data and, in case of non-compliance with such requirements, take appropriate measures. At present, such changes in the legislation could lead to significant additional costs as well as significant risks including administrative sanctions in case of non-compliance with these requirements.

The Russian taxation system is underdeveloped and any imposition of significant additional tax liabilities could have a material adverse effect on our business, financial condition or results of operations.

The discussion below provides general information regarding the Russian tax regime and is not intended to be inclusive of all issues. Investors should seek advice from their own tax advisors as to these tax matters before investing in our shares and ADSs. See also “Item 10–Additional Information–E. Taxation.”

In general, taxes payable by Russian companies are substantial and numerous. These taxes include, among others, corporate income tax, value added tax, property taxes, excise duties, payroll-related taxes and other taxes.

In addition, intercompany dividends are subject to a withholding tax of 0% or 13% (depending on whether the recipient of dividends qualifies for Russian participation exemption rules), if being distributed to Russian companies, and 15% (or lower, subject to benefits provided by relevant double tax treaties), if being distributed to foreign companies.

Lately the Russian government has taken measures aimed at revising the existing structure and practice of applying agreements on avoidance of double taxation in order to limit the taxpayer’s ability to apply reduced rate (exemptions) when paying dividends and interest in certain jurisdictions. The terms of the agreements have already been revised with a number of jurisdictions in order to increase tax rate on dividends and interest, and are being revised with other ones. Limitation of the taxpayer’s ability to apply reduced rate (exemptions) might lead to higher tax rates, and thus increase our costs.

The Russian tax authorities may take a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may nonetheless be subject to challenges in the future. The foregoing factors raise the risk of the imposition of arbitrary or onerous taxes on us, which could adversely affect the value of our shares and ADSs.

Current Russian tax legislation is, in general, based upon the formal manner in which transactions are documented, looking to form rather than substance. However, the Russian tax authorities are increasingly taking a “substance and form” approach, which may cause additional tax exposures to arise in the future. Moreover, the Russian Tax Code was amended with direct provisions which prohibit tax benefits, if achieved without real business activities, or the main aim of the transaction was tax benefits. Additional tax exposures could have a material adverse effect on our business, financial condition, results of operations and prospects.

It is expected that Russian tax legislation will become more sophisticated, which may result in the introduction of additional revenue raising measures. Although it is unclear how any new measures would operate, any such introduction may affect our overall tax efficiency and may result in significant additional taxes becoming payable. Additional tax exposures could have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. For example, tax laws are unclear with respect to deductibility of certain expenses. This uncertainty could possibly expose us to significant fines and penalties and to enforcement measures, despite our best efforts at compliance, and could result in a greater than expected tax burden.

See also “Item 8–Financial Information–A. Consolidated Statements and Other Financial Information–7. Litigation–Tax Audits and Claims.”

Lack of law enforcement practice of the Russian anti-offshore policy may have an adverse impact on our business, financial condition and results of operations.

In the past few years, the Russian Federation like a number of other countries in the world has been actively involved in a discussion of measures against tax evasion by the use of low tax jurisdictions as well as aggressive tax planning structures.

The rules of controlled foreign companies (CFC) came into force on January 1, 2015. The rules oblige Russian taxpayers being controlling persons of a foreign company to submit to the tax authorities both standard notifications on participation in CFC and tax declarations in certain cases. Profit generated commencing in 2015, including retained earnings, is subject to taxation in the Russian Federation. The innovations could impose additional tax on the undistributed profits of any foreign entity controlled by us (in proportion to such controlling stake) at the rate of 20%. These innovations caused amendments to the Tax Code providing for liability in case of non-disclosure or incomplete disclosure of information on CFCs and the non-payment or underpayment of relevant tax.

In addition, implementation of new concept of beneficial ownership, with regard to taxation of payment of passive income (dividends, royalty, interest, capital gain), may negatively affect possibility to apply benefits set by the double tax treaties, in case such payments pass through intermediary entities.

This may potentially lead to increase of tax burden with regard to such payments.

On November 4, 2014, the President of the Russian Federation signed the Federal law No. 325 "On Ratification of the Convention on Mutual Administrative Assistance in Tax Matters." Ratification of this Convention will enable the Russian Federation to receive tax information from all participating countries, which include a number of offshore jurisdictions.

Lack of law enforcement practice may cause difficulties in interpreting the above-mentioned laws by the Russian tax authorities.

It is also currently unclear how the enacted laws could affect our counterparties, which may be registered in off shore jurisdictions.

In case the impact of legislative initiatives is significant for some of our counterparties it may also impact our results of operations.

Vaguely drafted Russian transfer pricing rules, and lack of reliable pricing information may impact our business and results of operations.

Russian transfer pricing legislation became effective in the Russian Federation on January 1, 1999.

This legislation allowed the tax authorities to make transfer pricing adjustments and impose additional tax liabilities with respect to all "controlled" transactions, provided that the transaction price differed from the market price by more than 20%. "Controlled" transactions included transactions with related parties, barter transactions, foreign trade transactions and transactions with significant price fluctuations (i.e., if the price with respect to such transactions differs from the prices on similar transactions conducted within a short period of time by more than 20%). Special transfer pricing provisions were established for operations with securities and derivatives. Russian transfer pricing rules were vaguely drafted, generally leaving wide scope for interpretation by Russian tax authorities and courts. There has been very little guidance (although some court practice is available) as to how these rules should be applied. These transfer pricing rules apply with respect to transactions that occurred before January 1, 2012.

New transfer pricing rules became effective on January 1, 2012. The implementation of these new rules should help to align domestic rules with OECD principles. The new rules are expected to considerably toughen the previously effective law by, among other things, effectively shifting the burden of proving market prices from the tax authorities to the taxpayer and obliging the taxpayer to keep specific documentation.

If the Russian tax authorities were to impose significant additional tax liabilities through the introduction of transfer pricing adjustments, they could have a material adverse impact on our business, financial condition and results of operations. The adoption of the new transfer pricing rules may increase the risk of transfer pricing adjustments being made by the tax authorities. In addition to the usual tax risks and tax burden imposed on Russian taxpayers, the uncertainties of the new transfer pricing rules complicate tax planning and related business decisions. It will also require us to ensure compliance with the new transfer pricing documentation requirements proposed in such rules. Uncertainty of the new rules may also require us to expend significant additional time and material resources for implementation of our internal compliance procedures. Tax authorities could impose additional tax liability as well as 40% penalties on the underpaid tax in case the prices or profitability are outside the market range and if the required transfer pricing documentation has not been prepared, which could have a material adverse effect on our results of operations and financial condition.

The regulatory environment for telecommunications in Russia and other countries where we operate or may operate in the future is uncertain and subject to political influence or manipulation, which may result in negative and arbitrary regulatory and other decisions against us on the basis of other than legal considerations and in preferential treatment for our competitors.

We operate in an uncertain regulatory environment. The legal framework with respect to the provision of telecommunications services in Russia and the other countries where we operate or may operate in the future is not well developed, and a number of conflicting laws, decrees and regulations apply to the telecommunications sector.

Moreover, regulation is conducted largely through the issuance of licenses and instructions, and governmental officials have a high degree of discretion. In this environment, political influence or manipulation could be used to affect regulatory, tax and other decisions against us on the basis of other than legal considerations. In addition, some of our competitors may receive preferential treatment from the government, potentially giving them an advantage over us.

We are subject to currency control regulations.

The Currency Control Law provides a framework and establishes general rules within which the government of Russia and the Bank of Russia are authorized to introduce certain measures of currency regulation, in connection with which there may be some uncertainty in the process of our implementation of foreign exchange operations when importing equipment.

The change in the currency regulation may negatively affect our performance of obligations under contracts previously concluded with Russian and foreign counterparties, requiring us to make payments on them in foreign currency and necessitating the conclusion of additional agreements in relation to the relevant contracts. As a result, we are exposed to the risks of changes in the currency regulation and foreign exchange control in Russia. See also “– Political and Social Risks–Further deterioration in relations between Russia and other states that were part of Soviet union as republics, as well as other geopolitically related disagreements and allegations between Russia and other countries and sanctions imposed as a result thereof, could materially adversely affect our business, financial condition, results of operations, prospects and the value of our shares and ADSs.”

The regulation of critical information infrastructure in the Russian Federation may lead to additional costs which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Federal Law No. 187 “On the Security of the Critical Information Infrastructure of the Russian Federation” which came into force on January 1, 2018 (the “Law on CII”) provides for the creation of a register of significant critical information infrastructure (CII) objects, to which the communication networks elements may be assigned (after the classification of CII objects). Both state-owned and non-state-owned organizations are classified as subjects of the CII.

The law envisages criminal penalties if the security requirements in respect of such significant CII objects are not met and damage is incurred. CII subjects, including communication operators, are required to, among other things:

- categorize CII objects;
- sent the results of CII objects categorization with the authorized bodies;
- create a security system for significant CII objects and implement measures targeted at significant CII protection and protection of information, belonging to the corresponding category;
- set up and provide the operations of means for attacks search on the communication network with the transfer of management to the authorized body; and
- organize transfer of information about computer incidents on the CII to the authorized body.

The by-laws envisage measures aimed at CII objects protection, which are difficult to implement, especially as regards the implementation of information protection measures that are not provided by such communication standards as 3GPP, ETSI, etc., which may lead to non-compliance with the regulatory requirements. The implementation of these requirements will require additional costs to be incurred. Requirements of Federal Service for Technology and Export Control of the Russian Federation and the Ministry of Communications (orders No. 239 and No. 582) restrict remote access to CII objects, which may affect possibility to provide warranty and technical support of communication infrastructure by foreign vendor agents.

Pursuant to paragraph 1 d)-2 of the Order No. Pr-1180 of the Russian President dated July 2, 2019 the Ministry of Communications developed draft orders «On economic measures to ensure technological independence and security of critical information infrastructure objects» and «On approval of requirements applicable for software, telecommunications equipment and radio-electronic products used at critical information infrastructure objects, and the procedure for the transition to the preferential use of Russian software, telecommunications equipment and radio-electronic products», providing for obligation of operators to use only Russian equipment and software at CII objects.

Compliance with the requirements of the laws and regulations or introduction of similar regulations may require additional costs to be incurred by us or otherwise negatively affect us and could have a material adverse effect on our business, financial condition, results of operations and prospects.

Risks Relating to the Shares and ADSs and the Trading Market

Government regulations may limit the ability of investors to deposit shares into our ADS facility.

The ability of investors to deposit shares into our ADS facility may be affected by current or future governmental regulations. For example, before November 28, 2021, under Russian securities regulations, no more than 25% of a Russian company's shares could have been circulated abroad through sponsored depositary receipt programs. Prior to December 31, 2005, and at the time of our initial public offering, this threshold was 40%. Although we believe that the lower threshold, which was subsequently abolished, did not apply to our ADSs, in the future, we may be required to reduce the size of our ADS program or amend the depositary agreement for the ADSs.

Because our ADS program is regularly at or near capacity, purchasers of our shares may not be able to deposit these shares into our ADS facility, and ADS holders who withdraw the underlying shares from the facility may not be able to re-deposit their shares in the future. As a result, effective arbitrage between our ADSs and our shares may not always be possible. Our shares are listed and traded on the Moscow Exchange. Due to the limited public free float of our common stock, the public market for our shares is significantly less active and liquid than for our ADSs. The cumulative effect of these factors is that our shares may from time to time, and for extended periods of time, trade at a significant discount to our ADSs.

Failure to comply with requirements on the disclosure of certain information on ADSs and ADS holders may restrict your ability to vote.

Pursuant to the Russian securities laws, depositaries, and as a result, ADS holders are not able to vote in connection with the shares underlying ADSs on behalf of the ADS holders unless they provide certain information to the issuer. At a minimum, this information includes the identity of the holder of the ADSs, registration details including a state registration number (for legal entities), and the number of shares attributable to each ADS holder.

Nevertheless, the legislation stipulates that the issuer, CBR, Russian courts and pretrial investigation agencies may request such lists of depositary receipt holders from the holder of depositary program depo account. The holder of depositary program depo account shall take all reasonable measures in order to provide such information. In case of non-compliance with the above requirements, the CBR may suspend, or impose limitations on, transactions with securities held in the relevant accounts of Russian custodians for a period of up to six months. As a result, the shares underlying the ADSs may be blocked and it may be impossible to deposit or withdraw the shares into or from the depositary program. In addition, uncertainties with respect to exercise of certain rights attaching to shares underlying ADS holders could complicate the exercise of right to, and the ability to derive benefits from, the shares represented by ADSs.

The market price of our ADSs has been and may continue to be volatile.

The market price of our ADSs experienced, and may continue to experience, significant volatility. Volatility remains relevant, as trading in our ADSs on NYSE was suspended on 28 February 2022, following the suspension of all trading on the Moscow Exchange on the same day. MOEX stock trading was resumed on March 24, 2022. See also “Political and Social Risks—Further deterioration in relations between Russia and other states that were part of Soviet union as republics, as well as other geopolitically related disagreements and allegations between Russia and other countries and sanctions imposed as a result thereof, could materially adversely affect our business, financial condition, results of operations, prospects and the value of our shares and ADSs.”

For information on the closing price of our ADSs on the New York Stock Exchange, see “Item 9—Offer and Listing Details—A.4. Market Price Information.”

Numerous factors, including many over which we have no control, may have a significant impact on the market price of our ADSs, including, among other things:

- periods of regional or global instability, including macroeconomic;
- announcements of technological or competitive developments;
- regulatory developments in our target markets affecting us, our customers or our competitors;
- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates or other material comments by securities analysts relating to us, our competitors or our industry in general;
- the value of local currencies in the markets where we operate compared to the US dollar;
- change of the key rate by world banks;
- announcements by other companies in our industry relating to their operations, strategic initiatives, financial condition or financial performance or to our industry in general;
- announcements of acquisitions or consolidations involving industry competitors or industry suppliers;
- sales or perceived sales of additional ordinary shares or ADSs by us or our significant shareholders; and
- impact and development of any investigation or lawsuit, currently pending or threatened, or that may be instituted in the future.

For example, market price of our ADSs experienced volatility in 2017 due to legal proceedings relating to Sistema, initiated by Rosneft, Bashneft and the Ministry of Land and Property Relations of Republic of Bashkortostan, and arrest of 31.76% of shares in our authorized capital held by Sistema, which was lifted as a result of execution of the settlement agreement.

In addition, the stock market in recent years has experienced extreme price and trading volume fluctuations that often have been unrelated or disproportionate to the operating performance of individual companies. These broad market fluctuations may adversely affect the price of our ADSs, regardless of our operating performance.

Voting rights with respect to the shares represented by our ADSs are limited by the terms of the deposit agreement for our ADSs and relevant requirements of Russian law.

ADS holders will have no direct voting rights with respect to the shares represented by the ADSs.

They are able to exercise voting rights with respect to the shares represented by ADSs only in accordance with the provisions of the deposit agreement relating to the ADSs and relevant requirements of Russian law. Therefore, there are practical limitations upon the ability of ADS holders to exercise their voting rights due to the additional procedural steps involved in communicating with them. For example, the Joint Stock Companies Law and our charter require us to notify shareholders no less than 30 days prior to the date of any meeting and at least 50 days prior to the date of an extraordinary meeting to elect our Board of Directors. Our ordinary shareholders will receive notice directly from us and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

ADS holders by comparison, will not receive notice directly from us. Rather, in accordance with the deposit agreement, we will provide the notice to the depositary. The depositary has undertaken, in turn, as soon as practicable thereafter, to mail to ADS holders the notice of such meeting, voting instruction forms and a statement as to the manner in which instructions may be given by ADS holders.

To exercise their voting rights, ADS holders must then instruct the depositary how to vote the shares represented by the ADSs they hold. Because of this additional procedural step involving the depositary, the process for exercising voting rights may take longer for ADS holders than for holders of the shares and we cannot assure ADS holders that they will receive voting materials in time to enable them to return voting instructions to the depositary in a timely manner. ADSs for which the depositary does not receive timely voting instructions will not be voted.

Given the above, we cannot provide any assurance that holders and beneficial owners of ADSs will (i) receive notice of shareholder meetings to enable the timely return of voting instructions to the depositary, (ii) receive notice to enable the timely cancellation of ADSs in respect of shareholder actions or (iii) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions.

See also "Failure to comply with requirements on the disclosure of certain information on ADSs and ADS holders may restrict your ability to vote."

ADS holders may be unable to repatriate distributions made on the shares and ADSs.

We anticipate that any dividends we may pay in the future on the shares represented by the ADSs will be declared and paid to the depositary in rubles and will be converted into U.S. dollars by the depositary and distributed to holders of ADSs, net of the depositary's fees and expenses. The ability to convert rubles into U.S. dollars is subject to the availability of U.S. dollars in Russia's currency markets.

Although there is an existing, albeit limited by size, market within Russia for the conversion of rubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is a limited market for the conversion of rubles into foreign currencies outside of Russia and limited market in which to hedge ruble and ruble-denominated investments.

ADS holders may be subject to Russian regulatory restrictions.

Prior to the amendments to the Russian securities laws introduced in 2011, a depositary bank could be considered the owner of the shares underlying the ADS, and as such could be subject to the mandatory public tender offer rules, anti-monopoly clearance rules, governmental consents or reporting requirements in respect of acquisition of shares and other limitations contemplated by Russian law. The amendments to the Russian securities laws introduced in 2011 provide that a depositary bank is not an owner of underlying shares, and as such, these requirements should apply to ADS holders.

ADS holders may be unable to benefit from the United States - Russia income tax treaty.

Under Russian law, dividends paid to a non-resident holder of the shares generally will be subject to Russian withholding tax at a rate of 15%. The tax burden may be reduced to 5% or 10% under the United States-Russia income tax treaty for eligible U.S. holders; a 5% rate may potentially apply for U.S. holders who are legal entities owning 10% or more of the company's voting shares, and a 10% rate applies to dividends paid to eligible U.S. holders in other cases, including dividend payments to individuals and legal entities owning less than 10% of the company's voting shares. However, according to the recent amendments to the Russian Tax

Code, U.S. holders will only be able to utilize the 5% reduced rate through tax reimbursement procedures, as the tax agent is required to use the baseline tax rate established by the code or the applicable tax treaty, whichever is appropriate. See also "Item 10-Additional Information-E. Taxation-Certain Russian Tax Consequences-United States-Russia Income Tax Treaty Procedures."

The Russian tax rules in relation to ADS holders (that would affect U.S. holders) are characterized by significant uncertainties and limited interpretive guidance. Recent amendments to the tax rules have clarified the status of the ADS holders as beneficial owners of the income from the underlying shares by establishing that the custodian holding the depo account with the shares underlying the ADSs acting as the tax agent and determines amounts of the withholding tax based on the information about the ADS holders and their tax residency status as provided by the program depository. However, the application of the baseline tax rate for ADS holders and any double tax treaty relief is available only if the tax treaty residence of the holder is provided to the custodian along with the other information prescribed by the Tax Code. In relation to ADS holders such information is to be provided by the ADS holders to the depository, who relays it to the custodian, who acts as the tax agent and withholds the taxes when making transferring the dividends to the depository. It is currently unclear how the depository will collect the necessary information from ADS holders. Thus, while a U.S. holder may technically be entitled to benefit from the provisions of the United States-Russia income tax treaty, in practice such relief may be difficult or impossible to obtain. See also "Item 10-Additional Information-E. Taxation" for additional information.

If we were classified as a "passive foreign investment company" (a "PFIC") for U.S. federal income tax purposes, U.S. holders of the ADSs could be subject to adverse U.S. federal income tax consequences.

In general, we will be a PFIC for any taxable year in which either: (i) at least 75% of our gross income for such taxable year consists of passive income (e.g., dividends, interest, capital gains, rents, and royalties, other than rents or royalties derived in the active conduct of a trade or rental business); or (ii) at least 50% of the value of our assets (generally determined on the basis of a quarterly average) is attributable to assets that produce, or are held for the production of, passive income. Our PFIC status is an annual determination that can be made only after the end of each taxable year, and will depend on the composition of our income and assets and the value of our assets from time to time, including goodwill (which may be determined by reference to the market value of our shares or ADSs, which may fluctuate), and the manner in which we operate our business. Recent volatility in the global capital markets could increase the risk that we might be classified as a PFIC in the current taxable year or in future taxable years. Accordingly, there can be no assurance that we will not be a PFIC for any taxable year.

If we were classified as a PFIC for any year in which a "U.S. Holder" (as defined under "Certain United States Federal Income Tax Consequences") owns our ADSs, the U.S. Holder could be subject to adverse U.S. federal income tax consequences. For any year during which a U.S. Holder held the ADSs, we will continue to be treated as a PFIC with respect to that U.S. Holder for all succeeding years during which the U.S. Holder held the ADSs, unless we cease to be a PFIC and the U.S. Holder has made certain "purging" elections with respect to the ADSs. Each U.S. Holder of the ADSs should consult its tax advisor regarding the PFIC rules and should read the discussion below under "Certain United States Federal Income Tax Consequences-Passive Foreign Investment Company Considerations."

Capital gain from the sale of shares and ADSs may be subject to Russian income tax.

Income received by a foreign company from the sale, exchange or other disposal (assuming that such income is not related to a permanent establishment of a foreign company in Russia) of shares (participation interest) in an organization in which over 50% of the assets consist of immovable property located in Russia, as well as financial instruments derived from such shares, is treated as income derived from a source in the Russian Federation and is subject to withholding tax at a rate of 20%. However, gains arising from the disposition of the securities, which are traded on an organized stock exchange, are not treated as Russian-source income, and should not be subject to taxation in Russia.

The amount of such income is typically determined as the sales price of shares (participation interest). However, if documentary support for the acquisition cost of the shares (participation interest) is available, the tax may instead be assessed on the basis of the difference between the sales price and the acquisition cost (including other related costs) if documentary evidence of such costs is submitted to the tax agent. The Russian Tax Code also establishes special rules for calculating the tax base for the purposes of transactions with securities. However, an exemption applies if immovable property located in Russia constitutes more than 50% of a company's assets and the securities are traded on a foreign stock exchange. The determination of whether more than 50% of our assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis and the relevant Russian legislation and regulations in this respect are not entirely clear. Hence, there can be no assurance that immovable property owned by

us and located in Russia does not currently and will not constitute more than 50% of our assets as at the date of the sale of ADSs by non-residents.

Where the ADSs are sold by legal entities or organizations to persons other than a Russian company or a foreign company or an organization with a registered permanent establishment in Russia, even if the resulting capital gain is considered taxable in Russia, there is currently no mechanism under which the purchaser will be able to withhold the tax and remit it to the Russian budget.

Under the United States / Russia income tax treaty, capital gains from the sale of shares and/or ADSs by eligible U.S. holders should be relieved from taxation in Russia, unless 50% or more of our assets (the term “fixed assets” is used in the Russian version of the treaty) were to consist of immovable property located in Russia.

The taxation of income of non-resident individuals depends on whether this income is received from Russian or non-Russian sources. Russian tax law does not give a definition of how the “source of income” should be determined with respect to the sale of securities, other than that income from the sale of securities, which takes place “in Russia” should be considered as Russian source income. As there is no further definition of what should be considered to be a sale “in Russia,” the Russian tax authorities have a certain amount of freedom to conclude what transactions take place in or outside Russia, including looking at the place of the transaction, the place of the issuer of the shares, the location of the registrar recording the transfer of legal title to the relevant securities or other similar criteria.

Non-residents who are individuals are taxable on Russian-source income. Provided that gains arising from the disposition of the foregoing types of securities and derivatives outside of Russia by U.S. holders who are individuals not resident in Russia for tax purposes will not be considered Russian source income, then such income should not be taxable in Russia. However, gains arising from the disposition of the same securities and derivatives “in Russia” by U.S. holders who are individuals not resident in Russia for tax purposes may be subject to tax either at the source in Russia or based on an annual tax return, which they may be required to submit with the Russian tax authorities. See also “Item 10—Additional Information—E. Taxation.”

The lack of a central and rigorously regulated share registration system in Russia may result in improper record ownership of our shares and ADSs.

Ownership of Russian joint-stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no single central registration system in Russia. Share registers can be maintained only by licensed registrars located throughout Russia. Regulations have been adopted regarding the licensing conditions for such registrars, as well as the procedures to be followed by licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low levels of capitalization and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company’s shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally associated with investments in other securities markets. Furthermore, the depository, under the terms of the deposit agreements governing record keeping and custody of our ADSs, is not liable for the unavailability of shares or for the failure to make any distribution of cash or property with respect thereto due to the unavailability of the shares. See “Item 10. Additional Information—Charter and Certain Requirements of Russian Legislation—Registration and Transfer of Shares.”

Foreign judgments may not be enforceable against us.

Our presence outside the United States may limit your legal recourse against us. We are incorporated under the laws of the Russian Federation. Substantially all of our directors and executive officers named in this document reside outside the United States. All or a substantial portion of our assets and the assets of our officers and directors are located outside the United States. As a result, you may not be able to effect service of process within the United States on us or on our officers and directors. Similarly, you may not be able to obtain or enforce U.S. court judgments against us, our officers and directors, including actions based on the civil liability provisions of the U.S. securities laws.

In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions outside the United States, liabilities predicated upon U.S. securities laws.