NCCIR approved the procedure for MNP service rendering and introduced amendments to the basic requirements of agreements for the provision of telecommunications services. The decision entered into force on September 8, 2015, after which the NCCIR appointed the USCRF as an administrator of the centralized database of the ported numbers.

In May 2017, operators received approved documents including technical requirements for MNP service. The court proceedings regarding the choice of a supplier for the centralized database have been finished. According to the decision of the NCCIR dated November 27, 2018, the MNP service is to be launched into a commercial use on May 1, 2019.

The Verkhovna Rada of Ukraine regularly reviews different versions of draft laws "On Electronic Communications." The key one of these draft laws requires, *inter alia*, the identification of the entire subscriber base of operators. The draft law provides for a period of compulsory registration, being six months. The inability to identify subscribers within the prescribed timeframe could have a negative effect on business operations of VF Ukraine. The request of VF Ukraine and Kyivstar PrJSC with regard to extending the transition period to two years was passed to legislators by way of an official letter. As of April 1, 2019, the draft law has not been considered.

In addition, the NCCIR approved a new procedure for the identification of anonymous subscribers, which obliged operators to register subscribers in electronic form, including with the use of an electronic subscriber identification system. The new procedure came into force in December 2018.

Legislative changes regulating the telecommunications industry may materially adversely affect our business, financial condition and results of operations. See "Item 4—Information on Our Company—B. Business Overview—Regulation of Telecommunications in the Russian Federation and Ukraine—Regulation in Ukraine—Legislation."

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.

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 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.

The tax system in Ukraine is undergoing a reform and various tax laws are subject to different interpretations.

Taxes and statutory charges are levied in accordance with the Tax Code of Ukraine ("**TCU**") that came into effect in 2011. Along with TCU requirements, Ukrainian taxpayers are obligated to follow

other legal acts and legislative provisions. Applicable taxes include value added tax ("**VAT**"), corporate income tax ("**CIT**"), customs duties, payroll taxes and other taxes. Ukrainian legislation is ambiguous, which could result in various tax disputes due to a number of mutually controversial or incomplete provisions.

For example, payments for computer software can be treated as royalty or payments for intangible assets depending on whether a company purchases end-user rights or not. VF Ukraine purchases limited rights for the use of computer software, which are currently determined as end-user rights with an appropriate taxation. However, such treatment could still be disputed.

Also, rules established by the TCU for recalculation of the input tax credit for non-current assets are unclear. Uncertain transfer pricing rules and their inconsistent application by the Ukrainian tax authorities and courts may also adversely affect VF Ukraine's operations. VF Ukraine's transactions with its non-resident related parties as well as certain transactions with other non-residents registered in low-tax jurisdictions (exhaustive list of these jurisdictions is established by the Cabinet of Ministers of Ukraine) may fall under transfer pricing ("TP") rules. For 2017 such transactions should be treated as controlled ones provided the following two conditions are met: (i) taxpayer's annual income exceeds UAH 150 mln; (ii) total volume of transactions with one counterparty for the respective year exceeds UAH 10 mln. Based on TP legislation, Ukrainian entities engaged in controlled transactions are required to submit report on controlled transactions and prepare transfer pricing documentation to substantiate the price in a particular controlled transaction. However, we may not exclude the risk that the tax authorities might challenge the prices in intercompany transactions taking into consideration the fact, that TP practice in Ukraine is relatively new and there is lack of practical cases describing approach applied by tax authorities regarding intra-group pricing. In case of any price adjustments, VF Ukraine's effective tax rate may increase and its financial results may be adversely affected.

Starting from 2018, to determine whether or not the taxpayer's business transactions are to be treated as controlled, the volume of such transactions should be calculated based on arm's length prices (instead of contractual prices as was previously commonly used in practice). These changes are intended to eliminate possible abuses such as a deliberate understatement of contractual prices; however, they may give rise to disputes with the tax authorities concerning the determination of whether the transactions should be treated as controlled.

Generally, tax returns as well as primary documents in Ukraine can be subject to inspection for a three-year period and, for issues of transfer pricing—for a seven-year period. However, this term may be extended under certain circumstances, including criminal investigation.

In 2017, VF Ukraine submitted adjustments to CIT-returns for the years ended December 31, 2015 and 2016 in order to eliminate double taxation, arising from different profit calculation for accounting and tax purposes in earlier periods.

During 2017 there was an obligation to register VAT invoices within 15 days from the date of issuance the act of acceptance or from the date of prepayment. In case VAT invoice is not registered, tax authorities may impose penalties up to 100%.

CIT regulation may undergo significant changes in the nearest future. The move from tax regime under which all companies' profits are subject to taxation to a system where tax is paid only if corporate profits are distributed was delayed for a year (previously it was expected to occur on January 1, 2019). Ukrainian companies are expected to be taxed on their actual and deemed distributed profits, including expenses incurred or other payments unrelated to economic activities, etc. It is not stated yet if the companies will be able to use deferred tax assets or set off CIT-overpayments against future tax payable. These and other changes could have a material adverse effect on our results of operations and financial condition.

While we believe that we currently comply with the tax laws affecting our operations in Ukraine, it is possible that relevant authorities may take differing positions with regard to interpretative issues resulting in additional payment obligations and penalties, which may result in a material adverse effect on our results of operations and financial condition.

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, Ukraine 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 Ukraine 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.

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 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 imposed on officials owning significant CII objects if the security requirements in respect of such significant CII objects are not met and damage is incurred. Information on CII security measures, on the status of its protection against computer attacks is classified as a state secret. CII subjects, including communication operators, are required to, among other things:

- categorize CII objects;
- agree the results of CII objects categorization with the authorized body (FSTEC - Federal Service for Technology and Export Control of the Russian Federation);
- 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; and
- set up and provide the operations of means for attacks search on the communication network with the transfer of management to the authorized body (FSS of Russia).

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 incompliance with the regulatory requirements. The implementation of these requirements will require additional costs to be incurred. Introduction of similar regulations, which may require additional costs to be incurred by us or otherwise negatively affect us 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, under Russian securities regulations, no more than 25% of a Russian company's shares may be 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 new lower threshold does 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.

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 macroeconomic instability;
- 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;
- 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—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 depositary. 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 depositary, who relays it to the custodian, who acts as the tax agent and withholds the taxes when making transferring the dividends to the depositary. It is currently unclear how the

depositary 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.

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 developed practice relating to share registration system in Russia may result in improper record ownership of our shares, including the shares underlying the ADSs, and other problems connected with the rights attributed to the relevant shares such as dividend payments.

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, the central registration system in Russia is under development. Since October 1, 2014, share registers of all joint stock companies are maintained by licensed registrars. Regulations were issued regarding the licensing conditions for such registrars, as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing the functions of registrar; however, companies are no longer able to maintain the registers themselves. Nevertheless, in practice registrars tend to have relatively low levels of capitalization and insufficient insurance coverage.

On December 7, 2011, amendments to the relevant legislation were adopted, substantially reforming the registration system by introducing the CSD. In the course of this reform of the share keeping system, numerous different depositaries with accounts in the registers of companies were replaced by a single central depositary, whose primary function is the custody of shares in all major companies. These changes became effective on January 1, 2012 and are still being implemented. On November 6, 2012, FSFM officially appointed the National Settlement Depositary as the central depositary. Since the central depositary opened its account in MTS' register in March 2013, all the other custodians are restricted from opening their accounts in the register. Currently the central depositary is the only custodian with an account in MTS' register and other custodians hold custodial accounts with the central depositary.

In addition, certain amendments to the Civil Code of the Russian Federation entered into force on October 1, 2013 regarding the transfer and restitution of securities that are aimed at protection of rights of security holders and on September 1, 2014 regarding the regulation of legal entities and their corporate governance. However, we cannot entirely exclude that transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence, official and unofficial governmental actions or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss as well as difficulties relating to dividend payments not normally associated with investments in other securities markets.

The depositary reform in Ukraine, as well as regulation of issues relating to repatriation of dividends outside Ukraine may lead to an increase in terms of dividend payments with respect to VF Ukraine shareholders, as well as adversely affect our cash flows, which may have adverse impact on our financial condition and results of operations.

The National Securities and Stock Market Commission of Ukraine, by its decision No. 391 "On Procedure of Payment of Dividends by a Joint Stock Company" dated April 12, 2016 stated that joint stock companies might carry out dividend payments either through the depository system of Ukraine or directly to shareholders. The specific method of the dividend payment is determined by a relevant decision of the general shareholders meeting with respect to the entire issue of securities of the joint stock company. The Regulation No. 591 of the National Bank of Ukraine "On Amendments to Certain Legislative Acts of the National Bank of Ukraine" that entered into force on September 23, 2014 was prolonged by the corresponding regulations of the NBU (the latest regulation expired on June 8, 2016).

The regulations set the restriction on a number of operations in foreign currency, including repatriation of dividends to the foreign investor.

According to the NBU Board Resolutions No. 342, 386, 410 "On Resolving the Situation in the Money and Foreign Exchange Markets of Ukraine" adopted in 2016, key currency restrictions have been re-extended until introduction of new resolutions of the NBU. The dividends may be repatriated with certain limitations. The Resolution of the NBU dated November 22, 2016 continued gradual mitigation of temporary restrictions on the currency market, by expanding opportunities for the clients of resident banks to purchase foreign currency in the interbank market.

On April 13, 2017, the NBU adopted a resolution that allows the repatriation of dividends not only for the period of 2014 to 2015, but also for 2016, and simplifies the mechanism of such payments, allowing the repatriation of dividends for the specified years in a total amount of up to 5 million U.S. dollars within one month. The NBU adopted a resolution, which changes the terms of the repatriation of dividends to foreign shareholders of Ukrainian companies with effect from November 15, 2017. Accordingly, the repatriation of dividends accrued until 2016 is permitted. The monthly limit on the repatriation of dividends for the period of up to 2013 is equivalent to 2 million U.S. dollars. In March 2018 the NBU adopted another resolution, which permits repatriation of dividends to foreign shareholders of Ukrainian companies irrespective of the period they were accrued in a total amount of up to 7 million U.S. dollars per month.

On January 4, 2019, the NBU approved a new system of currency regulation and published a currency liberalization roadmap providing for the gradual removal of FX restrictions as Ukraine's macroeconomic conditions improve. However, in case restrictions on the repatriation of dividends remain or are tightened in the future, it may adversely affect our cash flows, which may have adverse impact on our financial condition and results of operations.

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

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.

There is no treaty between the United States and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. These limitations may deprive you of effective legal recourse for claims related to your investment in our shares and ADSs. The deposit agreement provides for actions brought by any party thereto against us to be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association, provided that any action under the U.S. federal securities laws or the rules or regulations promulgated thereunder may, but need not, be submitted to arbitration. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards, but it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including the inexperience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favor of foreign investors and Russian courts' inability to enforce such orders and corruption.