Human Resources and Social Policy

LABOR AND COMPENSATION

AS OF DECEMBER 31, 2014 MTS OJSC HAD

30,951 employees

ON ITS PAYROLL LIST

At present the Company has a competitive compensation system that consists of fixed and variable parts. Employees of the Company are provided with compensations package and benefits in line with the current labor market practice.

The fixed part of the position salary is determined taking into account the salary ranges established for each grade based on the analysis of the labour market in the region of presence and the Company’s policy on positioning in the remuneration market.

The variable part is provided in the form of the incentive system, which establishes clear and transparent principles for setting target bonus amounts and calculating their actual amounts on the basis of key performance indicators and individual tasks set out in evaluation forms of all employees.

In addition to the abovementioned incentive system, the Company has established a bonus system for employees engaged in sales and customer care, the basic principle of which is motivation for achieving specific results. The feature of the system is the salary structure with a larger variable portion and different payment frequency. A commission bonus scheme (direct percentage from sales) was introduced for
employees of the Company responsible for direct sales.

The Company also uses additional incentive system for key staff at all levels, allowing to motivate the best talented and promising employees.

MTS provides to its employees a wide compensation and benefits package, focused on social protection of workers. Workers are provided service benefits (including cars and their compensation, mobile communications with large limit), social benefits (including life insurance, sick leave surcharge), entertainment benefits, fringe benefits (including compensation of fitness and pools, wide range of VMI insurance services, wide benefit package on relocation within the perimeter of the company). Due to the active development of the package, recently the growth of employee satisfaction with benefits package level has been one of the most significant in comparison with other satisfaction and involvement indicators.

Due to activities carried out in 2013, MTS preserves and strengthens its position among employers both for potential foreign competitors and for its own talented employees; as well as provide comfortable and stable working environment for the entire staff.

ORGANIZATIONAL STRUCTURE IN 2013

<table>
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<tr>
<th>01.01.2013–31.12.2013</th>
<th>Result of changes:</th>
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| Changing of organizational structure and staffing in the Macro-regions and Regions of MTS OJSC as a part of the change of organizational structures and functions of the Corporate Center and implementation of integration project of organizational structure of MTS OJSC and COMSTAR-Regions OJSC | • Organizational changes have been completed in all functional areas:  
• Work on standardization of staff number and distribution of functions in all areas was has been performed |

Marketing units

| Building the model structure  
| Centralization of administrative functions in the Corporate Center  
| Increasing competitiveness and manageability of fixed business  
| Redistribution of marketing human resources between mobile and fixed business  
| Staffing level optimization by 20% |
**Social Responsibility**

### Retail sales units
- Building the model structure
- Allocation of employees responsible for the development and promotion of financial services
- Organization of work with freelance staff (positions, quantity, employment type)
- Introduction of salaried employees performing functional roles of Coach and Supervisor
- Provision of human resources due to redistribution of staff between macro-regions

### IT units
- Building the model structure
- Standardization of staff size for all areas (creating drivers, analysis of current distribution of staff in areas and regions and the obtained results of the number of drivers)
- Formation of plans to centralize functions (production, ERP support, testing, pricing, etc.)
- Implementation of the first phase of centralization for implementation of marketing programs in the Northwest MR

### Change in organizational structure and staffing in Branches and Communication Service Centers of COMSTAR-Regions OJSC as a part of preparation for legal accession to MTS OJSC
- All organizational changes completed

In 2013, main changes in the organizational structure of MTS OJSC were aimed at creating a chain of command for functions in Macro-regions and Regions, as well as at preparation for implementation of legal accession processes of COMSTAR-Regions CJSC to MTS OJSC.

The aim of the organizational changes was the improvement of business manageability (development of model structure, reduction of management levels and increase of span of control, optimization of small structures), increase of the efficiency of the involved issues and approval processes, elimination of duplicate functions.
STAFF DEVELOPMENT

MTS OJSC has a systematic training model, based on strategic goals of the company and HR management objectives. The training system is also based on the Competences model of MTS Group and requirements for professional knowledge and skills of the employees.

The Company has a Corporate University, which sets the training standards and coordinates the processes in the field of training and development of employees. The Corporate University’s objectives also include building the training systems for various subdivisions of the company. The Corporate University mission is to create conditions for improving employee performance and development of the MTS Group business through the provision of high-quality, innovative and system-based training.

The basic goals of Staff Training and Development function:

- Ensuring system-based effective development of employees in competences which are crucial for the Company
- Forming skills, expertise, mindsets required by employees and managers for improving their performance in their current jobs
- Creation of tools for developing the Candidate Pool and Successors for key positions
- Arranging continuity of expertise/unique skills and experience
- Creation of self-training environment, where each manager and each employer is interested in the company’s development and involved in the processes of developing, maintaining and expanding the knowledge and skills in the Company.

Staff training and development are carried out using the following forms and methods:

- **Induction training.** The Company conducts uniform, centralized induction training for all new employees, aimed at providing understanding of the Company business, culture and structure, as well as understanding of internal processes and organizational procedures by new employees. For new managers we provide additional programs introducing the Company’s internal structure, business processes, and established interaction procedures. For existing employees we conduct team-building activities to enhance corporate spirit and strengthen corporate culture. The heads of Company functional subdivisions carry out training of existing employees according to the rules specified in bylaws. Functional seminars and master classes are conducted for newly implemented processes.

- **Vocational training.** The Company has a system of vocational training aimed at ensuring constant development of expertise and skills of the employees. Standards and contents of training programs, as well as norms for participation of employees in professional conferences, are set in accordance with the requirements for particular positions as well as in accordance with the requirements for professional knowledge of employees.
Social Responsibility

Vocational training is planned based on the business needs of a particular sub-unit. This element of the training system accounts for the major portion of activities and the largest number of employees involved in training. Vocational training for frontline employees is provided mainly through in-house resources according to uniform standards (taking into account regional differences).

• **Management training for managers.** The basis of this system is the concept of completion of individual training plan, as well as targeted and modular training of managers. Targeted and modular programs are mandatory for selected categories of managers, and individual training plans are created based on annual appraisal of managers’ competences. Particular attention is given to train managers in the HR management methods (selection, appraisal, grading, feedback, creation of personalized development plans, mentoring, motivation of employees, etc.) and interaction with subordinates on the basis of uniform corporate standards. The important objective of management training, apart from establishment of a uniform management approach of managers, is to motivate and to retain managers of the Company. The direction and content of managers training programs are determined based on the Company development strategy, the business objectives of sub-units, and the level of managers’ competences according to the appraisal results.

• **Training of Candidate Pool members and the Successors for management positions.** The basis of the candidate pool training system is the individual development plans of each employee included in the Candidate Pool. The training programs are worked out individually based on the appraisal results and the level of competences.

• **Self-education.** The Company has provided the conditions for self-education of employees. The internal library of study materials by competences has been created.

• **Full-time training, workshops.** Internal resources are actively involved in such trainings and workshops, in-house training programs are developed, and the Academy of Trainer’s Excellence for training local trainers has been established;

• **Post-training follow-up.** Conducting follow-up workshops on the subjects of
completed training to reinforce skills and expertise of employees and to discuss the scope for using the acquired skills and expertise in practice;

- **Remote training.** Distance forms of training are actively used in the company for all types of training. Theory courses are conducted mainly in the distance form. Distance methods are also actively used to evaluate the effectiveness of training: to test the knowledge gained as a result of training and to evaluate satisfaction with training programs, practical usefulness of training programs;

- **On-the-job training** is deemed the preferred and most effective method. One of the main objectives of a manager at any level is the professional growth of his or her subordinates. The Company established a mentorship system for all employees: from an intern to an expert;

- **Master classes of the Company’s top managers.** The company’s top managers actively participate in the training and development of the Company’s employees. Master classes of the key managers of the Company are held on a regular basis to give a message to the employees regarding the main objective of the Company and its strategy as well as to discuss the key projects. When holding master classes the top managers can get the feedback from the employees and discuss the prospective changes in their processes.
In addition, by the end of 2013, the following programs has been implemented in the Company:

- “Talent Management” program was launched for successors for leadership positions, high-potential employees (Hi–Po), specialists with unique expertise (Hi–Pro). For each of the target groups training programs have been developed, including the development of an individual development plan, 360 and Hogan feedback scoring, master classes, workshops, business lunches with top executives, mentoring programs.
- Remote Personnel Testing and Training System (SDTO) is being developed. 85 new courses were added to Remote Personnel Testing and Training System (twice as much as in 2013); each employee completed more than 3 courses in SDTO.
- Electronic library has been updated and expanded; now in addition to e–books, it also has audio–books on personal and professional development.
- The development program “Leadership Academy” was launched across Russia. During 2013, every fourth participant of “Leadership Academy” took a new career step.
- Implementation of the project “Sharing Knowledge” continued, where the employees share their expertise with colleagues in the format of webinars and workshops.
- For MTS managers “Rules for MTS Manager” were developed, including basic principles of management in the Company. Program to teach the rules was developed for 2014.
- In support of the Company’s strategy, targeted training program “Leadership in change management” was launched.
- The English Club was started, aimed at development of language skills among MTS staff. Classes are held in the format of debates. Moderators are guest lecturers.
- Development program “Development of Employees in the Workplace” for Sales and Customer Service Block managers was implemented.
- Total coverage of employees trained was 130,000 person–courses.
In line with the Company’s HR strategy new functional academies were developed and launched:

- “Customer Care Academy” for the employees engaged in customer service;
- “Academy of Business Sales PRO” for the employees engaged in sales of products and services for corporate customers;
- “Coaching Skills Academy” for the development of coaches within MTS Group. The goals of the Academy are professional development of corporate and in-house trainers of MTS Group and spreading single philosophy / policy / learning principles across the Company;
- “Leadership Academy” for high-potential employees of MTS Group. The key objectives of the Academy include development of managerial and communication skills of high-potential professionals.

The criteria for sending employees for vocational training are the approved vocational training plans, formed by functional managers based on the annual appraisal results.

Induction training has to be completed by all new employees, and if a new regulation/process is introduced – by all existing employees of the Company.