

# Sustainability report **2012–2013**

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# About the Company

Sistema JSFC is the largest publicly-traded diversified holding company in Russia and the CIS. Incorporated in 1993, Sistema is now one of Russia's top 10 companies by revenue, and is one of the largest holding companies in the world. The Company's portfolio comprises stakes in predominantly Russian businesses in a range of sectors, including telecommunications, oil and gas, utilities, healthcare services, consumer, high tech, and others. Sistema is the controlling shareholder in most of its portfolio companies.

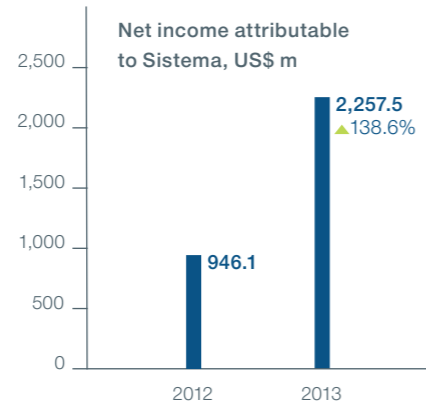
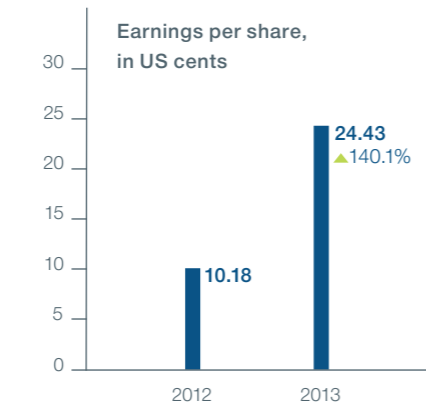
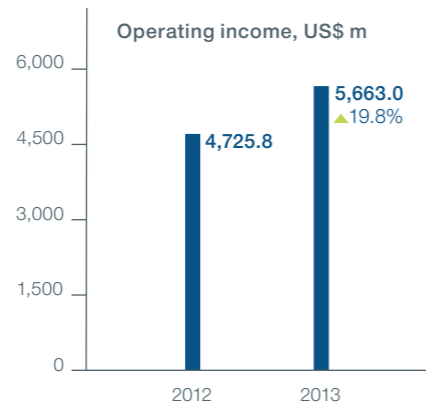
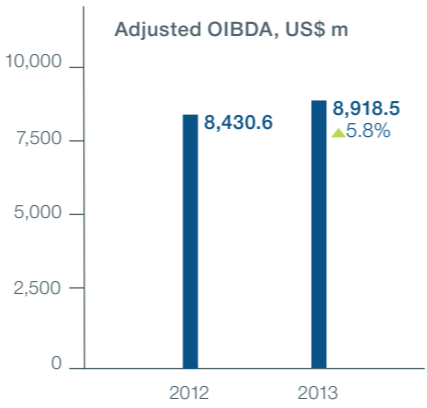
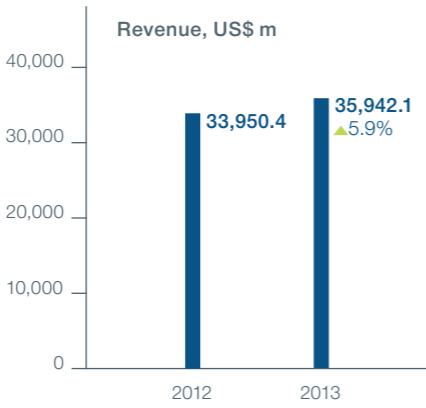
Sistema's portfolio companies serve more than 100 million consumers in Russia, the CIS, Europe and Asia across industries such as telecommunications, high tech, oil and energy, radio and space technology, banking, retail, mass media, tourism, and healthcare services.

Sistema's shares are listed on the London Stock Exchange as Global Depository Receipts (GDRs). The Company's ordinary shares are listed on the Moscow Stock Exchange. The main shareholder of the Company is the Chairman of Sistema's Board of Directors Vladimir Evtushenkov (64.19%).

## SISTEMA'S PORTFOLIO COMPANIES

In November 2012, Sistema's Board of Directors approved a new organisational structure, under which all of the Company's investments were grouped into asset portfolios.

Sistema is ranked 308th in the Fortune Global 500 and ranks in the top 10 Russian companies by revenue.



### 2012–2013 Highlights:

167.5 k employees

>100 m customers

\$69.9 bn in revenues in 2012–2013

₽3.6 bn of social investments in 2012–2013

₽676 bn of tax payments in 2012–2013

₽113 bn staff costs in 2013

3,500 employees involved in volunteer projects

>300 social projects run by the Company

Sistema's portfolio companies	Comment
	MTS is the leading telecommunications group in Russia and the CIS, offering mobile and fixed voice, broadband and pay TV services. MTS is included in the top-100 most valuable brands in the world
	JSOC Bashneft is a vertically integrated oil company ranking in the top-10 Russian companies in terms of oil production and in the top-5 in terms of oil refining
	Bashkirian Power Grid Company is one of the largest regional electricity transmission companies
	Targin (formerly Bashneft-Service Assets) is a management company of an oilfield services holding which comprises 11 companies
	United Petrochemical Company is a vertically integrated petrochemical company which owns four businesses in the Republic of Bashkortostan
	Sistema Mass-Media (SMM) is one of Russia's leading media holdings
	MTS Bank is a universal commercial bank of federal scale, one of the top 50 Russian banks by the size of equity and net assets
	Detsky Mir is the largest children's goods retailer in Russia and the CIS
	VAO Intourist is the oldest operator in the Russian tourism market
	Medsi is a leading provider of private healthcare services in Russia which operates the largest private chain of medical institutions in the country
	RTI is a major Russian industrial holding which develops and manufactures high-tech products and infrastructure solutions using proprietary microelectronic technologies. The company is one of the top 100 largest defence companies in the world
	Binnopharm is a pharmaceutical company which operates one of Russia's largest facilities for full cycle production of biotech drugs
	NIS is a leader in the Russian navigation and information market, implementing major projects to deploy GLONASS, a Russian satellite navigation system
	Russkaya Zemlya (RZ Agro Holding Ltd.) is a major grain producer in the south of Russia with a land bank of approximately 100 thousand hectares
	SG-trans is Russia's largest independent railcar operator in the market for transportation of liquefied gas
	Sistema Shyam TeleServices Ltd (MTS India) is a mobile operator in India

## Chairman's Message



Dear Partners and Shareholders,  
Employees and Customers,

I am pleased to present our Sustainability Report. In 2012–2013, we initiated a number of important social projects, the largest of them being the all-Russia programme to support talented youth, Lift to the Future. The companies comprising the Corporation have funded the construction and renovation of dozens of sports, healthcare and educational centres in many regions of Russia; thousands of volunteers from our companies have participated in charitable activities. Every year, our positive contribution to society is becoming increasingly significant and visible: in 2012, Sistema won first place in the annual Corporate Philanthropy Leaders ranking.

I would like to emphasize the positive social changes that our business brings to the lives of people. Today, our telecommunications company, MTS, serves more than 100 million subscribers. Over the years of its existence, it has brought advanced communications services to hundreds of remote communities across Russia which previously lacked even landline telephone service. Its subsidiary in Armenia helped improve ambulance waiting times due to the roll-out of state-of-the-art telecommunications technology. Bashneft is spending billions of roubles on renovating Soviet-era refineries in Bashkortostan. One of its key accomplishments is the full transition to production of Euro-5-compliant gasoline. The use of this fuel drastically reduces car emissions.

In 2013, Detsky Mir reinvented its approach to retail: a new store format was launched focused on providing fun for children. The network of Medsi clinics will

undergo a significant transformation: we do not just construct new buildings to house clinical diagnostic centres; we want to bring to Russia the most advanced international medical technologies, including both latest equipment and latest medical know-how. RTI's contribution to enhancing Russia's security received the highest recognition possible when in 2012 the developers of its new radar station were awarded the State Prize in science and technology.

Transparency and high standards of business ethics are an integral part of our operations. We have succeeded in becoming a role model for many Russian businesses for corporate governance and investor relations. Our approach to new investments continues this trend — we grow market leaders, the companies we can be proud of. One example of this approach is the transformation of SG-trans, launched in the reporting period; this successful project is presented as a case in this report. In planning new investments we always estimate not only the expected returns on our investment but also the impact that the target company has on the environment and local communities, and evaluate its commitment to providing quality products or services, its work environment, and contributions to society and Russia.

Sistema employs almost 170,000 people, with jobs provided in every region of Russia and in ten foreign countries. It is an immense responsibility. We provide our employees with decent remuneration for their work and seek to offer exciting development opportunities and career prospects to employees of our companies. We invest not only in production but also in human capital. In addition, a special focus is made on safety. In 2013,

Bashneft's integrated Occupational Health & Safety and Environmental Management System was certified to the internationally recognised standards ISO 14001 and OHSAS 18001. In the reporting period, we saw a significant decline in the occupational injury rates at our hazardous facilities.

Sustainable development of our Company is based on our relationships with the social, natural and economic environment. While presenting this report I invite you to make proposals and suggestions as to how to make these relationships even more harmonious and productive.

Your views are particularly important as we have set highly ambitious goals for 2014–2015. We are launching new exciting environmental and social projects and seek to involve as many subsidiaries as possible into the ongoing ones. We also plan to make employee participation in volunteer initiatives a company-wide commitment. In many of our portfolio companies higher standards for anti-corruption procedures will be introduced in the near future. We will continue the implementation of best corporate governance practices and further improve the performance of our corporate Board of Directors. And of course, all our subsidiaries are set to deliver even stronger performance for the benefit of the Russian economy and people in all countries and regions we operate in.

Sincerely,

**Vladimir Evtushenkov**

Chairman,  
Sistema's Board of Directors

# A Responsible Investor

## OUR APPROACH TO RESPONSIBLE INVESTMENT

Sistema enjoys a prominent position in the Russian economy. The decisions we make have significant implications not only for our portfolio companies but also for the lives of local communities, and the industries that employ millions of Russians. Therefore, as part of the investment process, as well as in the management of its subsidiaries, the Company acts as a responsible investor, i.e. takes into account the environmental, social and governance aspects of its operations. We are confident that the integration of these considerations into the Company's business strategy and tactics ensures business sustainability and makes positive impacts on society in general.

### Responsible Investment Considerations

Depending on the industry and the specific company targeted for investment, a range of different issues are considered. The key considerations include:

Social considerations:

- public benefits;
- employee engagement;
- occupational safety;
- human rights;
- personal data security;
- relationships with local communities.

Environmental considerations:

- responsible land use;
- energy saving and resource efficiency;
- reduction of pollution and CO2 emissions;
- waste management;
- environmental friendliness of products.

Corporate governance considerations:

- business ethics;
- anti-corruption and fraud prevention policies and procedures;
- corporate governance;
- openness and transparency;
- government relations.

Sistema acts as a strategic investor in most portfolio companies. It means primarily that the Company does not seek quick profits

but focuses on the consistent development of every business, taking it to a leadership position in their respective industries. This investment approach is based on a firm belief that only a long-term view of investment coupled with pro-active involvement in the development of the subsidiary's business and due account for the interests of all stakeholders can generate sustainable growth of shareholder value and corporate efficiency.

## RESPONSIBLE INVESTMENT PRINCIPLES

In its activities, Sistema adheres to the Principles for Responsible Investment developed by a group of major international institutional investors and supported by the United Nations. These principles are based on the acknowledgement that environmental, social and governance (ESG) issues influence the value and the dynamics of an investment portfolio, and their use can improve the alignment of business goals to societal aspirations. The Company seeks to use these principles not only at the corporate level, but also integrates them into the business processes of the portfolio companies.

UN Principles for Responsible Investment:

- Incorporate ESG issues into investment analysis and decision-making processes;
- Be active owners and incorporate ESG issues into our ownership policies and practices;
- Seek appropriate disclosure on ESG issues by the entities in which we invest;
- Promote acceptance and implementation of the Principles within the investment industry;
- Work together with the investment community to enhance our effectiveness in implementing the Principles;
- Report on our activities and progress towards implementing the Principles.

Sistema contemplates becoming an official signatory of the initiative and commit to unconditional compliance with the UN Principles for Responsible Investment.

Sistema invests in businesses which, along with the investment income, may bring benefits to society, the economy and the environment, and improve the quality of people's lives in general.

## MANAGING SUSTAINABLE DEVELOPMENT ISSUES IN THE INVESTMENT PROCESS

Sistema invests in businesses with yet undiscovered potential value. This approach always implies certain risks. The Company conducts thorough due diligence on potential investment targets, which provides for accurate risk assessment and development of mitigation programme.

As a part of this due diligence process, Sistema makes analyses of the market in which the target company operates, its operations, current strategy, and a range of macroeconomic factors — all this is done to assess its growth potential and develop a clear plan to increase its market value. In doing so the Company not only reviews the business performance, but also analyzes the impacts environmental, social and governance issues have on it — to see whether they drive or hinder growth. The analysis of these issues as part of the due diligence process allows Sistema to fully map risks and opportunities and make informed investment decisions.

Of course, the Company does not base its decisions solely on the above factors; however the availability of objective information on these issues determines to a great extent the investment appeal a certain business has to Sistema. For example, the Company may decide against investing in an attractive business which has good growth prospects but also significant ESG risks. On the other hand, other things being equal, companies with effective corporate governance and environmental management systems in place and strong personnel commitment have more appeal for Sistema.

When making a new investment, Sistema commits itself to active ownership, becoming deeply involved in its management and development through the Board of Directors. The Company is focused not only on operating and financial performance of the subsidiary, but also on the steps it takes to

address corporate governance, environmental and social issues. Sistema leverages all the experience of its investment team as well as that of other subsidiaries to develop optimal tailored solutions and sets reasonable KPIs for the management.

Achieving significant progress on governance, environmental and social issues often takes time. However, Sistema is focused on the long-term growth of the market value of its subsidiaries' businesses, so their management teams have the opportunity to take consistent efforts towards ensuring sustainable development, along with efforts to drive business growth.

## OUR STRATEGY

All Sistema's businesses are guided by responsible investment principles in their operations, generating benefits for society and seeking to make people's lives better. This is how we mostly see our social role.

### MTS: Caring about the customer

One of Sistema's strategic assets is MTS, a leading telecommunications operator in Russia and the CIS, offering integrated mobile and fixed telephony, long distance and international communications services, cable television, data transmission based on wireless and wired solutions, as well as financial services to its 100 million subscribers. MTS growth strategy is based on investment-driven expansion of telecom infrastructure in the countries where it operates, above all, in Russia.

The company drives the development of the Russian high-tech sector and helps improve the investment appeal of the national economy. MTS not only offers best-in-class service and quality of communications, but also the latest technology solutions, including mobile broadband Internet access based on 3G and 4G networks. In 2012–2013, the company installed 22,100 new base stations. Its 2G network covers 91% of the population, with the 3G and LTE networks reaching 78% and 11% of the Russian population, respectively. Geographically, MTS network covers the entire territory of Russia. The company has provided connection to residents of hundreds of remote communities which previously had no telecommunications and sometimes even power supply. By developing the communications infrastructure and services MTS directly drives the performance

of the Russian economy, opening up new opportunities for people, promoting the development of society and facilitating the nation's integration into the global community.

One aspect of MTS' social role is increasing the availability of fair-priced communications services. MTS is continuously improving its offering, launching new attractive tariff plans. The company regularly launches new offers providing users with new capabilities and helping them optimize communications costs. MTS consistently reduces its prices per minute, for example, between 2008 and 2013, the average price per minute (APPM) in the company's cellular networks in Russia was cut by almost half.

### Bashneft: Improving oil production efficiency

Bashneft is one of the key assets in the Company's investment portfolio. A vertically integrated oil business, the company is, according to its 2013 results, Russia's 6th largest oil producer and ranks 4th in oil refining.

Bashneft has more than 170 oil fields in commercial operation. The company seeks to ensure efficient oil production by leveraging advanced technology solutions with the lowest environmental footprint. Bashneft also seeks to expand its resource base — in 2012–2013, the company's key focus along with oil production at existing fields, was on the development of new promising fields. During the reporting period, commercial production was launched at R. Trebs and A. Titov fields in the Nenets Autonomous Area, boosting Bashneft's overall oil production volumes. Contingent oil resources of the above deposit are estimated by Miller and Lents at 649.4 million barrels.

During the reporting period, the company continued modernization of its refining capacities, aimed at improving production efficiency and reducing its environmental footprint. In addition, every upgrade project implemented by Bashneft means not only a foundation for the company's future development, but also a contribution to the nation's healthy environment. A number of production facilities have been upgraded, which allowed Bashneft to boost production of high-quality fuels, particularly of Euro-5-compliant gasoline. In addition, we continued upgrades to Bashneft-Ufaneftekhim's biological treatment plants, which will result in 100x reduction in oil contamination of waste water.

Bashneft is actively introducing technology innovations in the refining and petrochemical business segments to produce products that meet the most stringent environmental requirements, as well as to further increase the depth of refining, introduce advanced technology solutions that drive efficiency, optimize costs, ensure energy efficiency, and improve safety.

Bashneft plays an important role in the economy of its key region of operations, the Republic of Bashkortostan. In addition, the company is actively involved in the development of social infrastructures and charitable projects in the region. In 2012–2013, the company allocated more than RUB 2.5bn for those purposes.

### Detsky Mir: Products for children and their parents

Detsky Mir is the leading retail chain in the market for children's products in Russia, as well as one of the most recognizable Russian brands. Today, the company operates more than 200 Detsky Mir stores in more than 100 cities across Russia, as well as 27 ELC, or Early Development Centre, stores.

In December 2013, Detsky Mir presented a new concept of its stores. The new concept draws on the idea of a "store for children", with the key focus on little buyers. For them, there is a separate entrance, their own "children's" store guide and more than 20 entertainment zones. Adjusted height shelving allows shoppers to see almost the whole room from any point, while wider aisles provide for a comfortable shopping experience when shopping with a stroller. As part of the new concept, innovative lighting solutions were introduced to change colour and highlight attractive offers. Detsky Mir chain stores set a new standard in retail products for children, and the growing number of stores in the regions means higher availability of high-quality children's products across the country.

### Medsi: Advanced treatment solutions for everyone

Medsi is a leading private provider of health-care services in Russia; the company offers a full range of services in prevention, diagnosis and treatment of diseases, as well as rehabilitation for children and adults. Medsi clinics use advanced treatment methods, making sure that care is provided as promptly and efficiently as possible. All Medsi clinics

are equipped with the latest medical equipment and staffed with experienced doctors with the highest qualifications and PhDs in medical sciences. The clinics' capabilities provide for timely prevention, quality diagnosis and appropriate treatment, combined with advanced service for patients.

In the reporting period, Medsi launched a large-scale transformation of assets to build a full cycle of medical services: the company refined the referral process for patients — from primary care clinics to the clinical diagnostic centre, and from there, if there are indications — to clinics, or sanatoriums if rehabilitation is required. This system of care provides for high quality standards and advanced treatment techniques.

**Binnopharm: Biotechnology development and application**  
Binnopharm is a Russian pharmaceutical producer focusing on biotech drugs. The company operates one of the nation's largest biopharmaceutical complexes with an area of 32,000 sq. m, as well as a factory producing infusion solutions and plasma substitutes, PFC Alium. Binnopharm has built a team of leading biotechnology scientists to focus on promising biopharmaceuticals.

The company's focus is on the production of innovative medicines and on the government-sponsored import substitution programme. Its production facility has production lines adaptable to all main dosage forms: tablets, capsules, ampoules and environmentally friendly aerosols. Binnopharm is also engaged in distribution of active pharmaceutical ingredients and finished dosage forms in the hospital segment.

Biotechnology and genetic engineering are special focus areas for the company. Advanced biotechnological full-cycle production is GMP certified, producing drugs for treating socially dangerous diseases, mostly Regevac B, a hepatitis B vaccine.

PFC Alium plant acquired by Binnopharm in 2013 enabled the company to diversify its pharmaceuticals portfolio and penetrate the infusion solutions segment, a new line of business for the company. This plant was also designed to GMP standards and is by its design capacity Russia's leading production facility, with filling lines using more popular and modern plastic containers.

**RTI System: Contributing to the national security**  
Concern RTI Systems comprises enterprises that have vast R&D and production capabilities in implementing unique hi-tech projects.

The company's mission is to support the Russian Government and major businesses in implementing large-scale high-tech projects and military-technical programmes that contribute to Russia's economic growth and national security. The concern focuses on several science and technology areas: radio engineering and rocket technology, integrated communications systems and security, information and management systems, systems for special agencies, geo-informatics and radars. Many RTI Systems' products are one-of-a-kind globally.

Over the years, the company has earned a reputation of a reliable partner of the state in the implementation of major federal and regional projects, including the deployment of radar stations of high ex-works readiness and the establishment of the National Centre for Crisis Management commissioned by EMERCOM of Russia. RTI Systems is included in the international ranking Defense News Top 100 and is one of the 100 largest defence companies in the world.

One of the company's more important achievements in the reporting period was the commissioning of new generation Voronezh radar station, boosting the security levels for Russia. The station has a modular design, providing for rapid re-configuration of the complex, replacement of outdated units, improvements to combat capabilities, and, if necessary, quick re-deployment to a new location.

The new generation radar stations use a number of unconventional design solutions and advanced technologies and design techniques, which significantly improved their capabilities in detecting and recognising targets and reduced energy consumption and maintenance costs.

**Mikron\*: Microelectronics production**  
Mikron is Russia's largest manufacturer of microelectronics in terms of revenue, volumes of production and chip exports, and manufacture of RFID cards and tags. The company runs a full cycle from chip

production to encapsulation, providing for maximum control of product quality and safety. Mikron is ahead of other Russian microelectronics manufacturers by 4 to 5 generations of technology.

The company produces over 500 chip types, supplying its products to all regions of Russia, CIS countries, China, Japan, and South-East Asia. Chips are also supplied to the Russian military and industrial complex enterprises, the Russian Space Agency, and Rosatom.

In the reporting period, Mikron commissioned a production line for 90 nanometre microchips; additional technological options were developed to produce a wide range of microchips for navigation, telecommunications equipment, and identification and payment systems. Its successful modernization programme has helped the company increase its exposure to government-sponsored R&D and production projects related both to the national security and innovative solutions covering all citizens of Russia, such as chips for new Russian passports and for universal electronic cards.

**Sitronics: Developing IT solutions for infrastructure**  
Sitronics is a leading supplier of solutions for telecommunications and IT.

An important priority of the company's development is the design and implementation of various control systems based on information technology. For example, in the reporting period, Sitronics developed an intelligent transport system (ITS) for the city of Moscow, the first such system in Russia, designed to improve the safety and quality of life in Moscow through improved traffic flows. The system will increase the capacity of the city's road network by 10%, reduce the number of serious accidents by a third, and increase the average traffic speed in the Russian capital by 35%.

In the run-up to the 2014 Winter Olympics, an automated control system for multi-modal freight and passenger transportation was deployed in Sochi. The project increased the capacity of the Sochi transport hub by more than 20%, reduced the need for road transport in Sochi by 30% during the preparations and holding of the Winter Olympic Games, and helped improve the safety of passenger transportation.

STAKEHOLDER RELATIONS

We firmly believe that sustainable business development and the achievement of strategic objectives are only possible when due regard is taken of the interests of all stakeholders and responsible management of stakeholder relations is ensured.

In 2013, the Company held a special strategy meeting which was attended by representatives of 13 subsidiaries, as well as external advisors. The meeting identified the following stakeholders whose interests are to a varied extent taken into account by Sistema in its day-to-day activities:

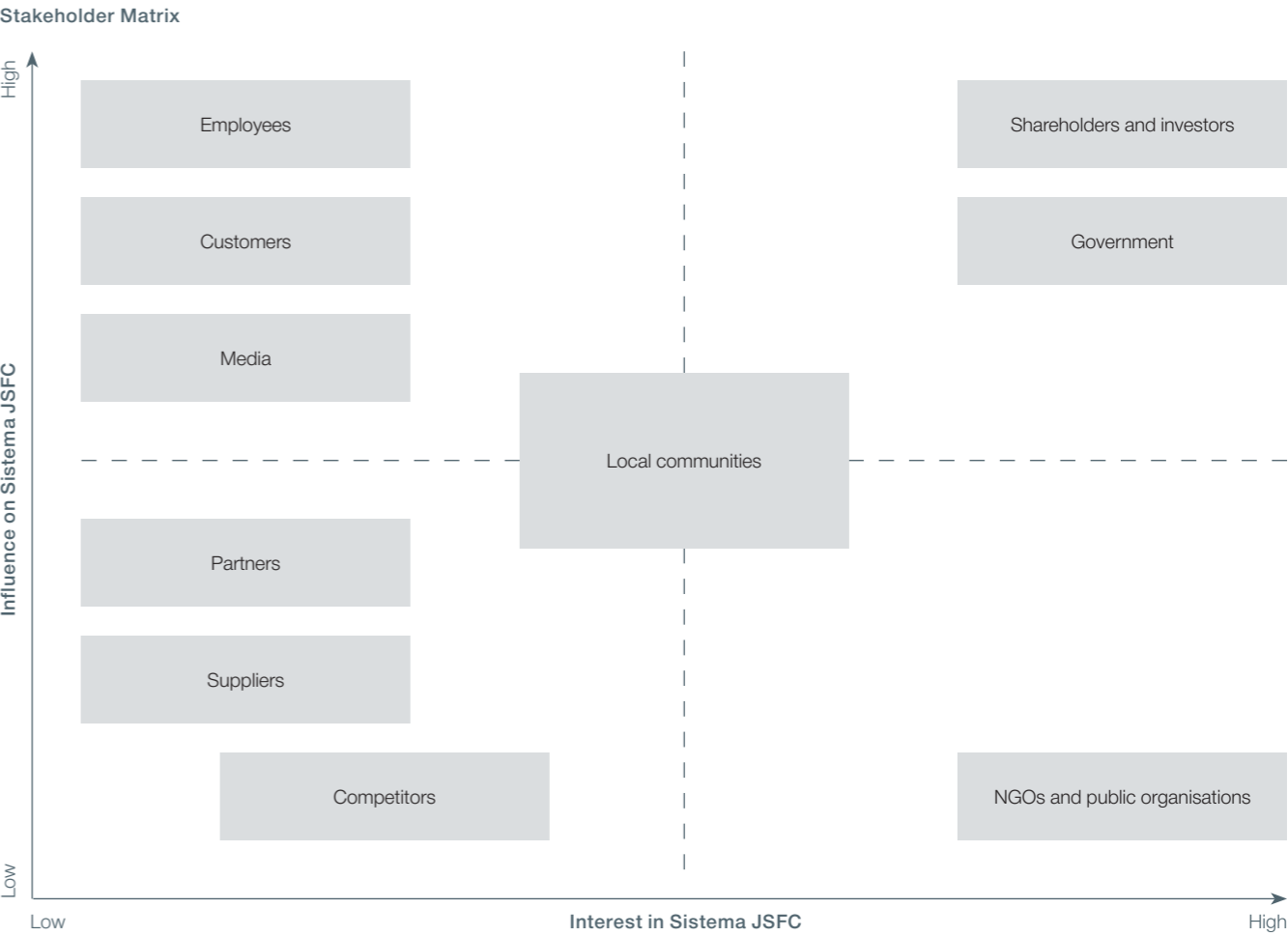
- Shareholders and investors;
- Government;
- Employees;
- Customers;
- NGOs and public organisations;
- Partners and suppliers.

**Principles of Stakeholder Relations**  
In its interactions with **investors and shareholders**, the Company sees sustainable business growth, high return on investment, increasing shareholder value, and development of an effective mechanism for planning and implementation of investment projects as its main tasks. The Company's responsibility towards the above stakeholders is in providing them with free and timely access to information, ensuring the unconditional right of all shareholders to participate in the management of Sistema and its income.

In its interactions with **the State**, the Company recognizes its responsibility to ensure strict compliance with legislation, create conditions for resource and energy efficiency, environmental safety, job creation, and development of the nation's economic

potential. The Company also participates in government-sponsored programmes aimed at the development of innovative products and services, strengthening the country's defences and improving the living standards of the population.

In its interactions with **employees**, Sistema is committed to providing decent salaries and work environment. The Company recognizes its responsibility as an employer to offer jobs with competitive salaries and fringe benefits, provide for comprehensive professional and cultural development of its employees, and offer opportunities for career growth. The Company has built a number of communications channels for employee engagement: face-to-face meetings with the management, interaction through trade unions, feedback tools (Internet and telephone channels), and surveys on various aspects of the Company's life.



\* The company's official name is JSC Mikron; its main shareholders are RTI (62.6%), RUSNANO (25.1%) and the Federal Agency for State Property Management (8.05%).

In its interactions with **customers**, Sistema and its subsidiaries are responsible for ensuring strict quality and environmental safety control of products and services, and building long-term relationships with customers based on mutual trust and respect. The Company's portfolio companies seek to accommodate the interests of different customer groups and grow their business to meet the different needs of our diverse customers.

In its interactions with **NGOs, public organisations and local communities**, Sistema provides support to socially vulnerable groups, promotes projects in the sectors of the economy that are important to society, pursues socially significant charitable projects in the social, cultural, environmental and science fields, and seeks to support traditions of small peoples of Russia. Part of the Company's income is regularly allocated for funding of the above categories of projects, including in cooperation with non-governmental organisations and associations in the regions where we operate. Another engagement channel for public associations and NGOs is membership of representatives of Sistema and its subsidiaries in various associations and foundations.

In its interactions with **partners and suppliers**, Sistema is guided by the principles of openness and fairness, providing interested parties with all required information to an equal extent. Equal access to procurement procedures is implemented through the provision of equal competitive opportunities and uniform rules for all bidders in the procurement process before the launch of the tender process.

Sistema has a responsibility to all its stakeholders. We seek to identify the needs and expectations of every stakeholder group. When engaging the above groups of stakeholders, we seek to maintain the balance of interests, and promote dialogue and cooperation based on the principles of mutual respect, partnership and openness.

The most important prerequisite for an efficient social policy is our ongoing dialogue with representatives of all stakeholder groups. Sistema notifies the public about its activities as prescribed by the Russian laws and international standards applicable to public companies. The key communications channels on our CSR activities are the official websites of Sistema and its subsidiaries in the Internet, and the media.

**MANAGING CORPORATE SOCIAL RESPONSIBILITY**

Issues of strategy and CSR management are a constant focus for the Board of Directors which regularly considers them at special meetings. Day-to-day management is performed by Sistema's Corporate Communications Division. The division's objectives include the development and implementation of measures to put in place CSR policies and charitable activity guidelines. Every year, the Corporate Communications Division prepares and publishes corporate social reports. Its functions also include the collection and analysis of statistical data and monitoring of the effectiveness of the implementation of corporate social responsibility policy. In order to introduce the latest and most current practices in CSR, the division organises workshops with invited experts, including seminars for portfolio company professionals.

In each of Sistema's subsidiaries, executive bodies ensure cascading of strategic decisions on CSR to the portfolio company level.

In 2012–2013, Sistema made significant improvements to its CSR management, both through the introduction of integrated CSR projects and by strengthening training and consulting functions. Sistema provides advisory support on all aspects of CSR, holds training courses, reviews and enhances the reports and plans of portfolio companies. Corporate social responsibility is integrated into the Board strategic planning process in six subsidiaries of the Company. All regulatory CSR documents of the Company's subsidiaries are based on the Corporate Social Responsibility Policy adopted by Sistema and on its corporate Code of Ethics. Sistema sees the main role of the management in CSR in integrating CSR projects and improving their performance for the benefit of society at large.

**CSR audits**

In 2013, Sistema performed audits of CSR projects of all its subsidiaries to evaluate their alignment with the objectives in CSR development of each individual company and their capabilities. The audit provided exhaustive information and systematized data on CSR activities of the Company's subsidiaries.

In the reporting period, based on the audit report, methods were identified to evaluate project performance and reporting.

In a number of Sistema's subsidiaries, efforts were taken to structure CSR activities and align them with the Company's objectives and guidelines. In addition, strategic integration projects were identified that could have larger effects and social benefits if efforts of all subsidiaries and associates are consolidated. This is above all a programme to support talented youth, Lift to the Future, to which corporate CSR KPIs were linked (*see more about the project on page 18*).

In 2014, corporate KPIs include the development of shared value\* projects, corporate volunteering, integration of subsidiaries and affiliates, growth in the number of references in the media to CSR activities of Sistema and its subsidiaries. Starting from 2014, CSR issues will be evaluated annually by the Boards of Directors of Sistema's subsidiaries and affiliates.

\* An internationally recognized CSR principle which involves creating economic value in a way that also creates value for society.

# How do investments in IT technology promote the development of culture?

IT development, supported by Sistema, opens up vast opportunities to implement unique innovative projects in the sphere of culture and arts.

## Social Investment

Sistema invests in the development of social environment, and helps maintain and build up the educational, scientific, cultural and sporting potential of Russia.

Sistema's social projects are implemented through Sistema's Charitable Foundation established in 2003 (CF Sistema). The main goal of CF Sistema is maximizing the impacts of social and charitable investments of the Company. CF Sistema's objectives include the development of a social investment strategy, planning of large-scale company-wide programmes, raising of necessary funds, building up of a portfolio of charitable projects, and implementation of such projects.

The Company supports projects which are unique and innovative, and in doing so it often ventures into the areas previously overlooked by sponsors and donors. Sistema's strategy

In 2012–2013, the amount of Sistema's social investments was about RUB 3.6 bn.

Key CSR projects of Sistema's companies in 2012–2013\*

Company	Project
Sistema	Lift to the Future
MTS	Network for All Ages
	Corporate volunteer initiative Simply Be Good
	Eco-Telecom
	Charity programme Give the Gift of Kindness!
	Telecom Idea
	Federal educational and exhibition project Children on the Internet
MGTS	Network for All Ages (Moscow)
MTS-Ukraine	Mobile Medicine
K-Telecom (VivaCell-MTS, Armenia)	Neonatal equipment for hospitals in Armenia
	Equipment for ambulances
	Implementation of IT structures in the universities of Armenia (Lab project)
	Caucasus Wildlife Refuge — a conservation project to reduce the telecom's emission footprint
Detsky Mir — Centre	All-Russia charity programme “Get Involved!”
Bashneft (including UPC and Targin projects)	Social educational project “I want to become an oilman”
	Water and Environmental Management Programme “Springs of Bashkortostan”
	Construction and renovation of sports facilities (Sports Palace in Ufa, Universal Ice Complex in Tuimazy, etc.)
	Repair and renovation of schools and healthcare institutions
	Volunteer initiative Kind Hearts
RTI	Young Professionals Council (the subsidiary — Radio Engineering Institute of Academician A. L. Minz)
	Investment programme to develop young potential and provide housing to young professionals on a long-term basis (the subsidiary — Radio Engineering Institute of Academician A. L. Minz)
	Additional childbirth benefits to one parent working under an employment contract (the subsidiary — OJSC NPK NIIDAR)
	Establishment of a professional training centre for companies specializing on supplies to the defence industry (the subsidiary — Concern RTI Systems)
	Grant of the President of the Russian Federation for state support of young scientists
NIS	Support to Orel boarding school for children with speech impairments
Mikron	Learn Math!
	Become an Engineer
NVision Group	My Teacher
	Museum Inspector
	Joint master's programmes and programmes for trainees
SG-trans	A Gift from Santa Claus
SSTL — Sistema Shyam TeleServices Limited	India Unites To End Polio Now (IUEPN)

of social investment aims at achieving real results: improved quality of life, promotion of national culture, strengthening of national identity, etc. Applications are considered and decisions on the allocation of the Foundation's funds are taken annually at a meeting of the Board of Trustees. The Board includes representatives of the Company's subsidiaries: MTS, Bashneft, RTI and others.

Major social projects are implemented by all subsidiaries of the Company: MTS, Bashneft, RTI, BPGC and others.

Social investments of the Company could be grouped into four main categories:

- culture and Arts;
- education and Science;
- sports;
- social development.

In 2012, the amount of funds allocated by CF Sistema to support social and charitable projects amounted to RUB 1.75bn, and in 2013 — to RUB 1.4bn. Aggregately, the Fund and Sistema's subsidiaries spent RUB 1.825bn towards charitable purposes in 2013.

## Culture and Arts

Sistema pursues a number of projects in the sphere of culture and arts, aimed at preserving Russian art, improving the cultural and educational level of Russians, and promoting the moral and ethical values of a society based on the cultural and historical traditions of national spiritual heritage.

### MUSEUMS AND FESTIVALS

#### The Russian Museum

Since 2003, Sistema has been cooperating with the State Russian Museum (the Museum), which has the world's richest holdings of Russian art, including more than 400,000 exhibits, palaces and gardens in St. Petersburg. Thanks to the financial support of CF Sistema, the Museum got the opportunity to implement large-scale nation-wide projects in exhibition and publishing, restoration of works of art, palaces and parks in the Museum complex, as well as research and education. The total funding provided over ten years amounted to more than RUB 300m.

In 2013, the partnership between Sistema and the Russian Museum reached a new milestone: an agreement was signed on cooperation and financing of various projects of the Museum for a total amount of RUB 300m. The new agreement expires in 2023.

#### The Russian Museum: A Virtual Branch

The agreement established a large-scale project The Russian Museum: a Virtual Branch which has become a unique highlight of national culture, which has no precedents in the world. The aim of the project is to expose the general public to the riches of Russian culture and the historical past of Russia through free access to digital and printed materials. Informational and educational centre “The Russian Museum: a Virtual Branch” is a kind of a digital replica of the Russian Museum. The Virtual Branches use the latest computer technology in their activities and represent a new level of integrating different countries, not just regions of Russia into a common cultural and information space.

Under the project, 138 Virtual Branches of the Russian Museum, including 37 abroad and one in Antarctica, were launched and are

successfully operating. The centres offer visitors a virtual tour of the palaces comprising the Russian Museum complex, an opportunity to watch online in real time the events taking place at the Museum, as well as a chance to look at the historical reconstructions of lost interiors. The project provides a platform for cross-cultural dialogue, giving people in other countries an opportunity to learn more about Russia, its history and culture.

During the reporting period, an open web portal of the project was designed (www.virtualrm.ru), providing Internet surfers worldwide with an access to a multimedia library of tours around the Russian Museum, lectures and information materials on various eras, genres and artists whose works comprise the Russian Museum's holdings.

#### The Russian Museum's Media Library

The Russian Museum was the first to create innovative resources in the education and public awareness areas of museum activities, as well as in the museum gaming industry. With the financial support of CF Sistema, more than 100 multimedia programmes and films for different audiences were produced, providing Virtual Branches' visitors anywhere in the world with the opportunity to get acquainted with the masterpieces of Russian art. Computer quests for children were developed based on the art collection of the Russian Museum, “Peers” (based on the works of Russian painters of the 18th–20th Centuries; its characters are of the same age as the audience targeted by the game), “Warriors and sons of Russia” (based on historical, battle paintings depicting wars of the past eras), “Fireflies” (quests of this game are based on the study of light effects in painting),

“The Tsar's Cause” (created in memory of the reign of the Romanov dynasty, the game themes cover different aspects of the royal family's life, and milestones of Russian history).

#### Exhibition and publishing projects

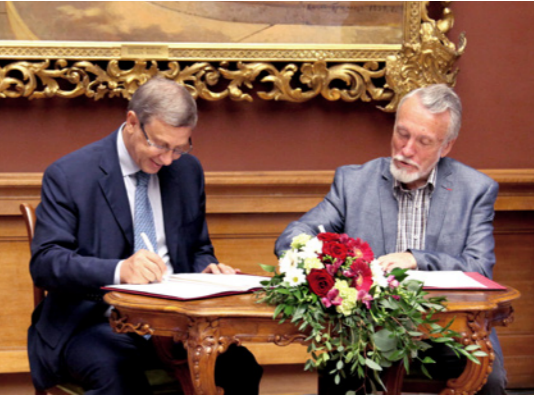
In the reporting period, the Russian Museum with the support of Sistema held dozens of exhibitions in Russia and abroad (London, Delhi, etc.), introducing visitors to its richest collection, as well as to previously not exhibited unique artwork. Thousands of people were offered an exposure to the fascinating world of Russian art. For each exhibition full-colour gift albums and catalogues were printed, including multilingual ones, prepared through joint efforts of almost all departments of the museum.

In particular, in May 2012, the Grand Palace's Catherine Hall at Tsaritsyno Museum-Reserve hosted the opening ceremony of the exhibition Youth of Russia in Fine Arts from the collection of the State Russian Museum dedicated to the 1150th anniversary of the Russian statehood. The exhibition was visited by more than 1 million people.

In addition, with the support of CF Sistema, an illustrated catalogue of works of art from the collection of the Russian Museum was published, dedicated to the emergence of Russian statehood. The catalogue was transferred to the Russian Museum for use in Russian art promotion activities among school-children, students and museum visitors.

#### The Easter Festival

The Company is a permanent partner of the Mariinsky Theatre (St. Petersburg) in holding the Moscow Easter Festival and the Festival of classical music Stars of the White Nights. With the financial



◀ In 2013, the Chairman of Sistema's Board of Directors Vladimir Evtushenkov and Vladimir Gusev, Director of the State Russian Museum (right), signed a new 10-year cooperation agreement

\* Based on the CSR audit in January-February 2013.

support of Sistema, in the reporting period, the theatre’s tour in London took place and had a great success, and concerts of the Mariinsky Theatre in the Novgorod Kremlin, and in Ivangorod, were held, acclaimed as exciting unique events in the cultural life of the country. The concert organised with the assistance of the Company to mark the 300th anniversary of St. Petersburg was attended by more than 5,000 people.

The Easter Festival launched to revive Russian culture traditions takes place in the days of Easter. The event has gained a reputation as one of the largest and most important musical events in Russia and Europe. In 2012, the Moscow Easter Festival covered five capitals — of Russia, Kazakhstan, Lithuania, Belarus, Ukraine — and 37 cities in Russia and Kazakhstan within 16 days. A total of 122 concerts of symphonic, choral, chamber and bell ringing programmes were given, with approximately 2,000 participants. Performers hailed from Russia, Greece, Ukraine, Belarus, Lithuania, Abkhazia, Hungary, Serbia, France, Germany, the United States and Finland.

With Sistema’s support, the Festival holds annually more than 70 charity concerts of sacred choral music and other activities. Traditionally, during the Easter festival, those who cannot afford a ticket even at a nominal price may attend concerts for free. Musicians give visiting concerts in hospitals, nursing homes, orphanages, military units and prisons.

**Musical Kremlin Festival**

Musical Kremlin Festival at Moscow Kremlin’s Armoury was launched by the outstanding virtuoso pianist Nikolai Petrov. Held under the maestro’s direction and with his participation until 2011, it was renamed after his death in 2012 to honour the name of its founder. By the same decision of the Russian Ministry of Culture, the Nikolai Petrov Musical Kremlin Festival was formalised as an ongoing project held annually at the Armoury. Sistema’s Charitable Foundation has been a partner of the festival for many years.

**Ballet Prize Benois de la Danse**

CF Sistema is a permanent partner of Ballet Prize Benois de la Danse. The Fund’s collaboration with the Program of the International Ballet Prize Benois de la Danse began in 2004 when financial support was provided for the first time. Since then, this cooperative relationship has evolved without interruption.

Financial support in 2012–2013 was also provided to Sergey Zhenovach theatre studio, M. N. Yermolova Moscow Drama Theatre, the Vladimir Spivakov International Charity Foundation and many others.

**Children’s CineMay**

Since 2009, Sistema has been supporting the charity programme “Children’s CineMay”, an event providing charity screenings of the best Russian and foreign feature and animated films for children, as well as meetings with filmmakers, and master classes hosted by famous actors and directors. The purpose of the event is providing education and socially enriching and stimulating entertainment to children from social institutions, children with disabilities and families that have adopted orphans. In the reporting period, “Children’s CineMay” was held as part of the Moscow Charitable Cinema Forum, the St. Petersburg Charitable Film Festival, the Charitable Film Week in Smolensk, and Pskov Cinevacation. During each of the above events, the Company provided targeted assistance to orphanages located in Smolensk, Pskov, Moscow and Leningrad regions.

**Museum Inspector**

At the end of 2012, NVision Group together with Expomania agency launched an interactive educational project “Museum Inspector”, aimed at identifying the most popular metropolitan museum for children. Schoolchildren get an opportunity to visit museums, galleries and exhibitions, as well as to choose the best museum of the capital through a special web portal.

▼ Participants in the Children’s CineMay festival



Approximately 1,000 Moscow schoolchildren took part in the project. During the event, the children visited more than 400 museums, galleries and exhibitions. The aim of the project is to get schoolchildren aged 7 to 15 interested in the cultural and historical heritage of Russia and other countries, to broaden the horizons of children and teenagers in various aspects of arts and science. The greatest success with children was enjoyed by the entertaining science museum “Experimentanium”, the State Darwin Museum, the museum of history of exterior lighting “The Lights of Moscow”, the Moscow Planetarium, the Pushkin Museum of Fine Arts and others.

**SPIRITUAL HERITAGE**

**‘Faith and Word’ International Orthodox Mass Media Festival**

In 2012, Sistema provided financial support to the fifth ‘Faith and Word’ International Orthodox Mass Media Festival. The festival is held every two years with the aim to consolidate the church and secular journalism, identify new forms of cooperation between the Russian Orthodox Church and modern society, and find ways to develop spiritual foundations of society. Roundtables, master classes, presentations of diocesan media resources were held as part of the event.

In the reporting period, the Company also took an active part in projects to preserve and construct Orthodox culture monuments. In particular, we have been providing funds for the construction of St. Hermogenes



▲ 45-volume book series *Smolensk Land in Russian Literary Monuments* — Sistema’s gift to Smolensk on the city’s 1150th anniversary

Orthodox cathedral in Moscow in Osennyyaya street. In Ufa, the Company participates in financing the construction of the Nativity of the Theotokos cathedral of Ufa diocese of the Russian Orthodox Church and the overhaul of St John the Baptist church in Kurachevo village.

In 2012, CF Sistema allocated funds to support the Representation of the Russian Orthodox Church in Karlovy Vary, the restoration of the Donskoy Monastery and repair works at the Martha and Mary Convent.

**Jewish Museum and Tolerance Centre**

In 2012, with the support of Sistema and at the initiative of the Federation of Jewish Communities of Russia, the world’s first and largest Jewish Museum and Tolerance Centre was launched in Moscow. The Museum boasts the richest high-tech capabilities in Moscow, as it is equipped with the latest multimedia systems and state-of-the-art computer technology solutions.

**Support for the Muslim community in Bashkortostan**

Promotion of spiritual heritage in the Republic of Bashkortostan has been a priority of Sistema’s integrated charitable programmes. During the reporting period, a three-storeyed building was donated to the Spiritual Administration of Muslims of Bashkortostan. The building, previously owned by Bashneft,

is located in the centre of Ufa. The Company has funded its renovation, refurbishment of rooms and purchases of furniture.

**Return of Andrei Tarkovsky’s archives**

In 2012, Sistema together with the Russian Ministry of Culture and the Ivanovo Region Administration initiated the return of the archive holdings of the famous film director Andrei Tarkovsky which had been put up for auction. The archives had been considered lost for a long time; however collectors and Tarkovsky’s students collected the documents, priceless for the national culture, literally one by one.

The archives comprise Tarkovsky’s letters, drafts manuscripts, audio records and photos, notes in the margins of film scripts. One of the most valuable items is a letter to Brezhnev in which Tarkovsky requests permission to work in the Soviet Union and to show his films which were banned in his homeland at the time. The auction lots also included notebooks with frame-by-frame descriptions of film scenes, draft scripts, many of which differ significantly from the final versions, as well as 32 audio records in which the director talks about art and life. Tarkovsky’s private photos include pictures with family, friends and celebrities.

The archive holdings were handed to the director’s house-museum in Yuriyevets. In summer 2013, the filmmaker’s archive became available to Tarkovsky’s admirers online.

**SUPPORT FOR THE RUSSIAN LANGUAGE AND LITERATURE**

In 2012–2013, the Company continued to implement a number of publishing projects aimed at expanding the horizons of primarily young readers, promoting scientific knowledge and discovery and celebrating the achievements of Russian culture in various fields of creative activity. As a part of its publishing programme, the Company supported periodicals of historical, cultural and patriotic content. In particular, journal Russia in Global Affairs and popular science and history magazine Rodina (‘Motherland’) received support from the Fund, and a series of educational brochures and booklets was published together with the Russian Union of Industrialists and Entrepreneurs (RSPP).

The most exciting publishing project of the Foundation was a publication devoted to the 1150th anniversary of the birth of Russian statehood and Smolensk’s founding anniversary - a 45-volume book series titled “Smolensk Land in Russian Literary Monuments”. Each volume is published in 800 copies. This edition was Sistema’s gift to mark the official date — the 1150th anniversary of Smolensk (September 2013). The series includes essays by Smolensk region authors and writers, mostly unknown and inaccessible to the current generations. They tell the story of the great people whose activities, in one way or another, are associated with the Smolensk land.

## Education and Science

Education and science are an important focus of the Company's social investment programmes. Sistema implements a step-by-step programme seeking out young talent, supports scientific and technical creativity of the young generation, provides grants and awards scholarships to students, talented teachers and promising researchers, implements joint educational projects with educational and research centres, and actively promotes the introduction of university students' or young scientists' projects into industrial production.

### LIFT TO THE FUTURE

The most ambitious project of Sistema in education and science is Lift to the Future which has been implemented by CF Sistema since 2011. Lift to the Future is a unique nation-wide programme seeking out talented young people and supporting their further development. It seeks to promote intellectual

development and scientific and technical creativity of teenagers and young people, foster social mobility and mentoring, and improve the availability of advanced training in innovations for schoolchildren, students, postgraduate students, young professionals and educators.

Lift to the Future also promotes friendly infrastructure to facilitate intellectual and personal development and provide career advice to programme participants regardless of their place of residence and financial situation of their families. The programme is designed to help the most talented participants secure jobs at high-tech companies which are partners of the programme upon completion of their professional training.

As at the end of 2013, the project was run in 19 Russian regions. As a part of the programme, a web portal with the same name was launched to offer unique tools for remote project activities under the guidance of a supervisor. The portal consolidates information about the programmes run by all Russian universities, major federal and regional research institutes, advanced training institutions and businesses and targeting the younger audience.

Partnerships with 270 universities in 65 regions of the Russian Federation were established during the lifetime of the project. Key partners of Lift to the Future programme include Moscow State University, with which a science and education centre "Institute for the development of the intellectual potential of young people" was established, as well as Bauman Moscow State Technical University, Russian Union of Rectors, the Russian Council of School Olympiads, leading research teams, and Russian high-tech companies. In 2012, all educational projects supported by Sistema were consolidated for further implementation as part of Lift to the Future Programme.

### LIFT TO THE FUTURE PROGRAMME

#### Graduate School of Management and Innovation, Lomonosov Moscow State University

In 2006, Sistema launched a corporate university, based on which Graduate School of Management and Innovation was established (as a department of Moscow State University). The main purpose of the Graduate School of Management and Innovation is to provide a two-year training course to train specialists and managers for high-tech companies.

Altogether, over the years of Lift to the Future's existence:



**200,000**  
schoolchildren and students became participants of the programme



**3,000** businessmen, research and educational organisations became project supervisors



**70**  
competitions were held for schoolchildren and students



**8,000**  
schoolchildren and students became winners of the programme



**3,200**  
students received grants from Lift to the Future



**500**  
students became programme fellows



**50**  
students were trained at high-tech enterprises in Europe



**4** young scientists received grants for scientific training in some of the world's leading research centres



**250** teachers and supervisors received grants to launch projects involving students



**400**  
teachers took advanced training courses at Moscow State University



▲ Schoolchildren's project activities are an important part of Lift to the Future programme run by CF Sistema

#### Festival of Science at Lomonosov Moscow State University

Within its cooperation with Moscow State University, Sistema supports the Festival of Science, the core goal of which is to explain to the general public what happens at researchers' labs and how research improves the quality of lives. The Festival of Science has become a deserved member of the European community of festivals of science. Annually, it presents over 100 research alliances and universities of Russia, attracting over 150,000 participants and over 1.0 million visitors.

#### Graduate School of Management at Saint-Petersburg University (GSOM SPbU)

Since 2007, the Company has been supporting the Graduate School of Management, Saint-Petersburg University (GSOM SPbU). The mission of the GSOM SPbU project is to establish a national school of business of a global level to train national top managers who shall ensure the competitiveness of Russia on the global scene. Over the years of its development, GSOM SPbU has become a leading school in Europe

and globally, aimed to train a new generation of business and community leaders.

GSOM pays special attention to training top managers who have strong analytical and leadership qualities and are able to work in a team in the context of information society. GSOM SPbU has about 1,200 students and attendants. Time and again, its student teams have won national and global professional contests. The executives of Sistema and its subsidiaries (e.g. MTS, Bashneft, Sitronics, etc.) have delivered multiple lectures at different GSOM departments.

In 2012, GSOM became an active participant of the Lift to the Future programme. GSOM students became eligible for a scholarship programme, while its tutors became supervisors at the programme's web-portal. Within the project, personal professorships were established, educational grants were awarded to talented students, and research projects were implemented. Within the publishing programme, publication of a series of books with lectures of Nobel laureates in economics was launched.

▼ Participants in MTS' Telecom Idea competition share one goal



### PROJECTS WITHIN THE LIFT TO THE FUTURE PROGRAMME

#### System of Priorities

In 2013, Sistema Charitable Foundation initiated the System of Priorities, a contest for gifted pupils of grades 7 to 11 from Russia and the former USSR states who are passionate about natural, exact and applied disciplines. Works in the following areas are accepted: health, medicine and biotechnology; telecommunication technologies; transport; innovative industrial technologies and materials; environment and environmental management; energy.

#### Educational and research schools

Lift to the Future arranges annual All-Russian educational and research schools for pupils of grades 7 to 11. The key objectives of such school are to identify creative skills, foster an environment promoting intellectual development and support pupils interested in research and technical activities. The students have an opportunity to acquire skills needed to implement their ideas successfully, discuss their projects with academic and business community leaders and work out a plan of further actions, supported by the programme mentors.

In 2012–2013, about 400 talented pupils from all over Russia were trained at summer school.

#### Telecom Idea by MTS

Since 2011, MTS, as a part of Lift to the Future, has been running Telecom Idea ([www.telecomidea.ru](http://www.telecomidea.ru)), a contest to support and implement «open innovations», and engage students, young researchers, developers and start-up entrepreneurs in the development of its business. The project helps MTS find new ideas, as well as evaluate and support promising projects in the field of information telecommunication technologies, which can be useful in business, social and public sectors.

Innovative projects at any stage of development, from a concept to implementation and operation, including technical solutions and software products design for communication systems, new services, mobile, content and web-based services, marketing and managerial solutions, are accepted for the contest. Practical application of technology and services is the most important project evaluation criterion.

In 2013, the contest was focused on the use of opportunities offered by mobile and fixed broadband access, and monetization of data transmission. 172 projects from Russia and the CIS states were submitted. Most of them were at the seed stage (58%). 57 works qualified for the second stage. In the final, 14 participants, assisted by mentors from the Higher School of Marketing and Business Development, National Research University Higher School of Economics, defended their developments in a presentation session format in front of an expert board comprised of relevant specialists from MTS and experts of ICT, IT and venture markets. Some authors who won in the key nominations were rewarded with certificates to become members of TechnoCup federal accelerator network to improve the technical, marketing and investments parameters of their products.

#### Learn Math! (Uchi Matematiku!) by Sitronics

In 2012, Sitronics presented Learn Math!, a project designed to show that studying this science could be really exciting and unconventional, and that the knowledge and skills acquired at the lessons would be useful in future studies, job search and tackling difficult life challenges.

Learn Math! is a multimedia interactive web-portal where every pupil or anyone can assess, in the form of a game, their mathematical readiness for life by taking a series of tests. Learn Math! web-site enables any registered user to determine the «depth» and «breadth» of mathematical knowledge. That is to say, first one can determine how much mathematics they have in them and who they are — a junior school student, a college student or a professor. The programme will offer several questions and, after answering those questions, a person can not only see his or her mathematical alter ego, but also think about his or her future: to what extent his or her current knowledge will enable him or her to achieve the career growth the person is willing to achieve.

Within this project, Sitronics organises mathematical Olympiads among school students, with their winners having an opportunity to attend the summer and winter schools under the Lift to the Future programme.

#### I Want to Become an Oilman at Bashneft

Annually, Bashneft holds I Want to Become an Oilman, an educational contest intended for senior school and university students interested in chemistry, mathematics and Earth



#### Network for All Ages by MGTS

In 2012, MTS in cooperation with the Internet Development Fund, the League of Nation's Health, Connection of Generations Charitable Foundation and other partners, launched Network for All Ages, a social awareness raising project designed to improve Internet skills, promote modern information technology and useful on-line services among users over the age of 40, and help them acquire practical Internet skills to perform their daily tasks.

MTS arranged special sites at its sales and service centres, and, in partnership with the Government of Moscow, sites at social protection centres and veterans' unions. As of the end of 2013, over ten sites were available in Moscow to train people to use the Internet, based on MGTS, a subsidiary of MTS.

In total, over 1,000 Moscow citizens have acquired Internet skills since the project was launched. In 2013, MTS extended the project to other regions, such as the Samara region, Orenburg, Saint-Petersburg, Kazan, Tula, Kirov, the Perm Territory, Kemerovo, the Amur region, Kamchatka, and Sakhalin. In total, over 5,000 persons were trained in Russia under the Network for All Ages programme. Late in 2013, the project was launched in Belarus.

sciences. This programme is designed to build a system of selection and social support for talented youth, ensure professional orientation of school graduates and introduce them to the job of an oilman. It encourages interest in the industry, as well as in technical disciplines and innovations. For Bashneft, this programme is among priorities, aimed, first of all, to foster a favourable development environment for the motivated youth.

A unique pre-university programme of specialised education helps create a networking environment by providing an educational social network. The programme includes regular intellectual tournaments, Olympiads for pupils, as well as field schools and seminars. Professional orientation activities are organised for university students as a part of cooperation with the leading university in the Republic, Ufa State Petroleum Technological University (USPTU).

Over 1,000 pupils from grades 8 to 11 from almost 30 regions of Russia and former USSR states registered at the programme's web-portal (<http://www.neftyanik-school.ru/>) in 2012. In 2013, over 65,000 users visited the web-site and about 7,000 users registered. In total, over 140,000 children have

visited the web-portal since the programme was launched. Over 5,000 pupils have participated in Olympiads.

#### Interneshka by MTS

Interneshka, a children's on-line contest co-organised by MTS, is the most famous awareness raising project in the field of safe Internet in Russia. Its aim is to develop the skills of using the Internet in a beneficial and safe manner, as well as creative skills and infocommunication culture in the growing generation. Interneshka is supported by governmental agencies and international organisations. Young Internet users aged 6 to 17 years and living in Russia, the former USSR states or abroad participate in the contest.

In 2012, Interneshka included contests in literature and drawing, where children drew pictures and created banners on the topic of beneficial and safe use of the Internet, wrote fairy tales or described stories from real life. Over 24,000 pupils from all over Russia and the CIS states participated in the contest. Young users submitted over 2,000 works to creative contests. The best authors were recognized with certificates and valuable prizes. Interneshka-2013 included contests in literature and drawing,

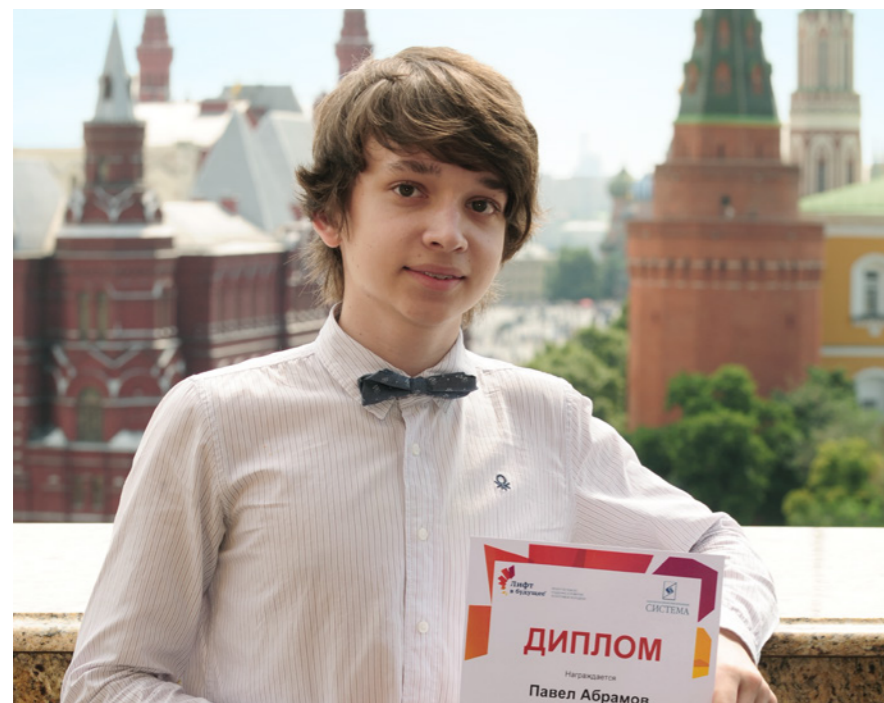
with about 11,000 participants in the reporting period. The winners were rewarded with certificates and prizes from the contest organisers and partners.

#### SUPPORT FOR THE RUSSIAN GEOGRAPHIC SOCIETY

Since 2010, Sistema has been providing support to the Russian Geographic Society, the oldest public organisation in Russia, founded in 1845. Environmental and geographic activities — study of the impact of global changes on the environmental situation on the planet and its population — are among the key activities pursued by the Geographic Society.

In the reporting period, the Society, supported by Sistema, implemented a number of exciting and useful projects: TV series "Russian Pathfinders, Discoverers of the Far East", a cycle of films «Faces of Russia - RGS Goes to the North», multi-purpose expedition "Selenga-Baikal", «The Heritage of Russian America - Alaska Expedition 2012», summer camp "Sinking Fortresses", «Russian Arctic in the 21st Century: Natural Challenges and Exploration Risks», «New Maps of Russia», and much more.

▼ Winner of I Want to Become an Oilman educational contest awarded at Sistema's headquarters in Moscow



#### Arctic expedition of Fyodor Konyukhov

In 2013, Sistema helped organise North Pole — Greenland, a unique 900-km-long Arctic expedition of the famous Russian traveller Fyodor Konyukhov. The results of the studies carried out by the travellers during the expedition will be needed to develop a rotation scheme model to be used during the development of the Arctic region. Using radar, technical and telemetric functionality of radio and IT systems, they demonstrated the prospects of remote environmental monitoring and security control during the development of the Arctic, with the help of advanced information technology. The expedition also demonstrated the information and technical capabilities of Russia with respect to the development of the Arctic region.



# How does hi-tech research encourage healthy lifestyles?

Proceeds generated by innovative products are invested by the Company, inter alia, in activities that encourage interest in healthy lifestyles and sports.

## Sports

We view support to sports as an important area for our social investment. We are convinced that promoting sports and healthy lifestyles is vital for public health in Russia.

### Support to the Olympic movement

Sistema is a founder and a permanent partner of the Russian Olympians Foundation. The key mission of the Foundation is to promote the Olympic movement in the country and contribute to better results in Olympic sports.

Today, the Foundation helps Russian national teams prepare for Olympics Games, finances specialised children and youth sports schools of the Olympic Reserve, and provides support to veteran Russian Olympians, national sports federations and specialised sports clubs.

The Russian Olympians Foundation pays incentive bonuses and presents memento gifts to Russian Olympic winners and winners of international competitions. In particular, after the London 2012 Olympic Games the Foundation paid more than 60 bonuses to winners.

The Foundation was also fully involved in the preparations of the Russian national team for the Sochi Winter Olympics.

**Juniors Rugby Tournament by Sistema's Charitable Foundation**

Since 2001, Sistema has been supporting the Russian juniors rugby tournament to discover new talents among young Russian rugby players. Vladislav Korshunov, Igor Klyuchnikov, Yuri Kushnarev: they all once successfully played in Sistema's tournament and today they are defending the Russian colours in games for the national team.

**National Badminton Development Foundation**

We provide financial support to the National Badminton Federation of Russia and National Badminton Development Foundation. Both organisations seek to support, develop and promote amateur and professional badminton in Russia, including among children and youth. Sistema also supports a number of annual nationwide and regional competitions.

**Construction of sports facilities by Bashneft**

Construction of various sports facilities in Bashkortostan (Russia) is a priority social investment target for Bashneft. In 2012–2013, the company disbursed over RUB 1.2bn for these purposes. E. g. in 2013, the first stage of a RUB 302m 800-seat multifunctional



▲ Participants in the Juniors Rugby Tournament, supported by Sistema's Charitable Foundation

ice complex was completed in the town of Tuimazy with Bashneft's financial support. A four-storey 5,000 sq m sports facility was built in the village of Chishmy in the reporting period. The facility comprises a swimming pool, a fitness room, including an individual fitness room for physically challenged people, healthcare facilities, coach rooms, and balconies for visitors. The facility that cost about RUB 165m in total is fitted with everything necessary for mobility impaired people.

**Sports support by MTS**

MTS provides support to athletic events in countries and regions of its presence. Among other things, the company is

an official partner of the Russian national rugby and aerobatics teams. Since 2008, MTS has been a permanent partner of the Russian Sportfishing League supporting the team at international events. In 2013, MTS sponsored the Russian Football Premier-League and was the first telecom operator in Russia to directly address fans. As part of the partnership, the company held football-related events for football players and supporters across the country, and launched special offers and mobile services such as Footballisator. In Belarus, MTS acts as the general partner of the Byelorussian Gymnastics Association and as an official partner of the National Olympic Committee.

▼ Bashneft spent more than RUB 300m to construct a multifunctional ice complex in Tuimazy



# Social development

Sistema is involved in major social development, sports and healthcare initiatives. We do not restrict ourselves to one specific area, but provide support to rehabilitation centres, community organisations, orphanages, children's refuges, boarding schools, other educational institutions, children and youth sports development centres, as well as to victims of natural calamities and social upheavals.

**SOCIAL SUPPORT**

We are convinced that business should not replace the government, but in case of some social issues, particularly when children need help, we cannot stand idly by.

**Support to orphanages**

We have been long supporting Healthcare Centre and Orphanage No. 30 in Pushkino (Moscow region) that has been providing refuge to parentless children for more than 70 years. This is the first Russian apartment-based orphanage that accommodates over 100 children aged between three and seventeen. Each apartment includes several bedrooms, a lobby, a common playroom, a kitchen and a bathroom.

Children learn to take care of themselves and organise their living space, but also acquire housekeeping skills that they will need later to integrate themselves into community life. Apart from giving financial aid, buying computers and making repairs, we also arrange various entertainment events for children such as charity concerts, fairs and contests and bring children gifts.

We also regularly provide help to Ivanovo Orphanage No. 3, Pavlovsk Boarding School No. 4 for mentally challenged children, and Moscow Department for Families and Youth Policy.

Bashneft's units in Bashkortostan, the Nenets Autonomous District, Orenburg, Izhevsk and other regions took twelve childcare institutions under their care. They include social rehabilitation centres, orphanages, boarding schools, and social refuges where members

of the Kind Hearts volunteer movement help a total of 524 children and teenagers. The company's volunteers visit the children on a regular basis and invite them to the company's corporate events.

BPGC sponsors orphanages in the village of Mayachniy, village of Kumertau (Bashkortostan).

MTS strongly supports social projects that help children deprived of parental care. In particular, the company provides stewardship for Novosibirsk Orphanages Nos. 7 and 8 and participates in programmes of the Solnechniy gorod charitable foundation helping disabled children from the Oyashskiy and Obskiy Orphanages. In 2013, MTS' employees visited children in orphanages under their stewardship in the Moscow region, Astrakhan, Bryansk, Voronezh, Izhevsk, Kaliningrad, Novosibirsk, Ryazan, Tver and other Russian cities. They brought presents with them and had a hand in the preparation of parties for the children.

In the reporting period, VAO Intourist provided support to Rodnik (Klin), a rehabilitation centre for disabled children and teenagers and to disabled members of the Moscow Down Syndrome Society. The company collected and sent beds, mattresses, pillows, blankets, books and films for kids, board games, toys, sports gear, colouring books, and various other things, both for children and adults (clothes, footwear, linen, headwear, etc.). On 1 June 2013, the International Children's Day, the company organised a special charitable lunch event for 600 disabled and orphaned children in the Cosmos Hotel Moscow.

This is a non-exhaustive list of childcare institutions. Employees of many subsidiaries provide help to children in difficult life situations at their own initiative and organise charitable visits by volunteer teams.

**Aid to disabled people**

We are always committed to helping disabled people. Over several years, Sistema's Charitable Foundation has been supporting Preodolenie, a rehabilitation centre. In the reporting period, we helped the centre to buy medical diagnostic and rehabilitation equipment (physiotherapeutic equipment, fluoroscopes, etc.). We also support the centre in implementing important social programmes and events. In particular, in 2012, patients

of Preodolenie took part in the Second International Wheelchair Rugby Tournament for people with locomotive disability that was held in Spain. We also hold a chess tournament for disabled people on a regular basis and organise concerts for physically challenged children. Sistema consistently provides assistance to Olimpro, an Olympic projects support fund that organises football tournaments for amputees. We also support the Moscow Riding Club for the Disabled that implements a unique children rehabilitation programme.

**MTS Green Express**

In 2012 and 2013, MTS' employees ran a traditional annual charitable tour of "MTS Green Express" supported by the participation of company volunteers.

The main goal of the campaign is to support vulnerable population groups and raise public awareness of the social development problems existing in the cities in which MTS has a market presence. In 2013, the campaign was held nationwide. In 2013, as part of the tour, over 100 members of MTS' corporate volunteer movement, Simply Be Good, organised a concert for children from Moscow Region orphanages. One of MTS' volunteer teams came to Vdokhovenie, a children's rehabilitation centre in Ruza, where they taught children how to decorate gingerbreads, make homemade chocolates, paint on T-shirts and caps, make felt toys and act on the stage.





▲ RUB 220m worth of presents collected under Detsky Mir's Get Involved! campaign

**Crystal Children**

Since 2006, we have been pursuing the Crystal Children initiative in Russia that seeks to help children with Osteogenesis Imperfecta, the brittle bone disease. Every month children from various regions come to the American Medical Center of MEDSI for free consultations. Based on the results of examination, the paediatrician prescribes a treatment course. Each year we make payments to cover the cost of treatment for several children who need therapy, and, together with MTS and MTS Bank, collect donations for other young patients.

**Neonatal equipment installed in Armenian maternity hospitals**

For more than six years MTS together with BirthLink, a UK NGO, has been running a project in Armenia to provide maternity hospitals with state-of-the-art equipment: Continuous Positive Airway Pressure (CPAP), pulse meters, portable oxygen canisters, first aid kits, etc. Experts say that, in 2012, medical efforts aided by this equipment reduced child mortality in the country by 11% as compared to 2011.

**Get Involved! Campaign**

Since 2007, employees of Detsky Mir have been actively involved in the nationwide Get Involved! campaign that collects presents

for children in need living in foster care institutions across Russia, children from large families and disabled children. During the campaign days, anybody can leave presents for children in Detsky Mir stores, in special areas near cash desks. Buyers can bring children's clothes, footwear, toys, sports and outdoor gear, and prams for children in need. In 2012–2013, the campaign was joined by more than six million visitors, while the total value of presents so collected exceeded RUB 220m.

As of late 2013, this initiative was run in more than 300 Russian social care institutions that provide help to parentless children, large families and disabled children.

**Poliomyelitis vaccination in India**

Over the last three years, SSTL (an Indian subsidiary of MTS) has been cooperating with UNICEF and IUEPN (India Unites to End Polio Now) under a poliomyelitis awareness programme. In the reporting period, SSTL used its telecommunication capabilities to send out tens of millions of SMS messages informing subscribers of a forthcoming Polio Ravivar ("Polio Sunday"). The company was also actively involved in installing special vaccination tents in district communities of Delhi, Uttar Pradesh (Western) and West Bengal.

**Support to veterans**

Sistema and subsidiaries have been organising Victory Day anniversary ceremonies honouring veterans of World War 2 and those who worked behind the battle lines during

the war as well as long-service employees. The ceremonies include gala concerts by famous artists, leading classical and folk musicians, dance groups and war-themed shows, with valuable souvenirs distributed to veterans at the end of every event.

In May 2012 and 2013, MTS introduced special federal and regional tariff offers for World War 2 veterans and for all Russian citizens. In particular, on the Ninth of May (Victory Day in Russia), in Moscow veterans could make toll-free and unlimited long-distance and international calls from their fixed-line MGTS (Moscow City Telephone Network) phones. In 2013, MTS launched a Call to a Comrade-in-Arms campaign that offered every veteran an opportunity to congratulate his or her relatives on the Victory Day by calling from special transportable mobile communications outlets installed at central squares of Russian cities. In a number of regions, veterans were offered video conferences with their comrades-in-arms and colleagues from other Russian regions.

**Aid to Ukrainian refugees\***

In July 2014, Sistema's Charitable Foundation ran campaigns to collect aid for Ukrainian refugees staying in refugee camps in the Rostov Region. Sistema's call to join the campaign for collecting humanitarian aid for refugees was responded by all companies of the group and by employees of the Corporate Centre. We bought multiple tonnes of vital goods for displaced families.

▼ More than 200 cubic metres of goods sent to refugee camps in the Rostov Region



\* Subsequent event.

Our subsidiaries and employees also managed to collect about 20 pallets with goods for children.

A total of more than 200 cubic metres of first priority goods were sent to various refugee camps in the Rostov Region: clothes, adult and children's footwear, personal hygiene and women's care products, bedding, toys and many other things. A large batch of immunobiological medicines required for preventive vaccination of refugees made up an important part of the humanitarian cargo.

**NATIONAL DEVELOPMENT**

**Investments in social infrastructure**

In the Republic of Bashkortostan, Sistema and Bashneft are implementing a number of projects via Sistema's Charitable Foundation to upgrade public utilities, construct and overhaul healthcare, cultural, educational (including pre-school) and athletic facilities. We are spending over RUB 1.1bn on an annual basis to finance the Republic's social infrastructure.

Sistema is involved in the financing of the Republic's water programme. The programme covers twenty districts and eight towns of Bashkortostan and provides for the drafting of design specifications and estimates, full renovation and overhaul of existing and construction of new water intake facilities, water pipeline networks, drilling of wells and installation of water towers. Springs of Bashkortostan, a project for restoring

and developing water springs, has a special place in the programme. The project mainly covers springs in distant villages and communities that often serve as the only drinking water source in the neighbourhood. A total of 67 unique springs across the Republic have been restored and developed.

Bashneft has started the construction of new hospital and treatment buildings in a number of villages using the funds of Sistema's Charitable Foundation. In 2012, the Company allocated RUB 150m to the project. The money was used to construct and provide logistical support for the treatment building of the Central District Hospital in the village of Burayevo, and to construct fitness and healthcare centres in the villages of Chishmy, Verkhneyarkeyevo and Verkhniye Tatyshly. We also fully renovated the former building of a municipal comprehensive school in the village of Redkino that was transformed into the Recreational Camp for Children Kama.

In 2012, the Company also financed the renovation, construction and fitting out of Culture Houses in the villages of Yemashi, Sharan, Nizhniye Tashly, Zirikly, Krasnokhomskiy, and Razdolye, the Centre of Children's Art in the village of Askino, and the construction of an entertainment centre started in the village of Nadezhdino. We also overhauled five childcare centres and repaired fifteen secondary comprehensive schools and gymnasiums in the Republic's districts that receive children from nearby villages.



◀ The Gorshkov Youth Centre in Dyurtyuli, Bashkortostan, renovated using the funds provided by Bashneft

# How do corporate values improve business management efficiency?

The corporate governance system of Sistema is based on the principles of trust, respect, impartiality and openness. These principles are the cornerstone of effective relations with shareholders and investors.

## Corporate Governance

Sistema has in place a robust corporate governance framework built on a clear division of areas of responsibility among governance bodies, while safeguarding the rights and interests of shareholders and promoting information transparency. Maintaining a system of corporate governance and transparency at the level of the world's best practices is one of the crucial elements of the strategy of Sistema as an investment company.

### CORPORATE GOVERNANCE PRINCIPLES

Sistema's corporate governance is based on the following principles:

- transparency and clarity of all processes for investors and partners;
- a proactive and professional Board of Directors;
- a consistent and collective approach to decision-making;
- a transparent dividend policy;
- investment decisions made with due account for established procedures;



- the attention of the Board of Directors to all transactions with related parties;
- active participation of the Board of Directors in strategic planning.

These principles guide all of Sistema's activities, including strategic and financial management, corporate governance throughout the Group, HR and social policy, reporting, control and audit, and risk management. While mainly drawing on the Russian legal framework, Sistema also recurs to best international practices to continually improve its corporate governance.

Sistema sets out the principles and procedures of its corporate governance in its Charter, and in a number of publicly available by-laws. Sistema's Corporate Conduct Code and Code of Ethics describe additional commitments in transparency, social responsibility and ethical business principles. Sistema follows the guidelines set out in the Russian Corporate Conduct Code and best corporate conduct practices, including the UK Corporate Governance Code.

**CORPORATE GOVERNANCE STRUCTURE**

Sistema's main governance bodies are: the General Meeting of Shareholders, the Board of Directors, the President and the Management Board. The Board of Directors and the President have committees that develop recommendations for forming Sistema's decisions in the respective areas.

Sistema adopted its existing organisational structure in May 2012. It reflects our transition to the investment company model. As of 31 December 2013, the structure comprises four functions, eight investment portfolios and five departments.

**BOARD OF DIRECTORS**

The Board of Directors is responsible for Sistema's strategic governance: it determines the strategy, prepares the budget, sets the principles for investing, appraises executive performance and incentive schemes, manages risks and approves major transactions.

The Company attaches much importance to the efficient operation of the Board of Directors, including to balanced decision-making that takes into account the interests of all shareholders.

**Independent directors**

Sistema makes a special focus on promoting the role of independent directors. In June 2012, the independent representation on the Company's Board of Directors grew from five to eight seats. As of 31 December 2013, independent directors made up 61% of the Board's total membership.

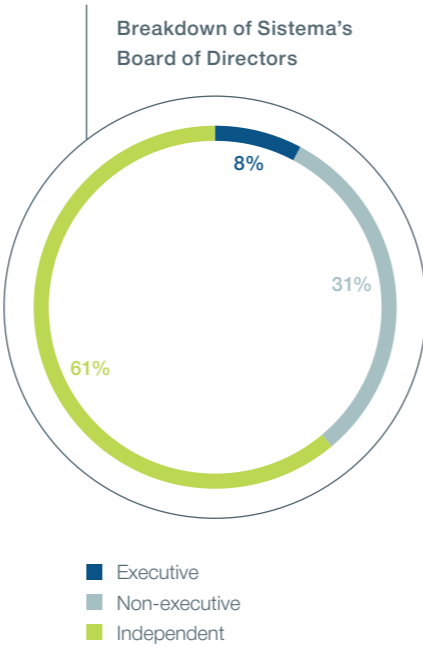
The independence criteria applied to Sistema's directors are in line with the guidelines of the Russian Corporate Conduct Code and the Listing Rules of Moscow Stock Exchange.

**BREAKDOWN OF SISTEMA'S BOARD OF DIRECTORS**

Sistema's Board of Directors meets regularly, in line with the approved work schedule which is based on Sistema's strategic planning and reporting cycle. Extraordinary meetings are held to examine urgent issues as necessary. The Chairman of the Board of Directors is responsible for preparing the work schedule of the Board of Directors and for including additional items in such schedule (for more details on the operation of the Board of Directors see Sistema's annual reports for 2012 and 2013).

61% of Sistema's directors are independent.

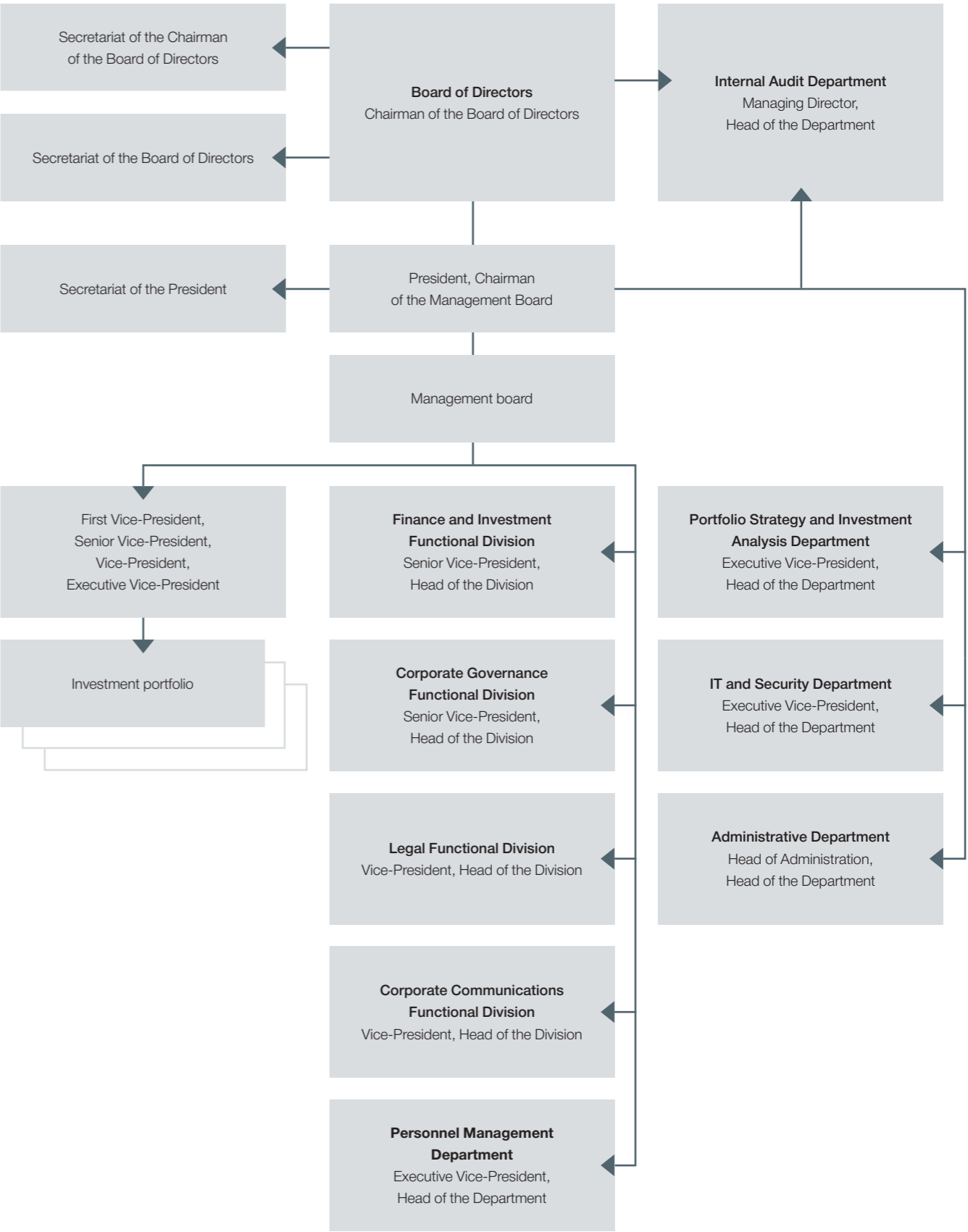
In the reporting period, the Board of Directors' involvement in the Company's business became very visible. Directors are engaged in discussing strategies and preparing deals early on. In doing so, they make corrections and bring in some new ideas which are reflected in the eventual deal structure. Virtually all directors take part in Sistema's strategy session and in the strategy sessions of its portfolio companies. Directors' commitment to the Company's business provides us with a robust inflow of quality investment ideas and proposals.

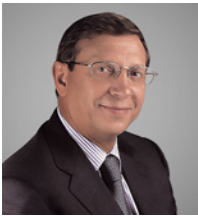


A director is considered independent unless:

- he/she is related to the Company, including if he/she has been on the Board of Sistema for more than seven years in total;
- he/she or his/her related persons are related to a substantial shareholder in the Company;
- he/she or his/her related persons are related to a substantial counterparty or competitor of Sistema;
- he/she or his/her related persons are related to the Government or a municipality.

**Corporate governance structure**





**Vladimir Evtushenkov**  
Chairman of the Board of Directors



**Alexander Goncharuk**  
Deputy Chairman of the Board of Directors



**David Iakobachvili**  
Independent Director, Deputy Chairman of the Board of Directors



**Sergei Boev**  
Board Director



**Brian Dickie**  
Independent Director



**Dmitry Zubov**  
Board Director



**Robert Kocharyan**  
Independent Director



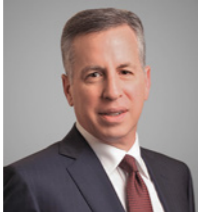
**Jeannot Krecké**  
Independent Director



**Peter Mandelson**  
Independent Director



**Roger Munnings**  
Independent Director



**Marc Holtzman**  
Independent Director



**Serge Tchuruk**  
Independent Director



**Mikhail Shamolin**  
Board Director, President

**The Board of Directors membership**

The current Board was elected at the Annual General Meeting of Shareholders held on 29 June 2013.

**Board of Directors' Committees**

The key role of committees is to assist the Board of Directors in preparing and making decisions in relevant functional areas and to provide an in-depth preliminary analysis of matters presented to the Board of Directors for consideration. The Board's committees enjoy broad procedural powers and may engage third party experts and recur to other resources of the Company.

Sistema's Board of Directors has five committees:

- Strategy Committee (chaired by Vladimir Evtushenkov);
- Audit, Finance and Risk Committee (chaired by Roger Munnings);
- Nomination, Remuneration and Corporate Governance Committee (chaired by Robert Kocharyan);
- Ethics and Control Committee (chaired by Alexander Goncharuk);
- Investor Relations and Dividend Policy Committee (chaired by David Iakobachvili).

The Audit Committee, the Nomination, Remuneration and Corporate Governance Committee, and the Investor Relations and Dividend Policy Committee are all led by independent directors.

**Board of Directors' performance assessment**

Assessment of the Board's performance is an essential tool promoting corporate governance in the Company. Sistema has in place a self-assessment framework for the Board to evaluate its own performance. Directors provide their own judgement on how well the Board's activities are organised. To this end, the activities are grouped into four areas: membership and structure of the Board; procedure and framework for the Board of Directors' activities; the Board committees' performance; and quality of the Board's decisions in individual areas. The Secretariat of the Board of Directors provides an annual analysis of the summary feedback and submits the results to the Nomination, Remuneration and Corporate Governance Committee, the Chairman of the Board of Directors, and the Board of Directors itself. This procedure maintains

the feedback process within the Board of Directors, while improving the Board's overall performance through relevant performance enhancement plans. The procedure also provides a comprehensive evaluation of the Board's performance for shareholders to ensure efficient control over its activities. In 2013, the process of self-assessment by Sistema's Board of Directors showed that the Board's performance is generally regarded as high.

The assessment results are then used to work out solutions to improve the Board's performance. They will also drive further improvements to the corporate governance framework in 2014.

Sistema's portfolio companies have also introduced regular self-assessment procedures for their respective Boards of Directors as part of standard requirements to the corporate governance framework.

**Remuneration of directors and top managers**

Remuneration payable to members of Sistema's Board of Directors consists of:

- fixed amounts for participating in meetings of the Board of Directors and committees and acting in the capacity of the Chairman and Deputy Chairmen of the Board of Directors and committees;
- based on the performance for the year, directors are paid a fixed amount, half of which is payable in shares (USD 250,000–325,000);
- if the Company's market capitalisation grows, directors are also paid 0.1% of the capitalisation growth at the year-end.

Until 2013 (inclusive), Sistema's short-term top management incentive scheme comprised:

- a monthly salary based on the corporate hierarchy;
- an annual bonus payable for achieving investment KPIs (Key Performance Indicators) applicable across the Group in the reporting period. In 2013, agreed investment KPIs included: ITSR, TSR, cash income (dividends, proceeds from sale of businesses, capital gains and debt recovery), SG&A /NAV, net income, external debt /OIBDA of the Group, Corporate Centre debt /OIBDA;
- additional remuneration for generating cash income over the year subject to achievement of the annual investment KPIs, or an extra bonus payable exclusively at the discretion of the Board of Directors.

In October 2013, Sistema's Board of Directors approved a full set of documents governing a new executive incentive scheme aligned with the investment company model. *For more details see Our Personnel Chapter on page 47.*

The long-term top management incentive scheme comprises:

- a three year long-term incentive plan (2012–2014) seeking to build Sistema's share value and setting up further drivers to maintain long-term employment and corporate relations between the company and its executives;
- an option plan for initiating and promoting M&A projects seeking to enhance the management's commitment in identifying, acquiring and developing new targets to build up Sistema's share value and market capitalisation.

A total of RUB 2.9bn was paid to Sistema's top management in calendar year 2013. In 2012, the amount paid to the top management was RUB 2.4bn (including RUB 1.4bn paid in late 2011). Sistema's directors were paid RUB 155m in 2013, and RUB 122m in 2012.

**Conflict of interests**

Sistema has in place procedures designed to identify conflicts of interests between all employees and directors. Directors refrain from actions that lead, or may lead, to a conflict between their interests and those of Sistema, and, if such a conflict exists or arises, disclose information on such a conflict to the Board of Directors and refrain from voting or participating in the discussion on relevant items of the agenda.

All employees and their close relatives may not:

- have a personal interest in the business of the Company's competitors;
- invest in companies competing against the Company;
- accept gifts, services, rewards or personal benefits that influence the management decisions they may take relating to Sistema's operations.

In case of a potential or actual conflict of interests, any employee must immediately notify the Ethics and Control Committee of the Board of Directors.

Members of Sistema's governance bodies must promptly inform of their intention to enter into deals with the Company's securities, of positions that they or their close relatives hold (or are intending to hold) in companies outside the Group, and business and other interests outside the Group that take a considerable part of their working time.

**OBSERVING SHAREHOLDERS' RIGHTS**

Sistema seeks to ensure the maximum protection of shareholders' rights to participate in management process and receive income. The fundamental rights of a shareholder in these areas include the right to take part in the work of the General Meeting of Shareholders, the right to vote on items in the agenda, and the right to obtain dividends.

To secure these rights we circulate notice of the General Meetings of Shareholders, and voting ballots, to all shareholders, at least 30 days before the meeting. Also, all materials covering the agenda items appear on Sistema's website in Russian and English ([www.sistema.ru](http://www.sistema.ru) and [www.sistema.com](http://www.sistema.com)).

Depository receipt holders may vote on the items of Shareholder Meeting agendas by proxy through Deutsche Bank AG which Sistema uses as the depository bank for the GDR programme: Global Equity Services, Trust and Securities Services.

Every shareholder may also attend General Meetings of Shareholders in person or through a representative, and vote on agenda items directly.

An important guarantee of the shareholder's right to participate in running the Company is the right to access documents that Sistema is obliged to retain in line with the provisions of the Federal Law On Joint-Stock Companies. To exercise this right, a shareholder should send a written request to Sistema's Corporate Secretary.

Holders of material blocks of shares are entitled to make proposals on the agenda of the General Meeting of Shareholders, and to nominate candidates to the governance and control bodies (holders of 10% and more of voting shares also have the right to request an Extraordinary General Meeting of Shareholders).

To ensure the proper observance of shareholders’ rights to Sistema’s profits, we announce in advance the amount of dividends the Board of Directors recommends, along with the date it will make the shareholder register for the purposes of payment.

**Dialogue with minority shareholders**

The corporate secretary and the IR Department are in continual dialogue with minority shareholders, providing an interface between them and the Company’s governance bodies and holding regular meetings between minority shareholders and the management.

IR arranged and held 199 investor meetings in 2012 and 202 meetings in 2013. 64% of meetings were joined by Sistema’s CFO or CEO. One roadshow was run in 2012, covering major global financial hubs. Since 2013, Sistema has been running two roadshows a year, involving its top management.

Shareholders in Sistema and any of its subsidiary and affiliates can always voice their proposals by calling a 24/7 hotline number. The Company is also planning to hold regular meetings of minority shareholders and prospective investors with independent directors.

**DIVIDEND POLICY**

High return on shareholder equity is paramount to Sistema. This is ensured by a transparent and predictable dividend policy.

The Board of Directors recommends the size of dividends in line with the dividend policy approved in October 2011. Under the policy, the dividends should be at least 10% of Sistema’s consolidated net income under US GAAP and at least 10% of net cash income generated by investment transactions over the year. Regular dividend payouts under the existing dividend policy show that the dividend flow to shareholders is predictable and contingent on the company’s fundamental performance.

**INSIDER INFORMATION**

Since 2010, Sistema has in place its Information Policy that sets out a framework for counteracting unlawful use of insider information.

The Company maintains and makes regular updates to the list of persons who have access to its insider information. The persons

on the insider list are notified of their key rights and obligations related to access to insider information and penalties for its unlawful distribution, disclosure or use.

The Company has in place blackout periods when insiders are forbidden from dealing in Sistema’s securities. These periods cover disclosure of financial results and are intended to prevent suspicions of insider trading and protect insiders from unwarranted accusations.

**PLANS FOR CORPORATE GOVERNANCE FRAMEWORK DEVELOPMENT IN 2014–2015**

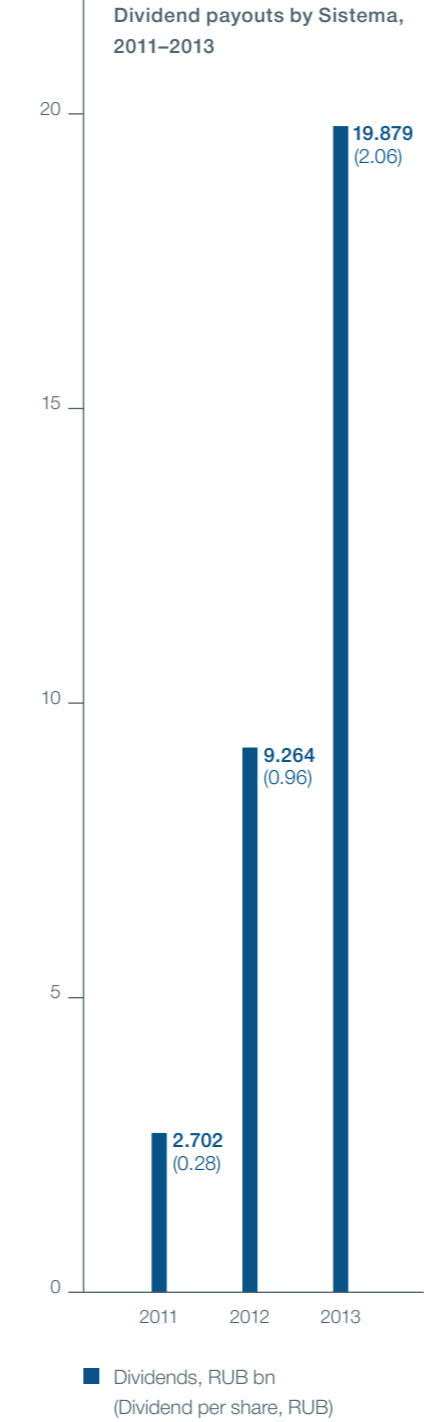
We will continue refining our governance system. In 2014–2015, we plan to adapt new provisions of the Russian Corporate Conduct Code, in particular, the guidelines on nominations to the Board of Directors and the role of the Nomination, Remuneration and Corporate Governance Committee in this process.

Sistema is also planning to launch a mechanism for challenging material deals and projects submitted to the Company’s governance bodies for consideration. Directors will be offered an independent critical opinion of the project/deal to help them make more informed voting decisions.

To maximise the time available to directors for discussing business projects, we plan to limit the number of items on the agenda related to technical matters and to cut the time for formal presentation of materials. These steps are intended to enhance the quality of discussion at the Board’s meetings.

**IMPROVING CORPORATE GOVERNANCE IN SUBSIDIARIES**

Sistema specifically focuses on improving corporate governance in its subsidiaries. We hold regular audits of the corporate governance framework and share our expertise with our portfolio companies in building advanced corporate governance systems to help them achieve certain standards in a rather short period of time. We seek to ensure that our portfolio companies have independent directors on their Boards, including as chairmen of the Audit and Nomination and Remuneration Committees. The Boards at our subsidiaries are deeply involved in building strategies, executive incentive schemes and risk management framework.



Among all subsidiaries of Sistema, SG-trans (a company acquired in a privatisation auction in late 2012) experienced the greatest change in its corporate governance practices during the reporting period. In subsidiaries, changes in corporate governance are also driven by external audits. In the reporting period, an external audit was run in JSOC Bashneft.

**Corporate governance transformation at SG-Trans**

In November 2012, Sistema acquired 100% of the shares of SG-trans, a railway freight operator, and largely remodelled its corporate governance structure. Before the deal, the Board of Directors at SG-trans as a government-owned company included mostly the shareholder’s representatives, who often lacked professional background in business management, while the existing corporate procedures of the Board fell short of our corporate standards. The Board’s meetings lacked dynamism, with inadequate attention paid to the company’s development strategy.

By overhauling the company’s corporate governance standards we expanded and changed the membership of its Board of Directors to include directors who are highly qualified managers with complementary expertise. We also significantly increased the number and frequency of the Board’s meetings. E. g. in 2012, the Board only met eleven times, while it held as many as 20 meetings in 2013, considering 93 items related to the company’s development.

Today, the Board of Directors focuses on developing a strategy for SG-trans and building rigorous corporate governance standards, while providing higher business transparency and healthy risk management. In 2013, the company drafted a new Charter and regulations for the Board of Directors and all its executive bodies and introduced a detailed division of responsibilities between the Board and the executive management based on Sistema’s corporate documents.



**Audit of JSOC Bashneft’s corporate governance system**

Bashneft enjoys one of the most advanced corporate governance systems among Russian oil companies. Bashneft has been running an annual internal audit of corporate governance practices since 2010, and in 2013, its Board of Directors also engaged external auditors. Auditors are engaged to provide a fair and independent opinion of the corporate governance level in the company, benchmark Bashneft’s practices to recognised leaders, and develop recommendations on improving the corporate practices.

Four areas were audited: shareholders’ rights; membership and efficiency of governance and control bodies; disclosure; and corporate social responsibility.

The 2013 audit report suggests that Bashneft leads the Russian market in corporate

governance. The auditor’s recommendations mainly concerned the operation of committees (with regard to setting up individual committees of independent directors) and additional disclosure. The audit report was considered by the Corporate Governance Committee of Bashneft’s Board of Directors. The Committee also approved recommendations for optimising these practices in the company.

In December 2013, Elvira Zhuravleva, Head of the Office of the Board of Directors — Corporate Secretary of Bashneft, won a Director of the Year award of the Independent Directors Association and the Russian Union of Industrialists and Entrepreneurs in the Best Director for Corporate Governance / Corporate Secretary category for successful projects to streamline the operation of the Board of Directors and introduce best corporate governance enhancement practices in the company.

## Corporate culture and business relations

### OUR ETHICS

We place a great emphasis on ethics in our relations with business partners, shareholders, employees and authorities. We strictly adhere to our corporate Code of Ethics which is based on the principles of loyalty, transparency and good faith. The Code imposes mandatory ethical rules of day-to-day activities both on directors and senior officers of the Company and rank-and-file employees. In some respects, the document provides for conduct standards that exceed those set out in applicable laws or common business practices.

#### Governing ethical principles and values of the Company

- **Trust.** Since its creation, Sistema has managed to gain the trust of thousands of contractors and millions of customers around the world by building amicable ties with its shareholders, investors and employees, and Sistema is determined to preserve, strengthen and develop these relationships.
- **Transparency.** Sistema's policy of transparency regarding information does not only guarantee all interested parties the right to receive reliable and relevant information about Sistema's business, but it is also one of the most important elements of our corporate culture.
- **Respect to people.** Sistema's HR policy is aimed at ensuring equal opportunities for all employees, irrespective of their ethnic origin, religion, political views or personal convictions, sex, lifestyle or age.
- **Integrity and impartiality.** Sistema takes management decisions on the basis of information that has been thoroughly analysed, and selects its contractors and partners, and conducts business with them, on the basis of transparent and fair market conditions, without any biased preferences or prejudice.
- **Zero tolerance towards corruption and unfair competition.** Sistema does not participate in unethical, unlawful or unfair business activities and also strives to ensure that its business partners, contractors, employees

and subsidiaries follow the same high ethical standards which are a distinguishing characteristic of Sistema.

### CORPORATE CULTURE IN SUBSIDIARIES

All subsidiaries of Sistema are building their own corporate culture by introducing codes of ethics and conduct which often set new benchmarks in their respective industries.

#### Corporate culture in JSOC Bashneft

Bashneft has been operating for more than 80 years. While introducing forward-looking corporate culture, Bashneft also stays mindful of its legacy: wide geographical coverage; different mentalities, traditions and cultures of employees; scattered business operations; head office remote from key operating regions; and specific aspects in upstream and downstream. In its efforts to enhance corporate governance, Bashneft seeks to provide a friendly, open and psychologically healthy work environment that would drive performance and facilitate the achievement of the company's objectives. The company's leadership and coaching framework and its internal feedback system provide two other critical elements in promoting corporate culture across the company.

#### Corporate culture in MTS

MTS' team stands apart for its innovative thinking that has helped the company maintain the leadership position in the telecom industry in recent years. MTS relies on, encourages and leverages innovation at all levels and in all aspects of its operations. The company's set of corporate values is called PROSTO. Each letter in PROSTO (meaning SIMPLE in Russian), stands for one of the six key principles shared by every employee of MTS.

PROSTO ('SIMPLE'):

- **Partnership** is simple if you know how to work in a team;
- **Efficiency** is simple if you achieve the set objectives;
- **Responsibility** is simple if you are responsible for the outcome of your actions;
- **Courage** is simple if you are the first to step forward;
- **Creativity** is simple if you think beyond usual boundaries;
- **Openness** is simple if you have learned to listen and hear.

#### RegiON contest

In the reporting period, MTS held RegiON, an international teambuilding contest for its employees which was attended by several thousand people. As part of the contest, MTS employee teams took part in master classes, flash mobs, charity and other events, scoring points for every event. The contest comprised a total of 1.5 thousand events. The top prize for the winners was participation in the final contest held in Greece in October 2013 and attended by 450 employees.



### PROCUREMENT

Sistema has built a transparent, robust and continually improving procurement system.

The Bidding Procedures and Procurement Code is the principal document governing operations of Sistema in this area. The Code serves as a benchmark for regulatory documents of all subsidiaries. It describes the procedure for preparing requirements to products to be procured and lists transparency requirements to bidding rules that ensure a consistent, fair and competitive environment and equal opportunities for all bidders.

Procurement procedures comprise the following stages:

- assessing a business case for the procurement;
- planning the procurement;
- selecting suppliers via a bidding procedure (single-source procurement is allowed only in the absence of any competition in the market);
- requesting proposals and quotes;
- competitive negotiations;
- signing and following up the contract.

#### Bashneft's Knowledge Laboratory

Since September 2013, Bashneft has been operating a Knowledge Laboratory. Any employee may apply for and obtain information materials from training events or join a round table led by an employee who took part in a compelling training course working towards corporate goals.

As at the early 2014, there were 173 knowledge exchange applications from the Company's employees and nine round tables were held. The largest round table was on Best Internal Audit Organisation Practices. Economic and Information Safety.



Our procurement policy is subject to internal and external audit.

Any procurement of goods, works or services by Sistema for an amount exceeding RUB 100,000 is to be made in line with an established procedure and, in competitive markets, only through a bidding process driven mostly by open procedures. Decisions are made on a collective basis.

In 2012, we introduced the necessary tools and procedures and appointed officers for evaluation of the business reputation and financial stability of potential suppliers as part of the selection process in contract bidding. Background checks on counter-parties are a compulsory procedure involving an elaborate framework of criteria designed to prevent money laundering and minimise the risks of the Company being drawn into corrupt practices.

Sistema and its subsidiaries make regular compliance checks of their procurement procedures, with a particular focus on the

bid assessment and comparison criteria and procedures. Procurement compliance reports are considered by subsidiaries' Boards of Directors and by the Corporate Centre on a regular basis.

In late 2011, we decided to develop electronic procurement using the capabilities offered by the trading platform of Sberbank-AST CJSC, Russia's largest e-trading operator accredited by the Russian Federal Antimonopoly Service and the Ministry of Economic Development. In 2012–2013, our online procurement accounted for c. 10% of the total procurement. Our target for the coming years is to shift all competitive procurement to online-only platforms.

Sistema has a well-established supplier feedback procedure: all proposals or complaints related to the bidding process (including by any subsidiary) can be e-mailed by any bidder to [zakupki@sistema.ru](mailto:zakupki@sistema.ru) or to hotline e-mail addresses of the Group's companies. Any complaint that alleges irregularities or abuses

during the supplier selection process is considered and investigated by the Internal Audit Department.

### PROCUREMENT IN SUBSIDIARIES

All our subsidiaries maintain their own procurement policies. Procurement procedures are largely governed by corporate regulatory documents and based on the relevant Code of Sistema.

In 2012–2013, MTS and Bashneft accounted for c. 90% of the total procurement by our subsidiaries, thus making themselves our largest procurers with the biggest impact on the Company. MTS and Bashneft are also among procurement leaders in their respective sectors in Russia. Detsky Mir comes third in terms of procurement by Sistema's subsidiaries. The company consistently builds up the share of Russian-made goods in its product range.

#### MTS

MTS boasts one of the most advanced procurement systems within the Group. In 2013, over 80% of the company's procurement was via competitive bidding or online auctions. In 2013, the company made more than RUB 15.8bn worth of purchases in online auctions in Russia, or double the figure in 2012. Whenever possible, MTS seeks to source services or goods locally so as to support economic growth in the regions and countries in which it operates. In 2013, the share of procurement by MTS from local Russian suppliers was as high as 85%.

MTS was among the first Russian companies to introduce supplier surveys to enhance its corporate procurement procedures. E. g. in 2013, MTS ran a survey, Voice of the Supplier, that covered 30 of its strategic suppliers. Each supplier answered eighteen closed-ended and five open-ended questions. The survey results will be used to improve the corporate procurement system. MTS is planning to use this tool on an annual basis.

The company’s accomplishments in procurement management did not go unnoticed. For example, in 2013, Valery Shorzhin, its Director for Procurement Management, was Highly Commended in the Procurement Leader category at the international Procurement Leaders Awards 2013. MTS was the only Russian company to make it to the Awards’ final round. MTS also collected the Competitive Procurement Leader award (established by B2B0-Center, an international e-trading platform) for high procurement transparency.

**Bashneft**

In 2013, Bashneft began to introduce procurement category management. Goods, works or services that are strategic\* to the company’s operations were grouped into 36 categories (including 28 categories for goods and 8 categories for works or services). Together, they currently account for c. 20–25% of the total procurement by Bashneft and its branches and subsidiaries.

A qualification selection and procurement strategy was defined for each category. To this end, Bashneft set the objectives and targets, estimated procurement demand; identified requirements to goods and services; reviewed historical procedures to highlight their flaws; studied the target market (made a list of potential suppliers, service providers and contractors); and defined qualifying criteria for potential bidders. The company then selected the best procedure and a list of qualification requirements to vendors for each category.

Then, a pool of qualified suppliers was selected for each of the 36 procurement categories for the next three years. To encourage competition the company also accepts qualification requests from other suppliers within this period.

The introduction of the category-based procurement management system helped the company expand competition by involving new bidders; raise the quality of products it purchases; boost the economic effect through volume consolidation; and shorten procurement procedure timelines for qualified suppliers.

**Detsky Mir**

In building the product mix for its retail chain, Detsky Mir seeks to promote open and fair competition. The company has in place a special commission that manages



▲ Detsky Mir growing the share of Russian goods in the product mix

procurement exceeding RUB 2m in line with the corporate Procurement Policy. Since May 2013, the company has been making its online purchases via the e-trading platform of Sberbank Ast CJSC. In 2013, 35% of its overall purchases were made online, while the pool of its suppliers doubled as compared to 2011.

Detsky Mir is committed to diversifying its range of Russian-made products both by growing the pool of Russian suppliers and procurement volumes from them and by providing local companies with marketing support and management advice. In the reporting period, the share of Russian-made products grew considerably in many product categories. E. g. as of late 2013, 26% of baby food

products and 29% of stationery offered by the retailer were made in Russia.

Detsky Mir also sourced locally a range of clothes, footwear and stationery marketed under its own brand, which goes a long way towards supporting national manufacturing industries. For instance, during the back-to-school season (from July to August) the share of Russian clothes and footwear in this segment grows to as much as 80% of total procurement.

As of late 2012, the share of domestic goods was 19% of the total turnover of Detsky Mir, while the total share of Russian goods grew to 21% in 2013. The company expects this share to reach 25% in 2014.

▼ New procurement category management of Bashneft helps to spare funds and to improve quality of acquired goods



**COUNTERACTING AND PREVENTING CORRUPTION**

Safeguarding the interests of shareholders, members of governance bodies, executives, employees and partners of Sistema against the risks of being involved in corruption schemes and against potential adverse implications is a priority for us.

For this reason, Sistema and its subsidiaries and affiliates act proactively to prevent corruption, guided by statutory requirements and international standards applicable in Russia and in developed nations.

**Sistema’s approach to anti-corruption practices**

The Anticorruption Policy and the Code of Ethics are our core documents setting out the Company’s key anti-corruption and ethical business conduct principles and rules of employee conduct.

The Policy sets out the key anti-corruption principles followed by Sistema, including zero tolerance to corruption in any form, strict prohibition of corruption; regular assessment of corruption risks; development of anti-corruption procedures and their incorporation into business processes; compliance checks on these procedures; and accountability to the Company’s Board of Directors.

The Code of Ethics sets out the key standards and guidelines to build unified ethical standards for the Company’s operations and conduct of its executives and employees so as to develop a company-wide framework of ethical values and establish criteria for ethical and integral conduct in relations with shareholders, contractors, officials and co-workers.

**Our anti-corruption procedures**

The anti-corruption procedures integrated into our business processes cover and govern, among other things, the following areas of activities:

- finance and debt management, including borrowing and investment;
- control of tender and procurement processes;
- background checks on counter-parties and control of counter-party settlements;
- investor and government relations;
- entertainment expenses;
- personnel management;
- logistical support;

- disposal of non-core assets;
- charitable activities, etc.

In the reporting period, we developed and implemented a set of anti-corruption procedures integrated into our business processes. The existing procedures were reinforced with new ones: anti-corruption clauses; follow-up of payments to agents; and government relations. We also refined procedures related to borrowing and investment; background checks on counter-parties and control of counter-party settlements; and internal investigations.

**Internal audit of compliance with anti-corruption procedures**

In 2012, Sistema and its largest subsidiaries ran an internal audit of compliance with anti-corruption procedures. The audit results were presented in a report submitted to Sistema’s Board of Directors, with recommendations on improving anti-corruption practices circulated to a number of subsidiaries.

For 2014, we are planning additional reviews, testing and refinement of the previously implemented corporate anti-corruption documents. The process will involve independent external advisors and will capture relevant legal provisions, regulatory guidelines and best practices.

**Anti-corruption training**

Since 2012, Sistema’s Corporate Centre has been running anti-corruption training courses mandatory for all employees. These events take the form of an awareness-raising web-based presentation followed by a series of test questions and scoring.

In 2012, a total of 310 Sistema’s employees of all levels (98.5% of the total headcount) took anti-corruption training. The average score of correct answers to test questions was 88%, which shows that employees fully understand how important this issue and applicable guidelines and policies are.

All new hires of Sistema are required to read key anti-corruption documents and take, within the first month of employment, an awareness-raising web-based training course that will guide them through the key requirements of applicable anti-corruption laws and relevant corporate guidelines, policies and procedures. Sistema did not record any violations of anti-corruption laws or procedures in 2012–2013.

**Sistema’s hotline**

In addition to the above procedures, in 2008 we launched a publicly accessible Whistleblowing Policy, under which the Company’s executives and employees and its subsidiaries or other third parties may freely (including anonymously) alert the top management to potentially corrupt activities or report their reasonable suspicions in this regard. All information received via the hotline is recorded and analysed. Then, if there is a good reason to do so, relevant employees of the Company will initiate internal investigations to fully check whether the allegations are true or false and report their findings to the top management. In 2012–2013, the hot line received over one hundred calls, with most of them triggering an internal investigation.

We are planning regular awareness-raising events with all potential stakeholders on using the hotline.

**APPROACH TO CORRUPTION PREVENTION IN SUBSIDIARIES**

MTS and Bashneft, our two largest subsidiaries, have in place a set of anti-corruption measures similar to those of Sistema, but adapted to the specific operations and business environment of these companies.

In 2014, another seven large subsidiaries of the Company started implementing the anti-corruption framework similar to those of Sistema, MTS and Bashneft. The project is expected to be completed in Q1 2015.

**Anti-corruption efforts in MTS**

MTS is committed to implementing and improving anti-corruption measures compliant with the anti-corruption laws of the countries in which it operates, industry-specific requirements and international standards. The key documents that govern anti-corruption requirements within MTS include the Code of Corporate Conduct and Business Ethics and the Anti-Corruption Laws Compliance Policy. Procedures to ensure compliance with anti-corruption laws are set out in the regulations for MTS’ business processes. In 2012, the company continued implementing best

\* Strategic procurement covers goods, works or services that the company needs every year and the lack of which is estimated by functional units as presenting the highest risks for its business operations and high purchasing costs.

Sistema did not record any violations of anti-corruption laws or procedures in 2012–2013.

anti-corruption practices and standards to bring them in line with the UK Bribery Act. In particular, the company developed and introduced a new version of its Anti-Corruption Policy, the Policy on Conflicts of Interests and the Policy on Gifts and Entertainment.

The company has a distributed anti-corruption compliance function. The initiator of an activity and its immediate supervisors are charged with checking and evaluating whether such activity is corruption-free. The company's compliance system provides tools tailored to manage regulatory risks, improve the corporate culture, as well as implement and enhance best corporate governance practices and responsible business conduct standards across MTS.

In some cases, when entering into contracts, MTS signs a mandatory anti-corruption clause that imposes a commitment to refrain from corruption schemes. The company mainly uses agreements with the anti-corruption clause with government entities and agencies, regional administrations, and with third parties interacting with government officials on behalf of MTS.

To minimise the risk of being involved into corruption schemes MTS has in place due diligence procedures that are applicable to its counter-parties (both individuals and legal entities). The company also recurs to these procedures when acquiring interests in other companies.

MEMBERSHIP IN PUBLIC ORGANISATIONS

Sistema is keen to adopt global sustainability principles. The Company confirmed its commitment to these principles by becoming the first Russian company to sign the UN Global Compact in 2002 and by joining the World Business Council for Sustainable Development (WBCSD). Sistema provides comprehensive support to promoting business ethics across Russia and is ready to refer business conflicts to the Court of Arbitration and the Commission on Business Ethics of the Russian Union of Industrialists and Entrepreneurs (RSPP).

Sistema is a member of Not-for-profit Partnership Russian Institute of Directors that serves as a forum for sharing best practices in corporate governance. We are also a member in the EU — Russia Industrialists' Round Table (IRT) whose main mission is fostering an environment conducive to the development and expansion of economic dialogue with the EU. Vladimir Evtushenkov, Chairman of Sistema's Board of Directors, sits on the RSPP Board as Chairman of the Committee on Industrial Policies and is also a member of the National Council on Corporate Governance.

In 2012–2013, Sistema made a significant contribution to the activities of Business 20's Task Force on Improving Transparency and Anticorruption set up as part of G20's summit in Saint Petersburg. The Task Force prepared recommendations for B20/G20 leaders and published a summary of the practices of Sistema and a number of other Russian companies in preventing involvement in corruption schemes.

# What is the correlation between corporate social responsibility and employee engagement?

Sistema is committed to promoting a comfortable work environment that facilitates continuous development and helps the staff improve their professional skills and achieve high performance.

## Our personnel

Sistema adheres to the best HR practices. Implementing their HR policy, the Company and its subsidiaries fully comply with the labour law in the countries in which they operate, offering decent remuneration and social protection to their employees. Personnel welfare is an unconditional priority for the Company, since the strategic goals of Sistema cannot be achieved without proper motivation and professional development of its personnel. The Company continuously improves HR management and enhances social and labour relations with its staff.

### PERSONNEL STRUCTURE AND HEADCOUNT

As at the end of 2013, Sistema and its subsidiaries employed 167,544 people versus 161,000 people employed by Sistema and all its subsidiaries as at the end of 2012. Total headcount increased primarily due to the acquisition of new businesses.

No significant changes occurred in length of service and age distribution of personnel in 2012–2013 versus 2010–2011.

Headcount at Sistema  
as at the end of 2013, people

Company	Headcount
MTS	65,209
Bashneft	28,116
BNSA	18,700
RTI	14,343
BPGC	7,234
Detsky Mir	6,902
Medsi	6,533
MTS Bank	4,437
UPC	4,203
NVision	3,197
SSTL	1,792
Intourist	1,568
SG-Trans	1,278
SG-Trading	1,088
RZ Agro	1,027
Sitronics-N	423
NIS GLONASS	359
Sistema	327
Binnopharm	327
SMM	225
Other	256
Total	167,544

HR POLICY

Sistema offers equal work and professional development opportunities to its employees. Its corporate HR policy is aimed to build an efficient team able to implement Sistema's business strategy in today's market environment. Investments in human resources should bring a maximum return to the Company, ensuring a long-term competitive advantage and leadership in the industries where Sistema and its subsidiaries operate. In HR management, the Company is guided by the HR Management Code and the Code of Ethics.

HR management framework  
and approaches

Sistema companies adhere to the common framework of and approaches to HR policy administration. Efforts of the relevant services of the Company's entities are mainly focused on:

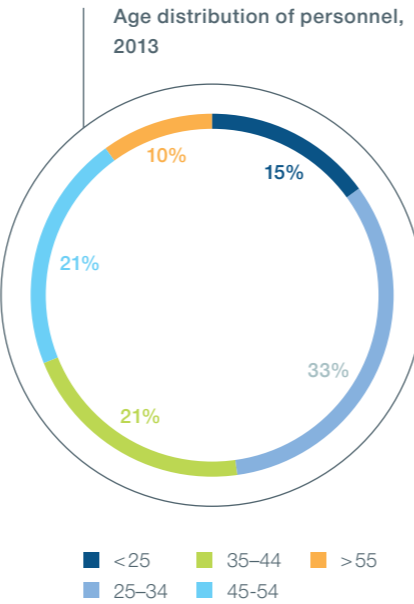
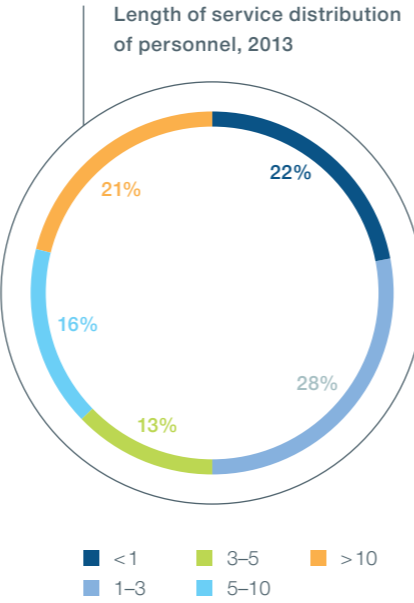
- recruitment, development and retention of highly qualified and efficient managers and professionals who will be able to increase business value through excellence in corporate asset management;
- provision of equal career growth opportunities to employees of all categories based only on their professional skills, personal qualities, and performance;
- provision of a competitive base salary and bonuses based on measurable performance results, as well as employee benefits, which, taken as a whole, should correspond to the level of a major Russian company.

During the reporting period, the most important events of HR policy development included:

- the introduction of a new incentive scheme at the Corporate Centre to ensure efficient project implementation and generate profits;
- a considerable improvement of the evaluation and recruitment procedure for candidates to top management positions at Sistema's subsidiaries, and the introduction of recruitment and dismissal standards;
- the development and launch of the Corporate Talent Bank project designed to identify and retain talented and highly efficient managers at the Company and its subsidiaries;
- the implementation of CEO School "Safety Capsule" programme at JSOC Bashneft;
- in addition, the Corporate Centre updated internal communication tools and implemented HR brand building projects. As a result, employee engagement at the Company increased by 7%.

Labour turnover

Sistema and its subsidiaries strive not only to recruit the best personnel, but also to foster conditions facilitating professional and career growth and enhancing employee engagement. Labour turnover remained low during the reporting period due to a comfortable working environment and broad professional growth opportunities offered by Sistema. Turnover rates at the Company's subsidiaries largely depend on the industry where a business operates, but do not exceed average values in the industry. Average labour turnover

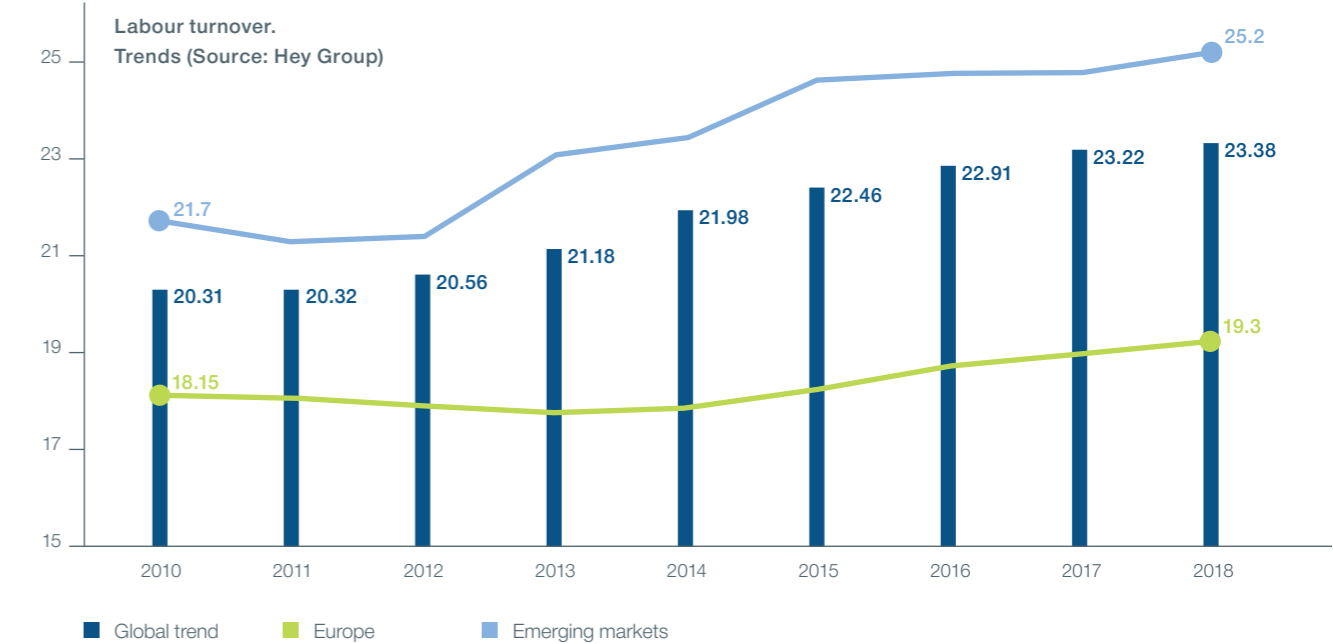


rate at Sistema, including its subsidiaries, was 20%\* in 2012 and declined to 18% in 2013\*\*. The Corporate Centre continuously monitors labour turnover rates at each of the companies, benchmarking such data against the average values in the relevant industry and analysing causes of dismissal.

In the reporting period, average labour turnover rates at the Company, including its subsidiaries, were comparable to the rates seen in developed European countries: according to the most recent report by HayGroup, turnover rates in those countries were circa 19%. However, Russia's average turnover rate was about 23% (which corresponds to the rates observed in emerging markets).

Personnel recruitment  
and selection system

Sistema's personnel selection system is based on common criteria used to evaluate candidates' professional and managerial skills, general development potential and compatibility with corporate culture. The image of Sistema as an attractive employer is improving year after year: the scope and ambitious nature of the challenges faced by the Company, as well as broad professional and career growth opportunities attract established professionals, talented youth, and leading Russian and foreign managers. This is supported by the awards received by Sistema and its subsidiaries.



In 2013, Sistema was assigned A.hr employer appeal rating (highly appealing employer) by RAEX. Also in 2013, the Company won the HR Brand 2012 Award in the WORLD nomination.

In 2013, MTS ranked second in the Best Employer among Russian Companies nomination according to the rating compiled by HeadHunter Holding, PricewaterhouseCoopers and Vedomosti newspaper. In 2012, the company, for its achievements in the field of HR management, was recognised with the Crystal Pyramid Award in the HR Project of the Year nomination.

Collective bargaining agreements

A number of companies belonging to Sistema make collective bargaining agreements with their employees, which provide additional advantages, benefits and safeguards compared to those granted by the applicable laws and regulations. In particular, 100% of employees at Bashneft, BNSA (renamed into Targin in spring 2014) and subsidiaries of RTI Concern are covered by collective bargaining agreements.

A collective bargaining agreement governs the relations between employees and the employer and mutual responsibilities of the parties, and provides additional benefits and safeguards to the employees, thus making it more appealing to them. The key advantages of such an agreement for personnel are additional social safeguards (additional

sick pay, voluntary health insurance, payment of travel costs for northerners, allowance for single mothers or disabled, etc.). Moreover, all aspects of employment relationship are clearly stated and formalised in such agreements. In the reporting period, the collective bargaining agreement of Bashneft was modified most of all.

Trade unions

Sistema interacts actively with the trade unions existing within a number of its subsidiaries. The corporate management understands the important role of trade unions, perceiving them as an efficient tool to protect employees' labour rights and facilitating their activity in every possible way. The most active are union organisations at BNSA (renamed into Targin in spring 2014), MGTS (belongs to MTS), Sitronics, and RTI Systems Concern.

\* Disregarding the labour turnover rates at Detsky Mir with its traditionally high average percentage.  
\*\* Disregarding the labour turnover rates at Detsky Mir and data for SG-trans that underwent restructuring in the reporting period, which involved headcount optimisation.

### Collective bargaining agreements at Bashneft

In February 2013, Bashneft made a new collective bargaining agreement for 2013–2015 with its employees which provides more benefits and social safeguards than applicable law.

When drafting the collective bargaining agreement, similar agreements of major Russian oil & gas companies and labour market reviews prepared by the leading consulting companies were taken into consideration. Bashneft involved employee delegates in the bargaining process. For the purpose of consideration of the terms and conditions of the collective bargaining agreement, the employees set up the United Employee Representative Body comprising members of the Employee Council and shop-floor union organisations.

The new agreement reflects all wishes of the employees. For example, the agreement provides for an extended package of fringe benefits to improve the life conditions of employees and their families, in particular voluntary health insurance and occupational accident insurance, as well as treatment and recreation at sanatoriums and resorts.

### HUMAN RIGHTS

Sistema and its subsidiaries are totally intolerant to discrimination in any form. The Company strictly adheres to the principle of tolerance to racial, religious, physical and other differences of its employees. Hiring a person with disabilities, we are guided by applicable Russian law.

The Company has never used and is not using child labour or forced labour. No cases of employee discrimination in any form have been reported at Sistema. In the reporting period, significant changes in the field of human rights occurred at MTS that was among the first Russian companies to pay more attention to employment of the disabled, a topic being largely a taboo or ignored

### Barrier free environment at MTS

In 2013, MTS took first steps to create a barrier free environment\*. The company became a member of the Business Advisory Board on Disability, an organisation dealing with disability issues from the perspective of business community\*\*.

Being on the Board enables MTS to share experience and successful examples of employment of people with disabilities. In 2013, MTS employees were involved actively in numerous

community events organised and held by the Board member companies, such as Path to Career, a contest for students and graduates with disabilities; Business for Equal Opportunities Forum; Disability Film Festival "Breaking Down Barriers"; Exhibition "Life in Full Colour"; and Best Buddies Dancing Marathon. Social events of this kind are perfect for socialisation of people with disabilities, making it possible for them to overcome barriers that handicapped people are facing in society.



in today's Russian society. The company believes employment of handicapped people to be an important social aspect that deserves close attention.

### MOTIVATION AND REMUNERATION

A key task of the Company is to provide its employees with an opportunity to reveal their capabilities as much as possible, ensuring an adequate remuneration for successes. Sistema uses a wide range of advanced motivation tools designed to improve employees' performance. Competitive salaries and fair remuneration are the core principles behind its incentive scheme. The Company and its subsidiaries monitor salaries among the relevant reference groups in the labour market on a regular basis. Most companies of the Company

have short-term (quarterly and annual) and long-term (option programmes and phantom stock) incentive schemes. The remuneration system of the Company and its subsidiaries is based on common principles laid down in a number of in-house documents.

Employees' salaries include a fixed and a variable part. The amount of fixed part is based on the salary ranges fixed for every job grade (class). A grade range mid value is determined for every grade. To determine a grade range mid value, labour market overviews provided by major global consulting companies are used. The variable part is linked to the achievement of key performance indicators (KPIs), i. e. the organisation's financial and operating targets set for a particular employee and/or structural division.

Labour costs at Sistema companies totalled RUB 113.5 billion in 2013.

The Company's subsidiaries, with their strategies focused on a stable equity value maintenance and growth, also have long-term incentive schemes. The core incentive principles of such companies as Bashneft, MTS, SSTL, BPGC and RTI will remain unchanged in the future.

The Company is going to introduce, by the end of 2014, a long-term incentive scheme at its subsidiaries Targin (formerly known as Bashneft-Service Assets), United Petrochemical Company, MTS Bank, Leader-Invest, Business Nedvizhimost, Det-sky Mir, Medsi, SG-trans, Intourist, and NVision, whose strategies provide for liquidity events (IPO, sale of share). In 2015, Sistema plans to introduce new long-term incentive scheme standards at Sistema Mass-Media, Stream, NIS GLONASS, Sitronics, Binnop-harm, Mosdachtrest, and SG-trading.

The most significant changes in incentives schemes in the reporting period occurred at SG-trans and MTS. At SG-trans, its outdated financial incentive scheme was modified, since it did not correspond to the current market conditions and did not ensure a sustainable correlation between each employee's remuneration and contribution, and his/her competences, position and target accomplishment. MTS was among the first companies of Sistema Group to make non-cash incentives exciting and appealing for its employees.

### Sistema's new incentive scheme

Late in 2013, Sistema adopted a new incentive scheme for the employees at the Corporate Centre, which has become a key element to transform the Company into an investment company. In line with the best industry practice, managers' compensation is based on return on investments yielded by each of the Company's portfolio.

Starting from 2014, the compensation of Sistema's employees is based on cash flow generated for the Corporate Centre by each investment portfolio. The top managers are also eligible for a long-term incentive scheme: Sistema's executives

can be rewarded with corporate stock. The long-term management incentive scheme is based on stock price changes and total stockholder return (TSR).

Such incentive scheme provides a fairer remuneration system that is tied to the targets for strengthening control over the Corporate Centre's costs and creating a history of progressive dividend payout.

### Modernisation of SG-trans' incentive scheme

In 2013, the Company revised considerably SG-trans' incentive and labour scheme, aligning it with the current market conditions. Before revision, the company's incentive scheme treated everyone equally and was not aimed to support the best workers, with fringe benefits provided irrespectively of performance and financial standing of a particular employee and his/her family.

The remuneration and incentive scheme at SG-trans was revised completely. The company preserved all fringe benefits, including additional payouts and increments, which are guaranteed by law, but revised significantly additional benefits. The new incentive scheme was aimed to attract and retain highly qualified personnel using KPIs providing for incentive payments based on the company's performance and specific contribution made by each employee to the accomplishment of production and financial targets.

Fringe benefits were also considerably revised. Now, each employee is eligible for certain fringe benefits, including health insurance, financial aid (both guaranteed and targeted, allocated based on the Commission's decision with due account for the financial standing and life circumstances of every individual employee). The Company provides mandatory life insurance cover for members of voluntary emergency response teams.

### PERSONNEL ASSESSMENT, DEVELOPMENT AND ROTATION

The Company offers professional development and growth opportunities to its talented employees. In case of new vacancies, they are filled in, first of all, with employees trained under corporate training programmes. In total, 46% of key managers appointed within the Company in 2013 previously worked at Sistema or its subsidiaries.

The Sistema Recruiters Community was set up in 2013 to generate an efficient synergy in the recruitment process and create a "common space of resources and opportunities" to fill in vacancies with in-house resources.

Sistema attaches great importance to the development of employees' professional skills and management competencies, since it is skills and competencies that eventually determine success of the Company. Most subsidiaries determine employees' development needs based on annual employee performance assessment. Assessment results provide inputs for personal employee training plans that include activities to develop professional knowledge and skills, and also behavioural competencies.

A master programme in the field of strategic management and innovations has been running since 2006 in cooperation with the Graduate School of Management and Innovation, Lomonosov Moscow State University.

Sistema is focused on professional training and development using its internal resources. For example, the Institute of Internal Coaches was launched in 2013 to:

- capitalise on internal resources, i. e. develop the core business skills and competencies of the senior management using internal coaches for that purpose;
- using the best internal expertise to develop the core business skills and competencies of the senior management;
- streamline HR development costs;
- develop common corporate standards and values.

Each company of Sistema Group conducts its own trainings compulsory for all employees. In the reporting period, a number of employee development projects were implemented at some Sistema companies, with the most advanced and exciting ones implemented by Sistema's Corporate Centre, JSOC Bashneft, and OJSC MTS Bank.

In 2013, over RUB 400 million was invested in personnel training at the Company and Sistema's subsidiaries.

\* Barrier free environment enables all people, including those with disabilities, to use the surrounding space without anyone's assistance.

\*\*The Business Advisory Board on Disability includes over 40 companies that initiate the integration of people with disabilities (e.g. employees, partners, customers, etc.) in the activities of organisations.

**Non-cash incentives at MTS**

As competition in the labour market increases, non-cash incentives become more and more important to retain personnel and make them more loyal. MTS pays much attention to non-cash incentives. In 2012, the company approved its new Non-cash Personnel Motivation Policy. The document lays down the core principles and areas of non-cash motivation and includes a range of steps aimed to satisfy the personnel's needs that are not directly connected with cash compensation.

The company runs a unique federal recognition programme, being an incentive scheme for its best professionals who have achieved outstanding results in their functional areas. Annually, MTS selects, on a competitive basis, the best of the best in the following individual and group nominations: manager of the year,

professional of the year from a functional block, the best cross-functional team, and the best call centre. The company developed new criteria for each of the programmes which were aligned with MTS' KPI system, and added new nominations, Business Unit of the Year and Call Centre of the Year, which reflect the top-priority business areas. The contests are followed by a solemn award ceremony.

To offer more non-cash incentives, MTS extended its compensation package in 2013 by adding fitness classes and visits to the swimming pool for all employees. Moreover, the company holds regular internal contests, recognizing its best managers, specialists and teams. The corporate editions and news feed at the corporate website provide a regular coverage of the successes and achievement of MTS' employees.



**Talent bank**

In the reporting period, Sistema developed the Corporate Talent Bank programme and started its implementation. The project was designed to identify and retain successful and efficient managers at all subsidiaries. Such employees will be preferred candidates to fill in vacancies within new projects, whether at their home companies or at other subsidiaries of the Company.

In 2013, a candidate pool of 194 managers was created to fill the Corporate Talent Bank, and the first stage of assessment, remote assessment, was completed. The project continues to evolve, with its key targets for 2014 being to establish a development programme and a system of common corporate career lifts that would ensure an adequate professional and career growth for the managers included in the Corporate Talent Bank.

**Safety Capsule of Bashneft**

In April 2013, Bashneft in collaboration with Sistema launched a development programme for the oil company's key managers, called "CEO School "Safety Capsule". Its objective is to develop the key management and industry-specific competencies and foster a safe and lean production culture. The managers of the production companies

belonging to Bashneft Group who had a professional technical education were enrolled in the programme.

The programme was drafted using the best global experience and in consultation with the leading experts and practitioners. The core principles of the programme are focus on practice and ability to use acquired knowledge directly in the production process. Cross-functional interaction enabled the trainees to understand the specifics of all corporate business processes, get to know their co-workers, including their powers and functions, better, and feel the team spirit.

In the reporting period, 35 persons attended the programme, and the corporate managers completed training in 7 modules.

**Transaction Officer School of MTS Bank**

In June 2012, MTS Bank launched a programme to train inexperienced specialists for junior positions within the bank. The Transaction Officer School addressed two objectives: on the one hand, help students and young specialists who have just graduated from a university or a college find their first job (a person without work experience always faces employment difficulties), and, on the other hand, reduce labour turnover and shortage

of junior workers, and foster loyalty to the bank. During one month, the school attendants learn, free of charge, the basic notions and laws in the banking sector, MTS Bank's methodology and products, software, as well as selling and client service skills. Following training, each school graduate has an opportunity to be employed by MTS Bank.

In 2012–2013, the programme was available in Moscow, Saint Petersburg, Ufa, and Khabarovsk. Over a year and a half of project existence, more than 300 persons completed the programme, with 45 groups graduated. Over the period of time that the school exists, 43 graduates changed their positions (47% of all graduates employed as of the end of December 2013): 6 persons from the back office, and 37 persons were promoted at front offices. In the Moscow region, 79% of newly hired tellers and 47% of all front-office personnel are graduates of the School.

**SOCIAL SAFEGUARDS**

Sistema takes care of the welfare and social protection of its employees, providing them with additional social safeguards, apart from the benefits and safeguards required by law. Such safeguards vary based on the actual needs of employees at different subsidiaries.

**Extended fringe benefits**

Sistema provides voluntary medical insurance to all its employees. In addition, the Company's personnel may have their family members insured at corporate rates, but at their own expense. In case of temporary incapacity due to illness, the employees still retain their salary (for 2 weeks in case of outpatient treatment or 3 weeks in case of hospitalisation). In addition, the employees may take a course of treatment at sanatoriums and resorts with a 20% discount. All employees and members of their families are eligible for such discount. Sistema's employees may also benefit from special retail and mortgage loans provided by MTS Bank.

The employees with irregular working hours are entitled to three additional days of leave. Traditional additional social safeguards contained in the in-house documents ("Social Policy") of various Sistema companies usually include sick pay exceeding the statutory minimum applicable in Russia, financial aid, voluntary health insurance, free lunches, payment of transportation costs, as well as a partial compensation of rent for employees from other cities.

**Corporate pension scheme**

From 2000 to 2012, Sistema ran the non-state fund Sistema offering a wide range of pension schemes to the employees of the companies belonging to the Company. The fund's key task is to manage employees' pension savings in an efficient manner.

Since 2012, Sistema's pension schemes have been administered by Big Pension Fund (BPF), a successor to the non-state pension fund Sistema. The merger of the funds resulted in a greater scale of their activities, and a stable and growing yield from the pension accounts of the Company's employees. That step also enabled the fund to reach a new level and become a top non-state pension fund in the country. The assets of the united Big Pension Fund totalled RUB 25 billion in 2013, with its client base exceeding 560,000 people.

Big Pension Fund's client base exceeded 560,000 people in 2013.

All employees of Sistema companies are eligible for the corporate pension scheme. In total, the Company offers three pension resources development schemes:

- compulsory pension insurance, which is a tool to use the funded part of pension that each working person has in the most rational way.
- the state pension co-financing scheme (known as "1000 x 1000"), which is a tool to increase the funded part by making voluntary contributions. The government doubles every RUB 1,000 contributed by an insured person.
- non-state pension scheme, which is a tool to make voluntary contributions in order to increase them and subsequently receive a decent non-state pension. Non-state pension scheme may be either corporate or individual.

**OCCUPATIONAL HEALTH AND SAFETY**

Sistema companies pay much attention to occupational safety and provision of a safe working environment for their employees. All companies of the Company continuously improve their occupational safety management systems. Occupational health and safety issues are critical at the industrial companies belonging to Sistema, such as Bashneft, SG-trans, United Petrochemical Company, SG-trans, and BNSA (renamed into Targin in spring 2014).

**High standards of Bashneft**

In 2013, Bashneft received OHSAS 18001 Certificate for its occupational health and safety management system and ISO 14001 Certificate for its environmental management system. These certificates finalized the formalization of the processes seen at the company in recent years. For example, Bashneft analysed all accidents over the last five years, identified certain systemic causes and developed a corrective action plan that formed the basis for its Functional Health, Safety and Environment Strategy until 2017.

International standards provide inputs to draft in-house documents, which enabled the company to develop, for example, a corporate and a standard risk register, hazard observation cards that can be used to revise risk assessments under new conditions and brief employees before work, as well as a number of other standards to organise business processes with due account for occupational safety issues. Guided by such

Occupational injury rates at Bashneft decreased by 17% in 2013.

standards, the company arranges not only its own operations, but also those of its contractors, and for this purpose each procurement team includes an occupational health and safety expert who shall monitor compliance with Bashneft's standards.

In addition to the implementation of an up-to-date occupational safety and environmental management system, the company assumed voluntarily some additional occupational health and safety obligations. For example, it introduced a work-stop procedure in case a hazard is detected, permitting any employee to stop work whenever a hazard is detected, and a targeted programme was adopted to reduce employee illness rates.

The activities completed in 2013 reduced occupational injury rates at the company by 17% versus 2012.

**Two accident-free years at United Petrochemical Company**

Ufaorgsintez, a major petrochemical production site in Russia, is the key asset of United Petrochemical Company. The process flow of the enterprise that produces, inter alia, phenol, polypropene and acetone, comprises a number of hazardous production sections. United Petrochemical Company takes equal occupational health and safety measures with respect to all employees, including part-time and temporary workers, and subcontractors. All personnel must take occupational health and safety, basic fire safety, first aid, and electrical safety training. United Petrochemical Company conducts accident response training and exercises on a regular basis.

All enterprises of the company have collective and personal protective equipment, and all technical facilities are fitted with accident prevention systems. All personnel of the United Petrochemical Company are provided with personal protective equipment, as well as with washing agents and neutralising substances.

Due to a high level of occupational health and safety measures, no accident has occurred at the company's enterprises since 2011.



▲ SG-trans’ emergency response teams are certified by the EMERCOM of Russia

**SG-trans creates its own fire brigade**

SG-trans is a leading operator of rolling stock for transportation of cargo in the petrochemical and oil & gas sectors of Russia. The company operates over 35,000 railway carriages, mainly tank cars used to carry inflammable goods; and tank car maintenance and servicing are hazardous operations, since there is a risk of fire, explosion or other emergency.

SG-trans comprises 9 repair and test sites capable of servicing 400 carriages simultaneously. For such hazardous sites, SG-trans set up 7 emergency response teams and repair teams, all certified by the EMERCOM of Russia. The highly qualified professionals of these teams can perform rescue operations, extinguish fires, and carry out decontamination and disinfection. Thus, in the reporting period SG-trans was the only private company in Russia to have a network of specialised emergency response and rescue teams.

**BNSA improves safety level**

In 2013, BNSA (renamed into Targin in spring 2014) implemented corporate standards to improve safety culture. In particular, it implemented an internal accident investigation procedure and arranged communication of occupational health and safety incidents to all its employees. The Company also launched mass training of its employees in its corporate

standards, such as Key Safety Rules; Leader, Behavioural Safety Audit; and Risk Assessment. Six interactive briefing classes were equipped and a corporate overalls catalogue was created. In addition, all buses were fitted with safety belts in line with the Vehicle Safety standard, and a campaign started to equip vehicles with rear obstacle sensors and light-reflecting elements. Defensive Driving training was taken by 474 drivers.

**HEALTHY LIFESTYLE**

The Company attaches great importance to work aimed to trigger interest in healthy lifestyle and sport in its employees. The purpose of sport and recreational events is not only health improvement, but also team building.

For already eleven years, Sistema has held an annual Spartakiade in which Sistema Group companies, united in several teams, have participated traditionally. In the competitions held in 2013, most Sistema companies from different Russian regions, CIS states and India participated. The 21st Corporate Summer Spartakiade Cup 2013 was won by Bashneft’s team. In 2013, 1,335 persons competed in Sistema’s corporate competitions, which is 30% more than the previous year.

Sistema’s subsidiaries also organise numerous sport events. For example, Bashneft promotes actively football, volleyball, hockey, table tennis, paintball, billiards and other kinds of sport. In 2013, the company held the first volleyball, table tennis and hockey cup.

MTS holds, on a regular basis, the MTS Group Minifootball Cup, the Health Day (a family sport event), an annual beach volleyball tournament in the Siberia macroregion, and a camping event in the South macroregion. Bowling, volleyball, chess, carting and table tennis tournaments are held.

▼ RTI is an active participant in Sistema’s company-wide corporate sports competitions



In addition to their participation in all competitions held by Sistema, the employees of Det-sky Mir practice actively football, volleyball, basketball, paintball and table tennis.

At MTS Bank, hockey, volleyball, football and tennis teams train on a regular basis, with training sessions in basketball, curling, bowling, carting and paintball taking place from time to time. The Bank’s teams compete in corporate tournaments, friendly matches and various championships.

RTI’s personnel participate in basketball, bowling, volleyball and billiard tournaments, annual Football Cup, basketball tournaments in memory of A. L. Mints, Mikron Minifootball Championship, the Skier Day, and the Ice Skates Day.

# How does increased oil production reduce environmental footprint?

Sistema's oil producing and refining companies are highly committed to improving their environmental performance. Minimizing their environmental footprint and implementing advanced environmental protection technologies are among their priorities.

## Environmental protection

Environmental protection is an integral part of corporate social responsibility of the Company. Sistema and its subsidiaries pay much attention to environmental issues, such as climate change and growing consumption of electricity, water and natural resources, and try to reduce their environmental footprints. The principle of strict compliance with environmental norms and participation in environmental protection programmes are fixed in the Sistema's Code of Ethics and in in-house regulations of its subsidiaries.

The Company's business covers several areas, so Sistema companies have different environmental objectives and programmes. The main environmental protection efforts are focused on improved energy saving, resource saving, waste management, and air, water and soil protection. However, the range of environmental protection projects pursued by the Company is not limited to the above-mentioned issues and covers a much larger circle of environmental issues.

AIR, WATER AND SOIL PROTECTION

Environmental protection at Bashneft

Bashneft is the largest subsoil user among Sistema’s subsidiaries: in 2013 alone, the company extracted 16.1 million tonnes of oil and produced 19.6 million tonnes of oil products. Therefore, Bashneft pays special attention to environmental issues.

In 2013, Bashneft spent RUB 10.2 billion on environmental protection activities, which is four times more than in 2012 (RUB 2.4 billion). The Company is expected to spend over RUB 46.7 billion on these purposes in 2014–2018.

The company deploys new technologies, upgrades its equipment, reducing industrial waste and emissions, and produces products compliant with the international environmental standards. Key strategic areas of the company’s activity as regards environmental safety include: air, water and soil protection. The company spends the largest share of its funds on emission reduction.

In air protection, Bashneft implements a set of measures that can be categorized into three main groups:

- emission control and monitoring;
- production facilities upgrades to reduce direct and indirect atmospheric pollution;
- increasing associated gas utilization.

In spring 2013, the Company and the Government of the Republic of Bashkortostan signed an agreement regarding protection of the air. In accordance with the agreement, the Company assumed obligations to take a number of measures on emission control and monitoring, as well as upgrading its production facilities to reduce its environmental footprint. All activities planned for 2013 were completed by the Company in due time, with costs amounting to RUB 5.6 billion.

Improvement of the environmental management system at United Petrochemical Company

United Petrochemical Company continuously improves its environmental management system. Annually, the Company carries out activities to reduce its environmental footprint. In the reporting period, United Petrochemical Company completed stocktaking of sources of hazardous emissions and sources of

production and consumption waste. Compliance with environmental legislation is subject to ongoing monitoring at the Company’s sites.

Careful attitude to soil at RZ Agro

RZ Agro’s core business is farming and large-scale grain production. The Company implements a range of measures to protect soil from pollution and depletion, in particular, analyses soil condition, monitors climate, performs land reclamation, restores soil and improves soil fertility.

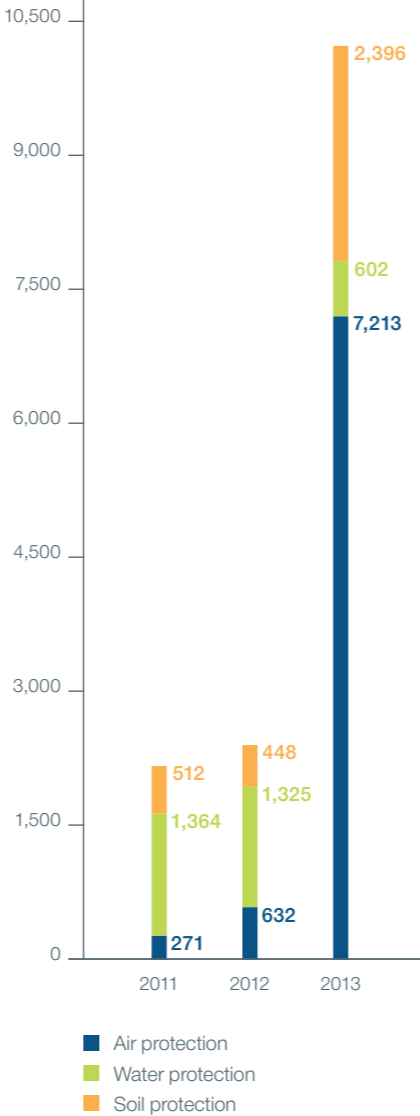
In the reporting period, RZ Agro, for the purpose of air, soil and water protection, performed agrochemical soil analyses and regular soil and plant diagnostics, based on which fertilizer consumption rates were adjusted. To prevent soil depletion the Company uses sustainable crop rotation; and to reduce pesticide load on soil and accelerate biological degradation of vegetable remains, it uses subsurface tillage energy-saving technologies and introduces necessary biological preparations.

RZ Agro introduces new moisture retention technologies, takes steps to prevent soil erosion and restore forest belts, uses organic fertilizers and advanced efficient powerful machines with low fuel and lubricant consumption rates and minimal soil and air pollution.

RESOURCE SAVING

Sistema’s Corporate Centre does not have any significant environmental impact. However, the Company still tries to reduce its environmental footprint as much as possible by optimising its resource consumption. In 2012, the Company shifted to using only energy saving bulbs, reducing its electricity consumption in 2013 by 7–8% versus 2012. Today, the Corporate Centre uses only electronic documents and no longer prints out any materials of the Management Board, or meetings of the Board of Directors or Board committees. The Company launched portals of the Management Board and the Board of Directors, enabling real-time document processing. Moreover, Sistema almost has no “current” paper documents related to different areas, which reduces the volume of paper documents. Electronic documents reduce consumption of resources, e.g. paper, toners and electricity. The Corporate Centre saves 25,000 A4 paper sheets annually.

Environmental protection costs by areas, RUB million



Energy efficiency improvement at Bashneft

Energy efficiency improvement by reducing energy costs is among the key areas of the company’s environmental protection efforts. Bashneft implements the Energy Efficiency Strategy up to 2015 that sets the following targets: organise a highly efficient electricity consumption management system, upgrade production equipment and implement energy-saving technologies, optimise heat generation and consumption, and develop own generation sources, including those using associated petroleum gas (APG).

Electricity consumption by Sistema companies in 2012–2013, kW·h

Company	2012	2013
Bashneft	5,780,168,000	5,331,579,000
United Petrochemical Company*	–	711,087,000
MTS	662,258,071	736,914,547
RTI	105,288,370	113,401,565
SSTL	92,816,002	91,206,344
Targin (formerly known as BNSA)	50,428,804	57,738,673
BPGC	40,997,271	41,200,682
Detsky Mir	47,874,000	74,582,165
Other companies	62,329,189	50,018,991
Total	6,842,159,706	7,207,728,967

Electricity consumption at Sistema

In 2013, total power consumption by all Sistema companies exceeded 7 billion kW·h versus 6.8 billion kW·h in 2012. Such an increase was caused mainly by the Company’s rapid growth.

Resource saving at United Petrochemical Company

United Petrochemical Company is among the leading petrochemical producers in Russia and, of course, does have an impact on the environment. In the reporting period, the company started the active phase of its resources saving and efficient use activities. In 2013 alone, energy saving measures implemented at Ufaorgsintez produced heat savings of RUB 33.8 million. In addition, the share of own steam generation in total production-related heat consumption increased by 15% versus 2012. Work to make the Company more energy efficient will continue.

Energy saving at MTS

Although the business of MTS has no direct environmental impact, its facilities, such as cell sites, office buildings, sales outlets, call centres, etc., consume electricity. Most power plants in Russia are gas- or coal-fuelled and emit carbon dioxide. As traffic

and subscriber base grow, the company consumes more energy, which inevitably increases the load on power plants, affecting in this way the environment.

MTS has developed and is implementing its own energy saving and energy efficiency programme. The company uses special M2M modules and telematic services for on-line monitoring of electricity consumption by its infrastructure facilities. Using radio access network software, MTS can change transmitter operation mode, reducing electricity consumption or switching the transmitter off, when traffic is low.

When building new base stations, MTS installs energy efficient equipment, including outdoor enclosures with a free cooling system to cool the base station systems using the ambient temperature. Using energy saving technologies, MTS reduced specific electricity consumption by 3% or 20 million kW·h in 2012 versus 2011. In 2013, specific electricity consumption per one site decreased by circa 3%.

All office buildings, call centres and other premises of MTS use energy saving and LED lamps, which enables the company to cut significantly its electricity consumption.

In 2013, Bashneft became the only Russian company to join the International Petroleum Industry Environmental Conservation Association (IPIECA).

\* Electricity consumption by United Petrochemical Company in 2012 is included in the figure for Bashneft.

New-generation fuel

In 2013, Bashneft launched production of a new-generation fuel with improved operational and environmental parameters, branded ATUM. AI-92 ATUM gasoline compliant with the Euro 5 standard was the first product under that brand. Unlike with traditional gasoline, when ATUM fuel is used, exhaust gases contain less benzene, aromatic hydrocarbons and other carcinogenic substances. The company invested RUB 8 billion in this project.



WASTE DISPOSAL

Day-to-day operations of Sistema companies produce various types of waste, including hazardous and recyclable waste. All subsidiaries of the Company have adopted a responsible approach to waste disposal, striving to mitigate environmental pollution.

Safe disposal by Binnopharm

Binnopharm is a high-tech company developing biotechnology medicines. Its operations produce specific waste requiring certain specific disposal procedures. Binnopharm disposes of its waste in line with the applicable laws, using different approaches to waste management and disposal of different waste:

- waste raw materials, auxiliary substances and pharmaceutical products (G class) are collected in PE bags, labelled and disposed;
- waste from microbiological laboratories or immunobiological production sites working with group 3 or 4 pathogens (B class) is neutralized;
- waste solvents are delivered to special disposal enterprises;
- waste luminescent mercury-containing tubes are collected in special containers and then delivered to special disposal enterprises.

**Disposal of telecommunication equipment by MTS**

For the purpose of disposal, MTS sells equipment with expired service life back to the relevant manufacturer or to other companies through a tender or makes contracts with disposal companies.

In the latter case, equipment is delivered to a special site where it is disassembled, and scrap metal is sorted and weighed. Then a check is conducted to make sure that scrap metal has been prepared in accordance with the GOST standard, inspected by a pyrotechnist, decontaminated, classified as explosion safe and permitted to be recycled and melted. After that, scrap metal is delivered to a disposal company that will recycle it.

In 2013, MTS contracted companies that dispose of equipment abroad and meet strict international requirements to waste management and environmental protection, such as Basel Action Convention.

**BIODIVERSITY RESTORATION**

**Land of the Leopard National Park**

In 2012, Sistema supported a new research and environmental project aimed to protect the endangered Far Eastern leopard and provide assistance to the Land of the Leopard, a Far Eastern national park. The Company provides various assistance to the national park to save the population of rear species, the only subspecies of leopard that can survive in the condition of a long semitropical summer and a severe snowy winter.

Currently, the majority of the population of Far Eastern leopards, which decreased 40 times since the 1980-s, lives in the south-western part of the Primorie Territory. Now no more than 50 such leopards live in the wild nature in Russia.

In the reporting period, Bashneft carried out activities to upgrade its oil processing facilities in the Republic of Bashkortostan, which covered two areas: improving engine fuel quality with a complete shift to Euro-5 products and increasing oil refining depth. A consistent implementation of such activities made it possible to increase the Nelson complexity index describing secondary conversion capacity of a petroleum refinery from 8.55 to 8.83 points.

**Budyonny horse restoration**

An important area of activity of RZ Agro is the revival of horse breeding in the country, in particular restoration of the Budyonny horse, one of the best sport horse breeds. Budyonny horses are a product of reproductive crossing of two valuable breeds — the Thoroughbred and the Russian Don. The Budyonny has more champion qualities than any other breed. It is especially true of the horses bred at the 1st Cavalry Army Stud Farm in the Rostov region. There, female horses have always had a higher horse racing class than horses from any other stud farm, which made it possible to ensure good performance in the next generations.

RZ Agro helps improve the conditions in which horses live, and the quality of their breeding and training. Thanks to the efforts of RZ Agro, the headcount of brood mares increased from 93 mares to 102 mares, and the number of studs increased from 9 to 14 over the last two years. In 2013, a stud horse won the Champion title at the 8th annual exhibition Golden Horse, and many young horses of that stud farm won prizes. Horses from the stud farm demonstrate excellent results in horse racing, triathlon and show jumping. Trainers and jockeys come to the stud farm, since its young horses guarantee successful performance in the future.

**ENVIRONMENTAL ACTIVITIES**

**Everyone Goes to Subbotnik**

Sistema and its subsidiaries organise annual subbotniks for their employees all over the country. The Company and its subsidiaries employ over 167,000 people, which is equal to the population of a not-so-small Russian town. The efforts of thousands of employees of the Company enable it to make a considerable contribution in keeping Russian cities clean.

In May 2013, Sistema initiated a charitable city subbotnik called “Environmental Landing Forces” at N. V. Tsitsin’s Botanical Garden of the Russian Academy of Sciences, Moscow, which was dedicated to the 20th anniversary of Sistema and MTS. The event slogan was “20 years for Moscow and Moscow dwellers.” In the Botanical Garden occupying 22 hectares, 3,000 employees of the Company collected over 10 tonnes of rubbish

▼ Stud from the 1st Cavalry Army Stud Farm in the Rostov region



and painted 530 metres of fencing. The top managers of Sistema and its subsidiaries installed and decorated 12 benches with an exclusive design.

**MTS fights against forest fires**

In 2012–2013, MTS developed its Lesnoy Dozor (Forest Watch) IT system, a special complex for ongoing monitoring and early detection of forest fires in the Central Federal District, South region, Volga South, Urals and Far East of Russia. Forests are monitored using video cameras installed on base stations. The equipment transmits video to the control station of forest fire services. In case smoke is detected, information is communicated to the relevant forestry, which enables firemen to localize and extinguish fires. The technologies used in this project enable one specialist to monitor large forest areas remotely and determine the exact coordinates of a fire, thus making response more prompt.

In summer 2013, MTS helped extinguish and prevent over 180 fires in the forests of the Pskov region thanks to the use of the MTS Kommutator (MTS Switch) service by the Pskov Region Forest Fire

Centre. This service makes it possible to notify the employees of the Centre and the Environmental Management and Protection Committee for Pskov and Pskov Region about fire risks in the region. During the fire hazard season of 2013, the Centre employees sent almost 4,000 messages about fire risk in the region’s forest every month. In total, 80 fires were extinguished thanks to the service.

**Intourist develops ecotourism in Altai**

Every year, ecotourism, a new type of tourism when travellers’ environmental impact is as low as possible, becomes more and more popular in Russia. The Altai Republic is currently one of the most exciting and pollution-free Russian regions for ecotourism.

Here, Intourist has been developing a special economic zone for tourism and recreation since 2009, focusing on the promotion of Altai Resort, a tourist complex situated in a picturesque place surrounded by mountain chains, cedar and larch forests in the Maima River bottom, 40 km away from Gorno-Altai. The company will promote further ecotourism in Altai.

In 2013, MTS installed special equipment in a hard-to-reach taiga area in the Primorie Territory, which enabled WWF specialists to monitor fires remotely in the region where the endangered Far Eastern leopard lives. After the first year of operation, that equipment came to be believed one of the most efficient systems of this kind in the country.

**Disposal of old handsets**

In 2012, MTS launched a mobile phone collection and disposal campaign in the Belgorod region within its Eco Project. Over 700,000 items of office equipment and approximately 1.5 million

mobile phones were used in the region. Office equipment contains both substances that are hazardous for the environment and precious metals that can be recycled. Mobile phones, computers and office equipment were collected at MTS’ shops.

# Report profile

## GENERAL

Dear Reader, this is the fifth Sustainability Report (social report) of Sistema JSFC. The previous social report covering 2010–2011 was published in 2012. The Company releases a non-financial report every two years.

The report describes the key areas and strategy of corporate social responsibility (CSR); social, environmental and charitable projects pursued by the Company and its subsidiaries in the countries where they operate; corporate mechanisms ensuring work quality and reliability; characteristics and analysis of relations with key stakeholders in terms of sustainable development. The report is published for all stakeholders.

## REPORTING PRINCIPLES

Sistema’s Sustainability Report was drafted in line with the GRI Sustainability Reporting Guidelines. When drafting the report, the Company was also guided by the United Nations Principles for Responsible Investment and the guidelines of the Russian Union of Industrialists and Entrepreneurs. To determine important issues to be covered in the report, the Company also consulted with the stakeholders.

For the purposes of this report, a working group was set up, comprising representatives of all divisions and most of subsidiaries of Sistema. The working group determined a list of relevant topics to cover in the report, developed the report structure, outlined a general approach to covering the topics, selected and identified specialists responsible for information collection and processing. Thanks to structured organisation of work, the report offers a clear view of the key sustainable development activities in the period covered. The report contents and information to be included in the report were determined based on Sistema’s Corporate Social Responsibility Policy, Sistema’s Code of Ethics, experience of interaction with the stakeholders, and the current best sustainability reporting practices.

## MATERIAL ASPECTS AND SCOPE OF REPORT

The report presents aggregated data for all companies where the Company is a controlling shareholder or can have a material influence on the operations, and covers the period from 1 January 2012 to 31 December 2013. The report for this period details the operations of the Company and its subsidiaries in all regions and countries where Sistema is present.

The production and financial indicators contained in this report are based on the International Financial Reporting Standards (IFRS) and relate to the Company in general (unless otherwise expressly stated). No significant changes have been made with respect to the coverage or scope of, or measurement techniques used in, this report compared to the previous reporting periods. The report does not contain revised information from previous reports or any grounds for such revision, or any changes in the reporting periods or nature of business or assessment methodology.

The report contains a full description of the key areas of sustainable development, key social and community projects pursued by the Company, and its corporate governance principles in terms of sustainable development. The report covers what we believe to be the most important projects demonstrating the Company’s understanding of its responsibility to the economic, natural and social environment.

The management of Sistema’s companies and of the Company itself uses reporting data to assess how efficient the Company’s social and charitable programmes are, improve their corporate governance and HR management practices, and also as a tool to develop strategies of interaction with the stakeholders in the future.

A number of companies within Sistema release their own social reports offering a more detailed description of approaches, social projects and interaction with the stakeholders adopted by each of such companies. In 2012–2013, eight companies of Sistema released their own social reports. Independent reports are also published by Sistema (since 2006), MTS (since 2008),

and Bashneft (since 2006). In the reporting period, all such reports were verified by the Non-Financial Reporting Council of the Russian Union of Industrialists and Entrepreneurs, and MTS’ report also received a GRI Application Level B certificate.

## Recognition of CSR projects of Sistema’s companies in 2012–2013

Entity	Project	Public recognition
Sistema	Lift to the Future	Ranked by Vedomosti / PricewaterhouseCoopers and Not-for-profit Organisation Forum Donorov among top charitable programmes for involving youth in social and economic development
		Winner of HR Brand award, March 2013
MTS Ukraine	Mobile Medicine	Winner of a CSR business case competition in the Community Development category, December 2011
		Best “Green” Social Project, Green Awards Ukraine 2011
MTS	Corporate volunteer movement Simply Be Good	In September 2012, the company ranked first among Russian operators in the first national corporate social responsibility rating for its strong social responsibility
	Charitable programme Give the Gift of Kindness	MTS collected the Best Programme Promoting Volunteer Movement in Russia award of the Leaders of Corporate Charity 2012 awards, November 2012
	Telecom Idea	Ranked second as the Best Programme (Project) Promoting Volunteer Movement in Russia, February 2013
		Time for Innovations award, December 2011
		National award Best Corporate Video by the Association of Communication and Corporate Media Directors of Russia, February 2013
		Runet Award 2012, November 2012
RTI	Establishment of the Training Centre for Defence Industry Professionals	Several certificates
	Grant by the Russian President for government support of young researchers	Conference awards
Mikron JSC	Become an Engineer	National PR development Silver Archer, February 2012
K-Telecom	Caucasus Wildlife Refuge	World Land Trust environmental award for an outstanding contribution to the preservation of environmental assets of Armenia, 2011
NVision Group	My Teacher	Participated in the 25th Russian Education Forum on invitation
		Participated in the 5th international exhibition congress Global Education on invitation
	Joint master’s and trainee programmes	Participated in the 9th Annual Conference of by Forum Donorov, October 2011
JSC “Detskiy Mir — Center”	Nationwide charitable programme Get Involved!	Letter of recognition from the Governor of the Novosibirsk Region for the development of a project for setting up Basic Departments in major higher education institutions
		Subproject Trainees. New View of Business nominated to HR Brand 2012 independent award in the Region category
JSC “Detskiy Mir — Center”	Nationwide charitable programme Get Involved!	Best social project at the National Competition Golden Networks, 2010
		Best charity campaign, National Goods and Services Award, 2011
SSTL	India Unites To End Polio Now (IUEPN)	Letter of recognition from Aid-Matrix Foundation

GRI-G4 content index

GRI Indicator	Disclosure	Level of reporting	Location of disclosure/ Comment
Strategy and Analysis			
G4-1	A statement from the most senior decision-maker of the organization (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and the organization’s strategy for addressing sustainability	+	4-5
Organizational Profile			
G4-3	Name of the organization	+	2
G4-4	Primary brands, products, and services	+	2-3
G4-5	Location of the organization’s headquarters	+	The Company headquarters are located in Moscow
G4-6	Number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report.	+	2
G4-7	Nature of ownership and legal form	+	2
G4-8	Markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries)	+	2
G4-9	Scale of the organization	+	2
G4-10	Total number of employees	+	43-44
G4-11	Percentage of total employees covered by collective bargaining agreements.	+	44-45
G4-12	Organization’s supply chain.	+	37-41
G4-13	Significant changes during the reporting period regarding the organization’s size, structure, ownership, or its supply chain	+	2, 37-41, 44
G4-14	Explanation of whether and how the precautionary principle is addressed by the organization	+	53
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	+	41
G4-16	Membership of associations (such as industry associations) and national or international advocacy organizations in which the organization: holds a position on the governance body, participates in projects or committees, provides substantive funding beyond routine membership dues, views membership as strategic	+	41
Identified Material Aspects and Boundaries			
G4-17	All entities included in the organization’s consolidated financial statements or equivalent documents	+	58
G4-18	Process for defining the report content and the Aspect Boundaries	+	58
G4-19	All the material Aspects identified in the process for defining report content	+	58
G4-20	Aspect Boundary within the organization	+	58
G4-21	Aspect Boundary outside the organization	+	58
G4-22	Effect of any restatements of information provided in previous reports, and the reasons for such restatements	+	58
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	+	58
Stakeholder Engagement			
G4-24	A list of stakeholder groups engaged by the organization	+	10-11

GRI Indicator	Disclosure		Level of reporting	Location of disclosure/ Comment
G4-25	Basis for identification and selection of stakeholders with whom to engage		+	10-11
G4-26	Organization’s approach to stakeholder engagement			10-11
G4-27	Key topics and concerns that have been raised through stakeholder engagement			10-11
Report Profile				
G4-28	Reporting period (such as fiscal or calendar year) for information provided		+	58
G4-29	Date of most recent previous report (if any)		+	58
G4-30	Reporting cycle (such as annual, biennial)		+	58
G4-31	Contact point for questions regarding the report or its contents		+	Elena Rytsareva, Project Manager, Corporate Communications Function, Sistema JSFC, +7 (495) 692 10 88 rytsareva@sistema.ru
G4-32	GRI Content Index		+	60-61
G4-33	External assurance		+	58
Corporate Governance				
G4-34	Governance structure of the organization		+	29-35
Ethics and Integrity				
G4-56	Organization’s values, principles, standards and norms of behavior such as codes of conduct and codes of ethics.		+	36
Environmental aspect				
G4-EN3	Energy	Energy consumption within the organization	+	55
G4-EN6	Energy	Reduction of energy consumption	Partially	55-56
G4-EN13	Biodiversity	Habitats protected or restored	+	57
Social				
G4-LA1	Employment	Total number and rate of new employee hires during the reporting period, by age group, gender and region	+	43-45
G4-LA6	Occupational Health and Safety	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	Partially	50-51
G4-LA10	Training and Education	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	+	48-49
Human rights				
G4-HR3	Non-discrimination	Total number of incidents of discrimination and corrective actions taken	+	46
Society				
G4-SO4	Anti-corruption	Communication and training on anti-corruption policies and procedures	+	39-40



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