



2014 SUSTAINABILITY REPORT



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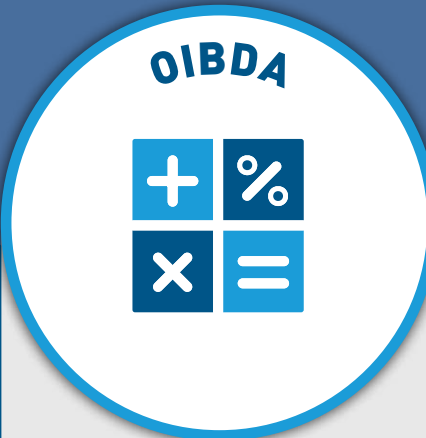
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PERFORMANCE HIGHLIGHTS¹



2013	589.3
2014	631.9
change	+7.2%

Revenues,
RUB bln.



2013	177.4
2014	165.2
change	-6.9%

OIBDA,
RUB bln.



2013	113.6
2014	60.9
change	-46.4%

Operating profit,
RUB bln.



2013	93.1
2014	100
change	+7.4%

Tax payments to federal
and regional budgets,
RUB bln.



2013	1.8
2014	0.9
change	-50%

Charitable and community
expenditures, RUB bln.



2013	167,544
2014	155,779
change	-7%

Total number of employees,
persons



2013	0.96
2014	2.06
change	+114.6%

Return on equity,
RUB



2013	3
2014	5
change	+2 p.p.

Dividend yield
of shareholders, %
(percentage points)



2013	95.4
2014	115.8
change	+21.4%

Sistema Group's investment
programme, RUB bln.



2013	3 300
2014	8 038
change	+143.6%

Sistema's corporate volunteer
movement, persons



2013	32
2014	53
change	+65.6%

Number of CSR projects of
Sistema Group's companies

¹ Consolidated financial indicators of the Joint-Stock Financial Corporation Sistema are given excluding Bashneft JSOC.

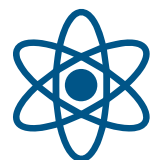
KEY EVENTS

JANUARY



WORLD ECONOMIC FORUM

Sistema's delegation headed by Board Chairman Vladimir Evtushenkov took part in the World Economic Forum in Davos.



INTERNATIONAL CONFERENCE ON ENERGY PRODUCTION

Bashkirian Power Grid Company (BPGC) took part in the International Conference on Energy Production and Management in the 21st Century — the Quest for Sustainable Energy, which took place in Yekaterinburg and brought together 150 experts from 27 countries.



FEBRUARY



BECAME A MEMBER OF THE OSPT ALLIANCE

NIIME and Mikron became a member of the OSPT (Open Standard for Public Transport) Alliance established in 2010 by leading payment service providers to develop new-generation fare payment systems.



SIGNED AN AGREEMENT

RTI and the All-Russian Scientific Research Institute of Aviation Materials (VIAM) signed a cooperation agreement on development of the composites industry in Russia.

MTS and the government of the Krasnoyarsk Territory signed an agreement on social and economic cooperation in 2014–2016 on the sidelines of the 11th Krasnoyarsk Economic Forum.



MARCH



SIGNED AN AGREEMENT

SITRONICS and the government of the Republic of Dagestan signed an agreement on development of an integrated republican safety system through implementation of the Safe Region, System 112 and other projects.

SITRONICS and Cisco signed a letter of intent on strategic partnership in development and implementation of the latest information technologies in various fields.



SUPPORTED THE RUSCITECH FORUM

RTI Group supported the RuSciTech Forum USA 2014: International Collaboration in Science, High Technology and Education, which took place at the Arizona State University in Tempe.



CREATIVE CHARITABLE PROJECT

MTS and Konstantin Khabensky's Charitable Foundation launched an all-Russian creative charitable project, The Mowgli Generation, which involved Russian theatre and movie stars, over 1,000 children from different regions of Russia, and millions of Internet users. All funds raised within the project are used for treatment of children under MTS's charitable programme Give Good! (dobroedelo.mts.ru) and Konstantin Khabensky's Foundation.

APRIL



CONGRESS OF VOLUNTEERS

Employees of MTS, MGTS, MTS Bank, Stream, and Sistema took part in the 2nd congress of volunteers' that was held in Minsk, Belarus.



MAY



INTERNATIONAL ECONOMIC FORUM

Sistema's delegation headed by Board Chairman Vladimir Evtushenkov and CEO Mikhail Shamolin took part in the 18th St. Petersburg International Economic Forum.



SIGNED AN AGREEMENT

Sistema and the government of the Republic of Karelia signed a general cooperation agreement.

RTI and the Russian Academy of Sciences signed a cooperation agreement on cooperation in R&D and innovations, which envisages joint development of a number of promising technologies.



LAUNCH AN INNOVATIVE PROJECT

The Board of Directors of BPGC decided to launch an innovative project for upgrading power grids in Ufa with Smart Grid components.



COMMUNITY CLEANUP

Over 3,000 employees of the Corporation took part in a community cleanup organised by Sistema at the Main Botanical Garden of the Russian Academy of Sciences in Moscow.

JUNE



WORLD PETROLEUM CONGRESS

Sistema took part in the 21st World Petroleum Congress in Moscow.



LIFT TO THE FUTURE

An interregional scientific and educational summer camp was organised in Smolensk as part of Sistema's Lift to the Future programme.



SIGNED AN AGREEMENT

MTS signed a cooperation agreement with the government of the Khanty-Mansi Autonomous District, under which the company will participate in implementation of regional social and charitable programmes.



VOLUNTEER CENTRE WAS ESTABLISHED

A Corporate Volunteer Centre was established on the basis of Sistema Charitable Foundation to bring together volunteers from Sistema's subsidiaries.



SUMMER GAMES

Sistema organised its 12th Summer Games that were attended by over 3,000 employees of the Corporation and their family members.

KEY EVENTS

JULY



HIGH LEVEL OF EMPLOYER APPEAL

RAEX (Expert RA Rating Agency) confirmed Sistema's employer appeal rating at A.hr, which means a high level of employer appeal.



LIFT TO THE FUTURE PROGRAMME

An interregional scientific and educational summer camp was organised in Vladimir as part of Sistema's Lift to the Future programme.



AUGUST



LIFT TO THE FUTURE PROGRAMME

An interregional scientific and educational summer camp was organised in Bashkortostan as part of Sistema's Lift to the Future programme.

The All-Russian Scientific and Educational School Lift to the Future took place in Moscow to complete the race of interregional summer camps held in Smolensk, Vladimir, and Bashkortostan.

The International Student Scientific Conference Lift to the Future was held in Moscow in the form of the globally renowned International Student Science Fair (ISSF).



SEPTEMBER



CONSTRUCTION OF THE ICE STADIUM

The first design reference mark for an ice stadium was ceremoniously set in Kumertau (Bashkortostan). The funds for construction of the stadium were provided by Sistema Charitable Foundation.



SIGNED AN AGREEMENT

MTS concluded an agreement on social and economic partnership with the government of the Udmurt Republic, under which the company will invest over RUB 757 mln. in the development of telecom infrastructure in the Republic.

BPGC and the Ministry of Education of the Republic of Bashkortostan signed a cooperation agreement on prevention of child injuries caused by electrical appliances.



CONGRESS OF YOUNG PROFESSIONALS

Targin held the first congress of young professionals, which brought together over 60 young employees and top managers of the company.

OCTOBER



SIGNED AN AGREEMENT

Sistema Charitable Foundation and the St Martha and Mary Convent of Mercy signed an agreement on long-term cooperation, which envisages establishment of a multifunctional centre for disabled children.



MOSCOW INTERNATIONAL FORUM

RTI Group presented its latest developments at the 2nd Moscow International Forum for Innovative Development, Open Innovations, and at the Open Innovations Expo.

RTI sponsored the Transport and Infrastructure section during the Moscow International Forum for Innovative Development, Open Innovations.



VALDAY CLUB

Sistema Charitable Foundation for the first time provided support for the Valday international discussion club that took place in Sochi and was attended by Russian President Vladimir Putin.

NOVEMBER



PUPPET THEATRE

Detsky Mir Group founded a volunteer puppet theatre for social adjustment of disadvantaged children.



REHABILITATION OF CHAMPIONS

Sistema Charitable Foundation and the Russian Paralympic Committee organised treatment and rehabilitation of champions and prize winners of the Paralympic Games and world championships, members of Russian paralympic teams, and veterans of the Paralympic Games at Altai Resort, a health resort in the Altai Republic.



DECEMBER



RUSSIAN-INDIAN YOUTH INNOVATION SUMMIT

During Russian President Vladimir Putin's official visit to India, Sistema, together with its subsidiaries MTS and Sistema Shyam TeleServices Ltd. and with support from the Russian Embassy in India, organised the first Russian-Indian Youth Innovation Summit and organised the interactive cultural and technological exhibition From Russia With Progress, devoted to the contribution of Russian inventors to the global technical progress.



CHARITABLE FAIR

Detsky Mir organised the first charitable fair at its flagship store at Vozdvizhenka 10 in Moscow.



VOLUNTEERS AWARDS

Over 50 MTS volunteers received honorary certificates and awards during a ceremony that was organised in Moscow on the occasion of the International Volunteer Day. Sistema Charitable Foundation gave out special prizes for the best volunteer projects.

AWARDS AND ACHIEVEMENTS OF SISTEMA



AWARDS AND ACHIEVEMENTS OF SUBSIDIARIES AND AFFILIATES

MTS' federal social educational project Network for All Ages on Internet literacy for older people won the first prize in the Accessible Internet contest of educational programmes for the elderly organised by the Russian Ministry of Labour and Social Security. It was also included in the top 20 best Russian social projects by the Social Projects and Programmes Foundation and won The Moscow Times Awards organised by The Moscow Times newspaper as the best CSR project of the year.

ACCESSIBLE
1th
INTERNET

MTS won the Grand Prix for Social Responsibility and Charity for its national contest Children Teach Adults at the Crystal Pyramid Awards 2014, held on the sidelines of the summit of HR directors of Russia and CIS.

SOCIAL
GRAND PRIX
RESPONSIBILITY

MTS was named the best Russian employer by HeadHunter Recruitment Holding and Pricewaterhouse Coopers International Consulting Group.

BEST
EMPLOYER

Detsky Mir Group won the Golden Teddy Bear, a national award of the children's goods industry, in two categories: The Best Social Project of the Year for Operation Toys, a project to set up children's playrooms in Russian hospitals and orphanages and The Best Store for Children for its flagship store at Vozdvizhenka 10, Moscow.

BEST SOCIAL
1th
PROJECT

BPGC received a special prize for efficient Internet communications as The Most Open Grid Company at the 4th national contest Best Russian Electric Grids organised by the EnergoNews website.

BEST RUSSIAN
ELECTRIC GRIDS

The Sokol Woodworking Plant (a subsidiary of Segezha Group) won the National Golden Mercury Awards 2014 as the Best Exporter of Consumer Goods and the Lesprom Awards 2014 in the Wooden Design category for its Father Frost's Residence project in the Olympic Sochi.

LESPROM
AWARDS-2014

MTS received an employer confidence certificate from the Russian Chamber of Commerce and Industry, Federation of Trade Unions, and State Labour Inspectorate of Moscow. The certificate confirms the company's compliance with the labour legislation.

EMPLOYER
CONFIDENCE

Ron Sommer, Chairman of the Board of Directors of MTS, was included in the top 25 board chairmen list of 2014. Rating were compiled by the Independent Directors Association and the Russian Union of Industrialists and Entrepreneurs.

TOP 25
BOARD CHAIRMEN

Maksim Kalinin, Secretary of the MTS Board of Directors, was named among the 25 Best Corporate Governance Directors. Rating were compiled by the Independent Directors Association and the Russian Union of Industrialists and Entrepreneurs.

25 BEST
DIRECTORS

RTI's magazine Intellect&Technology won the Silver Threads national corporate media award for High-Level Solving of Corporate Tasks.

HIGH-LEVEL
OF CORPORATE MEDIA

NIIME and Mikron (a part of RTI Group and the largest manufacturer and exporter of microelectronics in Russia and CIS) won the prestigious CNews AWARDS 2014 in the Russian Technologies category.

RUSSIAN
CNews
AWARDS
2014
TECHNOLOGIES

Chairman's Message



Dear colleagues and partners, ladies and gentlemen!

We are glad to present to you Sistema's 2014 Sustainability Report, which was for the first time prepared in accordance with the latest version of the international GRI G4 Guidelines. In this report, we tried to show the most relevant information about the key social and managerial aspects of the Corporation's business and describe in the most comprehensive and transparent way our approaches to responsible investment in the Russian economy, achievements and plans of development of corporate social responsibility, and the best CSR and environmental practices of our subsidiaries.

2014 was marked by an economic crisis caused by a drop in oil prices, depreciation of the rouble, and declining production and consumer demand. Both the government and the private sector were forced to reconsider future development of the market in general and individual industries in particular, while investors had to adjust their strategies. However, despite all the objective complications and subjective factors affecting the macroeconomic situation, our development has never stopped. On the contrary, in

the face of economic sanctions and depreciation of the national currency, when it becomes especially difficult to maintain the high rates of growth and to raise funds, a key role in cooperation with shareholders, investors, analysts, and other stakeholders belongs to responsible business conduct, competent corporate management, and strict compliance with generally accepted ethical norms and global standards of transparency, including in disclosure of non-financial information. A consistent social policy, use of innovations for development of import-substituting technologies and competitive products, investments in human capital — motivation, advanced training of employees, and support of young talents — remain our priorities and the guarantee of sustainable development of the Corporation as one of Russia's biggest taxpayers and employers.

In 2014, Sistema continued its transformation into an investment company that creates shareholder value through constant reinvestment in current assets and new projects. We focus on progressive development of our subsidiaries, many of which already dominate their market segments and make a substantial contribution to essential areas ranging from telecommunications, microelectronics, and radio engineering to medicine, pharmaceuticals, and agriculture. By taking into account both economic and social factors, and concentrating on improvement of the Group's operational efficiency and acquisition of new promising assets, our portfolio strategy yields tangible financial results and brings positive changes to society.

Considerable investments are annually allocated for infrastructure projects that improve the availability and quality of services. Notably, in the past year, MTS increased the rate of construction of mobile

communication networks by 50% and started commercial operation of 4G in 62 regions of Russia. Increasing penetration of high-speed Internet, including in remote areas of our country, creates opportunities for wider use of innovative services related to telehealth, smart home, transport monitoring, energy accounting, etc. In 2014, MTS' retail chain expanded to include over 300 new outlets combining telecommunication and banking services for the benefit of millions of customers. To make it easier for all categories of customers to use new services, MTS and MTS Bank organise educational projects raising mobile, Internet, and financial awareness.

In 2014, BPGC's investment activity remained focused on construction of new and reconstruction and retrofit of existing power facilities. The company carried out a large amount of work to overhaul the power grid infrastructure in Ufa, introducing Smart Grid components in cooperation with foreign partners, Siemens and The Israel Electric Corporation. State-of-the-art electrical equipment was installed in a pilot area; a Customer Service Centre was established to improve communication between customers and the company. The company launched construction of four substations that are of key importance for industrial development of the Republic of Bashkortostan. About 28 thousand metering devices were installed as part of the energy saving and efficiency programme; the Safe Childhood social and educational programme was launched to reduce injuries caused by household electrical appliances.

While sales in most retail segments fell, Detsky Mir demonstrated a two-digit growth rate in 2014 and continues growing fast, proving the efficiency of its customer-oriented business model and social policy.

In 2014, it opened 72 stores — a record number in the chain's history — including the largest children's goods hypermarket of in Vozdvizhenka Street, Moscow. The hypermarket uses a store-for-kids concept that is unique for Russia, with interactive zones and innovative shop equipment. The company also introduced LED lighting in a number of its stores, achieving substantial energy saving. At the same time, Detsky Mir has been consistently increasing the share of domestic goods in its stores, while its regional expansion is accompanied by proactive involvement in the life of local communities and efforts to engage customers in charitable campaigns to support children in need.

In 2014, Medsi Group started implementing an investment programme aimed at retrofitting and reorienting several existing clinics, hospitals, and health resorts, including construction of a new state-of-the-art clinical diagnostic centre in Krasnaya Presnya Street. In the reporting period, the company consistently developed partner relations with leading foreign healthcare organisation and equipment manufacturers to acquire cutting-edge equipment for its clinics, introduce international experience, technologies, and quality standards to Medsi's business, and train medical personnel.

The companies of Sistema Group continued building up the innovation capacity of domestic microelectronics and radio engineering. Our Mikron plant in Zelenograd has launched production of 90 nm microchips and is working on the technology to produce 65 nm chips. RTI started preliminary design studies and development of key technologies to produce a range of own air drones, aerospace systems, and global and regional surveillance systems.

In 2014, Sistema acquired new timber and pulp-and-paper assets that were consolidated into Segezha Group. The business segment, which is new for us, requires special attention to environmental issues and at the same time creates opportunities for the Corporation's enhanced cooperation with Russian regions where it can act as a strategic investor creating jobs in the real sector and a modern, competitive world-class production environment.

We cooperate with Russian regional authorities on a systematic basis and plan to develop private-state partnership by concluding agreements on social and economic cooperation. Paying equal attention to the true development needs of the regions and its own business, the Corporation offers a unique industrial experience and expertise, supplies integrated high-tech solutions, such as Smart City and Safe Region, and makes social investments. For instance, in 2009—2014, the company allocated over RUB 6 billion to finance social infrastructure and charitable projects within a cooperation agreement between Sistema and the Republic of Bashkortostan.

In 2014, Bashkortostan hosted one of the three scientific and educational summer camps of our Lift to the Future flagship programme for talented children from across Russia. A total of 150 thousand school and university students, educators, young scientists, and recent graduates participated in the programme over the last 4 years. We offer them various opportunities for all-round development and implementation of innovative projects. After all, proactive and creative thinkers are our main value.

Today, the Corporation employs nearly 150 thousand employees across Russia, and we offer all of them good working conditions

and opportunities for career and professional growth. Attention to social issues is an integral part of our corporate culture. Employees of our companies regularly volunteer at orphanages, support veterans, and participate in environmental campaigns. In 2014, a Volunteer Centre was established on the basis of Sistema Charitable Foundation. It brings together caring employees of the Corporation to carry out large-scale tasks for the public good. We believe that social responsibility must be integral to business processes of every company of the Group and be on every manager's agenda. We regularly monitor our subsidiaries' progress in the field of CSR and make concerted efforts to enhance their integration and improve the efficiency of their social projects through creation of common values for the business and society.

Sistema has been investing in Russia for over 20 years and will continue contributing to building the country's innovation and export capacity, developing the knowledge-driven economy, ensuring technological independence, food security, and better living conditions for people.

We view this Report as an important tool of self-diagnostics in the field of sustainable development and a dialogue with all stakeholders about our impact on society and environment, needed to maximize the effect of our social investment and reduce potential risks. We are open to dialogue and will welcome your feedback, suggestions, and proposals on future cooperation. [\[G4-1\]](#)

**Sistema's
Board Chairman
V. P. Evtushenkov**

1. ABOUT THE REPORT AND MATERIALITY OF DISCLOSED TOPICS



The Joint-Stock Financial Corporation Sistema (hereinafter referred to as Sistema, Sistema Group, or the Corporation) proceeds with preparing non-financial reports and presents its second Sustainability Report (hereinafter referred to as the Report). Previously, the Corporation published social reports.

This Report was prepared to inform a wide range of stakeholders (the public) of the principles, goals, and actual and prospective performance of Sistema in the fields of sustainable development and corporate social responsibility. The Report provides a comprehensive description of Sistema's

activities in these fields in 2014. [G4-28], [G4-30] The previous Report for 2012–2013 was published in November 2014. [G4-29] Visit the Corporation's official website for its social and annual reports².

Use of GRI Guidelines

This Report has been prepared on the basis of G4 Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI) in accordance with the Core disclosure option. The location of standard reporting components and performance indicators is provided in Annex 3. [G4-32] The Report was prepared with consideration for the UN Global Compact's Principles, provisions of the Social Charter of Russian Business, indicators of the Sustainable Development Vector Index and the basic efficiency indicators elaborated by the Russian Union of Industrialists and Entrepreneurs (RUIE), and, finally, recommendations of specialized international analytic and rating agencies, namely, Sustainalytics (Assessment Report dated April 2014) and Vigeo Rating (Rating Report dated January 2015) which assess sustainability of companies using ESG indicators (environmental, social and corporate governance).

Report Boundaries

Unless otherwise stated, all indicator values refer to Sistema. The indicators may refer to the whole Corporation, including subsidiaries and affiliates (hereinafter referred to as S/As), with such cases being expressly specified.

The Report contains no substantial modifications to the aspect boundaries or redefinition of the indicators used in the previous reports of the Corporation. Only Sistema's GRI indicators data is disclosed. [G4-22], [G4-23]

The Report presents Sistema's performance, financial, and economic indicators on the basis of the accounting statements prepared in accordance with the Russian Accounting Standards (RAS). The key performance indicators of the Group, excluding Bashneft, are presented in accordance with the International Financial Reporting Standard (IFRS). The list of legal persons whose statements were included in the consolidated financial statements is available at Corporation's the website³ [G4-17]

Content of the Report

Priority topics of the 2014 Report are as follows:

1. Promoting a sustainable development management system in the Corporation.
2. Supporting traditions of Sistema's subsidiaries and affiliates in the field of sustainable development.

The first three chapters of the Report cover the existing corporate governance system, procurement activities, risk management, anti-corruption efforts, and business ethics. Special attention is paid to detailed description of the Corporation's investments in various aspects of sustainable development.

Chapter 4 describes the best practices of corporate social responsibility applied in Sistema Group. These are the leading practices in their respective fields and may set the pace for other companies of the Corporation and even other Russian businesses.

Disclaimer

The 2014 unaudited non-financial report contains assessment and forecasts on financial, economic, social, and other indicators which characterize the Corporation's development. Due to a number of reasons (including fast-changing market situation and many other risks directly affecting Sistema and its A/Ss), actual events or results of subsequent reports may considerably differ from those stated in the assumptions or forecasts.

² <http://www.sistema.com/social-responsibility/social-reports/>
<http://www.sistema.com/investors-shareholders/information-disclosure/annual-reports/>
³ <http://www.sistema.com/investors-shareholders/financial-results/>

Public (External) Assurance of the Report

The Sistema's 2014 Sustainability Report was for the first time publicly assured by an independent party, the Non-Financial Reporting Board of RUIE. The Conclusion on the Review of Sistema's 2014 Sustainability Report is presented in Annex 5. The resultant feedback to the Sistema's 2014 Sustainability Report will be taken into account in subsequent reports of the Corporation. [G4-33]

Please refer any questions about the Report or its contents to Dmitry Kolchugin, Sistema's External Communications Manager, by phone: 8 (495) 228-15-00, or e-mail: kolchugin@sistema.ru. [G4-31]

Defining Material Topics (Aspects)

In accordance with the requirements of the G4 Sustainability Reporting Guidelines, the Corporation assessed the materiality of the topics (aspects) disclosed in the Report. To identify material aspects, we used the fullest list of possible aspects and took into account the specifics of the Corporation's business, matters of economic efficiency, social and environmental impact of the Corporation, etc.

The stages of the materiality identification process are as follows: [G4-18]

1. Identification of Material Topics (Aspects)

To identify material topics, we used a list of 46 aspects of GRI G4 Guidelines corresponding to sustainable development areas (economy, society, and ecology).

2. Prioritization

To identify, add and clarify the topics most relevant for the Corporation's business, a survey among 33 representatives of key groups of Sistema's stakeholders was

conducted. During the survey we polled the following:

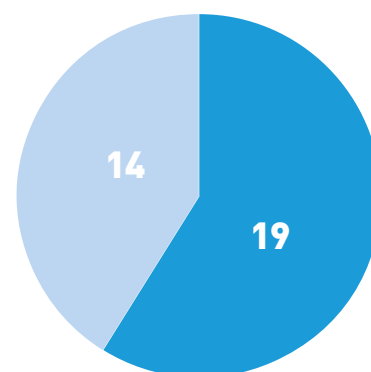
- 1.Shareholders (independent member of the Board of Directors).
- 2.Management.
- 3.Personnel.
- 4.Subsidiaries and affiliates.
- 5.Investment community (Bank of America Securities-Merrill Lynch Russia, VTB Bank, Deutsche Bank, Open Capital Investment Fund, URALSIB Capital).
- 6.State regulatory (supervisory) and local self-governing authorities (the Ministry of Natural Resources and Environment of the Republic of Karelia, the Department of Labour and Social Security of Moscow).
- 7.Professional communities (Russian Managers Association).
- 8.Public environmental organisations (World Wild Fund (WWF), Terra Viva International Ecological Movement).

See details on the principles of selection of stakeholders in clause 3.8. Stakeholder Engagement and the Corporation's Social Reporting.

During the survey the stakeholders rated the materiality of each of the topics proposed for disclosure in the Report on a five-grade scale and could add other aspects outside the scope of the GRI Guidelines.

Based on the survey conducted among representatives of the stakeholders, the initial list of material topics was graded, and a new material topic, Corporation's charitable activities, was added. 25 topics were excluded from the graded list, since the respondents were least interested in them. After that, a more precise list of material topics was compiled. See Table. Disclosure of Material Aspects and Indicators in the Report.

Number of Questionnaires, pcs.



- Internal stakeholders
- External stakeholders

3. Identification of the Corporation's Impact on Sustainable Development Aspects

To generate a materiality matrix, the Corporation conducted a survey among the working group that prepared the 2014 Report. The working group consisted of:

- E. Chuikov — Vice President, Head of the Sistema's Corporate Communications Function;
- E. Vitchak — Vice President, Head of the Sistema's HR Department;
- I. Petrov — Sistema's Corporate Secretary;
- S. Kopytov — Sistema's Managing PR Director;
- D. Kolchugin — External Communications Manager, the Sistema's Corporate Communications Function.

The Corporation's impact on each of the 22 material topics identified during the survey of the stakeholders was rated by the members of the working group on a five-grade

scale, which allowed prioritizing the aspects according to Sistema's impact on them.

4. Generation of Materiality Matrix

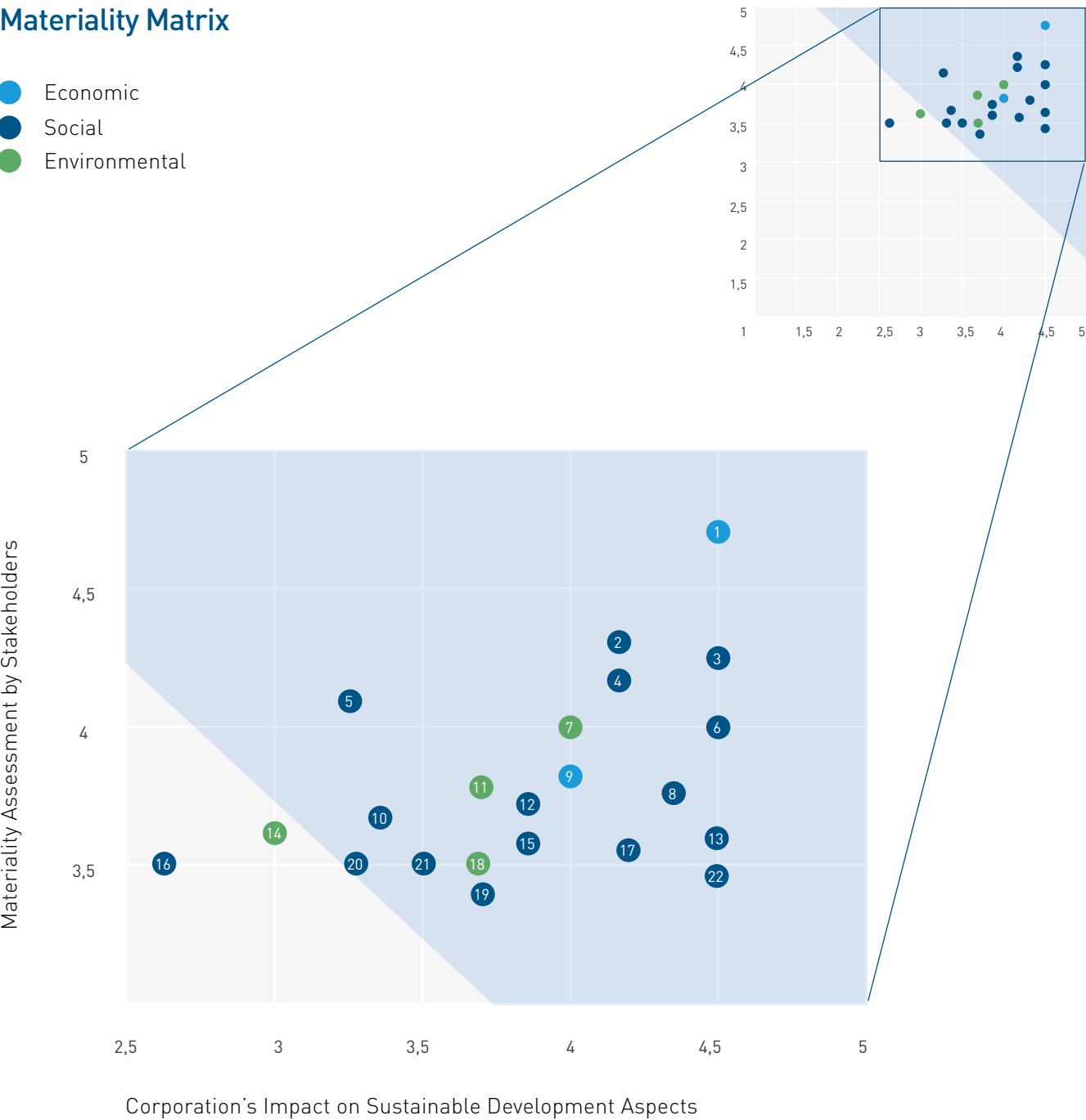
Based on the surveys among the stakeholders and the working team, a materiality matrix was generated to show the sustainable development topics material for

Sistema in a graphic form. The horizontal axis shows the rating of the Corporation's impact on the relevant aspects, the vertical one — materiality assessment of the aspects by the stakeholders.

The topics in the upper part of the materiality matrix were recognized as the priority ones and subject to disclosure in the Report.

Materiality Matrix

- Economic
- Social
- Environmental



Disclosure of Material Aspects and Indicators in the Report⁴ [G4-19]

Material Aspect No.	Material Aspect Name	Disclosures on Management Approach (G4-DMA)		Indicators Disclosed Within the Aspect	Disclosure of Indicators in the Report
		Materiality	Governance, p.		
1	Economic performance	Sistema's economic performance is one of the key performance indicators of the Corporation.	30, 64-65, 120	G4-EC1 G4-EC4	3.4. Contribution to Development of Locations of Operations
2	Employment	One of the Sistema's main tasks is to support and develop human resources with consideration for the Corporation's growth areas.	51-52, 54-55, 120	G4-LA1 G4-LA2	3.3. HR Management
3	Anti-Corruption	Sistema combats any corruption which is viewed as a threat to the Corporation's reputation, efficiency and its ability to attract additional financial resources.	39-41, 120	G4-SO4 G4-SO5	2.5. Anti-Corruption Efforts
4	Occupational Health and Safety	Sistema maintains labour efficiency and mitigates risks by caring for health and safety of its employees.	54	G4-LA5	3.3. HR Management
5	Customer Health and Safety	The Sistema's key area is investment, therefore, the Corporation does not directly affect health and safety of customers. The Corporation recognizes the importance of health and safety of its S/As' customers. However, this aspect is managed individually by each S/A.	109-111	Sistema considers a possibility of consolidated disclosure of certain indicators related to this aspect within future reporting campaigns.	
6	Training and Education	Through personnel training and development, Sistema can quickly adapt to changing external conditions, improve performance, achieve certain goals, and increase its business value.	55-58, 120	G4-LA9 G4-LA10	3.3. HR Management
7	Total Environmental Investment	By investing in environmental safety and various environmental projects, the Corporation contributes to conservation of favourable environment, biodiversity, and ecosystems in Russia and worldwide.	77-78, 120	G4-EN31	3.7. Corporate Social Programmes and Environmental Projects
8	Compliance with Laws and Regulations	Compliance with laws and regulations is an absolute priority of the Corporation, which makes it possible to build meaningful mutual relations with the stakeholders and minimize potential punitive sanctions of governmental agencies.	82	G4-SO8	3.8. Stakeholder Engagement and the Corporation's Social Reporting
9	Employment Market Presence in Locations of Operation	The Sistema's key area is investment, therefore, the Corporation does not directly affect employment markets in its locations of operation. The Corporation recognizes the importance of its S/As' impact on employment markets in several regions. However, this aspect is managed individually by each S/A.		G4-EC6 G4-EC5	3.3. HR Management

⁴ Aspect boundaries: Sistema. [G4-20] The aspects are identified as material only within the organisation. [G4-21]

Material Aspect No.	Material Aspect Name	Disclosures on Management Approach (G4-DMA)		Indicators Disclosed Within the Aspect	Disclosure of Indicators in the Report
		Materiality	Governance, p.		
10	Compliance with Requirements in the Field of Product Responsibility	The Sistema's key area is investment, therefore, the Corporation is not directly engaged in production. The Corporation recognizes the importance of its S/As' compliance with the product liability requirements. However, this aspect is managed individually by each S/A.	109-111	Sistema considers a possibility of consolidated disclosure of certain indicators related to this aspect within future reporting campaigns.	
11	Compliance with Environmental Requirements		102-106, 120		
12	Non-Discrimination	Non-discrimination of the employees enables the Corporation to fulfill the potential of every employee to the fullest extent possible and achieve a positive effect on operating efficiency.	42-43, 120	G4-HR3	2.6. Business Ethics
13	Labour/Management relations	Cooperation of the Corporation's management with the employees helps to increase the managerial efficiency, minimize any negative impact on the employees, increase their motivation, satisfaction, and labour efficiency.	54, 120	G4-LA4	3.3. HR Management
14	Environmental Impact of Products and Services of the Reporting Company	The aspect was not identified as material.			
15	Anti-Competitive Behaviour	Through compliance with the standards on transparent and honest business conduct and rejection of measures that could limit competition, the Corporation mitigates reputation and financial risks.	82, 120	G4-S07	3.8. Stakeholder Engagement and Social Reporting of Corporation
16	Product and Service Labeling	The aspect was not identified as material.			
17	Security Practices	Sistema's security employees must not only respond in a timely and adequate manner to prevent crime, but also observe human rights.	42-43	G4-HR7	2.6. Business Ethics

Material Aspect No.	Material Aspect Name	Disclosures on Management Approach (G4-DMA)		Indicators Disclosed Within the Aspect	Disclosure of Indicators in the Report
		Materiality	Governance, p.		
18	Emissions, Effluents, and Waste	The Sistema's key area is investment, therefore, the Corporation generates neither atmospheric emissions nor production waste. The Corporation recognizes the importance of estimation of emissions, effluents, and waste for a number of the Corporation's S/As. However, this aspect is managed individually by each S/A.			Sistema considers a possibility of consolidated disclosure of certain indicators relating to this aspect within future reporting campaigns.
19	Investment	In implementation of investment projects, Sistema respects human rights with due diligence and, thus, mitigates reputation risks.	42-43, 120	G4-HR1	2.6. Business Ethics
20	Local Communities	With its assets located across Russia, Sistema has a substantial impact on local population. Building fruitful and meaningful relations with local residents improves the quality of life, reduces the Corporation's risks, and prevents social strain.	73-76, 120	G4-S01	3.2. Management of Subsidiaries and Affiliates in the Field of Corporate Social Responsibility 3.6. Charitable Activities of Corporation
21	Political Contributions	Sistema strives for a meaningful dialogue and transparent cooperation with all government authorities. Care for this aspect helps the Corporation to mitigate political, economic, and reputation risks.	82	G4-S06	3.4. Contribution to Development of Locations of operations
22	Charitable Activity of the Company	As a socially responsible company, Sistema is committed to making a tangible contribution to the development of the Russian society, improvement of living conditions, and solution of important social problems, which is beneficial for business development	73-76	⁵	

⁵ This aspect was added by the stakeholders during the identification of materiality and has no GRI G4 indicators.

Boundaries of Aspects (Disclosed Topics)

Sistema has an unequal impact on the aspects material for the stakeholders, With some of the aspects being directly connected with the operation of certain S/As and their industry specifics. As an investment company Sistema places a priority on the management quality and introduction of high corporate governance standards into its portfolio companies. This approach assumes no direct control by the Corporate Centre and implies sole responsibility

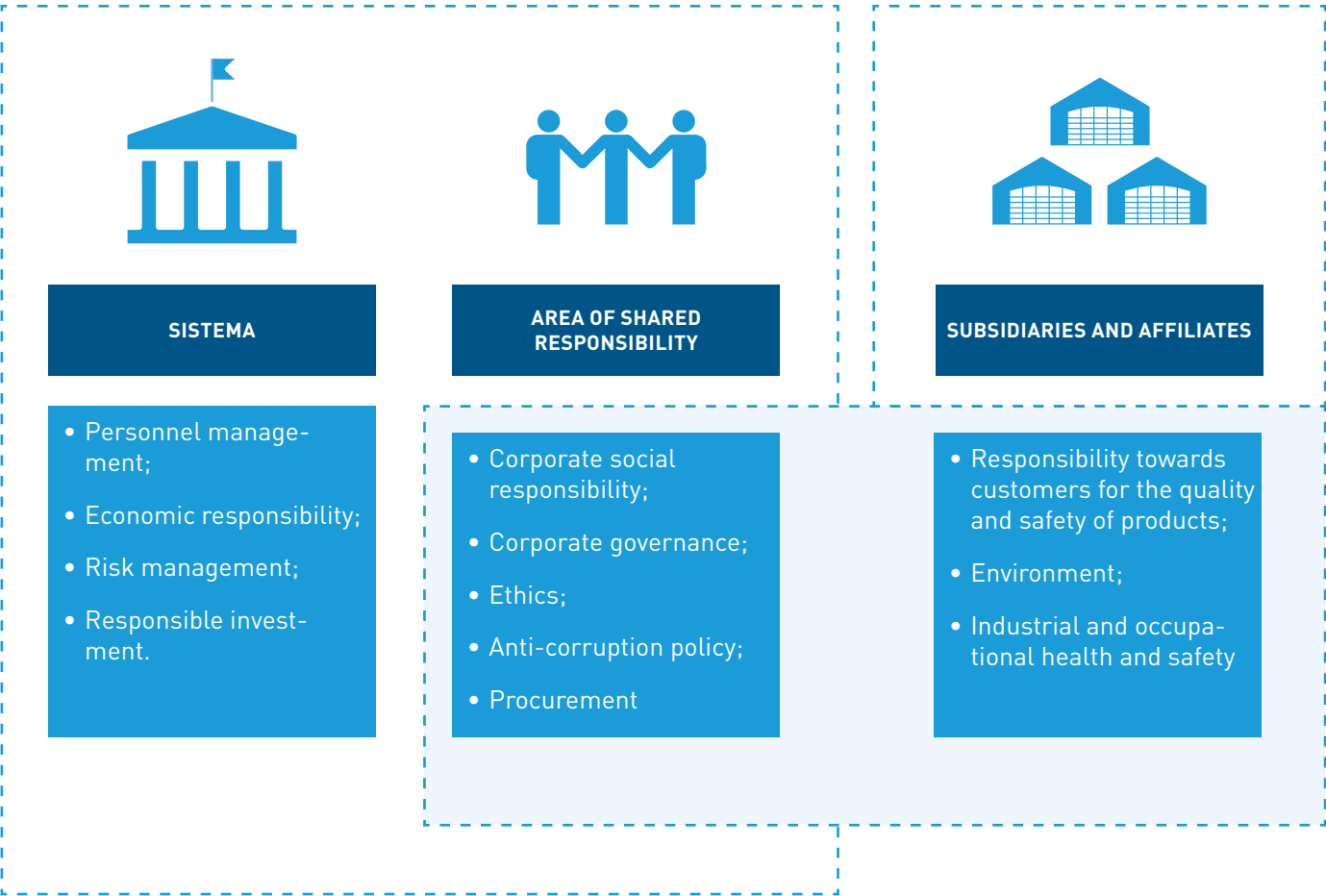
of the Group companies for introduction of and compliance with adequate procedures and business processes in such fields as environmental protection, emission abatement, occupational health and safety, quality assurance, and safety of products and services. Sistema has indirect influence on decisions of the companies in these fields, primarily through membership of Sistema’s representatives in S/As’ Boards of Directors and investment programmes.

This Report mostly covers those aspects of sustainable

development for which Sistema is directly responsible or has shared responsibility with S/As. The matters of the subsidiaries’ areas of responsibility are partially covered in Chapter 4.

Taking into account the materiality of the identified aspects for the stakeholders, the subsequent reporting will seek to disclose information on all relevant topics in a more comprehensive way on the basis of consolidated data on the S/As, wherever practicable and applicable.

Distribution of Responsibility for Management of Sustainable Development Aspects Between Sistema and S/As



2. CORPORATE PROFILE

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2.1 General Information

Sistema is one of the largest public diversified financial companies in Russia. Founded in 1993, today Sistema holds key positions in the Russian investment market and is a major private investor in the real sector of the Russian economy.

[G4-3] [G4-7]

The Sistema's investment portfolio includes mainly Russian

companies operating in over ten sectors, including telecommunications, high technology, power industry, retail trade, logging and timber processing, pharmaceuticals, healthcare services, railroad transportation, agriculture, finance, mass media, hotel industry, real estate, etc. As the majority shareholder in most of its portfolio companies, Sistema efficiently

works on their development and shareholder value growth.

Due to a wide scope of activities the Sistema's portfolio companies, they serve over 100 million customers in Russia, CIS, Europe, and Asia.

The Sistema's head office is in Moscow. [G4-5]

Participation of the Corporation and Its Representatives in the Work of Public Organisations

Sistema is a member of the following organisations and associations:

- Russian Union of Industrialists and Entrepreneurs;
- Chamber of Commerce and Industry of the Russian Federation;
- Russian Institute of Directors;
- EU/Russia Industrialists' Round Table;
- Business Council for Cooperation with India;
- Russian-Chinese Business Council;
- Russo-British Chamber of Commerce;
- Belgian-Luxembourg Chamber of Commerce in Russia.

V. Evtushenkov, Sistema's Board Chairman, is a member of the following entities:

- Administrative Office of the Russian Union of Industrialists and Entrepreneurs (Head of the Industrial Policy, Natural Monopolies Regulation, and Tariffs Committee);

- Management Board of the Russian Chamber of Commerce and Industry (Chairman of the Sci-Tech Innovations and High-Tech Committee);
- Russian-Arab and Russian-Saudi Business Councils (Chairman of the Russian Part);
- Presidium of the National Council on Corporate Governance;
- EU/Russia Industrialists' Round Table;
- Management Board of the Moscow Confederation of Industrialists and Entrepreneurs;
- Supervisory Board of the State Russian Museum Development Foundation, Friends of the Russian Museum (Chairman);
- Supervisory Board of the Lomonosov Moscow State University;
- Supervisory Board of Graduate School of Management of Saint Petersburg State University;
- Supervisory Board of the Russian Geographical Society;

- Supervisory Board of the Foundation for the Support of Russian Olympians;
- Supervisory Board of the Russian Military Historical Society;
- Supervisory Board of the So-Edinienie Deaf-Blind Support Fund.

Representatives of Sistema are members of relevant advisory structures of reputable associations and public organisations, including:

- CSR and Demographic Policy Committee of RUE;
- CSR Committee of the Russian Managers Association;
- Committee of AKMR for Promotion of Social Responsibility and Charity in Mass Media.

Representatives of Sistema Charitable Foundation participate in the activities of the following organisations:

- Donors Forum;
- National Council on Corporate Volunteering. [G4-16][G4-15]

SISTEMA'S KEY ASSETS



<div>1</div> <div>МТС</div> <div>Telecommu- nications</div> <div>87 171 persons</div>	<div>2</div> <div>РТИ</div> <div>High technology</div> <div>15 713 persons</div>	<div>3</div> <div>Детский мир</div> <div>Retail trade</div> <div>7 994 persons</div>	<div>4</div> <div>МТС Банк</div> <div>Finance</div> <div>3 760 persons</div>
<div>5</div> <div>segezha group</div> <div>Logging and timber processing</div> <div>9 262 persons</div>	<div>6</div> <div>ТАДГИН</div> <div>Oilfield services</div> <div>18 824 persons</div>	<div>7</div> <div>СГТ</div> <div>Railway transportation</div> <div>1 301 persons</div>	<div>8</div> <div>ОАО «БЗСК»</div> <div>Energy industry</div> <div>7 447 persons</div>
<div>9</div> <div>МТС SSTL</div> <div>Telecommu- nications</div> <div>1 770 persons</div>	<div>10</div> <div>МЭО</div> <div>Healthcare services</div> <div>6 424 persons</div>	<div>11</div> <div>CONCEPT GROUP</div> <div>Retail trade</div> <div>2 120 persons</div>	<div>12</div> <div>АВР-Системы CMM</div> <div>Mass Media</div> <div>413 persons</div>
<div>13</div> <div>Intourist®</div> <div>Hotel business</div> <div>1 249 persons</div>	<div>14</div> <div>БИНОФАРМ</div> <div>Pharmaceutics</div> <div>321 persons</div>	<div>15</div> <div>РЗ Арго</div> <div>Agriculture</div> <div>932 persons</div>	<div>16</div> <div>СИТРОНИКС</div> <div>Information technologies</div> <div>286 persons</div>
<div>17</div> <div>САПОВ</div> <div>High technology</div> <div>630 persons</div>	<div>18</div> <div>СГ-трейдинг</div> <div>Retail trade</div> <div>859 persons</div>	<div>19</div> <div>Leader Invest, Biznes Nedvizhimost, Mosdachtrest</div> <div>Real estate</div> <div>560 persons</div>	<div>20</div> <div>ozon.ru</div> <div>Retail trade</div> <div>2 956 persons</div>

- The asset acquired in 2014
- Companies with a federation-wide geographic network

Sistema's Key Assets [G4-4] [G4-6] [G4-8] [G4-9] [G4-13]

Asset	Description	Geography	Range of Activity
Mobile TeleSystems	Number one telecom operator in Russia and CIS	83 regions in Russia, Ukraine, Turkmenistan, Armenia, Uzbekistan, and Belarus	>104 mln. subscribers - subscriber base leader in Russia > 4,250 outlets
RTI Group	Major Russian industrial holding company, developer and manufacturer of high-tech products and infrastructure solutions using own microelectronic technologies	Russia, Germany, PRC, Taiwan, USA	5th place in sales of micro-chips among European fully integrated manufacturers 3,500 customers in 60 countries
Detsky Mir Group	Largest retailer of children's goods in Russia and CIS, market leader	Russia, Kazakhstan	Stores 322 Total sales area 390,000 m ² Visitors per year > 109 mln.
MTS Bank	MTS Bank is engaged in banking activities in Russia providing a complete range of financial services to individuals and corporate customers.	Russia	TOP 50 Russian banks Volume of assets — over RUB 200 bln.
Segezha Group (the asset acquired in 2014)	Russian wood processing group with large vertically integrated infrastructure and full-cycle logging and high-level timber processing. The holding consists of 9 Russian and 8 European enterprises of timber, woodworking, and pulp-and-paper industries, including paper packaging production plants.	Russia, Denmark, Ireland, Finland, France, the Netherlands, Germany, Italy, Czech Republic, Romania, and Turkey	Largest forest user in European Russia - Total forest area 5.5 mln. ha 94% of leased areas are FSC certified.
Targin	Large Russian multi-product oilfield services holding company that operates in the main oil-and-gas Russian and Serbian regions	Republic of Bashkortostan, Khanty-Mansi Autonomous Area, Nenets Autonomous Area, Yamalo-Nenets Autonomous Area, Samara, Orenburg, Tyumen and Irkutsk Regions, and Republic of Serbia	55 drilling installations 2 plants for designing, production, and modernization of oilfield equipment
SG-Trans	One of the leading railroad stock operators in Russia rendering a full range of services on transportation of a large variety of gas, bulk-oil, petrochemical, ore mining and smelting, and construction loads across Russia, Europe, and CIS	Irkutsk, Leningrad, Volgograd, Orenburg, Ryazan, Tyumen, and Samara Regions, Republic of Bashkortostan, Republic of Tatarstan	Carriages in operation 34,500 30% share in the segment of transportation of oil-and-gas products by rail
Bashkirian Power Grid Company (BPGC)	The company combines distribution and transmission grid assets, renders services on electric power transmission to population and organisations	Republic of Bashkortostan	Spread of networks 80,000 km Annual investment programme RUB 3.3 bln.
Sistema Shyam Tele-Services Limited (SSTL)	Mobile operator rendering telecom services in India	India (Rajasthan, Tamil Nadu, Kerala, West Bengal, West Uttar Pradesh, Karnataka, Gujarat, Calcutta, Delhi)	Subscribers 9.1 mln. High-speed data transmission services are available in 850 cities of the country
Medsi Group	Leading federal network of private healthcare institutions in Russia; the company offers a full range of services in prevention, diagnosis, and treatment of diseases, both child and adult rehabilitation.	Moscow; Moscow, Bryansk, Volgograd, Nizhny Novgorod, Tyumen Regions, Altai Territory and Perm Territory, Republic of Crimea	Doctors > 1,800 Over 6 mln. visitors per year

Asset	Description	Geography	Range of Activity
Concept Group (the asset acquired in 2014)	One of the leading fashion retailers in Russia with the highest revenue growth rate	Russia	>287 stores in 103 cities in Russia
Sistema Mass-Media	One of the leading mass media holding companies in Russia. The company manages assets in off-the-air broadcasting, TV and movie content production and distribution, and advertising services	Russia (9 federal districts), CIS and Baltic countries, Georgia, countries of the Middle East, Central and Eastern Europe	Own TV channels 9 Audience > 30 mln.
VAO Intourist	Largest Russian touristic holding company successfully operating in the hotel business segment for many years	Russia, Italy, Czech Republic, Namibia	8 hotels in operation Room capacity > 2,500
Binnopharm	Pharmaceutical company managing one of the largest Russian industrial fully-integrated manufacture of biotechnological medicines in compliance with international quality standards	Moscow (Zelenograd) Moscow Region (Krasnogorsk)	Total production space 32,000 m ² Doses of HBV per year > 5 mln.
RZ Agro Group	One of the largest producers of grain and oilseeds in the South of Russia.	Rostov Region, Stavropol Territory, Krasnodar Territory	Gross output — 470,000 tonnes Total land bank 125,300 ha, with 91% being in operation
Sitronics	High-technology company in IT and system integration – Russian leader in production of large-scale intellectual systems.	Moscow	Developer of the integrated automated population security system and intellectual transport systems for Moscow.
Technopark Sarov	Collaborative project of Sistema, Rosatom, and RUSNANO Fund for Infrastructure and Educational Programmes on implementation of innovation projects focused on economic development of Russia.	Nizhny Novgorod Region	Resident companies 54 Total turnover of companies in the territory of technopark in 2014 > RUB 1.3 bln.
SG Trading	Independent distributor of liquefied petroleum gas (LPG)	Tver, Ryazan, Volgograd, Voronezh, Rostov, Samara, Irkutsk, and Omsk Regions, Republic of Khakassia, Karachay-Cherkess Republic, Krasnodar Territory, Krasnoyarsk Territory, and Perm Territory	LPG storage bases 11 53 automobile gas-filling stations
Leader Invest, Biznes Nedvizhimost, Mosdachtrest	Companies specializing in real estate management and development	Moscow, Moscow Region	12 residential real estate facilities with total area of 388 thousand m ² are under construction Controlled area 772,000 m ² Cottage fund 60,100 m ²
OZON Group (the asset acquired in 2014)	Leading e-commerce platform in Russia with strong brand and own logistic service	Russia	Online purchases in Russia 15% of the total number Russian online buyers 20% of the total number Unique visitors per month 21 mln.

Corporation's Mission

Our corporation's Mission is long-term growth of the shareholder value through efficient management of the asset portfolio and high returns on investments.

Corporation's Values

1. Our business

We create value due to our competencies:

- Assessment and development of business strategies for our assets without engaging in their operation;
- Monitoring of M&A opportunities in existing and new sectors;
- Development and implementation of asset monetization plans;
- Hiring efficient management for affiliated companies;
- Providing comprehensive support to our assets in attracting financial and other resources;
- Increasing operational efficiency of acquired assets through restructuring and attracting industry partners to enhance competence and share financial risks.

2. Our Principles of Operation

Our structure is compact and competitive:

- we manage assets in accordance with the principle of transaction initiation and industry-specific competence of a portfolio manager;
- our team consists of strategic experts, economists, and communications professionals.

3. Our Strategy

We are focused on achieving specific results:

- Internal rate of return on investments above weighted-average cost of capital ($IRR > WACC$) with a 5-7-year payback period;
- Focus on investment with a positive net cash flow;
- Acquiring assets with debt sustainability ($Debt/OIBDA$ of acquired asset $< 3.0x$) to preserve the Group's stable financial standing;
- Keeping consolidated $Debt/EBITDA$ at $2x$;

- Payout to shareholders of up to 30% of profit.




4. Our Efficiency

Our remuneration depends on the Corporation's actual revenue:

- Remuneration to investment managers completely depends on cash generated for Sistema by a relevant portfolio;
- Cash can be received from dividends or monetization of assets;
- Remuneration is paid after deducting the portfolio's expenses and the Central Bank's rate.

Value Creation Chain [G4-12]



 <p>OUR INVESTMENT STRATEGY...</p>	UNDervalUED ASSETS	<ul style="list-style-type: none"> ▶ Impaired assets ▶ With poor management system ▶ Shareholders are not interested in development of the company
	ATTRACTIVELY PRICED	<ul style="list-style-type: none"> ▶ Average cost of transactions — USD 100–15 mln. (Sistema expenses) or higher in case of LBO structure
	IN PROMISING SECTORS	<ul style="list-style-type: none"> ▶ Consumer sector — private healthcare, children's goods, clothes and shoes, and online retail. ▶ Basic sectors with export potential, where Russia has competitive and constant structural advantages — low cost, availability of resources and end markets
	IN RUSSIA	<ul style="list-style-type: none"> ▶ Constant focus on investment in Russia and CIS
 <p>AND VALUE CREATION EXPERIENCE...</p>	OPTIMIZE	<ul style="list-style-type: none"> ▶ Improvement of operating efficiency ▶ Optimizing the expenses, structure and business itself
	FIND MANAGEMENT	<ul style="list-style-type: none"> ▶ Hiring talented management team ▶ Introducing efficient incentive system
	PROVIDE RESOURCES	<ul style="list-style-type: none"> ▶ Access to capital markets, industrial-specific competence, and reputation resources
	WORK OUT A STRATEGY	<ul style="list-style-type: none"> ▶ Searching new growth and development areas ▶ Monitoring market opportunities of inorganic growth
 <p>...GUARANTEE SUCCESSFUL PERFORMANCE</p>	BALANCE	<ul style="list-style-type: none"> ▶ Balanced contribution of assets to the NAV portfolio
	DIVERSIFICATION	<ul style="list-style-type: none"> ▶ Sector diversification — balance between cyclic and protective industries ▶ Revenue diversification — balance between the currency structure and natural volatility hedging
	STRONG FINANCIAL POSITION	<ul style="list-style-type: none"> ▶ Favourable debt load of the Corporate Centre ▶ Stable generation of cash through dividends and monetization ▶ Liquidity cushion for attractive MLA opportunities ▶ Advanced dividend policy

"In 2014, despite all difficulties, Sistema once again showed the sustainability of its business model. The Group increased its revenue by 7.2% in the reporting period, and our business is still largely diversified and has a well-balanced investment portfolio. Today, our companies are far more resistant to crises in economy than they were in 2008. Our investment portfolio includes a number of promising assets that present unique opportunities for the business development even in challenging macroeconomic conditions. In 2014, we acquired a share in OZON and, therefore, access to the e-commerce market; then, a

share in Concept Group, another success story in retail trade; also, we invested in the leaders of the wood processing industry that look very promising and have great opportunities in respect of value creation. We are enthusiastic about the future of the Russian market and are going to develop our portfolio both due to the organic growth strategy and M&A transactions, which will ensure high yield and establish a steady platform for the shareholder value growth".

**Mikhail Shamolin,
Sistema's President**



Investment Strategy

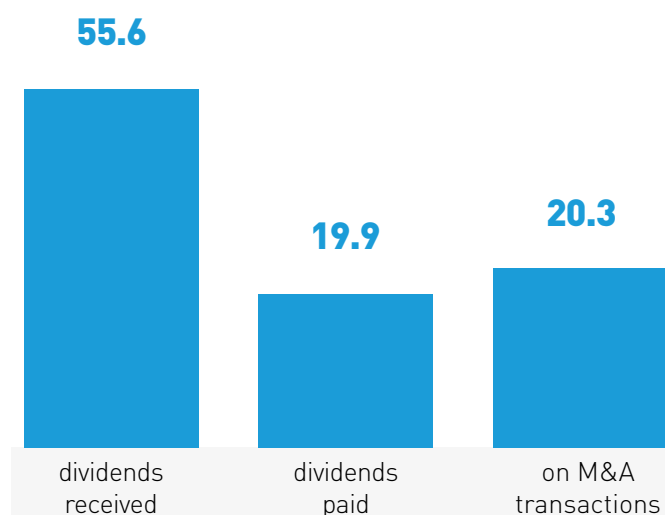
The Sistema's business model as an investment company consists in creation of value for shareholders through constant capital reinvest-

ment: cash accumulation through dividends and monetization of assets (sale of shares, IPO), distribution of actual profit Sistema's shareholders in the form of dividends, and reinvestment in actual

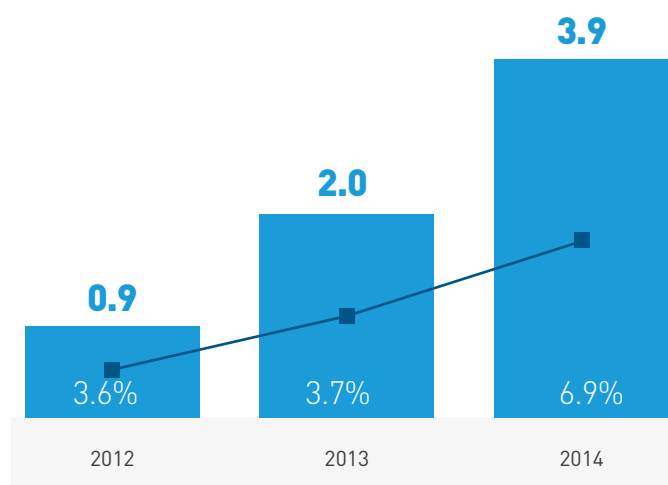
assets and new promising projects for long-term profit.

The following indicators characterize the efficiency of this value creation chain:

Cash Flows



Number of developing assets that paid dividends



● RUB bln.

● RUB bln.

■ — % of received dividends

The Corporation's Investment Programme, RUB bln.

	2012 (excluding Bashneft)	2013	2014
Investment Programme of Sistema Group	103.2	95.4	115.8

In 2014, Sistema acquired:

- 49% of the ordinary shares of Biznes Nedvizhimost for RUB 3.1 billion;
- 50% of the shares of NVision Group for USD 92.5 million;
- 100% of the shares of Sokol PPM and 100% of Derevoobrabotka-Proekt for USD 287 million;
- 85% of the shares of Step Group which includes 5 agriculture enterprises in the Krasnodar Territory for USD 64 million;
- 40% of the shares of a holding company that holds the assets of Concept Group for RUB 1 billion;
- 10.8% of the shares of Ozon Holdings Limited for USD 75 million.

Within three years, the Corporation has invested more than 310 bln. rubles in various Russian economic sectors of strategic importance, including in communications and telecommunications, microelectronics, healthcare, electric power industry, etc. Some of Sistema's investments into the capital assets make up about 1% of the Russia-wide indicator⁶.

⁶Based on the data of the Federal State Statistics Service

2.2 Corporate Governance

Corporate Governance Principles

Maintaining the quality of corporate governance and transparency at the level of the world's best practices is one of the essential elements of the strategy of Sistema as an investment company. Competent corporate governance and informational transparency enable the company to attract partners and investors on terms of mutual trust and confidence and increase return on equity through more efficient managerial decisions. The Corporation's corporate governance system is based on the following core principles:

- transparency and clarity of all processes for investors and partners;
- transparent dividend policy;
- a proactive and competent Board of Directors;
- making investment decisions in accordance with the established procedures;
- attention of the Board of Directors to all transactions with related parties;
- active participation of the Board of Directors in strategic planning;
- corporate governance development in portfolio companies.

Sistema is guided by these principles in all areas of its activity, including strategic and financial management, HR and social policy, reporting, control and audit, and risk management.

Equity Capital and Its Structure

Sistema has 9,650,000,000 outstanding ordinary shares, with a par value of RUB 0.09 per share. The equity capital totals RUB 868,500,000.

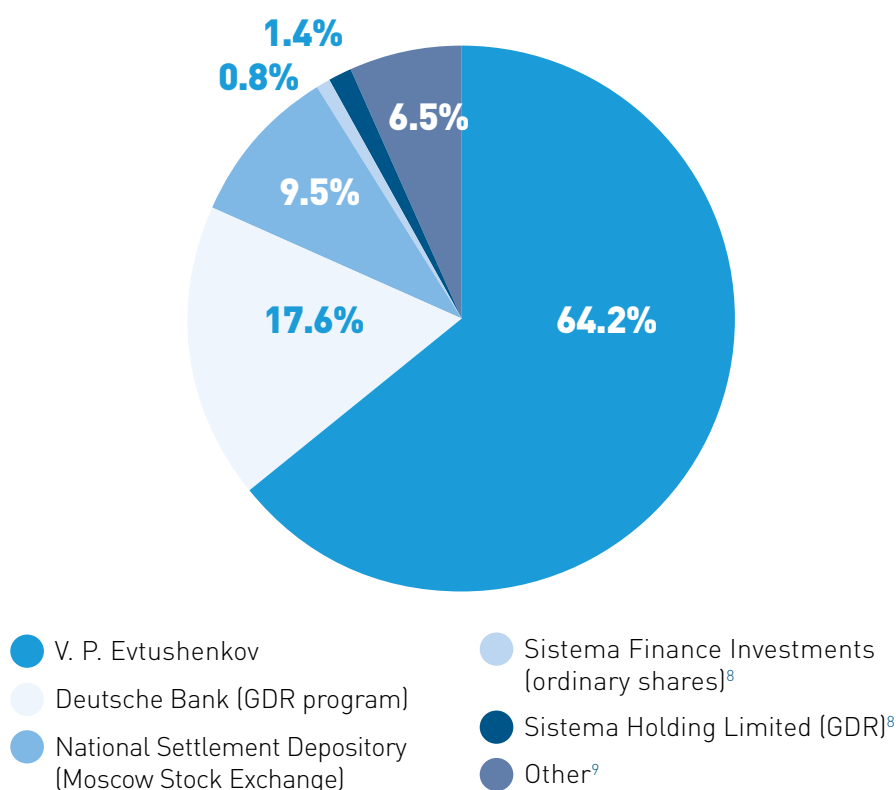
Vladimir Evtushenkov, Sistema's Board Chairman, is its principal shareholder with 64.19%.

The company's shares are traded on the London Stock Exchange

(LSE) as Global Depositary Receipts (GDRs). GDRs are listed on the LSE under the ticker SSA. One GDR represents 20 ordinary shares. The company's shares are also listed on the Moscow Exchange under the ticker AFKS.

Sistema's GDRs are included in the MSCI Russia Index. Inclusion in MSCI indices is a sign of international recognition of the company, which helps to strengthen the issuer's positive reputation among large institutional investors.

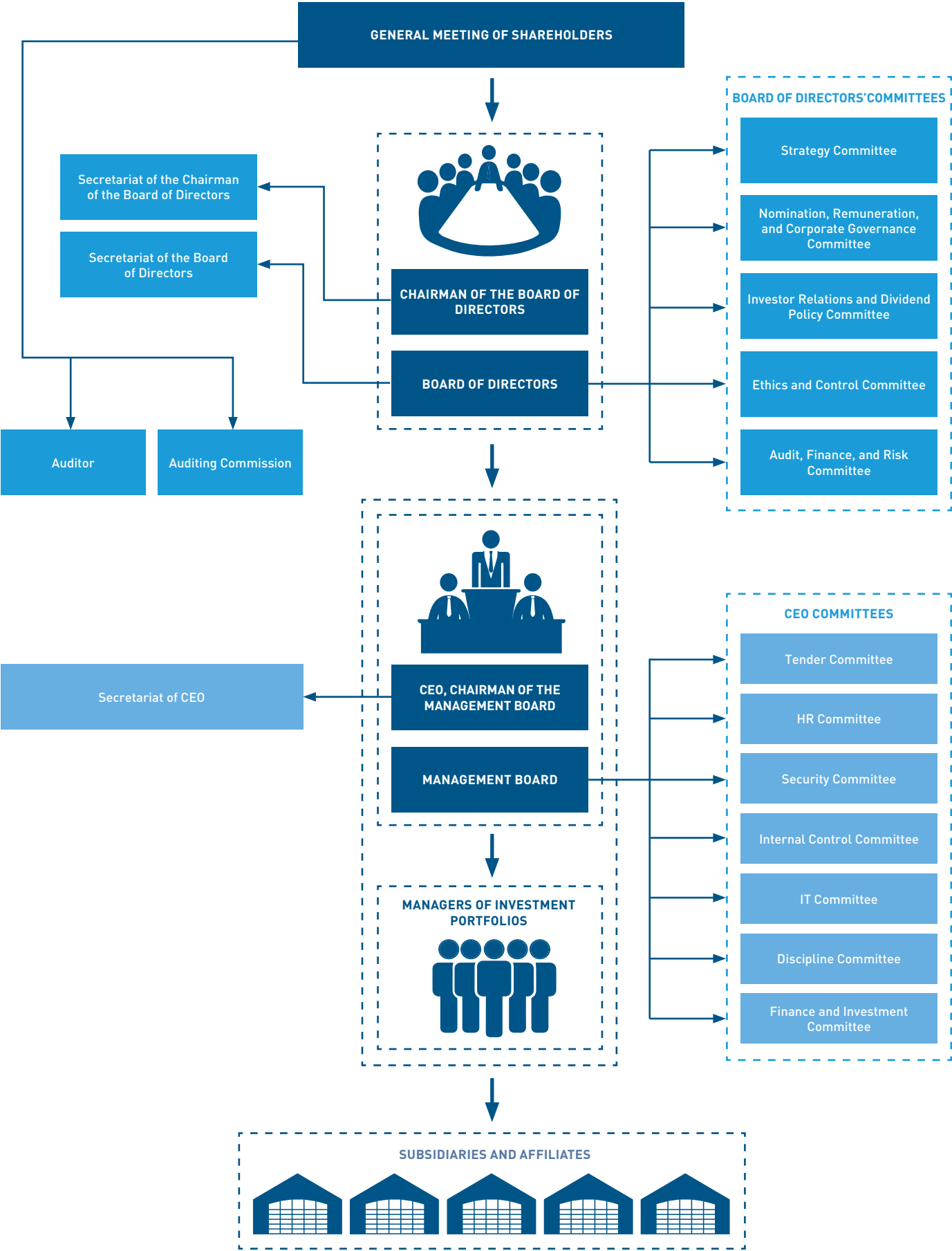
Structure of Shareholders of Sistema⁷



⁷ As of January 23, 2015

⁸ Shares and GDRs on the books of Sistema

⁹ Sistema's insiders (management, members of the Board of Directors, etc.)



Board Committees

Committee Name	Members	Main Tasks	2014 Meetings and Agenda Items
Appointment, Remuneration, and Corporate Governance Committee	R. Kocharyan (Chairman), A. Goncharuk, B. Dicky, D. Zubov, J. Krecke, R. Munnings	<p>The Committee was established to support the establishment and implementation of the corporate HR policy, maintain and develop an efficient corporate governance system conforming to international standards and facilitating enhancement of the Corporation management.</p> <p>The Committee conducts detailed discussions and analyses of the management issues in Sistema in the following fields:</p> <ol style="list-style-type: none"> 1. preliminary consideration of: <ul style="list-style-type: none"> • candidate members for the Sistema's Board of Directors; • potential top managers for the Corporation and portfolio companies; • candidate members for the Boards of Directors of portfolio companies; • potential Corporate Secretary of the Corporation; 2. Corporate policy of personnel motivation and remuneration; 3. Assessment of management performance and identification of criteria of bonus payment to the employees of the Corporation; 4. Corporate governance systems of the Corporation and portfolio companies, protection of rights and interests of shareholders. 	<p>In 2014, the Committee held 8 meetings and considered 26 matters, including:</p> <ul style="list-style-type: none"> • 12 matters on developing the personnel motivation, performance assessment, and bonus payment system in Sistema; • 8 matters concerning the systems of corporate governance and protection of shareholders' rights; • 6 matters concerning preliminary consideration of candidates.
Audit, Finance, and Risk Committee	R. Munnings (Chairman), S. Boev, P. Mandelson, M. Holtzman, S. Tchuruk, and D. Iakobashvili	<p>The Committee conducts detailed discussions and analyses of the management issues in Sistema in the following fields:</p> <ul style="list-style-type: none"> • preparation and audit of the Corporation's financial statements, and control of these processes; • interaction with the Corporation's external auditors; • assessment of risk management system and compliance with applicable legislative requirements in the field of financial reporting, audit, and planning; • budget process and financial modeling; • internal audit; • warning system to detect potential unethical practices; • preliminary assessment of major transactions and transactions that the Corporation has interest in; 	<p>In 2014, the Committee held 13 meetings and considered 74 matters, including:</p> <ul style="list-style-type: none"> • 35 matters concerning the assessment of individual transactions put before the Sistema's Board of Directors; • 15 matters concerning preparation and audit of financial statements; • 8 matters on financial planning and risk management processes; • 6 matters on interaction with external auditors, their selection and performance assessment; • 2 matters concerning the processes of internal control, audit, and warning system to detect unethical practices; • 8 organisational and other matters.
Strategy Committee	V. Evtushenkov (Chairman), S. Boev, A. Goncharuk, R. Kocharyan, M. Shamolin, D. Iakobashvili, M. Hecker	<ol style="list-style-type: none"> 1. The Committee discusses and analyses Sistema's strategic management issues and controls the strategic management cycle in Sistema and its subsidiaries, including: <ul style="list-style-type: none"> • review of strategic planning methods; • preliminary approval of the Corporation's strategy and strategic goals; • consideration of mergers, takeovers, and major investment projects. 2. In all cases the Committee preliminarily considers: <ul style="list-style-type: none"> • all mergers and takeovers of Sistema Group which in monetary terms exceed USD 100 mln.; • all projects of Sistema Group connected with expansion of the Corporation to new markets; • all projects of Sistema Group with substantial participation of the state. 	<p>In 2014, the Committee held 11 meetings and considered 12 matters concerning the strategy of Sistema's portfolio companies.</p>

Committee Name	Members	Main Tasks	2014 Meetings and Agenda Items
Ethics and Control Committee	A. Goncharuk (Chairman), S. Boev, B. Dicky, R. Kocharyan, R. Munnings, and S. Tchuruk	<p>The Committee conducts detailed discussions and analyses of the Sistema's management issues in the following fields:</p> <ul style="list-style-type: none"> • internal control and audit (jointly with the Audit, Finance, and Risks Committee); • functions of corporate security assurance; • monitoring of compliance with the Corporate Code of Ethics; • anti-corruption system in the Corporation and companies of Sistema Group. 	<p>In 2014, the Committee held 7 meetings and considered 16 matters, including:</p> <ul style="list-style-type: none"> • 6 matters concerning the internal audits of Internal Control and Audit Service and control environment quality; • 4 matters concerning the functional strategy and internal regulation in the field of internal control and security; • 2 matters concerning the anti-corruption system; • 4 organisational matters.
See details on activities of the Committee in clause 2.6. Business Ethics			
Investor Relations and Dividend Policy Committee	D. Iakobashvili (Chairman), J. Krecke, P. Mandelson, R. Munnings, M. Holtzman, M. Shamolin	<p>The Committee conducts detailed discussions and analyses of the Sistema's management issues in the following fields:</p> <ul style="list-style-type: none"> • maintaining efficient communication with the financial community and government authorities, strengthening the investment appeal of Sistema's securities; • Sistema's dividend policy, including recommendations to the Corporation's Board of Directors on the amount of dividends to be paid; • protection of rights and interests of Sistema's shareholders. 	<p>In 2014, the Committee held 7 meetings and considered 7 matters which were mainly related to activities of the Corporation in investor relations. Special attention was paid to the matters of interaction of the investment community with independent directors of the Sistema's Board of Directors.</p>

In 2014, the Sistema's Board of Directors approved a new edition of the Provisions on Audit, Finance, and Risks Committee and Appointment, Remuneration, and Corporate Governance Committee. The scope of functions of these Committees was defined more precisely in accordance with the new listing requirements of the Moscow Stock Exchange.

See detailed information on the equity capital, corporate governance, and dividend policy of the Corporation in the Sistema's 2014 Annual Report.¹⁰

2015–16 Plans

1. Implementation of the dividend policy.
2. Improvement of the Board meeting procedures, promoting involvement of the Board members in development of the corporate strategy and individual projects, and development of communication between the Board members and the management.

3. Maintaining the corporate governance system at a high level and bringing its components in line with the new listing requirements of the Moscow Stock Exchange.

4. Carrying out a corporate governance audit in S/As.

5. External performance assessment of Sistema's Board of Directors for compliance with the new Corporate Governance Code recommended by the Russian Central Bank in 2014.

¹⁰ <http://www.sistema.com/investors-shareholders/presentations-and-annual-reports/>
http://www.sistema.com/fileadmin/user_upload/annual_reports/sistema_05-06_eng_web.pdf

2.3 Procurement

Procurement management at Sistema and its S/As is based on the principles of fair competition, economic feasibility, openness and transparency for potential suppliers who are able to meet the Corporation's requirements in full and on time, in compliance with the specified quality and at the best possible prices.

A procurement regulatory framework that is continuously improved in accordance with the best practices is introduced and used at Sistema and its S/As. In November 2014, Sistema put into effect new Terms of Reference of the Tender Committee and enhanced the Committee's role in assessment of the economic feasibility of procurement.

Procurement Management Methods:

1. Creation of conditions for development of fair competition.
2. Procurement planning.
3. Competitive selection of suppliers wherever possible and appropriate, and greater control over decision making in situations where it is impossible and inappropriate.
4. Consideration of specifics of purchased goods, works, services and other assets, markets, and conditions of procurement.
5. Collective decision making with regard to the most important issues of organisation of procurement in general, and individual acquisitions in particular.
6. Ongoing monitoring and regular scheduled and, if necessary, unscheduled control over procurement.

7. Focus on cooperation with qualified suppliers and mitigation of risks resulting from business relationships with contractors who may be involved in corruption.
8. Development of expert knowledge and competence of the Corporation's employees in terms of preparation and making of procurement decisions.
9. Electronic procurement using an electronic trading system.
10. Use of standard forms and templates of draft contracts, procurement and other documentation.

Category procurement management is being introduced at Sistema. According to this method, all acquisitions are broken down into categories (subcategories) based on functional and/or use properties and applications. This allows to standardize delivery specifications and develop a common procurement management approach in order to reduce costs and consolidate procurement of the Group for the synergetic effect.

In order to minimize the risks of supply disruption and corrupt practices, the work continues on maintenance and updating the register of reliable suppliers who comply with ethical and environmental principles of the Corporation for procurement management.

In 2014, the total procurement of the Corporate Centre amounted to RUB 2 bln. Most of the funds were used to purchase works and services related to investment transactions in accordance with the core business of the Corporation.

The procurement intended to meet the Corporation's administrative

PROCUREMENT PRINCIPLES IN SISTEMA

1. Principle of Competitiveness. The principle is implemented through procedures aimed at ensuring a reasonable level of competition among potential suppliers.
2. Principle of Equality. The principle is implemented through provision of equal competitive opportunities and uniform rules for all bidders in the procurement process before the launch of the tender process.
3. Principle of Economic Feasibility. The principle is implemented through assessment of the need for procurement in terms of economic feasibility at any procurement stage. Availability of funds in the budget of the Corporation does not mean the need for procurement.
4. Principle of Openness in Relations with Suppliers. The principle is implemented through use of open competitive procedures as the priority form of procurement.
5. Principle of Transparency of Procurement Process. The principle is implemented through the possibility of monitoring and controlling any stage of the procurement process.
6. Principle of Compliance with Fundamental Provisions and Requirements of the Corporate Anti-Corruption Policy.

and management requirements is generally conducted using open procedures, with the information being published on the official website of the Corporation in the Procurement section¹¹, as well as using e-commerce tools. Sistema's commerce section based on Sberbank-AST electronic trading facility has been introduced and successfully operated for this purpose since 2011.¹²

In order to improve the procurement efficiency, the following measures were taken in 2014:

1. Reassignment of the procurement function to the Finance and Investment Function.

¹¹<http://www.sistema.ru/zakupki>

¹²<http://afk.com.sberbank-ast.ru/>

2. Election of new members of the Tender Committee and improvement of their competences. Senior Vice President, Head of the Finance and Investment Function, assumed the chair of the Committee.
3. Development and introduction of the new Tender Committee regulations, review of its format and the frequency of meetings.
4. Consolidation of IT requirements of the Corporation.
5. Implementation of a pilot project on consolidated procurement in the Advertising category.

Procurement optimisation activities in 2014 had the following results:

1. General economic efficiency of procurement procedures (econ-

omy in comparison with the initial price of the price quotations) amounted to 9.54 %.

2. The share of electronic trade reached 25% of the total volume of the Corporate Centre procurement for business and administrative purposes. In some categories, such as IT, about 90% of procurement is made through the e-commerce site.
3. Major IT vendors offered discounts for delivery of software and hardware to the Corporation.

2015 Plans

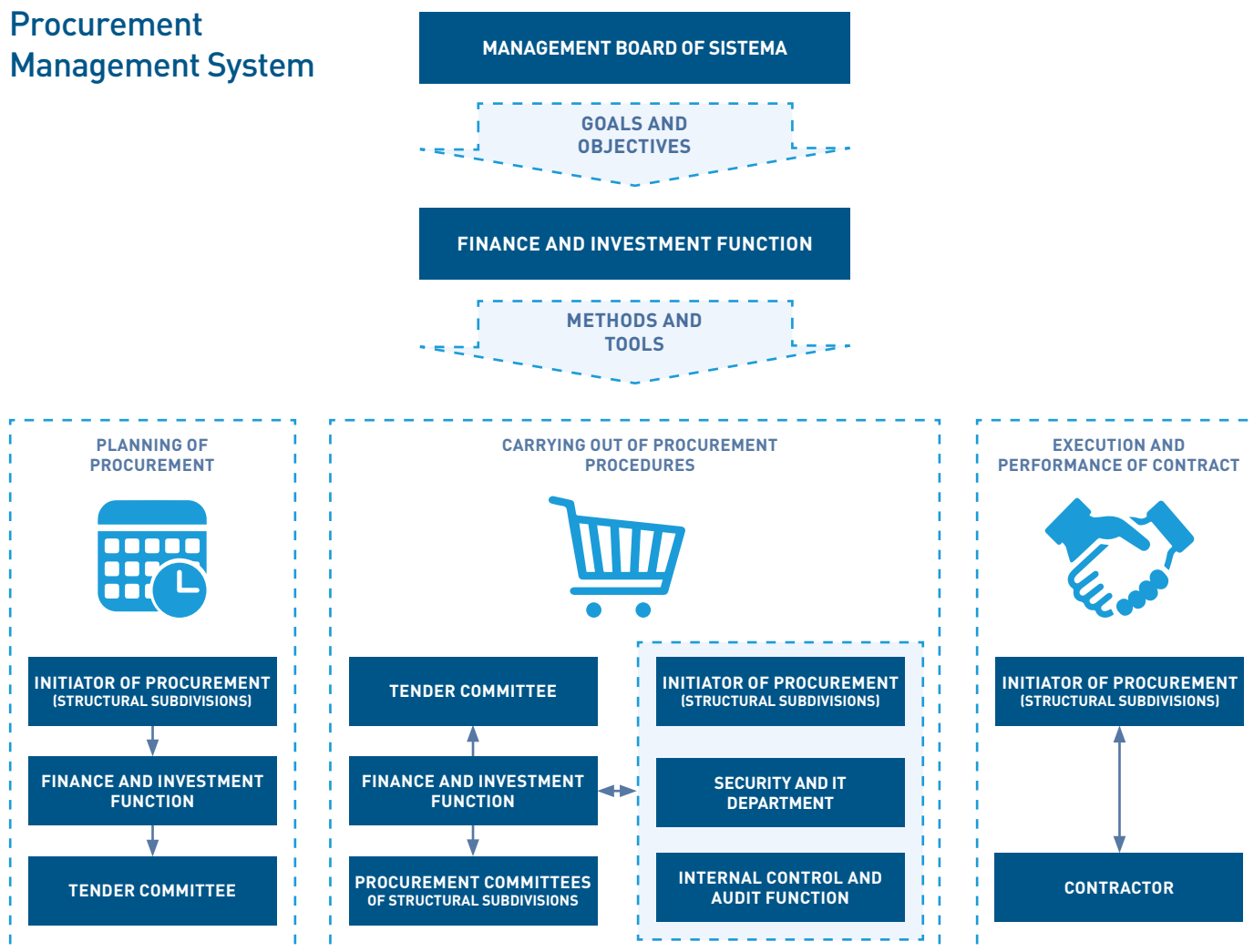
Based on the analysis of the 2014 performance, a procurement efficiency improvement plan was developed for 2015; it envisages:

1. Updating the primary regulatory

document – the Tender Procedures and Procurement Code.

2. Analysis and consolidation of the Corporation's needs in certain categories of goods in order to conduct consolidated procurement and get extra discounts.
3. Reform of procurement processes at Targin and Segezha Group in order to increase their impact on production performance.
4. Increasing the share of the Corporation's procurement using e-commerce sites via the Sistema's commerce section.
5. Conducting a series of workshops on procurement organisation to share best practices and provide methodological support to S/As.

Procurement Management System



2.4 Risk Management

The risks faced by the Corporation are manifestations of processes and factors that are often impossible or barely possible for Sistema to control. That is why efficient risk assessment and management is an important component of the development strategy of Sistema.

Corporate Risk Management

The aim of the Corporation in the field of risk management is to improve efficiency of managerial decisions by analysing the associated risks and to ensure effective control of such risks.

Risk management makes an integral part of Sistema's internal environment and includes:

- introduction of a risk-based approach into all aspects of management activities;
- systematic analysis of identified risks;
- development of a risk control and risk management efficiency monitoring system;—
- understanding of basic risk management principles and approaches by all employees;
- provision of the necessary regulatory and methodological support;
- distribution of risk management powers and responsibilities among structural subdivisions of the Corporation;
- use of various methods of information, approaches to discussion and making of decisions, including by collective bodies, in the area of risk management.

The Corporation uses the systematic approach to risk management integrated in the current business processes. Enterprise risk management (ERM) is intended to ensure reasonable assurance of achievement of strategic goals and maintain the risk level within the limits acceptable for the Corporation's shareholders and management. Sistema's ERM is based on international standards, guidelines, and risk management best practices. ERM covers all structural subdivisions of the Corporate Centre and all key subsidiaries of Sistema. Enterprise risk management helps to identify and address risks when making key decisions in order to achieve the goals and strengthen the business leadership.

Within the ERM framework the employees responsible for risk management shall prepare quarterly risk reports, including risk register and risk map of the Corporate Centre, and a comprehensive list of risk response actions.

The Audit, Finance and Risk Committee under the Board of Directors has been established and operates at Sistema. Moreover, in order to identify all risks and perform correct risk assessment, the Risk Subcommittee of the Audit, Finance and Risk Committee was established in the Corporation. It consists of expert members from various structural subdivisions of the Corporation. Apart from corporate risks, the Subcommittee also considers S/As' key risks that may affect the stability of the Sistema's development.

Risk committees of Sistema's portfolio companies operate similar to that of the Corporate Centre. The Corporate Centre ensures that risk-related issues are addressed at meetings of the S/As' Boards of Directors.

ESG Risks of the Corporation

ESG (environmental, social and corporate governance) risks can significantly impact the performance of the Corporation and its investment portfolio value. When developing its activities, Sistema acknowledges and allows for multiple environmental, social, and corporate governance risks, which makes it possible to clearly correlate business targets of the Corporation with a broad range of the stakeholders' public aspirations.

In 2014, ESG risk management resulted in the absence of serious production accidents, emergencies, and environmental damage. All the Corporation enterprises are provided with comprehensive insurance protection against environmental risks. The Corporation meets the assumed social responsibilities.

Economic, policy, legal, and tax risks are described in detail in the 2014 Annual Report of the Corporation (see pp. 108-112).

2015 Plans

The plans of the Corporation for developing a risk management system (ERM) are aimed at:

1. Improvement of existing risk management facilities and procedures both at the level of the Corporate Centre and at the level of S/As with a special focus on financial risk management.
2. ERM introduction into new assets in accordance with the corporate standards.

ESG Risks of the Corporation [G4-2]

Risk Name	Summary	Management	Impact Level
Environmental Risks	<p>Production activity of some Corporation's companies involves the risk of environmental disruption or pollution, which may result in civil liability and remedial actions.</p> <p>The most common environmental risks are accidents and incidents at production facilities resulting in land pollution, excess emissions of harmful substances into the atmosphere, and surface water body pollution.</p>	<p>The Corporation is fully aware of its social responsibility for preservation of favourable environment, regularly controls its activities to ensure environmental compliance, and implements environmental protection programmes at the S/As' level.</p> <p>Sistema has no significant impact on the environment. However, following the precautionary principle the company tends to avoid causing any potential harm to the environment, even if there is no accurate scientific evidence of harm caused by a certain activity. The Corporation is committed to preserving natural resources, and thus makes environmental risk assessment and efforts to prevent and reduce the negative impact on the environment. [G4-14]</p> <p>Companies of the Corporation invest heavily in environmental campaigns, including production modernization and introduction of state-of-the-art clean technologies to reduce the negative impact on the environment. The Group enterprises organise insurance of civil liability of hazardous facility owners for damage inflicted by emergencies at such hazardous facilities and general third party liability, including for environmental disruption.</p> <p>See details in clause 3.7. Ecology and Environment Protection</p>	Low
Occupational Health & Safety and Environmental Risks	<p>Activities of the Corporation's subsidiaries at all stages of production are intertwined with occupational health and safety and environmental risks, such as failure of production equipment, damage caused to equipment and people's health, or third party liability.</p>	<p>In order to reduce the probability of such risks the Corporation's manufacturing companies use OHSE systems that ensure continuous monitoring of processing equipment condition, implementation of equipment upgrade programmes, carrying out production accident/incident prevention measures, and promotion of OHSE culture.</p> <p>In order to mitigate the risks, accident causes are analysed, and the existing procedures are subsequently adjusted, including by means of enhanced control over equipment quality, OHSE training of employees, and assurance of continued readiness to emergencies.</p> <p>A comprehensive insurance programme is implemented in the Corporation's companies, including compliance with mandatory insurance standards in accordance with the Russian Federation law (mandatory insurance of hazardous industrial facilities, public liability insurance, construction and installation insurance), as well as voluntary insurance of property and production personnel against accidents.</p>	Low
Personnel Management and Social Policy Risks	<p>Our employees are the foundation of the Sistema's success. High level of motivation and competence of the personnel directly influences financial performance of each subdivision and the Corporation as a whole. There are three categories of personnel management risks:</p> <ul style="list-style-type: none"> • risks related to corporate culture harmonization due to integration of new assets; • risks related to fulfillment of social obligations assumed by the Corporation; • risks of lack of competent managers and skilled personnel involved in current and future projects. 	<p>In order to manage these risks, the Corporation carries out a number of activities aimed at recruiting and retaining highly-trained professionals, analyses the internal corporate environment, develops and improves the relevant HR management, social development, and corporate culture procedures and policies. The Group companies implement succession pool, personnel training and development programmes to meet current and future qualified manpower needs of the Corporation.</p> <p>Sistema Group provides its employees with competitive remuneration and a package of social benefits.</p> <p>See details on personnel programmes in clause 3.3. Corporate Personnel Management.</p>	Average

2.5 Anti-Corruption Efforts

Anti-corruption efforts are the focus of the Corporation. Sistema counters corruption in any form that is considered one of the systematic threats to sustainable business development.

The Anti-Corruption Policy is the primary document defining and regulating the anti-corruption

efforts of the Corporation, including measures to prevent and address causes and prerequisites of corruption. The Policy also promotes the anti-corruption mindset manifested in intolerance of the employees to corrupt practices. The Policy sets the basic anti-corruption principles observed at Sistema

Provisions of local regulatory acts on anti-corruption activities are binding on all employees of the Corporation. Employees hired by Sistema shall sign an undertaking to comply with the anti-corruption laws. [\[G4-S04\]](#)

Principles of Anti-Corruption Efforts

Rejection of Corruption and Prohibition of Corrupt Practices	The Corporation's activities are based on rejection of any forms and manifestations of corruption (zero tolerance principle) in daily operations and strategic projects, including in relations with shareholders, investors, contractors, state and local government officials, political parties, its own employees, S/As, their management and employees, and other persons.
Periodic Risk Assessment	The Corporation regularly identifies and updates indicators of corruption risks typical of its activities and potentially vulnerable business processes.
Adequacy of Anti-Corruption Procedures	The Corporation develops and implements adequate anti-corruption procedures reasonably relevant to the identified risks and controls compliance with these procedures.
Control of Contractors' Activities	The Corporation makes reasonable efforts to mitigate the risk of business relations with contractors potentially involved in corrupt practices through assessment of their tolerance to bribery, checking availability of their own anti-corruption procedures and policies, their willingness to observe requirements of the Anti-Corruption Policy of Sistema and include anti-corruption undertakings in contracts, as well as provide mutual assistance for ethical business conduct and corruption prevention.
Informing and Training	The Corporation explains principles and rules of law, provisions of the Anti-Corruption Policy and other regulatory documents relating to anti-corruption efforts.
Control and Monitoring	The Corporation ensures monitoring of the implemented anti-corruption procedures, controls compliance with them, and improves them, if necessary.

Structure of Anti-Corruption Efforts Management

The main set of measures to combat corrupt practices in the Corporation is carried out by the Security Department, which faces the following challenges:

- to fight corruption when carrying out investment, procurement, and contract activities;
- to organise identification, prevention, and suppression of actions of entities and individuals intending to commit or committing corrupt practices that cause material and/or reputation damage to the Corporation;
- to implement a mechanism for mitigating corruption risks of transactions that require control of compliance with the corporate procedures, and transactions of acquisition/disposal of assets of the Corporation and S/As (including M&A transactions);
- to compensate for damage caused by corrupt practices, mitigation and/or liquidation of the effects of corruption offenses;
- to inform the Corporation on cases of corruption and resultant economic damage.

Anti-Corruption Training

The Corporation employees must attend regular anti-corruption trainings. Through training in form of web-based e-learning pro-

grammes and in-class workshops the employees must familiarize with provisions of applicable anti-corruption law, principles and requirements of the Corporate Anti-Corruption Policy, relevant internal documents and changes made therein. The training is also aimed at promotion of proper anti-corruption culture in the company and mitigation of corruption risks.

84 employees of the Corporate Centre completed the online course and passed the test on Anti-Corruption Requirements of the Russian Federation and the UK in 2014.

The online anti-corruption training is conducted in the form of direct e-mails sent via the distance learning system (DLS) and must be held at least once every two years, or in case of material changes in the applicable anti-corruption law and/or Corporate Anti-Corruption Policy – within one month from the effective date of these amendments.

In-class anti-corruption training for employees of various levels is held in the form of workshops, round tables, etc. at the initiative of the top management and/or CEO of the Corporation.

Employees' Whistleblowing Programme

The Employees' Whistleblowing programme was introduced in 2008 to combat potential abuse, fraud, and corrupt practices at Sistema. In 2014, the programme was substantially updated and transformed into Sistema's Hotline.

The Hotline allows the managers and employees of Sistema, subsidiaries, contractors, and other persons dealing with the Corporation and S/As to report potential corrupt practices and their reasonable suspicions to the Corporation's top management (even anonymously). All calls to the hotline are recorded and analysed. Then, if there are reasonable grounds, official investigations are initiated to confirm the relevant facts. The investigation findings are reported to the top management.

Over 130 calls were received by the Hotline in 2014. All the relevant messages were investigated. Moreover, in order to improve the Hotline's efficiency, the Programme's focus was expanded to include not only the employees, but also contractors of the Corporation, and the Hotline page on the Corporation's official website was updated¹³.

As part of the combat against corruption and monitoring of procurement activities, 4 cases of collusion between dishonest suppliers were revealed in 2014. Companies caught to be engaged in corrupt practices were excluded from procurement. [\[G4-S05\]](#)

Anti-corruption procedures were integrated into business processes with the participation of external consultants:

- BPGC;
- Sistema Shyam Teleservices Ltd. (SSTL, MTS India);
- MTS Bank.

¹³ <http://www.sistema.com/about-sistema/hot-line/>

Introduction of anti-corruption procedures, analysis of business processes and identification of corruption risks and means to mitigate them are still underway at:

- NVision Group;
- Medsi Group.

Efficiency of the Hotline at S/As is to be assessed in 2015.

External Assessment of Anti-Corruption Procedures

In 2011–2012, Sistema developed and introduced several anti-corruption procedures in cooperation with external consultants:

- 14 high risk business processes;
- 6 moderate risk business processes; and
- 11 neutral business processes.

In 2014, the Corporation again engaged an external consultant to perform an independent audit of the existing anti-corruption procedures. The assessment showed both high quality of preparation of anti-corruption corporate documents and completeness of the procedures stipulated therein. Based on the analysis of interviews with the employees and a set of corporate documents, the consultant praised the overall efficiency of the anti-corruption procedures and their understanding by the Sistema's personnel.

Following the audit findings, recommendations for amendment

and supplement of the corporate documents were given.

The external consultant report was submitted to the Ethics and Control Committee of the Board of Directors for consideration. An action plan for implementation of the provided recommendations was developed. Currently they are being introduced, along with amendments to the corporate documents.

2015–16 Plans

The following main anti-corruption activities are planned in the Corporation:

- to fight corruption when carrying out investment, procurement, and contract activities;
- to implement a mechanism for mitigating corruption risks of transactions that require control of compliance with the corporate procedures, and transactions of acquisition/disposal of assets of the Corporation and S/As (including M&A transactions);
- to use anti-corruption mechanisms as part of the HR policy (to identify corruption and affiliation of potential employees when hiring, as well as commercial entities established by the employees and acting as contractors of the Corporation);
- to implement a mechanism regulating the procedure to resolve conflicts of interests;
- to organise identification, prevention, and suppression of actions of entities and individuals intending to commit or committing

corrupt practices that cause material and/or reputation damage to the Corporation;

- to compensate for damage caused by corrupt practices, mitigation and/or liquidation of the effects of corruption offenses;
- to inform the Corporation on cases of corruption and resultant economic damage.
- to cooperate with public and administrative authorities, including law enforcement agencies; to provide assistance to law enforcement agencies and the Federal Security Service of the Russian Federation in activities aimed at investigation of corruption offenses;
- to monitor relevance of and compliance with the provisions of regulations governing the implementation of the Corporate Anti-Corruption Policy;
- to use information resources in order to take anti-corruption measures;
- to improve the Sistema's anti-corruption system;
- to carry out inspections of S/As' financial and economic activities;
- to develop and take measures to combat unfair competition.

2.6 Business Ethics

In its activities, Sistema focuses on high ethical standards of business dealing. The Corporation fully takes into account socially significant aspects of its activities and recognizes the responsibility regarding all groups of the stakeholders.

Ethical matters are on the agenda of the meetings of Sistema's Board of Directors on a regular basis. To maintain high ethical standards among the Corporation's employees, a Code of Ethics has been developed with due regard for the best practices and ethical codes of a number of the leading Russian and international companies.

The Code of Ethics reflects the commitment of the Corporation and its management to high ethical standards of transparent and honest business aimed at improving corporate culture, adherence to best practices of corporate governance and appropriate level of business reputation of the Corporation and companies of Sistema Group. [\(G4-56\)](#)

At implementing the provisions of the Code of Ethics Sistema sets the following objectives:

- to ensure compliance with the principles and requirements of the Code of Ethics by all Corporate employees, regardless of their rank and position;
- to form a uniform system of ethical values by defining the criteria for conscientious and ethical conduct in relations with authorities, business partners, shareholders and colleagues.
- to preserve and enhance the Corporation's credibility in the eyes of the investment community by enhancing the reputation of a transparent, honest and reliable business partner.

Ethical principles and values of the Corporation

Trust	During its existence, the Corporation managed to gain trust of thousands of contractors and millions of consumers around the world by building friendly partnership relations with its shareholders, investors and employees, which Corporation is committed to maintain, strengthen and develop.
Openness	A transparent information policy not only guarantees the right of all persons interested in obtaining reliable and up-to-date information on the activities of the Corporation, but it is also one of the most important components of our corporate culture.
Respect for people	The personnel policy of the Corporation provides equal opportunities for all employees regardless of their national or religious affiliations, political views, personal beliefs, gender, way of life and age.
Impartiality and objectivity	The Corporation takes management decisions on the basis of duly verified data, and the choice of contracting parties, partners and cooperation with them is carried out on transparent, fair market basis without any unsound preferences or prejudices.
Rejection of corruption and unfair competition	The Corporation refrains from engaging in unethical, illegal or unfair activity. It also makes efforts to ensure that its business partners, contracting parties, employees and S/As adhere to the same high ethical standards in business relations, which are a distinctive feature of our company.

All Corporate Employees must be governed by the Code of Ethics and strictly observe its principles and requirements in their daily work and at implementation of projects throughout the world. The responsibility for compliance with the Code of Ethics is set out in employment contracts and job descriptions of Sistema's employees, with individual rules of ethical business conduct being also regulated by the Internal Code of Conduct, HR Code and Logistics and Informational Support Code.

The activities of the Ethics and Discipline Committee

In addition to the Ethics and Control Committee of the Sistema's Board of Directors, which aims at contributing to the establishment of an effective system of economic security, internal control, combating fraud and other abuse related to violation of the applicable law in the Corporation (see more about the activities of the Committee in 2.2. Corporate Governance); the issues of compliance with business ethics and responsible behaviour are considered by the Ethics and Discipline Committee under the CEO of the Corporation.

The Committee is a permanently operating collective advisory and consultative body established in order to improve the labour and performance discipline and generate recommendations to propose the corresponding issues to the governance bodies of the Corporation and S/As.

The main tasks of the Committee are as follows:

- consideration of issues of employees' compliance with the requirements of labour legislation,

internal documents and decisions of governance bodies at the Corporation and S/As;

- suggestions and recommendations for governance bodies of the Corporation and S/As concerning the presence or absence of grounds for bringing the employees to disciplinary liability and/or applying other compensatory remedies provided for by the legislation.

The Committee, which resumed its active work in 2013, became an effective body for adoption of organisational decisions in case of their rejection or impossibility of their acceptance by the management of subsidiaries. Two Committee meetings were held in 2014.

No violations of the provisions of Sistema's Code of Ethics were recorded in the reporting period.

Human rights

In matters relating to the observance of human rights, the Corporation relies on both Russian and international legislation. Sistema and its subsidiaries do not allow any forms of discrimination or harassment, and the provisions on non-discrimination are contained in key internal regulatory documents (Code of Ethics, HR Code). Sistema strictly follows the principle of tolerant attitude to racial, religious, physical and other differences of the employees. The Corporation has never used and will not use any child or involuntary labour.

No cases of discrimination and human rights violations within the reporting period were recorded in the Corporation. [\[G4-HR3\]](#) In the reporting period, the employees

(including security officers) had no special training on policies and procedures in the field of human rights. [\[G4-HR7\]](#) Sistema's investment agreements and contracts do not include any provisions on human rights and they are not being assessed from the point of view of human rights. [\[G4-HR1\]](#) However, the company admits the possibility of conducting such training and the inclusion of the relevant provisions in the agreements and contracts concluded by the Corporation if necessary or expedient.

Adhering to the principle of privacy, Sistema ensures protection of the personal data in its possession. The Security Code, approved in January 2014, regulates in detail all aspects of personal data protection. Employees with access to personal data are obliged to strictly follow the provisions of the Code.

When dealing with personal information, in all cases not regulated by any regulatory documents of the Corporation, the employees shall be guided by the applicable legislation of the Russian Federation. There were no leaks of personal data in 2014.

2015 Plans

1. Updating Sistema's Code of Ethics
2. Providing distance learning and in-person training for employees on compliance with the legislation and internal procedures of the Corporation related to the anti-corruption policy and insider information.
3. Modernization of the personal data protection system due to changes in legislation.

3. MANAGING SUSTAINABLE DEVELOPMENT

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3.1 CSR Management System in the Corporation

As a large investment corporation, which owns key assets in several industries that are of significance for the development and strengthening of the economy of the Russian Federation, Sistema cam have a significant impact on the lives of millions of Russians. Acting as a responsible investor, the Corporation takes into account various environmental and social aspects of its activities and fully accepts its responsibility before all stakeholders. Because of this, an integral goal of the the Corporation's activities and strategy is finding a balance between its economic interests and the interests of society.

By sustainable development the Corporation means a system of consistent economic, ecological and social measures implemented on the basis of the continuous interaction with stakeholders and aimed at more efficient risk management, long-term improvement of the image and business reputation of the Corporation, as well as growth of its capitalisation and competitive strength. Sistema's Corporate social responsibility is a philosophy of long-term and sustainable development which makes it possible to harmoniously integrate successful business with fundamental universal values and national development priorities¹⁴.

In its practical CSR activities Sistema is guided by the following principles:

- recognition of the Corporation's role in social development and responsibility for the fact that its contribution to sustainable development shall be long-term, systematic, transparent and understandable to society;

- recognition of the rule of law in all spheres of social and economic life, and respect for human rights;
- priority of the programmes related to labour safety, personnel development and other aspects of CSR concerning employees of the Corporation;
- consideration for global experience and best practices in the field of CSR;
- dialogue with society, openness and publicity.

Goals and objectives in CSR and sustainable development

Sistema's objectives in the field of CSR and sustainable development are as follows:

- improving the quality of life of stakeholders (individuals, organisations or communities that may affect the activities of the Corporation or, on the contrary, be affected by the Corporation, its products or services) through innovative design and technology;
- improvement of corporate governance practices;
- harmonious dialogue and cooperation with the main stakeholders;
- increasing confidence in the Corporation and strengthening its reputation.

To achieve these objectives, the Corporation consistently solves the following tasks:

- specifies the CSR priorities and activities;
- defines the responsibilities and procedures for coordinating the CSR activities between the Corporation and its S/As;
- improves the CSR management system in the Corporation and its S/As;
- establishes and ensures the achievement of the target values of the CSR key performance indicators (KPI);
- tracks the progress of the Corporation and its S/As in the field of CSR.

Focus areas in the field of sustainable development

Corporation assumes whole responsibility for the work with the basic focus areas in the field of sustainable development.

Economic impact management

Strictly adhering to the principles of responsible investment, the Corporation makes a significant contribution to the economic development in the countries and locations of its operations. Stability of development, positive transformations, and implementation of new investment projects of the Corporation are inextricably linked to the prosperity of the Russian Federation and strengthening of its economy. The Corporation is one of the largest taxpayers to the Federal and regional budgets; it develops relations with suppliers and invests in the development of key infrastructure projects in the locations of operations. (For more

¹⁴A quote from the Policy "On Sistema's Corporate Social Responsibility"

details, see. 3.4. Contribution to the Development of Locations of Operations).

Social impact management

One of the areas of activities of Sistema in the area of sustainable development is managing the impact on social services and personnel.

Corporation’s charitable activity develops according to the concept of «social investment» which is focused on long-term social policy that combines the strategic interests of the Corporation, shareholders and interests of social development. (For more details, see 3.6. Charitable Activities of the Corporation).

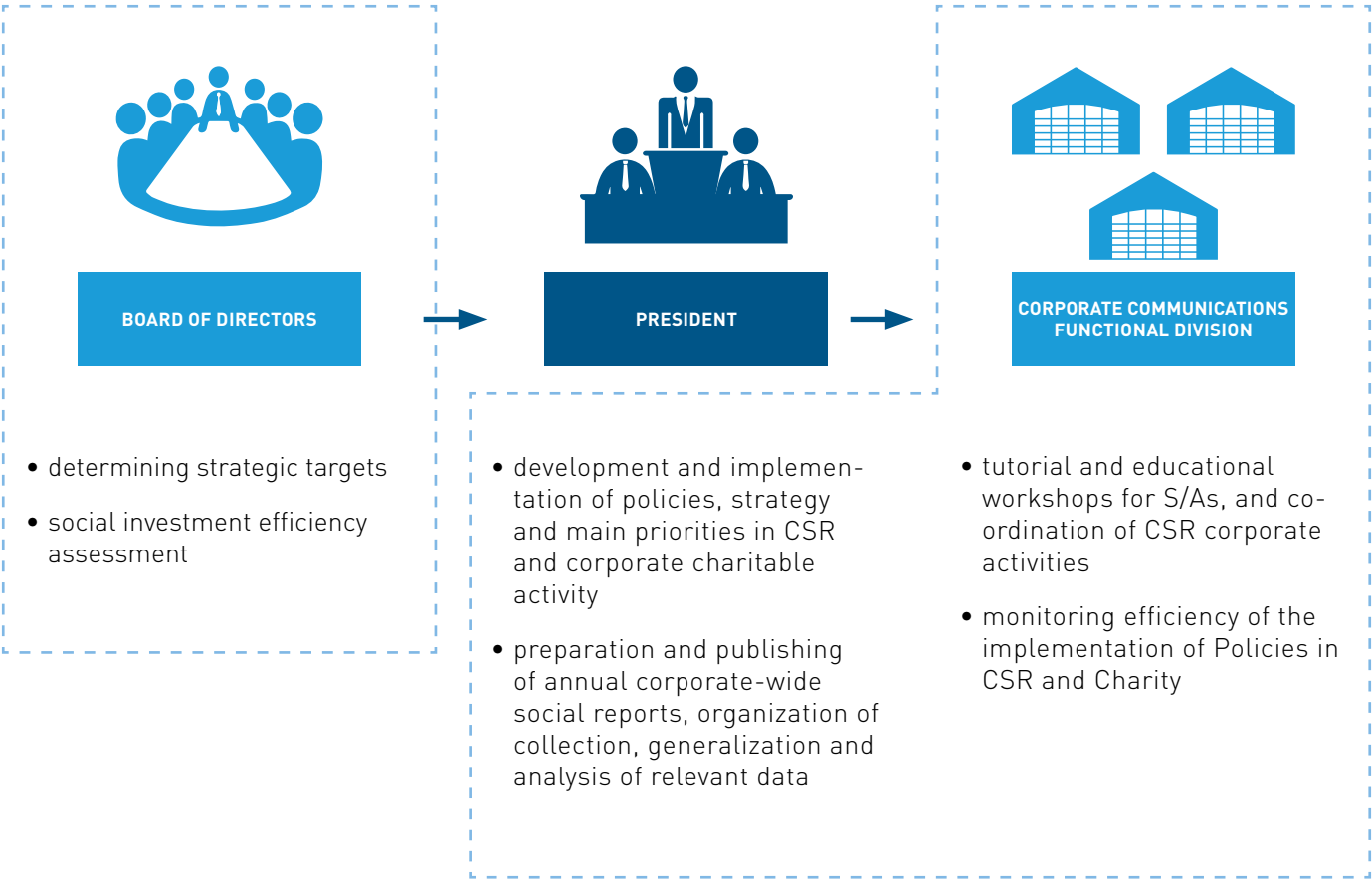
The employees are the foundation of growth and development of the Corporation. Sistema bears responsibility before its employees in different areas, including ensuring decent working conditions and safety in the workplace, stable labour payment, opportunities for professional and personal advancement. The Corporation actively develops educational programmes and advanced training for all categories of employees. Social programmes, applied in the Corporation on an ongoing basis, enable the employees to maintain good health, improve their quality of life and satisfaction from the professional activity. (For more details, see. 3.3. Corporate Personnel Management).

Environmental impact management

Sistema and its subsidiaries are actively involved in environmental efforts in locations of their operations, consistently reducing effects on the environment, promoting improvement of the environment and increasing the level of environmental awareness of the population. The Corporation strictly observes the environmental principles, statutory and regulatory requirements in the field of labour and environment safety.

By investing in environmental projects, Sistema contributes to the environmental care and conservation of natural diversity. (For more details, see 3.7. Ecology and Environmental Protection).

CSR Management Bodies



Corporate social responsibility management system

The corporate social responsibility management system focuses on the global standards and international best practices in this area, and consists of several elements:

- internal regulatory documents and external initiatives;
- CSR management bodies;
- KPI system;
- stakeholder engagement;
- monitoring and social reporting.

Internal regulatory documents and external CSR initiatives

The policy “On Sistema’s Corporate Social Responsibility” is the main document defining activities in the field of CSR and sustainable development. The policy is based on the provisions of the Code of Ethics and is aimed at supporting the Corporation’s business strategy. It serves as a tool for the strategic management of social factors of the Corporation’s sustainable development, for optimisation of its contribution to the tasks of national socio-economic development and development of the locations of operations, as well as strengthening the reputation of Sistema.

Sistema became one of the first Russian companies that joined the UN Global Compact in 2002, and it strictly adheres to its ten sustainable development principles. The Corporation fully shares the concept of social responsibility formulated by Russian Union of Industrialists and Entrepreneurs in the «Social Charter of Russian Business, as well as the provisions of the international standard ISO 26000: 2010 “Guidance on Social Responsibility”.

CSR management bodies

Matters of corporate social responsibility are considered annually by the Sistema’s Board of Directors.

The business unit responsible for the implementation of policies in the field of CSR, charity and coordination of activities in this area is the Corporate Communications Function.

The instrument for the implementation of the Corporation’s social investments, general Corporation’s charitable and volunteer programmes and projects in CSR management system of the Corporation is Sistema Charitable Foundation (Sistema CF), which was established in 2003. (For details, see 3.6. Charitable Activities of the Corporation and 3.3. Corporate Personnel Management).

KPI system in the field of CSR

Key performance indicators for the CSR strategy are set annually for Sistema’s S/As. In the reporting period, they covered the following:

- synergy – expansion of cooperation between Group companies in implementation of joint social projects;
- expansion of interaction between Group companies for implementation of joint social projects;
- upscaling and expansion of CSR projects based on the Shared Value principles;
- expansion of corporate volunteering;
- development of social reporting;
- promoting social responsibility and charity, participation in CSR rankings.

The KPI in the field of CSR approved by Sistema’s Board of Directors for 2014 were mostly achieved.

Stakeholder Engagement

Ensuring sustainable business development and achievement of strategic objectives are only possible when due consideration is given to the interests of all stakeholders and responsible management of stakeholder relations is ensured.

In this regard, the Corporation believes that the development of a constructive dialogue and efficient cooperation with stakeholders shall be based on the principles of balance, ethics and mutual responsibility.

For more detailed information about the interaction of the Corporation with its key stakeholders see 3.8. Stakeholder Engagement and Social Reporting of the Corporation.

Reporting in the field of CSR

Important element of CSR management is corporate sustainability reporting by means of which Sistema reflects its activities on matters related to sustainable development and other significant topics of interest and concern to the stakeholders.

Sistema pays great attention to proper disclosure of information about its activities, and it considers public non-financial reporting a key instrument of dialogue with the stakeholders, implementing and monitoring the implementation of the principles of the sustainable development into the Corporation’s activities.

The Corporation contributes to the increase in the number of subsidiary companies publishing independent non-financial reporting, by implementing technical assistance to S/As with respect to implementation of GRI Standard as a basis for the development of the reporting system.

Since 2008, MTS annually publishes independent reports in the area of CSR.¹⁵ First reports on sustainable development are planned to be re-released by Detsky Mir and Segezha Group. RTI Group¹⁶ and BPGC¹⁷ publish information on corporate social responsibility in their annual reports.

For more detailed information about the Corporate reporting, see Chapter 1. About the Report and Materiality of Disclosed Topics. Previous social reports of the Corporation are available on the website in the section "Sustainable development"¹⁸.

2015 Plans

1. Improvement of the CSR management system in the Group:

- updating of the corporate policy in the field of CSR and charitable activities;
- focusing the CSR and charity strategy on priority and promising areas, restructuring the social investment portfolio;
- improving the performance of Sistema CF due to more active engagement of the Supervisory Board and attracting independent expertise to develop and implement the social investment strategy and the programme of charitable activities;

- introduction of measurable performance criteria for social projects.

2. Higher level of transparency of CSR activities, introduction of uniform principles and standards of non-financial reporting:

- providing training on corporate non-financial reporting for employees of Sistema and S/As who are responsible for the development of CSR;
- transition to preparation of social reports on an annual basis;
- preparation of reports according to the Global Reporting Initiative standards by Sistema and its key S/As.



¹⁵ http://www.company.mts.ru/comp/social_responsibility/soc_report/

¹⁶ <http://www.oaorti.ru/upload/iblock/e73/go-oao-rti-za-2014g..pdf> p. 55-66

¹⁷ <http://bashes.ru/upload/medialibrary/a26/a260b107286d25177b4dd35b8bd4e615.pdf> p. 78-82

¹⁸ <http://www.sistema.com/social-responsibility/social-reports/>

3.2 CSR Management of Subsidiaries and Affiliates

Sistema owns and manages numerous assets in various economic sectors. Many companies of the Corporation have significant impact on the interests of a wide range of stakeholders. By managing S/As in the field of corporate social responsibility, Sistema introduces the best practices in management of economic, environmental and

social impacts, thus contributing to the development of the society and the country.

In relation to the portfolio companies, many of whom have for a long time successfully been active socially, Sistema first of all performs integrating function in the field of CSR by concentrating the

efforts of various businesses on the priority social projects. Sistema's general approach to corporate social responsibility is based on the principles of synergy and Shared Value – inclusion of the maximum number of subsidiaries in the projects that aim at solving important social problems and contribute to business development.

Functions of the Corporation and S/As in the field of corporate social responsibility

Corporation	S/As
<ul style="list-style-type: none"> • Defines the priorities and areas of activities in the field of CSR. • Develops its corporate strategy and policy in the field of CSR and implements it as required. • Provides the necessary procedures for implementation of CSR principles in the Corporation's development strategy and practical activities. • Conducts training seminars for S/As on the methodology of the CSR processes development and non-financial reporting. • Accumulates and analyses information on the progress of CSR policy implementation in the Corporation and S/As with a view to consolidate the data and disclose information about the CSR progress in its annual consolidated reports. • Ensures interaction with the UN Global Compact Network and provides information on compliance with the CSR principles and provisions of the UN Global Compact to the Global Compact Office. 	<ul style="list-style-type: none"> • Develop their own CSR policies and strategies in accordance with the recommendations of the Corporation. • Independently put into practice all provisions of the policy and prepare their own non-financial reports at the end of a year. • Appoint persons in charge of CSR, responsible for coordination of efforts in this area and interaction with Sistema's Corporate Communications Function on policy implementation. • Provide the requested information on CSR activities, as well as data for drawing up consolidated corporate non-financial reports to the Corporation.

Although individual CSR units, such as at MTS and RTI (where the CSR department was established in November 2014 year within the Government Relations Division), do not exist in all the subsidiaries of Sistema Group, which is determined by their size and organisational structure, usually employees of other units (PR, HR, etc. depending on S/As' priorities in sustainable development) are responsible for implementation of social projects.

Priorities of the Corporation and S/As in the field of social responsibility

Social responsibility priorities of the Corporation and S/As are determined by industry specifics and CSR best practices, and based on the current management practices in Group companies and their business strategy. These priorities reflect the components of the quality of life, to which Group companies contribute or are planning to contribute in the future.

Evaluation of the CSR level in Sistema Group

Within the framework of the CSR audit in April-May 2015, with the assistance of an external consultant, the poll among S/As and certification of social projects were conducted to analyse and evaluate the level and the efficiency of the social activity management system, to identify «growth areas» and the potential for the subsidiaries' cooperation in the field of CSR.

In 2014 the Corporation's subsidiaries implemented more than 50 projects in the field of corporate social responsibility, both independently and jointly with other Group companies, external social partners, government institutions, non-profit organisations and charitable funds. In general, in comparison with the previous reporting period, the number of declared projects within the framework of the S/As poll, increased by more than one and a half times. MTS remains the most socially active Group company is still - about 40% of all certified projects are directly related to CSR and charitable activities of the company, besides most of the projects are implemented in several regions.

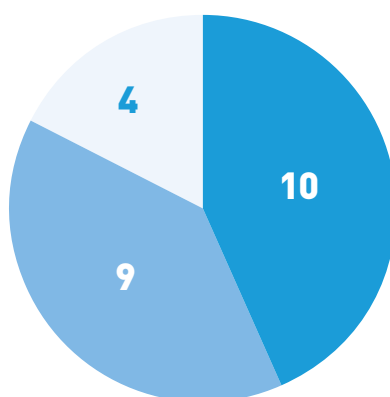
2015 Plans

1. Formalization and unification of CSR function in S/As.
2. Strengthening of the integration in the field of CSR among Group companies:
 - expansion of the best CSR practices to S/As;
 - clarification and distribution of S/As' «areas of responsibility» according to the priority areas of social projects and development of joint initiatives;
 - development of corporate-wide volunteering system.
3. Efficiency improvement of the social projects subject to reasonable size of social investments:
 - increase in the number of joint CSR projects with S/As' involvement and projects based on the Shared Value approach;
 - development of social and economic partnership with the Group's locations of operations.

Priorities of the Corporation and S/As in the field of corporate social responsibility

	Education	Innovation	Employment	Ecology	Health	Human rights	Infrastructure	Safety	Culture and leisure	Social development
Sistema										
Telecom, IT										
High technology										
Finance, banking										
Real estate										
Consumer's sector										
Mass-media										
Hotel business										
Medicine, pharmacy										
Oil services										
Forest industry										
Energy										
Agriculture										
Transport										
Corporation as a whole										

S/As' participation in social projects of Sistema CF and other companies of Sistema Group



- Yes, Lift to the Future and other projects of CF
- Yes, projects with S/As
- No

Most S/As participate in the Lift to the Future programme, corporate-wide Eco CleanUp Day, annual sports day, as well as in the projects of the Volunteer Centre of Sistema CF.

3.3 HR Management

Personnel structure and number of employees

Attracting and retaining the best professionals, human resources

development and motivation to achieve results are necessary conditions for steady business growth and high performance of Sistema. The HR management system is

intended to create competitive advantages and is an integral part of the general corporate strategy.

Number of employees by gender, persons [G4-10]

	Total number in Group/number in Sistema (CC)	Men (CC)	Women (CC)
2012	161,003 / 339	167	172
2013	167,544 / 327	161	166
2014	155,779 / 308	156	152

Number of Sistema's employees by type of employment and gender, persons [G4-10]

	Men		Women	
	Full time	Part time	Full time	Part time
2012	158	9	172	0
2013	154	7	164	2
2014	149	7	150	2

Number of Sistema's employees by payroll and non-payroll type of employment and gender, persons [G4-10]

	Men		Women	
	Payroll	Non-payroll	Payroll	Non-payroll
2012	167	0	172	0
2013	161	0	166	0
2014	156	0	152	0

Number of Sistema's employees by type of employment contract and gender, persons [G4-10]

	Men		Women	
	Indefinite term	Fixed-term	Indefinite term	Fixed-term
2012	166	1	172	0
2013	160	1	166	0
2014	155	1	152	0

Age profile of the Group's employees¹⁹, %

Year	Age groups				
	<25 years old	25-34 years old	35-44 years old	45-54 years old	>55 years old
2012	18%	32%	20%	21%	9%
2013	15%	33%	21%	21%	10%
2014	17%	37%	21%	16%	9%

¹⁹ Only S/As where Sistema holds a controlling stake are taken into account.

Number of employees across the Group by regions, % [G4-LA1]

	2013	2014
Moscow	26	24
Regions of Russia, including Moscow region	69	70
Foreign countries	6	5

Share of Sistema's top executives hired from among the local population (Moscow and MR), %²⁰, % [G4-EC6]

Year	Number of employees	% of total number of personnel
2012	13	3.9
2013	13	4
2014	11	3.5

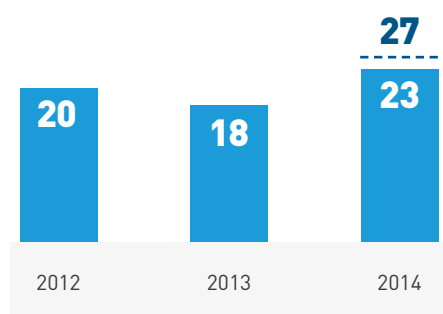
Key tasks in the field of human resources management in the Corporation in 2014 are as follows:

- introduction of HR standards in companies with the Sistema's shares < 50% and in new subsidiaries and affiliates;
- updating of the system for assessment of S/As' key manage-

ment, strengthening of expert competences of the employees;

- introduction of an assessment system for professional competencies and leadership qualities of the employees, with the assessment being conducted on a regular basis;
- ensuring correlation between the performance evaluation process, development and motivation of the personnel in the Corporation;
- strengthening of the training and development function according to the business tasks and within the framework of the approved strategy.

Average personnel turnover in the Group, % [G4-LA1]



Personnel structure and number of employees

The total personnel turnover in subsidiaries of Sistema Group for 2014 is 23%, excluding the retail

sector (where the level of personnel turnover is traditionally higher). The total personnel turnover of the Corporation's companies is below the industry-wide level which amounted to 27% in 2013-2014 in Russia²¹. The personnel turnover in the retail sector (Detsky Mir, Concept Club, MTS Bank) is within acceptable limits.

Motivation and compensation

Financial incentive system

Compensation system in Sistema and in the majority of Group companies is based on a grading system (levels of positions). An employee's payroll is established depending on the grade of his/her position. For each grade, the compensation range is defined by analysing compensation surveys. Principles of the compensation system in each company are recorded

Standard salary of Sistema's entry-level employees compared to the statutory minimum salary in Moscow and Moscow Region [G4-EC5]

	Minimum monthly wage for an entry-level position, RUB	Minimum monthly wage (MMW) in the region, RUB	Minimum Sistema wage to MMW in the region, %
2012	40,000	11,700	342%
2013	52,800	12,200	433%
2014	45,000	14,000	321%

²⁰ According to a labour market survey by Ancor Professional.

²¹ Calculations took into account senior positions down to managing directors.

in the Corporation's «Compensation and Benefit Policy» or «HR Code».

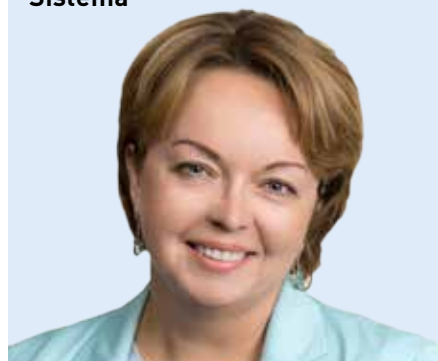
As a result of the transition to the model of the Corporation's investment company, a new incentive system was approved in 2013 for the implementation of investment projects based on direct connection between the formulation of the goals reached and the level of compensation. The compensation for the investment projects replaced a bonus plan for the achievement of consolidated financial KPI for the personnel of Sistema. At the top of the new compensation system, the objective is set to achieve a return on investment and monetization of the created value - both within each individual project and the Corporation's portfolio as a whole. The source of the compensation paid to employees is a bonus fund, calculated as 20% of the amount of the monetary gain for the portfolio of the Corporation's projects.

At the same time, motivation to succeed is created not only for the employees of investment portfolios, but also for functional specialists of the Corporate Centre - their bonus pool is also dependent on the results achieved under projects. The procedure and methodology for calculating the remuneration are set out in the regulatory documents approved by the Board of Directors.

For senior and middle managers, there is a long-standing programme of remuneration, which first started back in 2009 for a period of 3 years. At the end of 2014, another revision of the programme for 2015-2017 was approved. The long-term incentive programme for the managers is based on the changes in Sistema's shares' value and the total shareholder return (TSR). The programme is intended to commit the Sistema's executives and middle managers to increase shareholder value and market

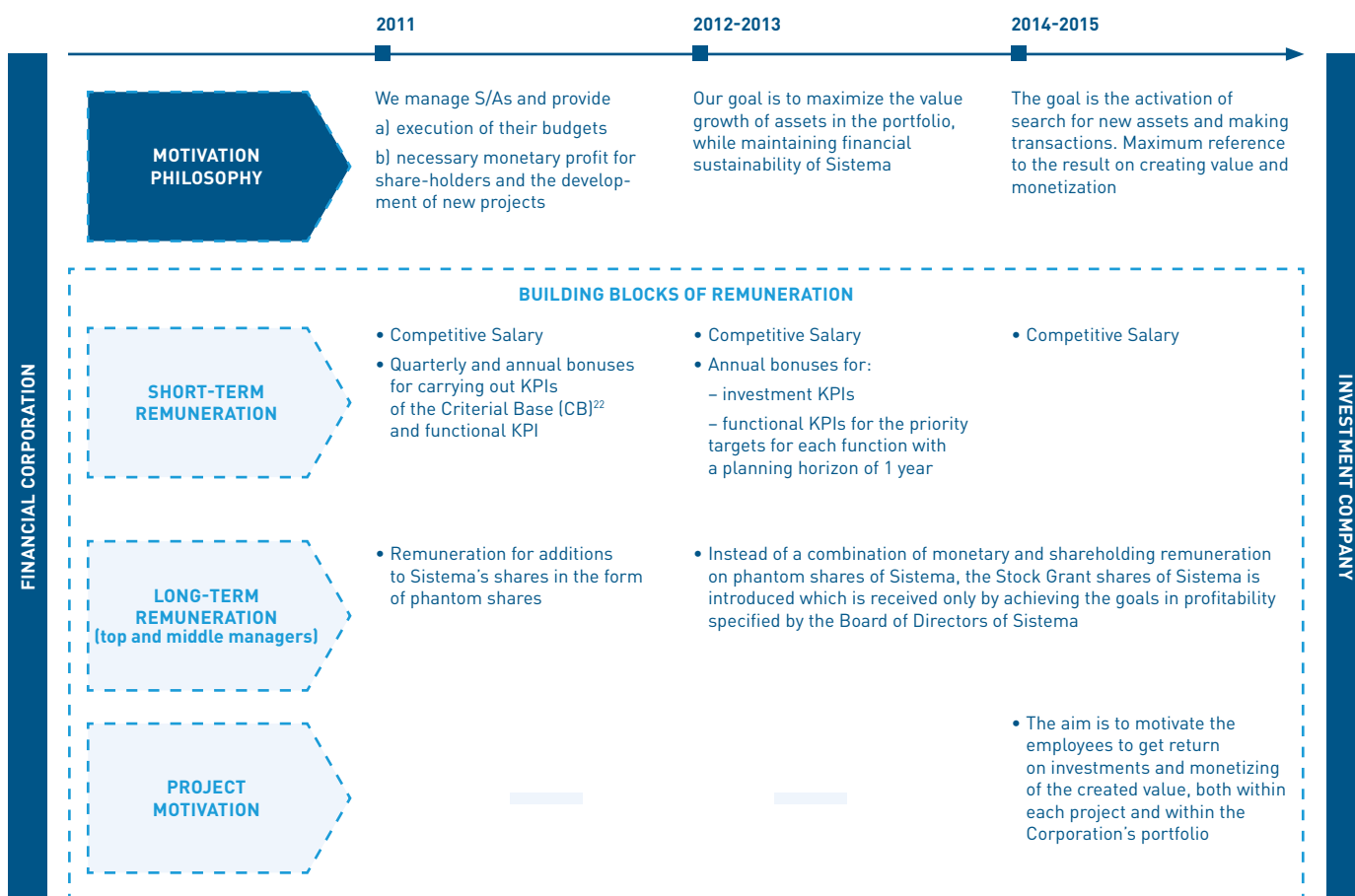
Vitchak E.L.

Vice President, head of the HR Management Department of Sistema



The new motivation mechanism makes it possible to align the interests of Sistema's management with the interests of the company's shareholders. Furthermore, the incentive system of Functions of the Corporation mirrors the incentive system of the Investment Portfolios, which naturally motivates employees to work towards a common result - maximization of value and monetization of assets managed by Sistema.

Evolution of the motivation system in Sistema



²² A set of economic and financial parameters.

capitalisation of the company and create additional conditions for long-term employment and corporate relations. The remuneration under the programme may be paid in the form of Sistema's ordinary shares.

The slight decrease of the minimum wage compared to 2013 is due to the fact that some functions that had been previously outsourced not on the personnel were returned to Sistema's staff from January 1, 2014.

Non-material incentive of employees (G4-LA2)

Sistema cares for the welfare and social security of its employees, providing them with additional social benefits in addition to the mandatory package of social benefits envisaged by the legislation. The list of these benefits varies depending on the actual needs of the employees of various subsidiaries.

Non-material incentive system includes both formalised programmes, which include all the units of the Corporation, and additional benefits of a multi-business company, including special offers of subsidiaries' products and services to their employees.

Traditional additional social benefits, included in the adopted local regulatory documents in various companies of Sistema, usually include payment for sick leave in excess of the minimum specified by the Russian legislation, material assistance, voluntary health insurance, payment for food, travel, and partial compensation for accommodation of non-resident employees.

Collective employment agreement

In Sistema, all significant matters on regulating relations with the personnel (benefits, payments, health insurance, pensions, etc.)

are specified in the personnel policy. Besides, collective employment agreements are in force in a number of the Corporation's subsidiaries.

In accordance with the labour legislation and Sistema's internal regulations, the minimum period of notice with regard to significant changes in the Organisation's activities is two months.

(G4-LA4), (G4-11)

Matters of labour safety are regulated by laws, and health and safety committees are not available.

(G4-LA5) There were no industrial injuries and accidents in the workplace in Sistema in the reporting period. There is no general statistical data on injuries in the Group but it is planned to start collecting this data in the future due to its value to the stakeholders.

Area	Description
Voluntary health insurance	Sistema provides its employees (including families of some classes of employees) with voluntary health insurance. Total insurance premium with regard to voluntary health insurance amounted to RUB 13 mln. in 2014. Allianz Insurance Company JSC is the current insurer is.
Health care	<p>In the event of temporary incapacity due to illness, an employee's salary is still paid (2 weeks for out-patient treatment, 3 weeks for in-patient treatment).</p> <p>In addition, employee's treatment can be arranged for with 20% discount of . All employees and their relatives can use the discount.</p>
Retirement Plan²³	<p>All employees of Group companies have the right to participate in the pension insurance programme by selecting one of the following options:</p> <ul style="list-style-type: none"> • mandatory pension insurance; • programme of the state co-financing of pension (known as «1000 to 1000»); • non-governmental pension programme (NGPP) <p>Since 2013, the development of the Sistema's pension programmes has been based on a non-governmental «Big Pension Fund» (BPF), the successor to Sistema's NPF.</p> <p>Over 2014, about 20% employees of the Corporation transferred their pension savings to the "Big pension fund". In addition to the mandatory pension insurance, the Fund develops corporate pension programmes as part of the personnel policy. For example, in MTS the pension programme is part of the talent management project, and in MGTS it is aimed at the retention and loyalty of the employees.</p> <p>The Fund fulfills its obligations for payments to the Corporation's retirees, of whom there are more than 4500 people.</p> <p>In 2014, NPF "Big Pension Fund" entered into a state system intended to safeguard the rights of the insured established under the Deposit Insurance Agency (DIA), which guarantees safety of pension savings of individuals with pension savings in BPF. NPF «Big Pension Fund» belongs to a small group of pension funds with the highest level of reliability A ++ (confirmed by the rating agency Expert RA). The overall size of the pension savings of BPF exceeded 26.8 billion roubles in 2014.</p>
Miscellaneous	<p>Also, employees are provided with:</p> <ul style="list-style-type: none"> • extra paid leave at child birth, wedding registration, or death of close relatives for 3 working days; • financial assistance of 30,000 roubles due to death of close relatives; • three extra holiday days for irregular working hours.

²³ For more details, see the website of «Big Pension Fund»: <http://www.bigpension.ru>

Examples of S/As' special offers for the Corporation's employees

S/A	Description
Leader-Invest	Sistema's employees have the opportunity to purchase quality housing in Moscow from Leader-Invest on favourable terms.
MTS Bank	Off-premise services and consultations on services, products and special offers at Sistema's head office as part of the Bank at your Office programme. Sistema's employees also receive preferential terms for consumer and mortgage loans.
Detsky Mir	Seasonal discounts for children's goods are offered for the Corporation's employees.

Personnel training and development system in the Company

The Corporation attaches paramount importance to investment in human capital, including personnel training and development. Strong qualifications and expertise allow Sistema to efficiently compete on the market and successfully perform business tasks.

In 2014, Sistema continued the development of the training system, which resulted in substantial increase in the effectiveness of the training.

Higher School of Management and Innovation of the Lomonosov Moscow State University.

The Corporation has a history of long and fruitful cooperation with the

Lomonosov Moscow State University, contributing to bringing together classical education and the needs of business and the innovative development of the country. In June 2006, at the initiative of the MSU Rector, V. Sadovnichy, and Sistema's Board Chairman, V. Evtushenkov, a joint Faculty "Higher School of Management and Innovation" of the Lomonosov Moscow State University was established.²⁴

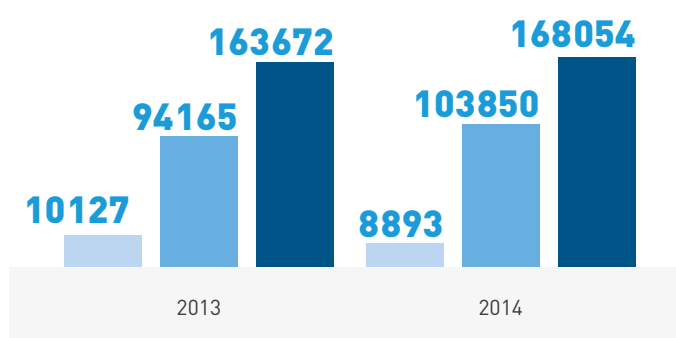
Training of employees, person / courses

Category	2013	2014
Top management	394	572
Middle management	21,414	25,235
Specialists	96,573	129,959
TOTAL	118,381	155,766

Average number of hours of training at the Corporate Centre, by gender, person/hour [G4-LA9]

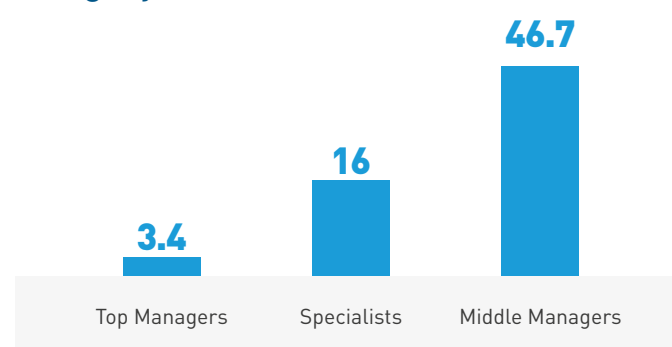
Average number of hours of training	
Men	24.4
Women	30.1

Spending on corporate training of the Group's employees, thous. RUB



● Top Managers ● Middle Managers
● Specialists

Average number of hours of training at the Corporate Centre, by employee category, hours [G4-LA9]



The faculty sees its mission in training of new highly skilled experts, ready to work in the global market of innovative products and services, and capable of holding leadership positions.

The Corporation is fully engaged in the development of the leading Russian university. V. Evtushenkov, Sistema's Board Chairman, is a member of the Supervisory Board of the Moscow State University.

During its existence, the Faculty became an important resource and methodological base for training highly skilled managers not only for the Corporation, but also for other Russian companies, solving the task of raising skills and innovative capacity of Sistema and fulfilling an important social mission on the implementation and promotion of the best practices of applied business education in Russia.

The goal of the Faculty is to train highly qualified specialists on the basis of theoretical knowledge and practical skills, aimed at the solving of the matters of generation and implementation of strategic business development programmes. The basis of the educational process at the Higher School of Management and Innovation is the combination of fundamental university education and corporate profile. The programmes are aimed at obtaining competences, allowing to put into management practice modern approaches to forecasting the market conditions, management of programmes and projects, the organisation of innovative activities in various sectors of the economy taking into account their structural, functional and technological specifics.

Currently, training is provided for master's programme «Strategic management and innovation», included in the general specialty "Management", and training programmes, many of which are created in the network format (when the



Sistema constantly invests in science, education, innovation infrastructure, and implementation of advanced technologies. We view cooperation with the MSU, a leading Russian and international academic centre, and the establishment of the Higher School of Management and Innovation as the most efficient model for integration of education and business.

Vladimir Evtushenkov
Sistema's Board Chairman

"Given of the increasing shortage of personnel and finance, an error in training of a professional may result in a waste of resources. The employer simply must participate in the educational process in a format that is acceptable for him and for the educational institution. It is combining of the school's knowledge and experience of the Corporation's personnel that will allow us to unlock synergy from cooperation of science and business".

Victoria Pechkovskaya
Dean of the Higher School of Management and Innovation, the MSU

Cost of training of Sistema's employees at the Higher School of Management and Innovation of the MSU, mln. RUB

	2013	2014
S/As' Costs for training employees in Higher School of Management and Innovation of MSU	11	12

company owning the technological platform participates in teaching as a full partner of a faculty, i.e. provides internship and a module of special disciplines).

Today, the faculty has trained nearly 300 masters in strategic management and innovation who successfully work in managerial positions in partner companies of the faculty: Sistema, MTS, RTI, MTS Bank, MGTS, Detsky Mir Group, etc.

2015–16 Plans

In October 2015, the School begins teaching according to the MBA programme "Leadership in innova-

tions". The programme is designed specifically for the «Golden hundred» of Sistema. First students of this programme will be the leaders chosen for the Talent Pool.

A time-tested basic educational programme of the faculty «Strategic management and innovation» will be further developed. From September 2015, the programme will be launched in two formats — full-time (evening) and part-time (modular) according to an updated curriculum and with a number of new teachers.

From 2016, the School will begin training on a new programme of the integrated bachelor's degree

²⁴ For more details, see website of the Higher School of Management and Innovation at the Lomonosov Moscow State University: <http://hsmi.msu.ru/en>

“Innovation», internship for which will be provided by high-tech businesses of Sistema.. It is an engineering and economic training programme that enables its graduates to hold positions in a variety of advanced specialties. Children of the Corporation’s employees will have a priority right for admission to the programme.

System of In-House Coaches and Sistema’s Academy G4-LA10

Sistema pays considerable attention to the development and improvement of its employees’ training and education.

In 2014, the System of In-House Coaches project was launched, whose main objective was the capitalisation of internal resources: use of the best internal experts to develop basic business skills and competencies of middle management; optimisation of expenses on the personnel development; establishment of unified corporate standards and values.

In various S/As of Sistema (MTS Bank, Cosmos Group, Detsky Mir Group, Medsi Group, Nvision Group), there are corporate business coaches. Nevertheless, many Group companies were unable to provide continuous training of the employees. Bearing in mind these circumstances and the current needs of the employees in training, it was decided to create a programme that would combine the best coaches and educational software of the Group companies. Thus, the project Sistema’s Academy was born, due to which the employees of all Group companies are able to take advantage of the services of the best in-house coaches in the Corporation. Training programmes take into account the specificity of Sistema’s subsidiaries’ business. During the training, actual cases from S/As practice are considered, which gives a competitive advantage compared to the training offered by external providers. Sistema’s Academy is a unique business model, which allows making training accessible

Maria Chukanova **Director for Assessment and Development, Sistema.**



“The project brings together the best coaches of the Corporation and the employees aspiring to development. This creates a self-developing environment: employees show their interest, they attend training sessions, improve their skills, move forward, suggest new formats, and we are happy to develop the project and implement new useful opportunities for business. I am very glad that we have been able to implement such a simple and convenient idea that is beneficial for all participants”.

to all companies, making maximum use of corporate opportunities and upscaling the best practices.

Results of the programme relate to the future period, and they will be disclosed in the 2015 report .

Distance Learning G4-LA10

A Distance Learning Portal operates in the Corporation for the purpose to increase the number of employees undergoing training and effectively familiarize the personnel with obligatory information. In particular, the online format is convenient to distribute corporate S/As materials.

At the moment, more than 10,000 employees are registered in the Portal, and they have access to an electronic library, remote courses and video courses. The portal hosts several corporate courses developed by the Corporation’s employees. Some courses are obligatory. Also, the employees can choose any

additional topics and explore them by choice. For example, a course on anti-corruption must be taught to every new employee within one month after the employment.

After obligatory training, tests are passed, and the results are graded. In addition, at the end of the training the employees can give feedback about the quality of the course, which in turn contributes to the development of the education system.

External assessment of the personnel training and development system

External experts carried out an independent assessment of the level of corporate education systems of 12 largest Russian companies, including Sistema. Following the results of the 2014 study, the personnel training and development system in the Corporation was highly graded and was classified as Experts by its maturity level.

The Experts level of is characterized by:

- equal completeness of all processes, with emphasis on high-quality implementation of each process and particular attention to the key processes (performance management, career and succession management, talent pool management);
- implementation of the key processes for all management levels (primary, secondary and senior) and the level of experts/specialists;
- automation of the key processes on the basis of ERP-systems;
- creation and development of in-house competence on , training and development (the company has a System of In-House Coaches, mentoring system, and the leaders are actively involved in the process of training and development of employees);
- using web technologies and advanced system of distance learning.

Maturity curve of the personnel training and development system



Succession pool

The projects for building two levels of a succession pool were developed and launched in the reporting year.



In 2014, the Talent Pool project was launched, which is a project aimed at identifying, developing and rotating managers of subsidiaries with a high potential and high motivation to grow within the Corporation. The key tasks of the project: retain efficient leaders in Sistema Group, increase their interest in long-term cooperation with the Corporation, create an intra-group pool of effective leaders with the requisite expertise. In 2014, more than 100 executives from different companies of the Corporation passed remote and in-person assessment. Based on the results, 53 managers were selected to embark on a development programme in 2015.

The number of employees in the succession pool at the end of 2014, pers.

	Number of employees
Top managers	36
Middle managers	392
Junior managers	579
Specialists	882
Total	1,889

Next year, it is planned to start the project on creation of a personnel reserve of highly effective S/As chief executives. Of key importance will become establishment of an operating personnel reserve for key positions and, accordingly, establishments of programmes for the identification, development and internal rotation of the candidates for the position of senior officials.

Elena Vitchak

Vice President, Head of the HR Management Department of Sistema



"From the point of view of human resources management and personnel stability, Sistema's structure has an obvious competitive advantage due to implementation of continuous HR programmes within the Group. For example, in 2014, Sistema launched projects for building a succession pool in order to reduce the risks when appointing candidates to top management positions at the Corporation's subsidiaries and affiliates, as well as to develop and engage successful managers in a mentorship programme. This approach to the establishment of a common succession pool, which includes executives of various subsidiaries and affiliates of the Corporation has already given us numerous opportunities for professional and career development of the best managers, as well as significant savings in expenditures".

Selection and assessment of personnel

Sistema relies on its internal resources and involvement of promising managers with successful experience in investment activities and projects which they could successfully implement within the Corporation.

For the purpose of improving the quality of selection and recruitment of senior officials in S/As, the Corporation has implemented the procedure for selection, assessment and recruitment of candidates for senior positions in subsidiaries and affiliates. A system for search and evaluation of candidates is based

on the best HR practices and is designed to provide efficient and reliable selection of managers and professionals capable to increase the value of companies due to high-quality asset management.

The evaluation procedure is aimed at determining the level of professional expertise of a candidate, his/her personal competencies, relevance of the scale of business and management experience in a target position and reputation in the market, and it allows to get integrated, more objective assessment of the candidates, including independent one. A key aspect of the new procedure is collective consideration and decision-making on candidates by the Sistema's HR Committee. As a result of the introduction of the procedure, the efficiency of the recruitment of senior officials was significantly increased.

Corporate culture

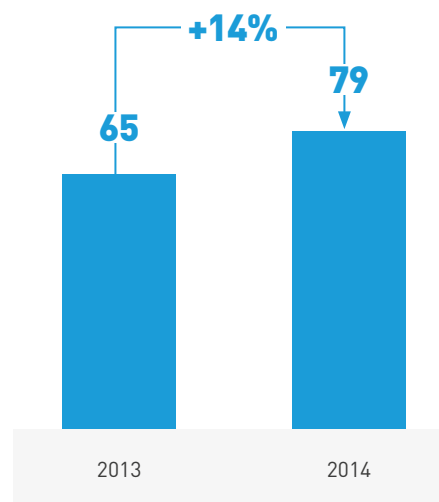
Corporate culture is a unique combination of ideological views, values, beliefs, norms and behaviours that make the Corporation a single whole, and they are shared by its employees. The corporate culture supports the Corporation's business strategy and penetrates all processes in the field of the human resources management. Starting from 2012 onwards, the strengthening of the corporate culture is one of the key HR tasks to be solved: integration of uncoordinated elements into a single concept and the establishment of an efficient internal communication system.

Monitoring and evaluation of corporate culture

The Corporation conducts regular monitoring and evaluation of the corporate culture within the framework of the research to determine the level of Sistema's employee engagement.

The study is conducted in the format of a survey among employees in order to study their opinions about the

Level of employee engagement in the Corporate Centre, %



efficiency of the activities of the Corporation as a whole, as well as assessment of the following factors:

- awareness of the personnel,
- sufficiency and efficiency of the use of resources,
- microclimate in the personnel,
- ability of employees and managers to exercise their functions effectively,
- satisfaction with the working conditions offered by the Corporation.

The survey guarantees confidentiality of all respondents; the process of monitoring and evaluation of the corporate culture gives information about the efficiency, strengths and weaknesses of the existing corporate culture, as well as priority growth areas.

In 2014, the survey was conducted for the 7th time. At the same time, the level of participation of the Corporation's employees in the survey increases annually, and in 2014 it amounted to 70 per cent. Involvement of the personnel increased by +14% in comparison

with 2013 and reached the level of the “Best-Run Companies in the World”. Sistema has demonstrated a positive trend in almost all areas.

Large annual events attended by the employees of all subsidiaries are focused on shaping a common corporate culture.

Sistema's 12th Summer Games

The 12th Summer Games is Sistema's largest corporate event that was held on June 29 at the Yantar stadium in Strogino, Moscow.

The sports festival was attended by over 60 organisations of Sistema Group from various regions of Russia, CIS countries and India. The competitions were held between 16 teams in 15 sports events. The winners were determined in three divisions (team placing) and individual trials for competition, which was an innovation in the Games and made it possible to determine the winners in the various «weight» categories.

The distinctive feature of the Games in 2014 was the participation of all, without any exception, S/As, which brought the corporate spirit together and allowed newcomers to feel like stars and veteran companies to



demonstrate better results and a high level of sports training.

In 2014, the Games were attended by more than 3,000 participants, spectators and a record number of the employee's children.

Annual Corporate Cleanup

In May, Sistema organised an annual volunteer cleanup at the Botanical Garden of the Russian Academy of Sciences in Moscow, which was attended by over 3,000 employees of the Corporation and

its S/As. During the event, more than 20 acres of lawns, forest and parkland zones was cleaned of debris, the territory of the Rosary (2.5 hectares) was tidied up; volunteers planted shrubs and flowers and installed 30 unique birdhouses made by pupils of “Centre of equal opportunities Verkh”, which deals with the socialisation of people with disabilities. Also, new lawn mowing equipment was donated to the Botanical Garden.

A children's playground with educational activities was equipped for the young participants of the volunteer clean-up. Actors of the MTS volunteer theatre staged environmentally themed puppet shows for.

Corporate parties

Twice a year, Sistema organises festivities for its employees in which the top management and creative teams of subsidiaries take part. On July 18, the Corporation celebrated its 21st anniversary styled after a rock festival. Traditionally, the programme included shows performed by S/As' employees, and Sistema's managers took part in the final performance.



There was an award ceremony organised by Sistema Charitable Foundation to reward the Corporation's employees and companies for their good deeds. Dozens of charitable projects and initiatives were promoted; they were implemented either by the Corporation's companies or by the employees personally. The most bright and socially important projects were selected by a professional jury consisting of S/As' representatives supervising social responsibility campaigns in their companies. The awards were presented in the nominations Gentle heart (for personal unselfish act) For Good Deeds (for long-term project that had the greatest social impact) We are together (for bright social project, which involved several companies of the Corporation). In total, 14 employees including 5 top managers of Sistema and several companies were awarded: MTS, MGTS, Detsky Mir Group, Medsi Group, etc.

Corporate magazine

For the past 11 years, Sistema has been publishing its own corporate magazine, which regularly covers the most vivid and interesting corporate events associated with the development of business and social responsibility; it published reviews on subsidiary companies, interviews with top managers and other information on the activities of the Corporation.

The Sistema magazine is one of the key tools of communication with internal and external stakeholders and manifestations of a sustainable corporate culture. In 2014, 2 issues of Sistema magazine were released, 3000 copies each. A printed version of the magazine is circulated to all S/As, electronic version is hosted on the company's website.²⁵

In General, Sistema has a developed system of corporate media - newspapers and magazines released by S/As, both for the employees and for customers and partners.



Corporate volunteering

Sistema follows the global trend to increase the business involvement in the implementation of social initiatives through employees' volunteering. Experience in the development and institutionalisation of the corporate volunteering of subsidiaries has proved its effectiveness and high potential in practice.

All these factors led to the establishment of a single corporate Volunteer Centre on the basis of Sistema Charitable Foundation, which is a key instrument for the implementation of the social policy of the Corporation.

Volunteering is considered one of the most important forms of non-material incentive and opportunity for promotion in the Group by increasing engagement and building up personal competencies (responsibility, initiative, etc.).

Corporate volunteering is integrated in Sistema's CSR and charity general policies and strategies. The main goals of the Volunteer Centre are to unite employees to solve social issues of local communities and so-

ciety in general, in accordance with the priorities of Sistema's CSR and charitable activities.

Key tasks and functions of the Volunteer Centre:

- promotion of volunteering among employees;
- involvement of employees in corporate-wide volunteer events and coordinating volunteers (through interaction with the coordinators of the volunteer movement in HR and PR services of Sistema's companies);
- development and implementation of integrated volunteer projects (both their own and those proposed by the partners)
- involvement of external social and business partners in social projects of the Corporation;
- organisation of training seminars for volunteers of the Corporation;
- promoting comprehensive development and motivation of volunteers, shaping a proactive approach to life;

²⁵ <http://www.sistema.com/press-centr/korporativnyi-zhurnal/>



- improving the efficiency and quality of volunteer-driven projects.

The establishment of the Volunteer Centre was preceded by a survey conducted among the Corporation's employees, which revealed a great favour to volunteering. According to the survey, the main reasons for the employees to volunteer were:

- desire to contribute to the life of society, change life for the better;
- personal interest, emotional involvement in the problem;
- willingness to share skills for the benefit of the society.

The average share of the employees engaged in volunteering for Sistema Group increased in 2014 by 2.5 times in comparison with 2013; it made up more than 4% of the total number of employees. Employees of the majority of Sistema's subsidiaries took part in company-wide volunteer projects.

Starting in June 2014, the Volunteer Centre has identified several main areas of activity:

- support of vulnerable segments of the society;
- solving environmental issues;

- promoting career guidance and socialisation of children from orphanages.

In 2014, the most demanding areas for volunteering were the projects aimed at helping orphans, the elderly, veterans, the disabled, children from large and low-income families. The following can be distinguished from among the most significant social campaigns of the Volunteer Centre:

- implementation, in cooperation with the Russian Paralympic Committee, a sports and rehabilitation programme for disabled children from orphanages Olympic Starts;
- charitable campaigns and performances for children from children's homes on Children's day and New Year, charity performances Cinderella and The Bremen Town Musicians.

A large charitable New Year party of Sistema CF (which already became a traditional one) that invited children from orphanages, large and low-income families took place. More than 30 volunteers from Sistema Group cared for children.

On the New year's Eve, the volunteers of Sistema and S/As partici-

pated in a corporate campaign New Year's Tree of Wishes, which became a mass event in 2014. Employees of all companies of the Corporation were involved in the New Year volunteer movement to purchase gifts for children from children's homes, to transport them and to conduct parties for them. 600 gifts for children were collected thanks to the efforts of the employees.

The number of sponsored children's homes visited by the volunteers also increased: 200 volunteers went on volunteer trips to orphanages in Vladimir, Torzhok, Emmaus, Tula, Ryazan, Noginsk, Udomlya, Tuchkovski orphanage and Kashin social rehabilitation centre. There were 9 volunteer trips and New Year parties organised for children by the volunteers of the Corporation.

Every December Sistema CF conducts charity performances for children who are now in difficult circumstances. In 2014, small audiences of 17 children's homes and boarding schools, large families and low-income families in Moscow, Moscow and Tver Regions visited Gala charity performance Cinderella of the State Academic Maly theatre. The charitable campaign Theatrical Subscription, when Sistema's employees provided free tickets for the musical The Bremen Town Musicians for 230 pupils of orphanages, children from large families and with disabilities, also was successful. The employees of all Sistema's companies participated in New Year campaigns – more than 2000 employees acted as volunteers.

In total, in 2014, the Volunteer Centre conducted 52 campaigns, drew 11 social partners, involved in its work 1,877 employees who, in turn, assisted or performed works for the amount of almost 8 million roubles for more than 4 thousand charity recipients.

The following corporate-wide volunteer events are planned for 2015:

- a series of voluntary initiatives to help the veterans for the 70th anniversary of the Victory in the Great Patriotic War;
- a series of volunteer excursions to the museums of military history for pupils of orphanages for the Victory Day;
- campaign First-Grader's School Backpack to collect school accessories for children from children's homes for the beginning of the school year;
- intellectual volunteer services within the framework of the scientific and educational schools programme Lift to the future;
- fundraising for the purchase of a garden tractor to service the territory of the Krasno-Dubravsky children's home Zhuravushka in Orekhovo-Zuevo district, Moscow Region;
- organisation of a classroom in the Ilyin school for orphans;
- volunteer tour to the State Russian Museum;
- New Year's New Year Tree of Wishes;
- New Year charity performance for children;
- assistance to veterans for the New Year.

2015 Plans

1. Implementing tools to improve efficiency of senior officials:

- improvement of the procedure for searching and hiring managers;
- development and implementation of the performance evaluation of managers of the Corporation;
- introduction of flexible cooperation mechanisms with portfolio managers using the best practices of the Private Equity sector, including project contracts;
- development of common criteria defining a successful head of a S/A and approaches to the professional development and training.

2. Establishment of the Corporation's succession pool system:

- establishment of a senior official succession programme.
- development of the Talent Pool project;
- creation of a pool of talented youth for the purposes of Group companies.

3. Creation of opportunities for retaining and developing efficient employees:

- incentive measures for the Corporation's for the projects implementation;
- elaboration of principles of the project motivation for S/As;
- creating an environment for continuous professional development and training;
- Development of an HR community in S/As.

4. Improvement of corporate culture, development of loyalty programmes:

- improving the quality of corporate events;
- shaping of the image of an attractive employer;
- improving the quality of internal communications.

5. Development of the volunteer movement:

- establishment of a new data portal of the Volunteer Centre;
- further promotion of the volunteer movement - full involvement of all Sistema's subsidiaries in the volunteer movement;
- upscaling of the projects due to involvement of the largest social partners.

3.4 Contribution to the Development of Locations of Operations

Consistent work of Sistema on improving the economic efficiency makes it possible not only to achieve high financial indicators and business results, but also provides a wide range of economic benefits for all stakeholders. Directly linking its future with the development of Russia and its achievements, Sistema ac-

tively participates in the development of the economy and infrastructure of the Russian Federation and the locations of operations.

Financial Performance

Taking into account the Corporation's sustainable development

and its external environment, it is important to understand how and between which stakeholders the Corporation distributes the value created in the course of its activities. By distributing the value, the Corporation has an impact on the development of the economic and social systems.

Direct economic value created and distributed by Sistema (without S/As), mln. RUB (G4-EC1)

Component	2014
CREATED ECONOMIC VALUE	
Income ²⁶	85,439
DISTRIBUTED ECONOMIC VALUE	
Distributed economic value,	422,058
including:	
Operating costs	388,754
Wage or salary and other payments and benefits to the employees	6,467
Payments to capital providers ²⁷	25,709
Payments to State ²⁸	1,058
Investing in communities ²⁹	70

The data provided in the table are relevant only for the parent company of Sistema Group and does not include contributions from subsidiaries whose part of retained earnings is also aimed at the development of the locations of operations. In future, the Corporation plans to disclose this indicator according to IFRS.

In 2014, Sistema received no financial assistance from any public authorities. (G4-EC4)

Economic impact

Economic performance of the Corporation (presented in detail in Sistema's annual public financial report) has significant impact on the development of the economic and social systems through distribution of generated value. Sistema's total contribution to the GDP of the Russian Federation makes up about 1%. In 2011-2014, the average growth of the Group's rev-

enue in Russia exceeded the GDP growth rate: the revenue increased by 42% in four years.

Tax payments of Sistema Group

Sistema is one of the largest tax-payers in Russia. The total amount of taxes to the Federal and regional budgets (and also in other mandatory payments) of Sistema Group for 2014 amounted to 100 billion roubles, including 3 billion rub directly from the Corporate Centre.

From the total amount of the payments, more than 14.5 billion roubles were given for the purposes of pension, health and social insurance of the population. With the total deductions in 2014 from S/As amounted to 13.7 billion roubles.

Cooperation with regional authorities

Building up lasting and meaningful cooperation with regional authorities is one of the key priorities of Sistema.

²⁶ Indicators of the Income Statement according to RAS, including revenue, interest receivable and other income, were used for the calculation.

²⁷ The item "Payments to Capital Providers" includes dividends for all classes of shareholders and the interest paid to creditors.

²⁸ The item "Payment to State" comprises taxes included in cost of production; insurance payments for mandatory pension insurance, mandatory medical insurance and mandatory social insurance; income tax; value added tax.

²⁹ The item "Investments in Communities" includes charity expenses, except for donations to the Sistema Charitable Foundation whose activities are disclosed in Section 3.6 Charitable Activity of Corporation.

Fruitful interaction of the Corporation and regions can bring multiple benefits to all stakeholders.

Socioeconomic development of regions

In 2014, at the 18th St. Petersburg International Economic Forum, a general cooperation agreement between the Government of the Republic of Karelia and Sistema was signed.

The main area of cooperation is the development of the timber processing complex in Karelia by attracting investment, technologies and training systems, expanding the range of the manufactured products and their distribution. The agreement provides for the joint implementation of the federal special-purpose and state programmes in the region.

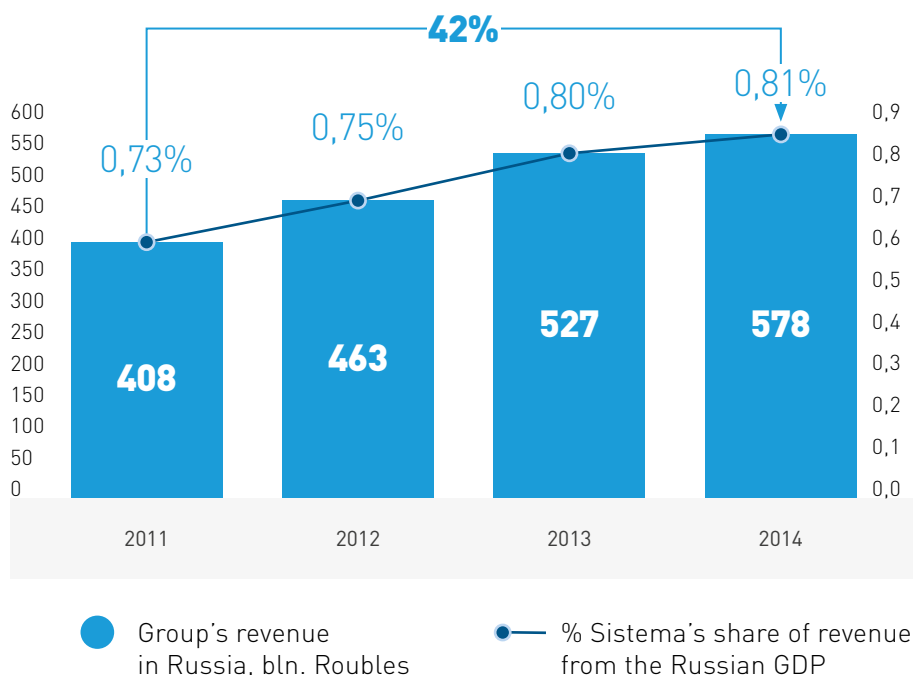
Agreement with Sistema became part of the package of documents of the federal special-purpose programme of socio- and economic development up to 2020 in Karelia, on which work is carried out in the framework of the State Commission on the preparation for the celebration of the 100-anniversary of the Republic of Karelia, with the Board Chairman Vladimir Evtushenkov being a member.

The Corporation also makes a significant contribution to the preservation of the cultural and historical heritage on the territory of Karelia. Sistema CF is involved in the restoration of one of the oldest architectural monuments and centres of spiritual development of Russia-Vaalaam monastery (Sortavala area, Valaam). In 2014, 15 million roubles were allocated for the restoration of the monastery.

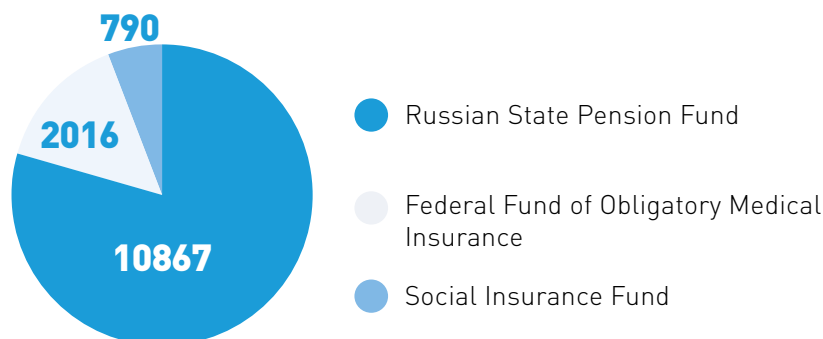
Innovation infrastructure

To ensure successful implementation of innovation projects for the development of the economy of the Nizhny Novgorod Region and the Russian Federation in general, Sistema in cooperation

Share of Sistema's revenue in Russia's GDP



The sum of Sistema's payments to Russian non-budgetary funds in 2014, mln. RUB



with Rosatom, the Federal State Unitary Enterprise «Russian Federal nuclear Centre-VNIIEF» and FIEP (Fund for Infrastructure and Educational Programmes) RUS-NANO implements a joint project, Technopark Sarov.

Technopark Sarov exercises the Technopark management, and it is intended to build infrastructure and create conditions for residents, attract projects and companies, incubate businesses, finance venture capital financing, and provide consulting services.

Technopark Sarov has a well-developed infrastructure, which includes 23 thousand square meters of the research-and-production premises, offices, social areas, including the building of the business incubator, and provides 630 working places (including more than 95 new working places created in 2014).

25 new small companies began working in 2014 in Technopark Sarov. In total, 54 resident companies, including 22 startups within the business incubator, conduct their activities in Technopark.

According to the results of 2014, the total turnover of the resident companies is more than 1.3 billion roubles. Taxes transferred to the budgets of all levels amounted to 157 million roubles.

In 2014, Technopark Sarov was included in the register of industrial parks of the Nizhny Novgorod Region. Within the framework of the development of the partner network, agreements were concluded with three technoparks (Skolkovo, MSU Science Park and Strogino). The Technopark became a support platform for the Fund «Centre of strategic developments North-West» by holding sessions of practical consulting for the development of small high-tech companies.

Alexander Khudilaynen
Head of the Republic of Karelia



“Our plans include many projects in different spheres that can be implemented in Karelia. One of them is with Sistema, and envisages retrofitting of the Segezha Pulp-and-Paper Mill and collaboration on a forest project that accounts for one fourth of the Republic's total logging area. To develop a company like the Segezha Mill, we need new ideas and new technologies. We will cooperate not only in logging, but also in timber processing. We have developed joint plans for eight segments, including concern the development of air, rail, water and road passenger transportation, innovations and high technologies, use of the scientific potential of the Karelian branch of the Russian Academy of Sciences and the Petrozavodsk State University. We have been working on this agreement for six months in order to get specific areas for cooperation rather than a framework document”.

A public-private financing programme of innovative projects that has no parallels in Russia – a Programme of Research and Production Cluster (RPC) of Rosatom - Sistema is realized in the Technopark. It allows the use of public funds for capital expenditures, provided that a resident company co-finances the operating costs. The programme has already carried out 16 innovative projects, the financing amounted to 1.6 billion roubles.

In addition, the first venture project was launched in December 2014 in Technopark Sarov, and it is planned to finance 8 new projects in 2015.

An Innovative Technology Centre Sistema-Sarov (ITC Sistema-Sarov) operates in the Technopark; it is a research centre of Sistema. During its existence, more than 10 projects for Russian Railways, RusHydro, Federal Security Service of the Russian Federation and of other customers were carried out.

In 2014, ITC Sistema-Sarov implemented the following projects:

- development of components of the smart systems designed to ensure comprehensive safe functioning of the city;
- establishment of the Centre for Mathematical Modeling of Technical and Technological Processes of Railway Transport;
- development of high-tech products for the Moscow underground.

In 2015, development of infrastructure Technopark Sarov and involvement of new residents will be continued. A key challenge will be the inclusion of the territory of Technopark in Sarov City municipality and creation on its areas of the territories of advanced development³⁰.

Reliable infrastructure for the Olympics

The Corporation made a substantial contribution to the preparation of the infrastructure of the host city of the winter Olympic games «Sochi-2014». In 2011-2013, MTS invested more than 10 billion roubles into the development of networks in Sochi and the Krasnodar Region. Significant amount of work was done on the development of communications networks in Big Sochi, including in the areas of competitions, and provided radio covering for all outdoor sporting facilities of the coastal and mountain clusters was provided. Also, the coverage of the mobile communication of the Gornaya Karusel and Rosa Khutor sporting and tourist centres was strengthened. MTS network covered hotels Chernomorets SPA and Radisson Blue, where the International Olympic Committee was situated. The capacity of the third generation network in the Krasnaya Polyana area of Sochi where many competitions were held increased by more than three times in three years. In addition, MTS implemented a project to provide full coverage of 3G cellular networks of a new Sochi international airport, and over 100 antennas were installed in the territory of the airport building.

Safe city

In Russian regions and cities, Sistema and its subsidiaries implement comprehensive high-tech solutions intended to create “smart” and safe environment.

In 2014, SITRONICS of Sistema Group, had stable interaction with the Government of the Republic of Dagestan and signed a cooperation agreement to introduce a comprehensive security system in the region, including IT solutions such as Safe city, emergency call management system operational services through a single telephone number

³⁰ In accordance with the Federal law No. 473-FZ dated 29.12.2014 (as amended on 13.07.2015) “On the territories of priority socio-economic development in the Russian Federation”.

Investments into local communities

In 2014 Sistema implemented a whole number of socially important and charitable projects in Bashkortostan and Tatarstan totaling 9.8 million roubles, including:

- charitable assistance to Neftekamsk branch of the Bashkir State University and Department of rehabilitation of disabled children and adolescents in Neftekamsk;
- financial support for a festive event devoted to the International Children's Day in Neftekamsk;
- financing of the activities to celebrate the Victory Day of the Great Patriotic War in Ufa;
- assistance to the Administration of Bavlinsky district of the Republic of Tatarstan for drilling and construction of artesian wells in the village of Kyzyl-Yar;
- assistance to the Administration of Utazinsky district of the Republic of Tatarstan to repair dams and build a bypass road along the floodplain of River Ik;
- charitable assistance to the autonomous non-profit organisation «Oktyabrsky Aviation Technical Sports Club named after B.G. Zaripov».



112, smart transportation network, paid parking, and other elements of the Smart City concept.

As a grant sponsorship, the company performed work for the installation of video surveillance systems for «Republican Centre for social assistance to families and children» (Makhachkala). This system was recommended across the Republic.

A separate subdivision of SI-TRONICS was established for the efficient interaction with regional and municipal authorities on the implementation of joint infrastructure projects in Makhachkala. As a result, new opportunities arose for the introduction of high-tech solutions for the interests of the population and organisation in the territory of the Republic of Dagestan and the North Caucasus.

Assistance in emergencies

On December 2 - 15, 2013, Sistema Charitable Foundation held a special winter scientific and educational school for high-school students in the children's health camp Orlenok in Zvenigorod as part of the Russian campaign to assist victims of the flood in the Far East. 150 pupils of 7-10 forms from Khabarovsk Territory, Amur Region and Jewish autonomous regions took part in it; they were the winners of various competitions and contests in the technical field who achieved high results in natural sciences and technical disciplines. The Ministry of Education of the Territory and regions took an active part in collecting the children.

For two weeks, the students were intensely engaged in physics,

Vyacheslav Shport

Governor of Khabarovsk Territory



"Such initiatives deserve respect and attention, since contribution to education is an investment in the future."

chemistry, biology and mathematics under the guidance of experienced high-school teachers, studying according to a special training programme. Leading specialists of Sistema's companies, including Stream, MTS, and NIIME and Mikron conducted master classes for students concerning current challenges in high-tech production and business. Under the guidance of mentors, the students developed their own projects for the development of the Far East in the field of information, industry and space technology, transportation, energy efficiency; they offered their vision of how to improve their region.

2015 Plans

1. Development of full cooperation with the Government of the Republic of Karelia on the modernization of the timber industry in the region and the launch of new joint projects.
2. Conclusion of cooperation agreements with a number of regions that are promising from the standpoint of the development of the forest and wood industries: Arkhangelsk, Vologda, Kirov and Irkutsk Regions.

3.5 Investment in Human Resources and Development of Innovative Capacity

Implementation of the all-Russian scientific and educational programme “Lift to the Future”

Since 2011, a large-scale social programme Lift to the future aimed at search, support and development of talented youth has been implemented. The idea to the largest Sistema's shareholder Vladimir Evtushenkov and was dictated by the call of the time - the need for human capital investment to create a «knowledge-driven economy» in Russia. As a result, the first youth social network with the advisory system which became a uniform All-Russian Talent Pool was created. An interactive portal on the Internet became the platform for hosting information on educational and career opportunities for Russian youth.³¹

The programme is implemented with the support of the Ministry of Education and Science of the Russian Federation and approved by the Supervisory Board of the Agency for Strategic Initiatives under the chairmanship of the President of Russia Vladimir Putin, endorsed by the regions where the activities of the programme were implemented: Republic of Sakha (Yakutia), Sverdlovsk Region, Bashkortostan, Smolensk Region, Krasnodar Territory, Vladimir Region and others. In total, by the end of 2014, students from 76 regions of Russia participated in the programme Lift to the future.

The operator of the Programme is the non-profit partnership “Lift to the future», established by Sistema Charitable Foundation and the Lomonosov Moscow State University in



2012. The programme is specified by the Regulation «Plan of the Russian programme to work with talented children and young people “Lift to the future”, approved by the Board of Supervisory Board of NP “Lift to the future” in 2014. The regulation specifies the growth areas and the programme strategy reflecting the priorities of Sistema.

“I would like young people to be able to build creative teams in order to achieve greater success. A team will always get better results than a lone scientist.”

Vladimir Evtushenkov
Chairman of the Board
of Directors of Sistema

Main objectives of the programme Lift to the future:

- promote intellectual development, scientific and technical creativity of adolescents and youth;
- develop a system of «social lifts» and mentoring for youth's professional development and reproduction of the personnel potential of high-tech Russian companies;
- increase the availability of additional education for schoolchildren, students, graduate students, young professionals and educators in the field of innovation activities.

To achieve these goals within the framework of the programme Lift to the future, a set of measures and system of activities aimed at achieving the following objectives are implemented:

- create friendly infrastructure for the development and achievement of intellectual and personal potential, professional self-determination and development of children and young people who have increased motivation to explore the natural sciences, hard and applied sciences, regardless of their place of residence, social status and financial capabilities;
- create constantly operating open all-Russian advisory, educational and professional orientation portal for the participants of the programme;

Veniamin Kaganov
Deputy Minister of Education
and Science of the Russian
Federation



“Five or seven years from now, the current participants of the Lift to the Future Programme will determine the technological structure of the country and, more simply, Russia's strategic position in the global economy. I am sure that the more companies join the process of building a succession pool for our high-tech industries now, the more competitive Russia will be in the future.”

³¹ www.lifttothefuture.ru

- motivate all stakeholders to take part in the programme, attract new members, mentors, experts and partners;
- assist the winners of the programme in the acquisition of practical professional experience and employment in high-tech companies - partners of the programme;
- promote and expand the programme to the regions of Russia through the conclusion of agreements on joint implementation of the programme with the authorities of subjects of the Federation, carry out joint activities and projects.

The main charity recipients of the programme are talented children and young people, who have shown themselves in natural and hard sciences and technologies, their teachers and parents. The indirect beneficiary companies are companies of Sistema, because they receive priority access to the young talents as potential trainees and future employees. A training programme Step to success in subsidiaries and enterprises of the Corporation is aimed at solving HR tasks.

Basic formats of the Programme

Consistently implemented formats of the programme allow the youth to embrace the whole cycle that puts their innovative projects in the pre-investment stage.



«Sistema Charitable Foundation is implementing a unique educational project. It is aimed at educating future leaders in science and high technology, and it is an investment into the future of our country. I personally saw that many projects created by the students at the Smolensk summer camp deserve very close attention, both on the regional and federal level.»

Alexey Ostrovsky
Governor of the Smolensk Region

25 contests and grant programmes were organised and supported in 2014. Among the key activities are the following:

- Contest of regional school projects System of Priorities (winter-spring 2014, autumn 2014)
- Youth Innovative Projects Contest within the framework of the Youth Innovation Forum (Festival of Robotics in Sochi, December 2014)
- Schoolchildren's Design and Research Contest (Vernadsky Contest) (spring 2014)
- Intellect2All Russian Youth Contest (summer-winter 2014)
- IV Youth Innovative Telecommunications Projects Contest Telecom Idea (spring-summer 2014).

Also, in-Russian and foreign internships and thematic Intellectual

Saloons were conducted within the Programme. In total, within 4 years, 64 winners of the Lift to the future contests became interns of European hi-tech enterprises and the leading scientific centres of the world.

Investments into the Lift to the future programme in 2014 totalled 120.3 mln. roubles.

The main mechanism of the expansion of the Lift to the future programme is establishment of regional facilities. To this end, agreements with 19 subjects of the Russian Federation were concluded: Moscow and Moscow Region, Republic of Khakassia, Chukotka Autonomous Region, Amur Region, Belgorod Region, Khabarovsk Territory, Vologda Region, Novosibirsk Region, Primorsky Territory, Tyumen Region, Sverdlovsk Region, Republic of Bashkortostan, Vladimir Region, Smolensk Region.

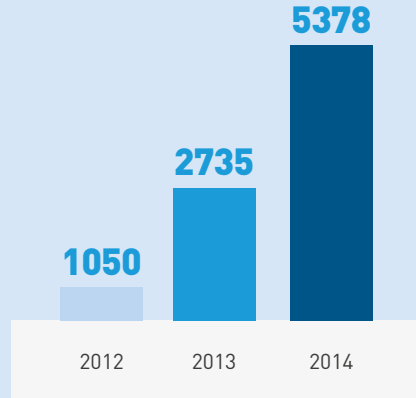
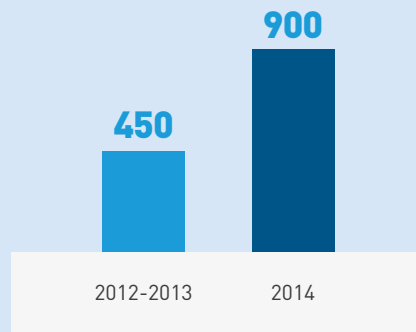


«We are happy to have a Lift to the Future summer camp here in Vladimir. I have carefully examined all projects developed by the students, and I am confident that all of them definitely hold promise. Moreover, some of the projects are certain to soon enter the next stage, that of a start-up. It is very important that Sistema Charitable Foundation initiates programmes that teach young people not only to absorb knowledge but also, more importantly, to communicate, work as a team, and unite around an idea.»

Mikhail Kolkov
Vice Governor of the Vladimir Region

2015 Plans

1. Organisation and support of the regional stage of the System of Priorities contest aimed at inclusion of schools and organization secondary vocational education institutions in the programme of innovative development of the region, establishing new paths of socialisation through the development of innovative development projects in regions.
2. Implementation of advanced training programmes for schoolchildren, students and teachers on the basis of the Lift to the Future regional scientific and educational schools and educational centre.
3. Further maintenance and support of the authors of school and student projects aimed at the development of Russian regions through the guidance of these projects, organisation of practical training periods and internships, inclusion of the best authors into a candidate pool.
4. Participation in the development of further education programmes for schoolchildren, students and teachers in the field of innovative projects with the view to staff the Lift to the Future programme in Russian regions.

Formats of work	Target audience	Objectives	Results								
All-Russian contest of regional youth projects System of Priorities	High schoolers and students of secondary vocational education institutions	<p>Familiarisation with the development strategies in the regions and preparation of bids for the six most relevant industry areas:</p> <ul style="list-style-type: none">• medicine and biotechnology;• information and telecommunication technologies;• transport;• industrial technologies and new materials;• environment of human life and society;• energy. <p>Competitive projects posted by the students on the portal Lift to the future are estimated by experts.</p>	<p>Contest winners receive grants from Sistema Charitable Foundation to participate in the scientific and educational schools Lift to the future.</p> <p>Participants in the semi-finals of “System of Priorities”, pers.</p>  <table><tr><th>Year</th><th>Participants (pers.)</th></tr><tr><td>2012</td><td>1050</td></tr><tr><td>2013</td><td>2735</td></tr><tr><td>2014</td><td>5378</td></tr></table>	Year	Participants (pers.)	2012	1050	2013	2735	2014	5378
Year	Participants (pers.)										
2012	1050										
2013	2735										
2014	5378										
Scientific and Educational summer camp Lift to the future	High schoolers and students of secondary vocational education institutions	<p>Making an actual innovative project out of a project for the competition</p> <p>During their studying in the scientific and educational school, students carry out and defend research projects, develop strategy of development of branches of the Russian economy and regions, all with the aid of mentors. Meetings with the leading representatives of the Russian business, master classes, business games and personal growth training, and various excursions are organised for the participants.</p>	<p>Students learn methods of project work, acquire operational experience in working in project teams in solving interdisciplinary, industry-specific and technical and technological tasks.</p> <p>In connection with active development and expansion of the programme Lift to the future, the number of participants of the scientific and educational summer camps doubled in 2014.</p> <p>Participants of the scientific and educational summer camps, pers.</p>  <table><tr><th>Period</th><th>Participants (pers.)</th></tr><tr><td>2012-2013</td><td>450</td></tr><tr><td>2014</td><td>900</td></tr></table>	Period	Participants (pers.)	2012-2013	450	2014	900		
Period	Participants (pers.)										
2012-2013	450										
2014	900										

Formats of work	Target audience	Objectives	Results
International Scientific Student Conference Fair Lift to the future	Winners of the contest System of Priorities	Promotion of scientific research and project activities among schoolchildren, international exchange of experience in project work.	Shaping of interest of the students to prospects of socio-economic development of their native states and regions. In 2014, Annual Lift to the Future International Student Scientific Conference was held in form of globally known International Student Science Fair (ISSF). Besides the Russian national team – the winners of the scientific and educational school Lift to the future – it was attended by 120 young scientists from 18 countries, 50 teachers and principals.
Youth Innovation Forum	Students who designed innovative projects to be developed further and highly praised by employers.	The joint efforts of the programme's experts and participants in the course of the annual final events following a year-long programme aimed at development of breakthrough technological capabilities and solutions for their commercialisation.	Qualitative change in industrial practices.
Intellect2All Contest	Students, graduate students, doctors of science	The contest brings together more mature young participants who have made their professional choice, many of whom have already achieved some success in their industry. Therefore, the requirements of the contest are of completely different level than those of the contest for schoolchildren System of Priorities.	The winners of the contest receive support for their projects from companies and an opportunity to work over a "road map" for their introduction to actual production.
All-Russian Internet Portal Lift to the future	Schoolchildren and students	Creation of open educational environment. The All-Russian Internet-portal Lift to the future is a year-round platform for interactive project work under the guidance of mentors.	Functionality of an interactive centre for career planning and potential employment of the programme participants.
Regular events for mentors and tutors	Academic staff, student participants of the programme.	Development of a system of mentorship and tutorship, shaping and support of the programme's candidate pool, ensuring succession.	In addition to student events (innovative competitions, scientific and educational schools), the programme also supports teachers who lead research projects of high school students selected on a competitive basis. In 2014, approximately 50 teachers mastered the technique of Lift to the future in an educational centre at the Higher School of Management and Innovation of the Lomonosov Moscow State University. During the existence of the programme, approximately 400 teachers who trained the winners of the Lift competitive events have received grants for advanced training in the Moscow State University, 270 mentors have received grants for the organisation of project work with schoolchildren in regions of Russia. The experience gained by Lift to the future in 2015 enables us to rise to a new stage of its development, i.e. to extend the model established of a public-private partnership type in the field of further education in Russian regions.

Lift to the Future interregional scientific and educational camps in 2014

Regions	Dates	Spheres
Smolensk Region	01.06 – 18.06	Transport, Space industry, Ecology and nature management
Vladimir Region	23.06 – 10.07	Transport, Telecommunications, Energy, Ecology and nature management
Republic of Bashkortostan, Ufa	18.07 – 04.08	Energy, Petroleum industry, Ecology and nature management
Moscow Region, Dmitrovsky district	07.08 – 27.08	Transport, Telecommunications, Medicine and pharmacy, Energy, Space industry, Ecology and nature management

Russian-Indian Youth Innovation Summit

The First Russian-Indian Youth Innovation Summit dedicated to the official visit of the Russian President Vladimir Putin to India was hosted in December 2014 in the Russian centre of science and culture in New Delhi. The event was organised by Sistema, MTS, SSTL and representative office of Rossotrudnichestvo with support from the Russian Embassy in India.

The Summit was dedicated to the latest technology and prospects of international cooperation in the field of innovation in telecommunications, and it was conducted with a view to enhance cooperation between Russia and India in promotion and monetisation of new projects on the world market.

The agenda of the Summit included an exhibition and presentation of the best projects of the Telecom India Industry-Specific Youth Innovation Contest that took place in Russia and India in the summer of 2014. Young Russian and Indian developers and start-up entrepreneurs provided new products using “smart” IT solutions that contribute to the development of urban environment comfortable, environmentally friendly and accessible to all categories of citizens. The conference Contribution of innova-

tion to the development of modern society and world progress was held within the framework of the Summit, where the Minister of Industry and Trade of the Russian Federation D. Manturov, President of Sistema M. Shamolin, President of MTS A. Dubovskov and other experts from Russia and India delivered speeches.

The Summit was attended by over 300 people: high-ranking repre-

sentatives of government organisations and several NGOs, heads of the largest Indian research centres and universities, experts in the field of telecommunications development, developers of startups in information and communication technologies, leading venture capital investors, young developers of breakthrough technologies from Russia and India, two countries’ businessmen and journalists.



“I have no doubt that, by joining efforts, Russia and India will be able to present a serious competition for the current leaders in the global technology race. Our countries know how to drive fast, catch up and outrace.”

Denis Manturov
Minister of Industry and Trade of the Russian Federation

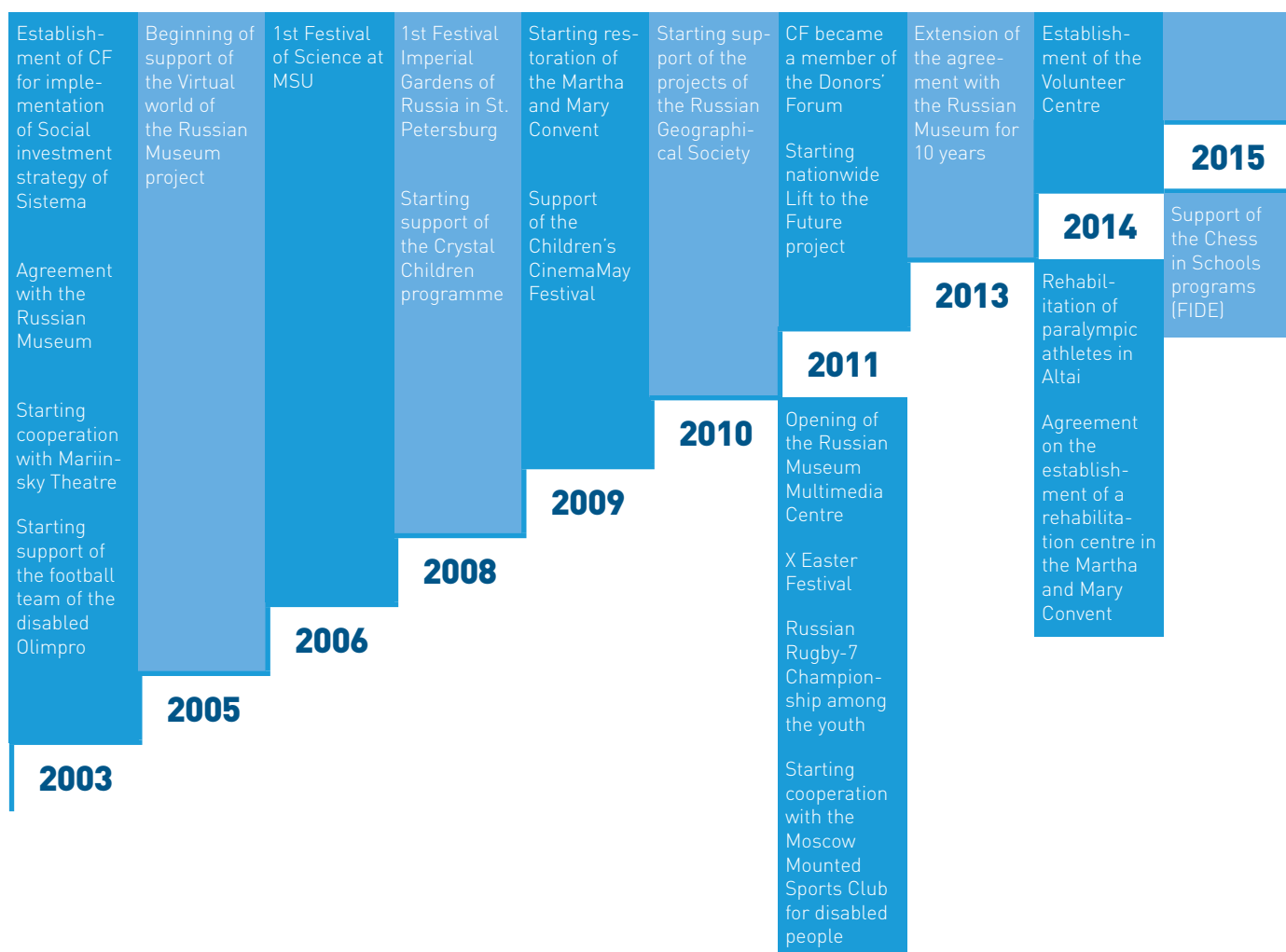
3.6 Charitable Activities of the Corporation

The Corporation's charitable activities are developed within the concept of «social investment» which is focused on a long-term social

policy that combines the strategic interests of the Corporation, shareholders and interests of social development.

Sistema Charitable Foundation is the main instrument for charitable activities of Sistema and its subsidiaries.

Milestones



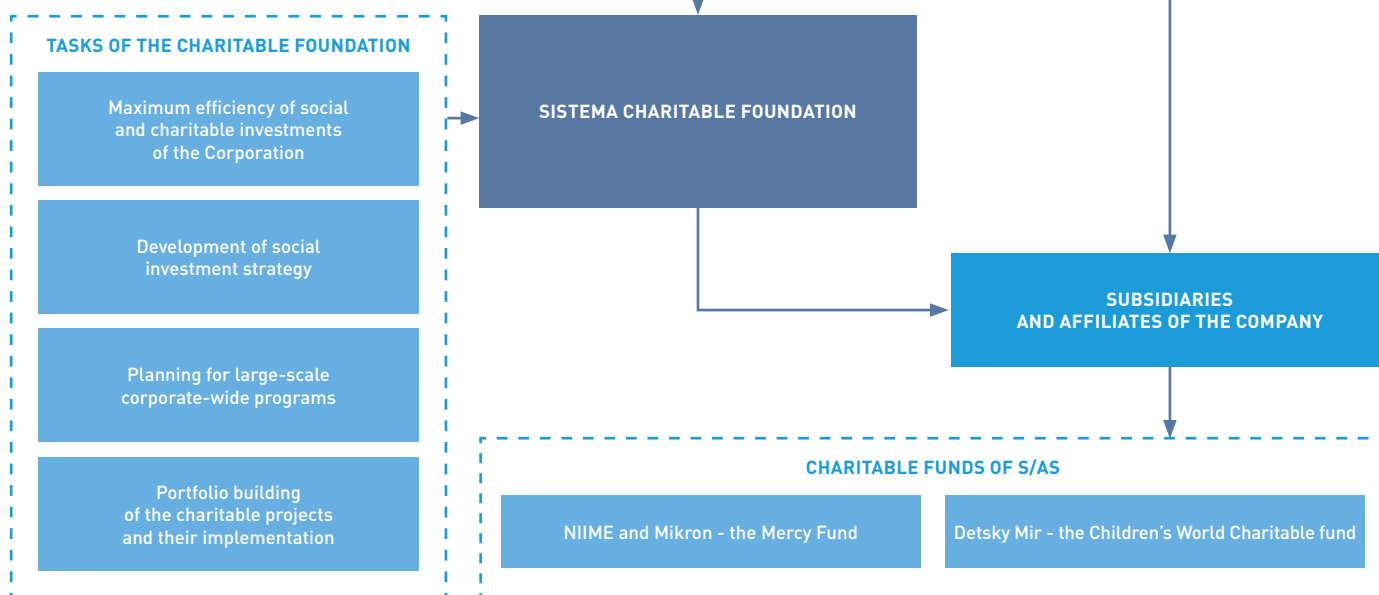
Sistema's social investments over 3 years amounted to about

4,5 billion roubles

The main objective of Sistema's charitable activities is to promote intellectual capacity through the support of education, science and youth; to form a harmonious society through support of socially vulnerable segments of the population and local communities; to preserve and promote the cultural heritage of Russia. Social investments of the Corporation are aimed at achieving actual results and designed to help the social development of Russia.

To ensure consistent and coordinated work on the implementation of the CSR policy objectives requiring cooperation of the Corporation and its S/As, Sistema Charitable Foundation has a Management Board consisting of representatives of Sistema and S/As responsible for the development of CSR and charitable activities.

Management of charitable activities in Sistema Group



Some subsidiaries and affiliates of Sistema Group have their own corporate charitable funds. For more information about the Children's World charitable fund, see 4.6.

Public organisations and charitable activities management

Source of finance of Sistema CF are contributions from Sistema and S/As. The decision of the Sistema's Board of Directors dated September 18, 2010 recommended the size of the target financing of charitable activities at the rate up to 0.65% of net profit of S/As from the previous year, including financing of projects of Sistema CF.

By the end of 2014 the share of expenditures on social and charitable programmes amounted to about 2% of the Sistema's consolidated net profit, which according to the report of the Corporate Giving Standard (CGS) prepared by the Committee Encouraging Corporate Philanthropy (CECP) corresponds to the global level.

Investing in charitable and social programmes, mln. RUB

Sistema CF	340.7
S/As	574.7 (excluding deductions in CF)
Total	925.2



Support for Olympic athletes

The Corporation has provided considerable support to the Olympic movement. From 2006 to 2014 Sistema CF transferred more than 650 mln. roubles to the Russian Olympians Foundation – a non-profit organisation established at the initiative of the Presidential Administration and the Russian Government to support athletes, coaches and experts – members of Russian national teams in Olympic sports, strengthening the Olympic movement in Russia, encouraging better results and achievements in Olympic sports. In particular, the Foundation organised a trip to the 22nd Olympic Winter Games in Sochi for 150 former champions and prize winners, including such famous athletes as the Soviet



gymnast, nine times Olympic champion Larisa Latynina, Soviet hockey player, one of the best forwards of CSKA and the Soviet national team, Olympic champion Viktor Polupanov, and other outstanding athletes.

SSTL helped an Indian athlete suspended by the International Olympic Committee to participate in the Games. Luger Shiva Keshavan, two times gold medalist of the Asian Cup, participated in the Games under the Olympic flag thanks to a large-scale fundraising campaign in social networks, IndiaForShiva, which involved popular Indian actors and many fans and was organised by MTS India.

Annually, the Foundation supports about 50 projects within the framework of 5 programme areas:

Programmes implemented by Sistema Charitable Foundation in 2014³² [G4-S01]

Programmes	Key projects and partners	Expenditures in this area in 2014, mln., RUB
Science and Education	<ul style="list-style-type: none"> • Lift to the Future (key area of the programme - flagship project of Sistema's social investment) • Support of the projects of the Russian Geographical Society • Support of the projects of the Eurasian Centre for the Study, Preservation and Rehabilitation of the Leopard Population • Support of the projects in the sphere of higher education and science, institutional support of educational organisationinstitutions • Fund for Development and Support of the Valdai International Discussion Club 	151.2
Culture and Art	<p>Support of the projects of the State Russian Museum (key area of the programme):</p> <ul style="list-style-type: none"> • «Russian Museum: a Virtual Branch»; • Imperial Gardens Landscape Art Festival; • Programmes and projects of the Friends of Russian Museum International Society; • Organisation of exhibitions, publication of art albums and books on art. <p>Support of museums as tangible historical and cultural heritage, including:</p> <ul style="list-style-type: none"> • Support of the Prohorovskoe Field Museum of Armored Vehicles (Belgorod Region) • Valaam Reserve Museum (Karelia) <p>Support of dramatic and musical theatres and cultural establishments:</p> <ul style="list-style-type: none"> • Valery Gergiev's Fund; • International Easter Festival; • Support of Spivakov's Fund projects. 	75.1
Preservation and Promotion of the Cultural Heritage	<ul style="list-style-type: none"> • Support of projects of the Fund Support for Building Moscow Churches (key area of the programme); • Reconstruction of the Epiphany Cathedral (at Yelokhovo). 	74.2
Health Promotion and Social Support	<p>Health protection and social support of orphans, disabled children, children from large and low-income families, people with disabilities and the elderly (key area of the programme):</p> <ul style="list-style-type: none"> • Project to establish a centre for disabled children at the Martha and Mary Convent of Mercy; • Contributions to protection of childhood: support of orphanages, kindergartens, children's hospitals (including house-boarding school for children with mental handicap in Pavlovsk, orphanage in Zvenigorod, etc.). • Support of the disabled (Nezavisimost CF; Moscow equestrian sports club for disabled people, Vozrozhdenie Moscow football club for disabled people); • Organisation of New Year's performances for orphans, disabled children, and children from large and low-income families; <p>Social support of servicemen and their families (All-Russian public fund National Charitable Fund, etc.); Support of the veterans of the Great Patriotic War and the labour front.</p>	26.9
Physical Culture and Sports	<p>Support of the Olympic and Paralympic Movement (the key area of the programme):</p> <ul style="list-style-type: none"> • Treatment and rehabilitation of the Paralympic team members; <p>Support of children's and youth sports:</p> <ul style="list-style-type: none"> • Russian Rugby League Federation; • Moscow Sambo Federation; <p>Support of sports movement (Interregional fund to promote development of sports)</p>	13.3

³² For more detailed information on the programs of the Sistema Charitable Foundation, see <http://bf.sistema.ru/programs/>

Financing of social projects in S/As and personal charitable donations of the employees

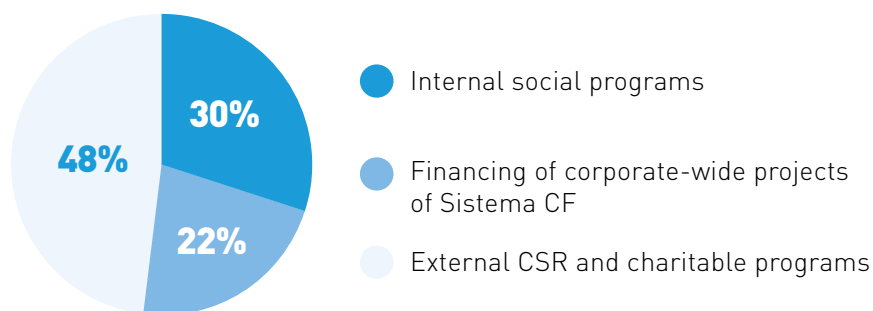
Virtually all social and charitable projects of Sistema's subsidiaries are funded from their own means or voluntary donations from the employees. One of the exceptions is the programme We Can Do More Together of Detsky Mir Group: part of the funds are raised by collecting donations from customers, and others are provided as goods of partner suppliers of the company.

The largest expenditure among CSR projects of the subsidiaries in 2014 was an MTScharitable programme Give Good! to help children who need urgent treatment, and RTI project to establish a pre-university segment of the system for training of highly qualified specialists.

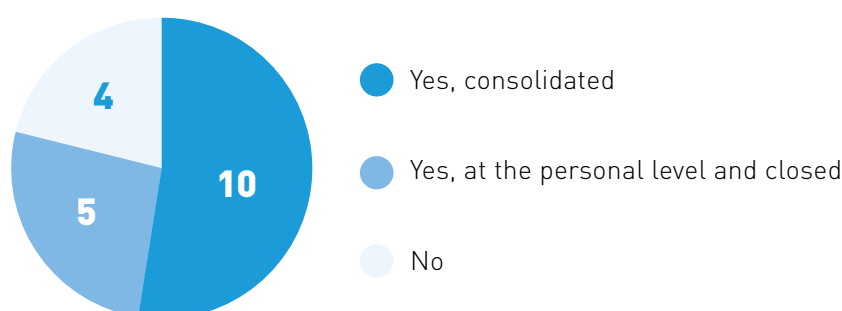
Not only the companies of Sistema Group, but also the employees of the Corporation take active part in charitable projects. In most subsidiaries, this practice is relatively well-organised and integrated into the corporate charitable projects and HR processes: they are direct deductions from salary to charity and participation of the personnel in gathering and purchase of gifts for sponsored children's homes (including as part of a corporate-wide campaign New Year's Tree of Wishes organised by Sistema CF).

One of the examples is the Co-Financing programme, which has been implemented since 2013 by Detsky Mir Group; it involves voluntary donations of the employees deduced from their salaries for charities. The funds raised are intended to help children in need of expensive treatment, medicines and for other purposes. SSTL (MTS India) created a number of channels for personal donations from the employees. One of the regular channels is the Be an Angel programme, in which the employees can make donations to expand the

Structure of Sistema Group's expenditures on charity and social programmes in 2014, %



Personal donation practices in Sistema Group



support of disadvantaged children in the areas of education and health. The system of voluntary charitable deductions from salaries is also used in Binnofarm.

The size of the employees' donations depends on both the size of the company and the nature and scope of its charitable activities. For example, about 2 million roubles were collected by efforts of the employees of Medsi Group in 2014. Funds were spent for treatment of seriously ill children of the employees. About 1.2 million roubles of donations for various charitable purposes were raised by the BPGC employees in Bashkiria. Employees of RTI Group are involved in voluntary co-financing of campaigns organised by Sistema CF (Theatre Season Ticket, New Year's Tree of Wishes campaign, targeted assistance to refugees from the Ukraine, and children in need of treatment).

2015 Plans

1. Implementation of key long-term projects on main activities.
2. Resource reallocation in favour of the implementation of the most efficient and promising projects with significant social importance.
3. Strengthening of the role of public-private partnership in implementing charitable projects.
4. Increased cooperation with representatives of the business community and civil society organisations, including other NGOs involved in charitable activities, with a view to joint implementation of projects.
5. Establishment of a unified mechanism for receiving charitable donations on the basis of online payment services of MTS Bank.

3.7 Ecology and Environmental Protection

Sistema's main efforts in environmental protection are aimed at improving energy efficiency, safe disposal of waste, protection of the atmospheric air, water and land resources protection, as well as environmental education of the young generation and preservation of biodiversity.

By caring about the environment, Sistema consistently works to optimize the consumption of natural resources by implementing key principles of conservation, and steadily reducing water usage. The Corporate Centre has a negligible impact on the environment which is reflected in the data on consumption of the main types of resources and energy.

Currently, the data on greenhouse gas emissions by the Group is not consolidated. However, taking

into consideration the importance of environmental aspects to the stakeholders, the Corporation pays special attention to environmental responsibility of the S/As that due to the nature of their activities have significant impact on the environment (Segezha Group, Targin, SG-Trans, SG Trading, BPGC, and others). In the future, it is planned to introduce a uniform method of keeping records in Sistema Group and to organise centralized collection of data on greenhouse gas emissions and impact of the subsidiaries on the climate in accordance with the recommendations of the CDP's international climate change programme and the national system of carbon reporting and regulation of greenhouse gas emissions established in the Russian Federation. It is also planned to publish data on the forest resources (for Segezha Group).

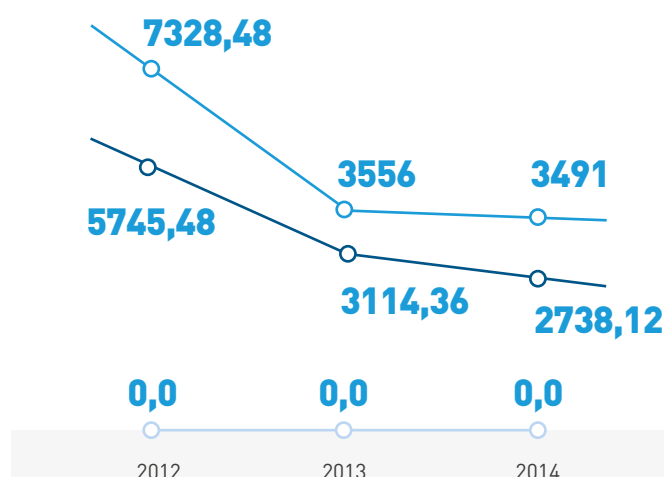
Environmental projects of the Corporation

Sistema's general expenses on environmental projects amounted to 18 mln.roubles in 2014. [\[G4-EN31\]](#) These funds were raised for projects related to the conservation of biodiversity, environmental research and environmental education.

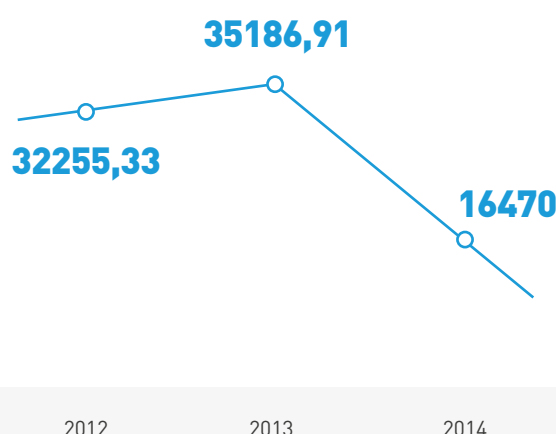
Support of the Russian Geographical Society projects

Russian geographical society (RGS) is a leading Russian public and scientific organisation, actively engaged in ecology, environment, climate change; among the areas of its activity are the study of the effects of global changes on the ecological condition of the plan-

Information about fuel and energy consumption



Information about water consumption, cubic meters



- Heat Power, Gcal
- Electrical Power, thousand kW/h
- Boiler and furnace fuels, ton of oil equivalent

et and its people, preservation of endangered ethnic groups of small peoples, and many other topical issues.

In 2014, with the support of the Corporation, the Festival of the Russian Geographical Society, which presented all RGS regional offices from 85 Russian regions, was held for the first time in the Central Home of Artists in Moscow. During the week, the event was attended by about 60 thousand people, including many children and teenagers who also took part in an extensive educational programme.

The projects Talking with White Whales and Russian Arctic. Wild World of Putorana Plateau and Taymyr peninsula were implemented with the support of Sistema CF in 2014. A number of other programmes aimed at solving the issues in ecology, environmental protection, climate change were also implemented.

Talking with White Whales project

The field and experimental studies of some functional characteristics of social behaviour, space-time structure and characteristics of the acoustic signaling of the local population of white sea belugas, creation of a feature film Talking with White Whales are carried out within the framework of the project.

Russian Arctic. The Wild World of Putorana Plateau and Taymyr peninsula project



There is a high amount of waterfalls on the Putorana plateau, and large population of reindeer from Taymyr winter there. Helicopter flights to the waterfalls and places of migration of the reindeer were conducted to take photographs.

Support of the projects of the Eurasian Centre for the Study, Preservation and Rehabilitation of the Leopard Population

A national park Land of Leopard, with the area of 18 thousand hectares, was opened in the territory of Khasansky and Nadezhdinsky districts, Ussuri city district and Frunzensky district of Vladivostok in 2012. The territory of the park covers the main remaining habitat of the leopard. The most favourable conditions were created for the leopard's habitat, since any human activities, including presence, are banned there.

In 2014, biochemical activities, including the feeding of hoofed animals were performed in the territory of the Land of Leopard national park, which made it possible to provide the Amur leopard with sufficient food base. Technical equipping of the employees directly involved in security activities, research and expedition work was improved. Activities aimed at preventing forest fires were carried out: specialized essential equipment was purchased, and the work on the establishment of a system of mineralized strips in the National Park was started. In 2014, great attention was paid to cultural and educational work among the local population.

2015 Plans

1. To use resources to finance the most successful and promising environmental projects.
2. To extend cooperation with regional authorities and non-governmental organisations in the implementation of environmental projects.
3. Implement a programme to conserve populations of the deer in the wild of Altai within the framework of the development of tourist and recreational capacity of the region.

Expenses for environmental projects, mln. RUB

Indicator	2012	2013	2014
Support of the Russian Geographical Society projects	23	15	15
Support of the projects of the Eurasian Centre for the Study, Preservation and Rehabilitation of the Leopard Population	3	3	3
TOTAL	26	18	18

3.8 Stakeholder Engagement and the Corporation's Social Reporting

In its investment and managerial activities, Sistema interacts with numerous audiences, among whom are the shareholders and investors, employees, government agencies, partners, NGOs, consumers, etc. The Corporation is seeking to build up stable, mutually beneficial and transparent relationship with the stakeholders, and it applies maximum efforts for building up a meaningful dialogue taking into account the interests of all target groups; it uses a wide range of mechanisms of interaction and multiple channels of communication.

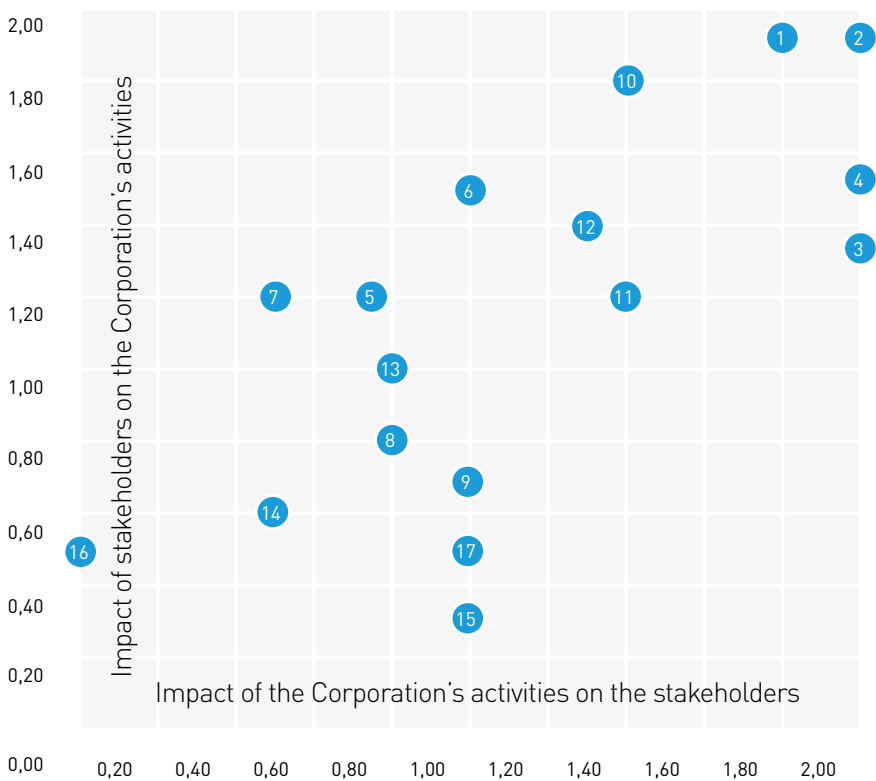
A snap poll of the Corporation's management involved in the preparation of the Report was conducted during the preparation of the Report. Within the framework of the poll, it was necessary to estimate from 0 to 2 the influence of the stakeholders on the activities of the Corporation and the influence of the Corporation's activities on them. The results of the poll made it possible to improve the rank chart of the Company's stakeholders, which was formed and published in the previous non-financial reports. [\[G4-25\]](#)

List of Stakeholders

The stakeholders of the Corporation are as follows:³³ [\[G4-24\]](#)

- | | |
|--|--|
| 1. Shareholders | 10. Investment community |
| 2. Management | 11. Business partners |
| 3. Personnel | 12. Customers/consumers |
| 4. Subsidiaries and affiliates | 13. Professional associations |
| 5. Mass media | 14. Scientific community |
| 6. Governmental authorities | 15. Educational institutions |
| 7. Supervisory governmental authorities | 16. Public environmental organisations |
| 8. Local government bodies | 17. Public social and charitable organisations |
| 9. Population of the locations of operations | |

Rank chart of the Corporation's stakeholders



³³ Sistema's key stakeholders are shown in bold

Stakeholder Engagement [G4-26], [G4-27]

Stakeholders	Interests/expectations	Means of Engagement	Results for 2014	Plans for 2015
Shareholders and Investors	<ul style="list-style-type: none"> Increased capitalisation of the Corporation. Growth and development of the Corporation. Transparency. Dividend payment. 	<ul style="list-style-type: none"> Holding Roadshow. Conference calls. Participation of the Corporation's executives in investment forums and conferences. Setting up personal and group meetings of investors and shareholders with the top management and independent directors. Presentations for cornerstone investors and rating agencies. Issuing press releases. Investor Relations and Dividend Policy Committee operations. 	<ul style="list-style-type: none"> There were a number of meetings held between independent directors and shareholders aimed at furthering good relations with investment professionals and receiving shareholders' feedback on the activities of the Board of Directors. Several transactions on purchase of new assets were supported: in forest industry and woodworking, e-commerce and agriculture. Discussions with the investors on the Sistema's strategy were held. After making inquiries among investment professionals, a number of recommendations were made on how to increase the Corporation's transparency. Moody's Investors Service has revised upwards the credit rating of Sistema to Ba2 with «positive» outlook. Standard&Poor's has revised upwards the credit rating of Sistema to BB+ with «stable» outlook. 	<ul style="list-style-type: none"> Disclosure of Segezha Group's operations as part of Sistema's performance description. Preparation for independent financial disclosure under IFRS. Increasing the disclosure level and quality for the majority of key assets. Maintaining high number of meetings with investors with participation of the Sistema's management.
Management	<ul style="list-style-type: none"> Achievement of strategic objectives. Understanding of the Corporation's growth prospects 	<ul style="list-style-type: none"> Holding annual strategic meetings with participation of Sistema's key top managers and S/As managers to discuss and update the Corporation's business strategy. Holding meetings and conferences of the top managers including as part of the Corporation's collective advisory consultative bodies operation Business workshops. 	<ul style="list-style-type: none"> Annual strategic session was held. 	<ul style="list-style-type: none"> Holding strategic sessions and work groups on the Corporation's current business development trends.
Personnel	<ul style="list-style-type: none"> Consistent wages. Decent working conditions. Opportunities for professional growth and capability development. Social safeguards. Personal fulfillment and development. 	<ul style="list-style-type: none"> Meetings and conferences. Speeches of the Corporation's management. Publications in the corporate magazine and on the Intranet website. Personnel engagement surveys. Collecting feedback of the personnel on working in the Corporation. Corporate parties. Corporate training and team-building events for the personnel. Organising professional competitions and contests. Organising corporate-wide volunteer initiatives and motivational meetings for volunteers. 	<ul style="list-style-type: none"> The Corporation personnel engagement level averaged 60%. Expert RA Rating Agency (RAEX) confirmed the employer appeal of Sistema at the level of A.hr (High level of the employer's attractiveness). Sistema's Volunteer Centre engaged about 2 thousand employees of the Corporation and organised 52 initiatives. 	<ul style="list-style-type: none"> Establishing new advanced personnel communication channels. Personnel engagement level assessment. Expansion of the corporate volunteer movement.

Stakeholders	Interests/expectations	Means of Engagement	Results for 2014	Plans for 2015
Subsidiaries and affiliates	<ul style="list-style-type: none"> Improving management efficiency. Achievement of strategic objectives. The Corporation assists in market promotion and acquiring state support. Support of social projects by the Corporation. 	<ul style="list-style-type: none"> Strategic meetings with participation of the Sistema's top managers and S/As managers Holding group conferences Holding facilitated workshops Entering into cooperation agreements with regions taking into account the interests of S/As Participation in law drafting taking into account the interests of S/As Organising corporate-wide CSR and charity projects 	<ul style="list-style-type: none"> Signing General Agreement with the Republic of Karelia. 8 S/As of the Corporation took part in joint (integrated) social programmes. There were 7 CSR projects implemented, based on the Shared Value approach. 3 S/As published social reporting under the GRI G4 Standard. The percentage of volunteers among the Corporation personnel amounted to 5% of the number of employees. 	<ul style="list-style-type: none"> Increasing the S/As' transparency. Introducing uniform anti-corruption procedures into the operations of all S/As of the Corporation. Increasing the percentage of volunteers among the Corporation personnel. Implementing new social projects based on the Shared Value approach. Increasing the number of S/As publishing social reporting under the GRI G4 Standard.
Mass media	<ul style="list-style-type: none"> Milestones. Transparency. Assuring real-time access to information on the Corporation's operations. 	<ul style="list-style-type: none"> Publishing information on the Corporation's website Publishing press releases Holding conference calls Conducting interviews with top managers Speeches of the Corporation's officials at public events. 	<ul style="list-style-type: none"> Regular coverage of key events related to Sistema's and S/As' activities in mass media and social media 	<ul style="list-style-type: none"> Increasing mass media interaction as part of CSR activities in order to raise social awareness on social activities of Sistema. Global update of the corporate website (including expanding the section on social responsibility of the Corporation) and Sistema CF website Promotion of the Corporation in social media (Twitter).
Governmental authorities	<ul style="list-style-type: none"> Taxes. Employment. Social programmes implementation. 	<ul style="list-style-type: none"> Participation of the Corporation's officials in advisory bodies (committees, work groups, boards) under the President and the Government of the Russian Federation; Proposals for draft regulations of the Russian Federation Government on topics affecting the interests of the Corporation's S/As; GR projects support and monitoring in special-purpose committees in the State Duma of the Russian Federation; Participation of the Corporation's officials in committees and commissions sessions, in parliament hearings of the Federal Assembly of the Russian Federation; Participation of the Corporation's officials in activities of expert boards and work groups in special-purpose committees in the State Duma of the Russian Federation. Participation of the Corporation's officials in activities of such social agencies as RUIE, CCI on topics affecting the interests of the Corporation's S/As. 	<ul style="list-style-type: none"> Participation in the development of a regulatory framework related to the RuNet content circulation management. These activities resulted in the concept of digital media copyright proposed by the Civic Chamber of the Russian Federation Expert Group, and the concept is based on the idea of setting up a register of legal content as best serving the interests of web users. Consistent cooperation established with legislative bodies for the benefit of the Corporation Consistent cooperation established with federal executive bodies. 	<ul style="list-style-type: none"> The policy on «Sistema's interaction with governmental authorities and government officials» has been updated. Cooperation with legislative bodies for the benefit of the Corporation Cooperation with federal executive bodies. Bailout plan evaluation for the measures taken in those economy sectors where the Corporation's S/As operate. Build up and informing of the Russian Federation leaders on the Corporation's proposals on key industry-based initiatives and government programmes. Extension of contacts with foreign countries. Priority countries for cooperation in 2015: India, China, South Africa, Indonesia, Myanmar, Bahrain, Saudi Arabia. Participation in drafting of the addresses of the President and the Government of the Russian Federation to foreign partners on issues concerning the Corporation's business development prospects; Ensuring participation of the Corporation's or S/As' officials in meetings of intergovernmental commissions or their special-purpose committees pegging the agenda in the final protocol that is of interest to the Corporation or its S/As; Ensuring that federal state government authorities senior officials and government officials are aware of the agenda that is of interest to the Corporation or its S/As in order to include it into negotiations with foreign partners.

Stakeholders	Interests/ expectations	Means of Engagement	Results for 2014	Plans for 2015
Supervisory governmental authorities	<ul style="list-style-type: none"> Russian law and regulatory requirements compliance. 	<ul style="list-style-type: none"> Reporting documents delivery. Informing the Federal Anti-Monopoly Service on mergers and acquisitions. 	<ul style="list-style-type: none"> On September 24, 2014, there was a civil suit filed against Sistema seeking to return shares of Bashneft held by the Corporation to the Russian Federation. On November 7, 2014, the Moscow Arbitrazh Court upheld the claim on the basis of defaults made in the course of original privatising of Bashneft. On November 12, 2014, after careful consideration, Sistema's Board of Directors decided not to appeal the decision of the Court, but file a claim for damages from the asset seller – UrallInvest. In December 2014, Sistema transferred all its shares in Bashneft to the Government. In February 2015, the Moscow Arbitrazh Court upheld the Sistema's claim, deeming the Corporation a good-faith buyer and decided to recover losses from the defendant. In March 2015, Sistema and UrallInvest signed a settlement agreement under which the Corporation recovered damages in the amount of RUB 46.5 billion less social investments into the Republic of Bashkortostan of 10% of the total amount. In the third quarter of 2015 Sistema received from Ural-Invest additional cash and financial instruments for a total amount of RUB 12.9 billion for the compensation of the damage incurred due to Bashneft shares return. There were no significant fines for minor violations of regulatory requirements imposed on Sistema. There were no non-financial penalties. [G4-S08] No antitrust infringements were registered. [G4-S07] In 2014, Sistema had no political cash contributions or contributions in kind. [G4-S06] 	<ul style="list-style-type: none"> Reporting documents delivery. The Federal Anti-monopoly Service approval on new mergers and acquisitions.
Regional authorities and local governments	<ul style="list-style-type: none"> Taxes. Employment. Regions infrastructure development. 	<ul style="list-style-type: none"> Business meetings with regional administrations; Signing General Cooperation Agreements; Participation of the Corporation's management in representative economic forums held in Russian regions (Saint Petersburg, Sochi, Nizhny Novgorod, Vladivostok). Participation of the Corporation's officials in conferences with regional authorities and government officials held in regions. 	<ul style="list-style-type: none"> Signing a General Agreement with the Republic of Karelia and an agreement with the Republic of Dagestan on topics that are of interest to the S/As. Establishing sustainable cooperation (execution of actual contracts of the Corporation's S/As) with the administrations of the Republic of Dagestan, Rostov Region, Stavropol Region, Moscow Region. 	<ul style="list-style-type: none"> Signing General Cooperation Agreements with Arkhangelsk, Vologda, Kirov, and Irkutsk Regions. Establishing sustainable cooperation with the administration of Krasnoyarsk Region. Increase in the Corporation's regional coverage (in 10 regions).
Population of the locations of operation	<ul style="list-style-type: none"> Job availability Contribution to the locations of operation development. Social support. 	<ul style="list-style-type: none"> Cooperation through Sistema CF and S/As. 	<ul style="list-style-type: none"> Lift to the Future interregional summer camps held in Bashkortostan, Smolensk, Vladimir, and Moscow Regions. As part of a Russia-wide initiative of flood relief aid to people of the Far East at the end of 2013, a winter educational and scientific school for high school students of the stricken area was organised at the Eaglet Recreation Camp for Children in Zvenigorod. There were a number of socially significant and charitable projects implemented in Bashkortostan and Tatarstan. (For more details, see 3.4. Contribution to Development of Locations of Operations) 	<ul style="list-style-type: none"> Corporate programmes' extension targeted at local communities, including new locations of operation.

Stakeholders	Interests/ expectations	Means of Engagement	Results for 2014	Plans for 2015
Business partners, customers and consumers	<ul style="list-style-type: none"> • Support of fair competition. • Timely and accurate contract performance. • Respect for ethical principles. 	<ul style="list-style-type: none"> • Business negotiations. • Ambitious and innovative projects presentation. • Cooperation agreements. 	<ul style="list-style-type: none"> • The Smart City Project was presented as part of the XVIII Saint Petersburg International Economic Forum. • At the World Economic Forum in Davos, Medsi Group signed a Letter of Intent on strategic cooperation with Philips, the global leader in health care solutions 	<ul style="list-style-type: none"> • Expansion of inter-industry and international engagement
Professional associations	<ul style="list-style-type: none"> • Understanding of the Corporation growth prospects • Cooperation within the framework of industry and public initiatives 	<ul style="list-style-type: none"> • Participation in professional associations activities. • Conducting joint campaigns. 	<ul style="list-style-type: none"> • Sistema's officials took part in the activities of RUE, the Russian Managers Association, the Russian Institute of Directors, EU/Russia Industrialists' Round Table, Russian Association of Communication Directors and Corporate Publishing and other non-governmental organisations. More specifically, at the Russian Managers Association's Innovation Economy Committee Sistema presented a new smart cities vision using India as an example • Vice President of the Corporation, Sistema's Head of HR Department Elena Leonidovna Vitshak was an honorary jury member of the annual HR Brand Award, participated in the XV Summit of HR Directors in Russia and CIS as an expert board member. 	<ul style="list-style-type: none"> • Joint events with the Russian-Arab Business Council • Joint projects with the Managers Associations
Scientific community	<ul style="list-style-type: none"> • Russian science promotion 	<ul style="list-style-type: none"> • The Corporation's participation in the Committee on Scientific and Technical Innovations and High Technology under the Chamber of Commerce and Industry of the Russian Federation. • Implementation of joint projects with research institutions. 	<ul style="list-style-type: none"> • Technopark Sarov continues to develop. Total turnover of resident companies as of year-end 2014 amounted to over RUB 1.3 billion. 	<ul style="list-style-type: none"> • Technopark Sarov's further development. • Further cooperation with Lomonosov Moscow State University.
Educational institutions	<ul style="list-style-type: none"> • Joint educational programmes. • Work experience for students. • Targeted training of specialists. 	<ul style="list-style-type: none"> • Implementing joint projects on the basis of Lift to the Future, the flagship CSR programme • Setting up specialized management training courses for the Corporation's and external market employees. 	<ul style="list-style-type: none"> • Further cooperation with the Lomonosov Moscow State University and development of the High School of Management and Innovation (HSMI) • Further development of the Lift to the Future programme (5,378 people got into the System of Priorities contest semifinal, 900 pupils studied at summer camps, 4 regional educational and scientific schools and the Annual International Academic Pupils' Conference, etc.) were arranged. 	<ul style="list-style-type: none"> • Development and strengthening of cooperation between the MSU HSMI and the Corporation's S/As. • Developing a bachelor's degree course for the Innovation studies at the MSU HSMI. • Expanding cooperation with Russian higher education institutions within the framework of the Lift to the Future programme. • Organising an International Innovation Youth Summit in association with the Higher School of Economics of National Research University (HSE NRU) and the Skolkovo School of Management in Moscow.
Environmental NGOs	<ul style="list-style-type: none"> • Environmental programmes. • Environmental protection. 	<ul style="list-style-type: none"> • Joint projects implementation • Information exchange. 	<ul style="list-style-type: none"> • The first Russian Geographic Society Festival was held. • Talking to White Whales project was implemented. • Implementation of the Russian Arctic: Wildlife of Putorana Plateau and Taymyr Peninsula Project. • An package of measures to support the Land of Leopard National Park was implemented. 	<ul style="list-style-type: none"> • Further cooperation with the Russian Geographic Society and support of the Eurasian Centre for the Study, Preservation and Rehabilitation of the Leopard Population • Implementing the programme to preserve the maral (Siberian red deer) population in the wild • Expanding cooperation with environmental organisations (specifically in the area of forestry).
Public social and charity organisations	<ul style="list-style-type: none"> • Social, charity and volunteer programmes. • Social partnership. 	<ul style="list-style-type: none"> • Implementing joint social, charity and volunteer projects. • Agreements for cooperation with NGOs • Holding joint public events. • Financial support for social and charity organisations. 	<ul style="list-style-type: none"> • Establishing a centre for disabled children at the Martha and Mary Convent of Mercy is underway. • The following institutions received support: the Nikolay Petrov's Fund, Gergiev's Fund, Spivakov's Fund, the Fund Support for Building Moscow Churches, the Orthodox Traditions Foundation, the Benois Centre. • Implementation of the disabled support programme in association with Nezavisimost CF, Moscow equestrian club for the disabled, Moscow football club for the disabled Vozrozhdenie. <p>(For more details, see 3.6. Corporation's charitable activities)</p>	<ul style="list-style-type: none"> • Signing a cooperation agreement with the Moscow Municipal Veterans Union and the Government of Moscow. • Enlarging partnership circle in implementing social and charity projects of the Corporation.

4. SUBSIDIARIES' TRADITIONS IN SUSTAINABLE DEVELOPMENT

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The Corporation owns various assets in different sectors and always aims to shape and support best traditions and practices in social responsibility and sustainable development areas. This

allows to achieve high economic results, contribute consistently and positively to business and society development without prejudice to the well-being and stakeholders. The Corporation's subsidiaries

are actively implementing projects complying with the Shared Value principles. Such projects achieve not only commercial but also social results benefiting the Corporation and stakeholders.

Shared Value projects of Sistema Group

Initiators	Project	Value for the Corporation	Value for the society
Sistema JSFC and Sistema Charitable Foundation	Lift to the Future – support of young talents	Establishment of a succession pool for Sistema and S/As	Promoting academic research and engineering, facilitating youth professional development and career guidance
MTS, MTS Bank	Network for All Ages is a programme of Internet literacy for senior people to help them acquire practical skills to use modern financial on-line services	Increase in user numbers and awareness of the brand in the age group with the lowest Internet penetration	Social adjustment of seniors in a modern digital society; extending e-government user base
MTS	Social HR – employing senior people at sales outlets and creation of specialized jobs for the disabled	Decreasing job turnover in retail network, increasing loyalty of senior customers. Compliance with statutory requirements and recruitment of young qualified professionals from among the disabled.	Employment opportunities and social adjustment of seniors and disabled people
BPGC	Introducing the Smart Grid technology that will significantly cut grid losses	Increasing grid efficiency, decreasing energy losses and increasing income.	Higher quality and reliability, uninterrupted power supply for customers.
Detsky Mir	Get Involved! campaign – collection of goods at children's stores for the benefit of children in difficult life situations	Increasing sales proceeds and customers' loyalty	Facilitating charity and volunteer work, supporting children's social institutions
Detsky Mir	Operation "Toys" – setting up children's playrooms in hospitals in the locations of operation	Increasing awareness of the brand among target groups and its value for consumers	Contributing to the development of territories and local communities
Medsi Group	Be Healthy with MEDSI! – promoting healthy lifestyle	Corporate clients and partners recruitment and loyalty promotion	Increasing population's awareness of the ways of health protection

In April-May 2015, the Corporation was audited on corporate social responsibility and leading CSR experts were interviewed, as well as public sector, business, media and government representatives (including RUIE, All-Russian Public Organisation Business Russia, Non-Profit Organisation CAF (Charities Aid Foundation) Russia, State Duma Committee on Education, etc.). The survey showed that main trends of Sistema Group's CSR projects in general reflect the experts' ideas on social investments trends most popular in Russia. The majority of the respondents agreed that the most current trends of CSR activities for S/As' purposes were (in order of frequency of mention) education, science, innovations,

support and adjustment of socially vulnerable groups.

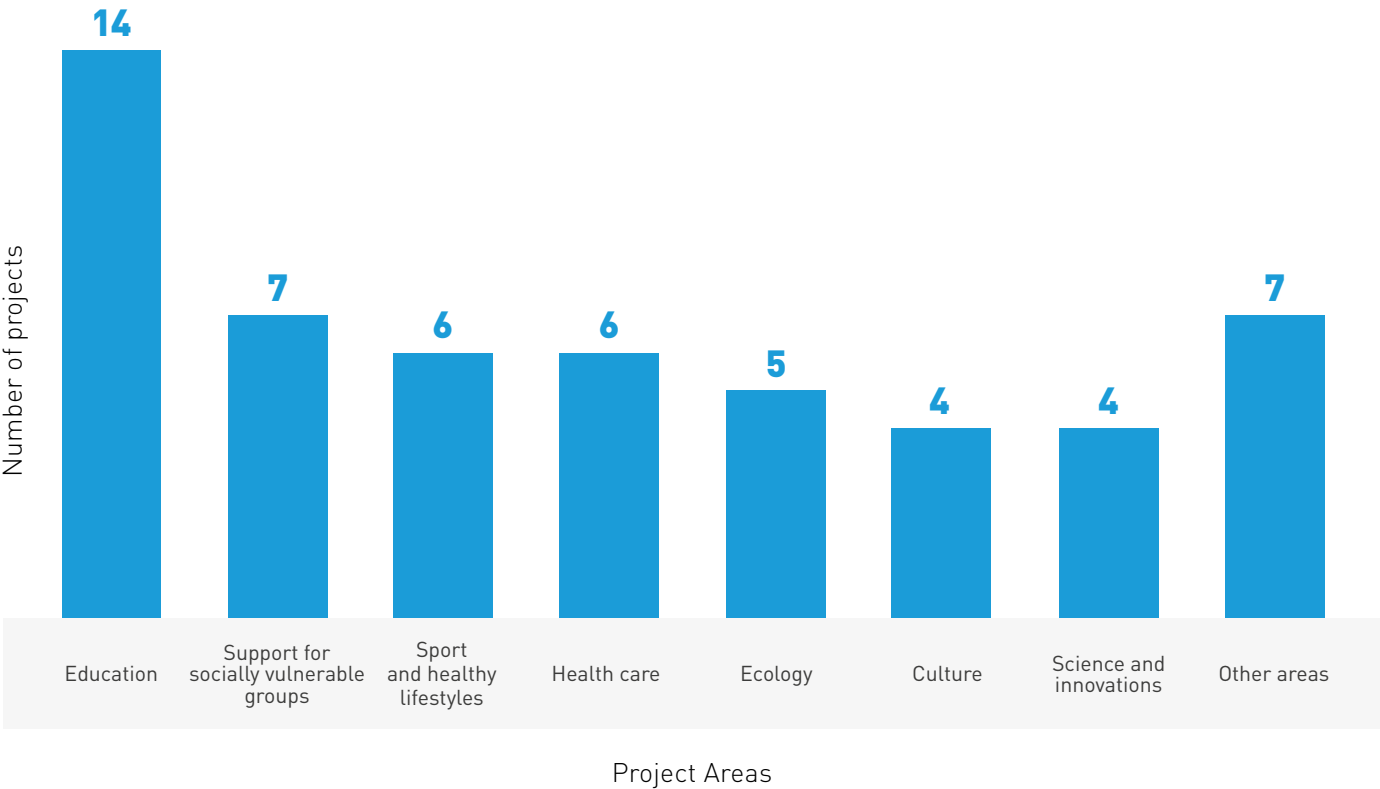
Projects in education and support for socially vulnerable groups are most popular among Group companies. Health care, sport and healthy lifestyle also hold a prominent place among S/As' activities. Also, among others, there are projects on intellectual property, social services and volunteer work.

The majority of projects reported by S/As were created in 2014, and virtually all projects are under 3 years old. Obvious exceptions are the programme for a pre-university segment of training highly qualified specialists implemented for RTI Group since 2003, and long-

term CSR projects of MTS – Telecom Idea, Children in the Internet and JUST Give Good! which appeared in 2011.

The analysis of the CSR activities undertaken by Sistema allows to identify most progressive and prospective traditions of the Corporation's subsidiaries in the area of sustainable development, relating to each key stakeholders group. This Chapter describes projects and practices of the Corporation's subsidiaries in the corporate social responsibility and sustainable development areas that are worth of extension and dominating not only within the Corporation but also among other similar national projects.

Social projects at the Corporation's S/As



4.1 Shareholders, Investors and Management Efficiency

MTS: CSR Management system



Corporate social responsibility and sustainable development are traditionally important for MTS. At the same time, given the company's scale and geographic footprint, management of activities in this area can sometimes be poorly coordinated or inconsistent.

To ensure consistency and efficiency the CSR activities the company launched an integrated CSR management system.

The Board of Directors is the supreme governance body at MTS, and its responsibility is to approve CSR and social programmes strategy, to monitor progress and to assess social projects efficiency. Vice President for Human Resources and Corporate Social Responsibility Department of the Human Resources Unit are responsible for planning and direct implementation of CSR projects; the Public Relations Department is responsible for corporate charity activities. Employees of HR, PR and marketing divisions are responsible for the Company's social initiatives implementation in the regions; they are appointed by macroregion directors.

The CSR Committee was set up in 2014 under the MTS CEO, consisting of company structural subdivisions' members (HR, PR, Marketing, Sales and Services, Security, Procurement Management, Compliance), MTS macroregions CEOs, as well as external social partners and renowned CSR experts. The Committee is an advisory body, the

members of which work with the company's partners in the area of corporate social responsibility and also convey the corporate CSR policy to the external and internal environment. Amongst their goals is to create a CSR environment within and around MTS, to consolidate and use efficiently the company's resources in integrated CSR projects, to independently review the Sustainability Report, and to approve annual plans for the Corporate Centre and macroregions.

Also, as part of the CSR Management System, in 2014 more was done to integrate generally recognized principles of business social responsibility into the current activities of MTS. The company started to implement an optional International Standard ISO 26000: 2010 "Guidance on Social Responsibility": carried out evaluation of its business processes in terms of compliance with the standard's recommendations, which allowed to determine the extent to which the Company's existing business processes, regulations and policies comply with the standard, and to identify priority areas to implement the recommendations and also to set further plans for social responsibility management in the Company.

The self-evaluation results showed that CSR projects at MTS are implemented to a high standard.

In addition, this standard is being promoted in MTS subsidiaries. For example, VivaCell-MTS was one of

Andrey Dubovskov
President of MTS



In 2014, MTS self-assessed its activities according to social responsibility principles based on the International Standard ISO 26000: 2010., the company intends to use the results to apply this standard fully and on a regular basis, while self-assessments will be held at least once in three years.

MTS takes responsibility for its actions, and this is the key to sustainable development of our company. We believe that the CSR management system and ISO 26000: 2010 will help us to improve corporate sustainability and social importance of MTS.

Overall Results of the Standard Compliance Evaluation

● Compliance to the Standard ● Partial compliance to the Standard

Administrative control	Human rights	Working practices	Environment	Fair business practices	Consumer-relat- ed problems	Participation in and development of communities
Administrative control	Appropriate pru- dence	To find employment relations	Pollution prevention	Anti-Corruption Enforcement	Marketing and information good practices	Participation in communities
	Situations related to human rights risks	Social dialogue		Responsible involvement in politics	Consumers health and safety care	Education and Culture
	Avoid implication				Sustainable con- sumption	Job creation and skills development
	Settlement of complaints	Working condi- tions and social protection	Sustainable re- source usage	Fair competition	Consumer services and support	Technologies development and access
	Discrimination and vulnerable groups			Climate change mitigation and adaptation	Respect for ownership rights	Consumer data protection and confidentiality
	Civil and political rights	Work safety	Access to essential services		Health	
	Economic, social and cultural rights	Human develop- ment and in-place training	Environmental protection and biodiversity	Respect for propri- etary rights	Education and Awareness	Social investment
	Basic occupational principles and rights					

the first companies to start CSR activities based on the ISO 26000 Standard. The company trained its personnel and launched a number of CSR projects, such as: introduction of information technologies training programmes in five universities in Armenia, providing Internet access to the Caucasus Nature Reserve employees, a project in the field of neonatal medicine (see in more detail in this chapter), training sessions on workplace etiquette to help interact with disabled employees and ensure human rights protection, etc.

MTS plans to further implement the ISO 26000: 2010 requirements in 2015 and to apply this standard on a regular basis.

Targin:

EXAMPLE OF REDUCING THE COST OF BORROWING

Borrowing is a business success factor, which helps to quickly eliminate a financial deficit, testifies to creditors' trust and improves profitability of own funds.

Due to the economic crisis in Russia, one of Targin's largest creditors significantly raised the cost of borrowing in 2014. In cooperation with Sistema, Targin held talks with the creditor's representatives and negotiated terms and conditions beneficial for all parties, having significantly lowered the cost of new borrowings.

So proactive cooperation with shareholders and creditors enabled Targin to raise new funds at below-the-market levels (compared to peers).



SG-trans:

ATTRACTING INVESTMENT FOR DEVELOPMENT

In May 2014, SG-trans and Sberbank of Russia signed a long-term agreement on the sidelines of the 18th St Petersburg International Economic Forum, providing for potential financing by Sberbank of the company's projects related to rolling stock acquisition, industrial infrastructure development, mergers and acquisitions, as well as support for financial markets transactions. The agreement was signed for five years with a possibility of extension. It does not restrict SG-trans' cooperation with other banks.



4.2 HR and Social Policy, Personnel Training and Human Rights

MTS: Corporate volunteer initiative Just Give Good!



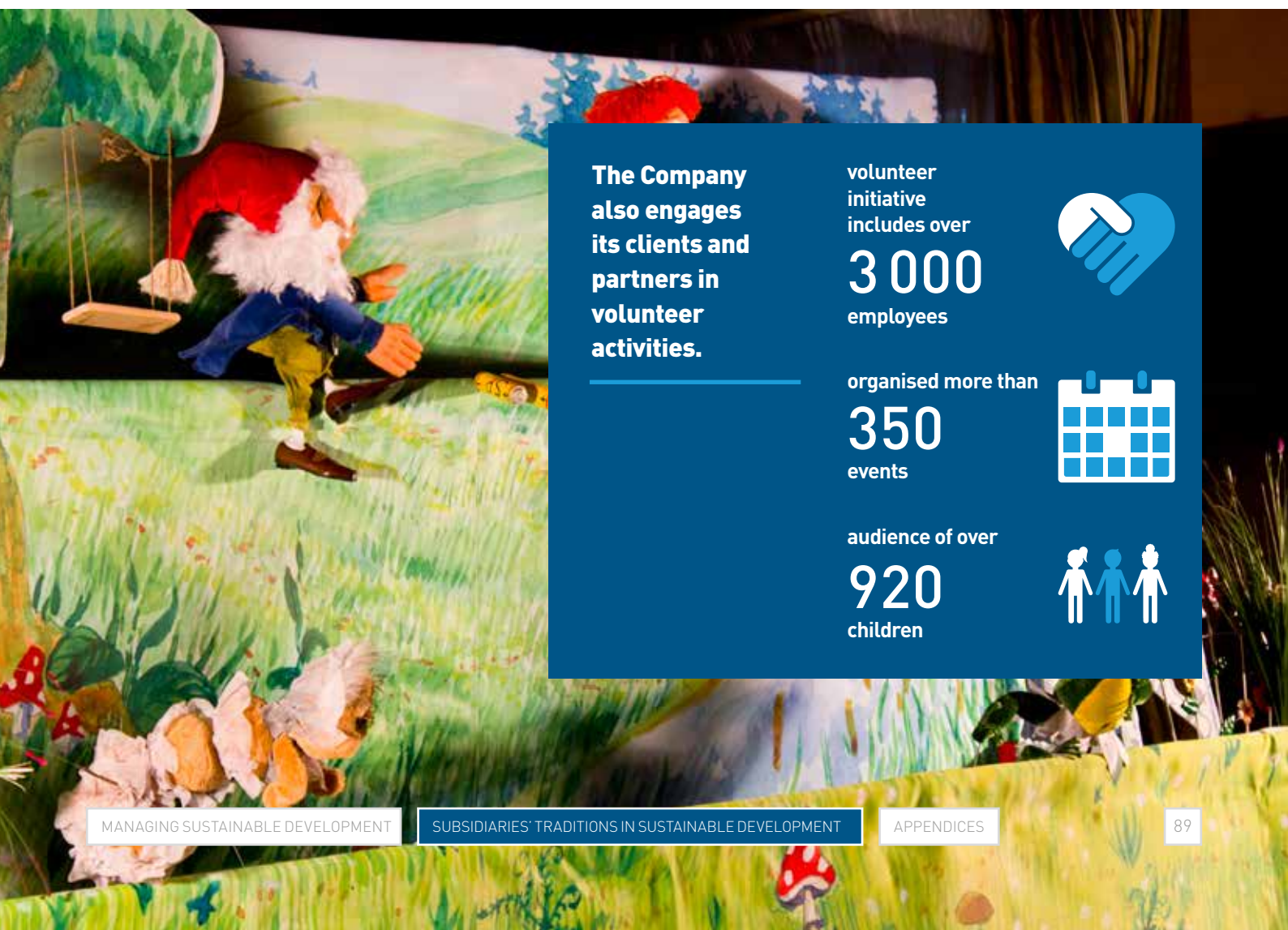
Corporate volunteer initiative Just Give Good! by MTS is integrated into the corporate culture and HR strategy. The volunteer initiative includes over 3 thousand MTS employees (20% is intellectual volunteering), and the Company also engages its clients and partners in volunteer activities.

In 2014, MTS volunteers organised more than 350 events, most of which were aimed at social assistance to children from poor and disadvantaged families, children with disabilities and orphans across the country.

The 2nd MTS Corporate Volunteers Congress (Belarus) with participation of employees from Sistema and other Corporation's companies (total of 50 people) was held in order to educate and motivate volunteer coordinators, while in December over 50 best volunteers of MTS were given honorary certificates and awards during a ceremony which took place in Moscow on the occasion of the International Volunteer Day. Sistema Charitable Foundation provided special awards for the best volunteer projects, and MTS corporate

volunteering practice won the prize as the best one in the Corporation.

Beginning from 2012, MTS runs the Mobile Story Theatre, a unique corporate volunteer puppet theatre, targeted at education and socialisation of children, including from sponsored orphanages and children of employees. There were annual federal projects implemented: Green Express (volunteer visits of sponsored children's institutions), New Year Trees for Children (volunteer initiative for children for the New Year cele-



The Company also engages its clients and partners in volunteer activities.

volunteer initiative includes over
3 000
employees



organised more than
350
events



audience of over
920
children



brations). 16 performances were held for the total audience of over 920 children in Moscow and central Russia.

This experience was successfully copied by Detsky Mir Group, where a volunteer theatre troupe was organised in 2014 that takes part in charity projects.

In 2015, as part of the corporate volunteer programme, MTS plans to develop existing projects and launch new initiatives, including projects dedicated to the 70th anniversary of the Victory in the Great Patriotic War. The company also plans to launch a joint IT project of MTS and Dobro Mail.Ru to promote volunteer projects, and to automate project management, and increase their transparency and efficiency.

Mikhail Arkhipov
Vice President
for HR Management at MTS



«Joint volunteer activities really help to improve the office environment, too. Such a

positive experience as visiting children or veterans helps to unite co-workers. It's a kind of unique team building of its own.

There is another aspect, too. Any company's success is measured not only by its tangible assets, but also by its human capital. A potential employee should want to come for a long time, and this is only possible when the company offers conditions that are not offered by any other employer. Volunteering increases loyalty among certain categories of employees and enables them to unlock their creative potential, while addressing important social problems at the same time.»

Stream: Intelligent volunteering

Stream from Sistema Mass Media Holding Company, in cooperation with MTS, Sistema CF, Detsky Mir and MTS Bank, initiated the Intelligent Volunteering project in 2014 in order to give young people career advice. As a part of this project, the company's employees introduce young people to multimedia business, popular professions and areas of expertise, and explain intricacies of professions.

Young people who have shown interest and talent in digital content and telecommunications participate in the project: participants of the Lift to the Future summer schools and MTS Telecom Idea Junior competition; teenagers without parental care or with disabilities, as well as children of Sistema S/As' employees.

In 2014, specialists of the Company introduced over 180 teenagers from Moscow Region and other regions to their jobs.

During career guidance tours young people learnt about digital broadcasting development and features, professional education needed to work in this area, watched how to do video and audio editing, how Stream service works on various platforms, including Smart TV, IOS and Android.

In 2014, MTS and Sistema Charitable Foundation rewarded Stream for the Intelligent Volunteering project.

In 2015, the company plans to open a new page in intelligent volunteering – Business Goes



specialists
of the Company
introduced over
180
teenagers



to Children and Teenagers. The goal is to offer vocational guidance, to introduce high school students to the multimedia and telecommunications industry. Project Objectives: to demonstrate the industry features and achievements and present professions in demand today and in the future; to enable direct dialogue between high school students and Stream experts at meetings and presentations in schools, vocational schools and boarding schools for children deprived of parental care, etc.

The company also plans to participate in the Sistema's Lift to the Future scientific and educational schools and MTS Telecom Idea contest, and to offer expert advice, special categories and further on-line or any other advice on the projects designed by the young innovators.

Particular attention in volunteer outreach will be given to promoting the exclusive use of licensed content among the younger generation on the Internet (audio, video, books). To this end, the company plans a For Legal Content contest for high schoolers and students. In 2015, it is planned to increase the number of participants in educational meetings with Stream employees to 250 students.

In addition, the company plans to develop other employees' volunteer activities and skills by involving employees in projects that combine support of cultural sites with learning about Russian culture and history: eco-cleanup at the Museum Estate «Yasnaya Polyana» (cleaning forest area), with a tour of the park and the memorial house of Leo Tolstoy.

MTS-Bank:

FINANCIAL AWARENESS

MTS-Bank supports the trend towards raising financial awareness among people of all ages through taking part in a series of educational projects. The Bank has traditionally sponsored the Russian National Academic Competition on Financial Markets and Consumer Knowledge Basics. In 2014, at the 9th Competition, bank experts checked entries of 90 secondary school students and awarded winners with diplomas and gifts from the bank. As part of the Financial Awareness Day on September 8, bank experts also gave educational workshops, lectures and quizzes in many schools across the country.

As part of Sistema's Lift to the Future project designed to support talented youth, MTS Bank's experts gave several workshops and offered a tour of the bank to the participants of the International Student Scientific Conference, the summer educational and research school in the Moscow Region and the Moscow International Education Exhibition. Notably, students learned about treasury operations and real-time exchange transactions.

MTS Bank also partnered up MTS for the social educational project Network for All Ages. The bank's experts helped to develop training materials on online banking for the programme that teaches older people to use computers and a variety of useful online services.

In December, MTS Bank launched an updated online service the key characteristic of which was a user-friendly customized interface, which was developed taking into account the requests of the Bank's customers and the best practices in the field of remote banking services.



Artyom Zasursky Stream CEO



«We have found our CSR niche having created and launched this project. For our employees, volunteering means creativity and demonstration of their talents. It was with obvious pleasure and passion that they spoke to teenagers and children telling and showing them what they do and what Stream does in general.

After each tour and off-site lecture our experts continued to offer professional counseling on projects online and via Skype. Stream employees suggested what needed to change and how, where to get the necessary information on telecommunications, seeking to bring the young people's projects to a higher level.

Right in front of us we could see how employees themselves became more involved and responsible. Charity and CSR are like a two-way street. We tried to meet the needs of children and teenagers but, we got more than just grateful feedback, we saw an increased work engagement, loyalty and a greater team spirit among our employees.»

MTS is actively involved in development of barrier-free environment in Russia for the disabled. The company actively cooperates with the Regional Disabled People Public Organisation «Perspektiva» and is part of a sponsored Business Advisory Board on Disability (BABD). The Board is a public platform seeking to solve the problems of the disabled from the business community perspective; today it includes over 40 companies working towards integrating people with reduced capabilities into their activities.

In 2014, MTS employees participated in various activities organised and held by BABD member companies. As part of a social project

to create inclusive environment, MTS started cooperation with universities with special training programmes for disabled students. The Company took part in The Way to a Career competition helping young people with disabilities to receive a job offer. The competition included interesting practical training on self-presentation, public speaking, presentation design and many other business skills. Some participants were offered internship at the MTS financial and human resources units as part of the summer internship programme.

The company also took part in a summer job fair for applicants with disabilities. Throughout the year,



17
seminars
in the form
of Skype
conferences



Business Advisory Board on Disability (BABD) it is a public platform seeking to solve the problems of the disabled from the business community perspective.

loyalty index
for employees
over 55 years
old was

71%

number of employed
disabled personnel
increased by

26%



MTS corporate coaches and volunteering employees gave lectures, provided tours around the Company offices and held football games for Bauman Moscow State Technical University and RSUH students.

According to the 2014 involvement survey, the loyalty index for employees over 55 years old was 71%, while the number of employed disabled personnel increased by 26%.

In 2015-2016 MTS plans:

1. To take part in the Business Advisory Board on Disability meetings in St. Petersburg and Novosibirsk.
2. To take part in the Annual International Forum Business for Equal Opportunities and the International Disability Film Festival Breaking Down Barriers, both of which are organised by Perspektiva and BABD.
3. To take part in The Way to a Career competition for young applicants with disabilities.
4. To organise business lectures and workshops for university students with special training programmes for disabled students.
5. To develop internship programmes for students with disabilities.
6. To arrange personnel training on best barrier-free environment practices (disabled people, children and elderly people).
7. To bring the Company's website and the on-line store website into compliance with certain standards to be used by people with disabilities.
8. To prepare recommendations to ensure unhindered access to showrooms for the disabled.
9. To prepare guidelines for the employees working in showrooms and call-centre on rules and ethics of communication with disabled people.
10. To implement programmes intended to increase seniors' employment.

Elena Seregina

Director of Corporate Social Responsibility Department of MTS



«When the company supports disabled or elderly people – by employing them and providing comfortable working conditions – it allows many of them to enjoy a full life, to work and unlock their talents, to use their skills and energy, and to share their invaluable experience with the younger generation.»

SG-Trans:

CORPORATE UNIVERSITY

In 2014, SG-Trans started the Corporate University project to provide internal training for the company's employees. As part of this project, highly qualified professionals working at the central office share their professional experience and skills with colleagues from branches, namely, tell them about changes in the legislation (industry, accounting, tax, labour), emphasize better compliance with occupational health and safety standards and requirements, speak about methods for preventing corruption, help to develop

leadership potential and business planning skills, as well as improve their financial analysis skills and software use. Training is offered in a variety of formats: interactive seminars and workshops, distribution of explanatory documents, conference calls, and on-line conferences.

In 2014, training was done in the form of Skype conferences in all 9 branches of the company. There were 17 seminars held, all of them involving chief engineers and work safety officers.



Targin:

TRAINING CENTRE

In 2014, Targin opened a Training Centre intended to help to develop and maintain corporate knowledge, professional culture and personal performance development.

During the first three months of its operation, about 600 employees were trained there. At the same time, the financial costs were minimal as lectures

were given by staff members executives of Targin Group.

In 2015, Targin plans to actively develop the centre, enhancing cooperation with other companies involved in employee training, developing new training classes and programmes, as well as improving the quality of current ones.



VivaCell-MTS: Information on Ethics and Human Rights



K-Telecom (VivaCell-MTS brand) is a leading communications provider in Armenia that is a part of MTS Group; it regularly cooperates with numerous stakeholder groups, including customers, contractors, employees, etc. Respect for the rights of all stakeholder groups (including the most vulnerable groups – people with disabilities) is an absolute priority of VivaCell-MTS.

Currently, there are 37 disabled employees out of all 1,200 employees in the Company. The Company is actively recruiting people with

disabilities as employees and provides them with conditions excluding any workplace discrimination. The Company also organised for its employees sessions on ethics and behaviour etiquette towards employees with disabilities conducted by relevant non-profit organisations in Armenia.

In addition, the Company holds regular consultations and meetings on human rights protection practices with Armenia's Ombudsman Karen Andreasyan to discuss human rights issues in the business community, social security, non-discrimination, etc.

Ralph Yirikian
VivaCell-MTS
General Director



«Compliance with the law and ethical standards has always been one of VivaCell-MTS' fundamental values. We pay great attention to human rights protection provided for by the international standard ISO 26000. Any deviation from this path is unacceptable for us.»



 **3%**
employees
people with
disabilities

4.3 Local Communities and Investments in Quality of Life in Locations of Operation

BPGC:

Prevention of child injuries caused by electrical appliances

As one of the largest companies in the Republic of Bashkortostan, BPGC's future is wedded to the prosperity and development of the region, and it invests heavily in its infrastructure and important social projects.

In the energy sector, the issue of child electrical injuries is one of the most topical: children and teenagers are most likely to receive an electric injury due to ignorance of basic electrical safety rules. The world statistics shows that electrocutions are 15-16 times more fre-

quent than other injuries – almost one third of people who had an electric shock perish due to severe fatal visceral injuries. In 2010-2014, there were three accidents involving children that happened at grid facilities of a BPGC subsidiary (Bashkirenergo).

To prevent recurrence of such cases, BPGC launched a full-scale programme to prevent child injuries caused by electrical appliances by implementing measures to reduce child injuries at power facilities (of all ages) and rais-



ing awareness among children, parents and teachers regarding electrical safety.

In 2014, BPGC signed a Cooperation Agreement with the Republic of Bashkortostan Ministry of Education to implement child electrical injuries prevention programmes. The purpose of the Agreement is to run joint initiatives to help prevent child electrical injuries as well as to educate children and the youth on basic electrical safety rules as part of child electrical injuries prevention measures.



BPGC launched a full-scale programme to prevent child injuries caused by electrical appliances by implementing measures:

regular extracurricular classes



> 400 classes

animated film «The Adventures of BPGC-man»



6 episodes

new section in the official website



For Children

theatrical performances for children on child electrical safety



in 4 cities

Dmitry Sharovатов
BPGC CEO



«Power transmission and distribution is a hazardous industry. Therefore, prevention of electric injuries among children and adults is an important task for energy industry workers.»

Within the framework of this Agreement, BPGC officials hold regular extracurricular classes on child electrical injuries prevention in educational institutions of the Republic's cities and regions. From November 2014 to May 2015, over 400 classes were conducted in schools across the Republic of Bashkortostan.

More episodes of The Adventures of BPGC-man animated film were produced (first broadcast in 2013) addressing safety rules and electrical injuries prevention. As of today, there are 6 episodes, with 3 of them having been released in 2014. The animated film is shown at pre-school institutions, orphanages, schools and various children's

BPGC: **SMART GRIDS**

In 2014, BPGC completed preparations for overhaul of power grids in Ufa using Smart Grid technologies. It is the first project of such scale in Russia aimed at a quality change of infrastructure in the energy sector.

Implementation of new technologies in the energy system, including a new generation of highly integrated smart power grids, has a positive impact on reliability and efficiency of power transmission systems.

Smart Grids will help to reduce electricity losses by 1.5- or 2-fold. At present, power losses in Ufa total 15.6%, and BPGC intends to reduce them to 8.7% during the first stage of the project with further decrease in subsequent years.

In addition to loss reduction, the cost-effective project will reduce the mainte-

nance and repair costs of renovated facilities by 20%, reduce troubleshooting and switching time by 70% by ensuring grid observability and structure optimisation, and will also extend the life of existing equipment by 10%.

In 2014, a pilot area for the project was chosen in Ufa, which consists of four residential districts with a population of about 25 thousand people. The project in this area has been put into operation.

Also, the construction of a Grid Management Centre started in 2014. It has special equipment that allows carrying out all Smart Grid-related work, monitoring the workload and regimes and managing the grid equipment.

The project will be expanded to cover the entire city within five years.



campaigns in the cities and regions of Bashkortostan, on municipal and regional TV channels. A real live BPGC-man played by professional actors or BPGC amateur performers accompany the show.

In 2014, cities and towns of Bashkortostan witnessed the first theatrical performances for children on child electrical safety featuring

a professional troupe of students from the Zagir Ismagilov Ufa State Academy of Arts. Performances were presented in four cities in Bashkortostan and were attended by more than 500 children. In 2015, there will be more performances given in the cities of the Republic.

In addition, in May 2014 the official BPGC website launched a new

For Children section. It includes several subsections containing all necessary information on electrical safety rules. Children get a very clear and simple explanation on how to behave near power engineering facilities and how to deal with electric household appliances.

In 2015, the Company plans to further the existing Programme, in particular:

- to sign another agreement on cooperation with the Republic of Bashkortostan Ministry of Education for child electrical injuries prevention for the 2015-2016 academic year;
- to continue broadcasting the 5th and 6th episodes of The Adventures of BPGC-man animation film;
- to increase the number of students of secondary educational institutions learning about electrical safety rules to about 1,000 students.

Sistema Shyam TeleServices Ltd. (SSTL): Fighting Poliomyelitis



Sistema Shyam TeleServices Limited is one of the largest telecommunications companies in India. By supporting local communities and a wide range of social programmes, developing infrastructure in the country the Company is able to improve the population's quality of life in India, thus ensuring stability of its own development.

Poliomyelitis is a dangerous disease that leads to permanent paralysis and paresis, and, in some cases, to death. Despite the fact that poliomyelitis has been defeated in most countries, it still poses a significant threat in India.

To prevent the spread of polio in India, SSTL is in cooperation with Responset, the organisation implementing the India Unite to End Polio Now programme (IUEPN) with the purpose to spread awareness among the people of India about the threat of polio. Responset uses private sector resources to distribute information on polio and vaccination throughout India, particularly among nomadic and mobile population groups. The result is achieved through

wider access to polio information for high-risk groups and the use of innovative tools such as interactive kiosks, SMS, voice messages, etc.

SSTL actively participates in informing the public of the need to vaccinate children against polio in several Indian states, including Delhi, Haryana, Uttar Pradesh and West Bengal; before every Responset initiative the Company sends out 10 million informative SMS messages. SSTL also provides support in developing promotional materials on polio and display stands.

In April 2014, joint efforts of SSTL, Responset and other stakeholders resulted in removing the danger of poliomyelitis in India, but the efforts to control other infections that can be prevented through vaccination are still taken.

In 2015, SSTL will continue to support Responset in raising public awareness on pertussis, measles, diphtheria, tetanus and tuberculosis immunisation to prevent outbreaks of these diseases in the future.

Sergey Savchenko
SSTL CEO



«Given that the polio threat has been successfully eliminated in most countries, our goal is to completely rid India of the disease. For a long time, we have been working towards increasing public awareness on how important polio immunisation is. All these efforts are aimed at increasing the quality of life of local communities in the regions of the Company's operations.»

United Nations International Children's Emergency Fund (UNICEF) has recognized the efficiency of the partnership between SSTL and Responsetnet and plans to introduce a similar project in Africa.



informing of the
need to vaccinate

10 000 000
SMS



VivaCell-MTS: Newborn Care

One of the most acute social problems in Armenia is infant mortality, and VivaCell-MTS actively participates in solving it.

Over 50% of neonatal deaths occur in the first week of life (early neonatal mortality), which is due to the fact that many maternity hospitals in Armenia have outdated equipment.

Since 2008, VivaCell-MTS has been in cooperation with BirthLink, an NGO addressing maternal and child health. BirthLink together with VivaCell-MTS implements numerous educational programmes for health care workers and provides hospitals with modern equipment for neonatal care.



neonatal mortality in Armenia decreased
from 15 to 8 deaths per 1,000 live births



Ralph Yirikian
VivaCell-MTS General Director



«The newborn need our care and devotion more than anyone else. We cannot remain indifferent and cannot leave parents, doctors and society helpless in the current situation of high newborn mortality rates, because each premature death diminishes our hope for a stable future. We strongly believe that every parent deserves to hear the words, 'Mum, Dad, I love you.'»

This project focuses on the following tasks:

- 1.Reduction of neonatal mortality in Armenia;
- 2.Improving the quality of neonatal intensive care in Armenia through offering educational

programmes to all doctors and nurses, and providing necessary equipment for neonatal wards.

Key project results (from 2008 through 2014):

- during the project existence, neonatal mortality in Armenia

decreased from 15 to 8 deaths per 1,000 live births;

- over 30 medical centres in Yerevan and Armenia regions took part in the project.

MTS:

FEDERAL SOCIAL EDUCATIONAL PROJECTS FOR RAISING INTERNET LITERACY OF ALL GENERATIONS

Since 2011, MTS has been implementing the Children on the Internet programme, with support from the Russian Ministry of Communications and Mass Media, the Ministry of Education and Science, the Safe Internet League and other partners.

The programme is designed to protect the younger generation from negative web content, fraudulent websites and websites destructive to child's psychology, as well as to promote rules of efficient and web surfing.

Within the framework of this programme, MTS provides customers with access to services that help to efficiently and safely organise the younger generation's work on the Internet through introduction of content filtering, parental control and anti-virus protection, gives lessons on Internet literacy for primary school students and organises seminars for teachers throughout Russia, and also holds interactive exhibitions at leading Russian museums and libraries.

Over 300 thousand children, their parents and teachers from all over Russia took part in the Children on the Internet programme. In 2014, MTS organised interactive educational exhibitions in Murmansk, Vologda, Syktyvkar, Barnaul, Ryazan, Krasnodar, and Tomsk.

In 2012, in cooperation with the Internet Development Fund, the National Health League, Syaz Pokoleniy Charitable Foundation and other partners, MTS launched Network for All Ages a federal social educational project.

Its main purpose is to promote modern information technology among users over 40 and to teach them useful online services.

Training is based on a programme developed by specialists from MTS, the Internet Development Fund and the Psy-

chology Department of the Lomonosov Moscow State University. The programme takes into account the needs and psychosocial characteristics of senior people. Teaching is done either by volunteers, or seniors who have already done the training and are willing to teach their peers everything they have learnt themselves.

In 2014, MTS ran these courses in many regions of Russia: Moscow, St. Petersburg, Tula, Kemerovo, Kirov, Obninsk, the Perm Territory, the Amur, Orenburg and Samara Regions, Tatarstan, Kamchatka, Sakhalin, and also in Belarus. Over 15,000 people have attended the programme since its launch three years ago.

In 2014, Network for All Ages won two awards: The Moscow Times Awards as the CSR Project of the Year and the Accessible Internet contest organised by the Russian Ministry of Labour and Social Security together with the Russian Pension Fund and the Russian Pensioners' Union.

Since 2013, MTS has been running Children Teach Adults, an educational competition aimed at developing a modern information society in Russia.

Its key idea is that teenagers who have Internet skills can share their knowledge with adults who have not yet developed those skills. After preliminary training with MTS employees, 7th-10th graders ran classes for parents at their schools, demonstrating useful and practical functions of mobile Internet. In 2014, Children Teach Adults classes were held at 20 schools in Moscow. Overall, the project is implemented among 7th-10th graders in more than 50 Russian cities. In Moscow, the project is run in cooperation with the New Technology School project office established by the Education Department and the IT Department of Moscow.

About 6,000 students from over 50 Moscow schools are expected to participate in the project in the 2015-2016 academic year; over 400 Moscow libraries will join its educational activities.

In 2014, the Children Teach Adults project won a Crystal Pyramid award in the Social Responsibility and Charity category.



4.4 Business Partners, Suppliers and Promotion of Responsible Business Practices

Targin: Counteracting Coordinated (Corrupt) Activities of Market Suppliers



Building stable long-term relationships with suppliers and business partners is one of Targin’s key priorities. However, in some cases, unfair suppliers and contractors may act in a coordinated (corrupt) way to inflate prices on certain goods or services. Such corrupt practices may lead to reduced efficiency of procurement procedures, cost increase, and a boost in Targin’s production costs.

To counter suppliers and contractors’ corrupt practices, the Company takes the following measures:

- 1. Trains procurement process participants (customers, buyers, Central Procurement Committee members, etc.) to identify signs of collusion.
- 2. Ensures a maximum number of potential bidders, holds pre-qualification, public placement of «white» lists.
- 3. Gathers information on potential suppliers, their prices and costs to identify overpricing relative to previous quotes or the market price.
- 4. Analyses previous tenders and tenders held in other regions in order to identify «extras», bids rotation schemes, market sharing.
- 5. Assesses documents provided by participants to identify iden-

tical texts, errors, information representation formats.

- 6. Declares its position: «In case a collusion is identified the contractor will be disqualified and the results of the tender reconsidered.»
- 7. Adopts an assertive position: «Any statement on the increase in resources cost after the submission of quotations and negotiations will be subject to inspection.»
- 8. Unifies technical requirements.
- 9. Frames forward requirements for key resources and ensures control over them (for example, POL, rolled stock, spare parts for vehicles, etc.).
- 10. Restricts the contractors’ group meetings during commercial evaluation.

In case any signs of corrupt practices are identified during the procurement process, the Company takes the following measures:

- 1. Cancels the tender, identifies the «weak link» among the collusion parties (the company that came out at a disadvantage as a result of the collusion) and signs a negotiated agreement with it.
- 2. Changes tender terms: revises technical specifications, bid con-

Nikolay Pozhidayev
Chief Financial Officer,
Deputy CEO for Economics
and Finance, Targin



«Business ethics and implementation of effective anti-corruption measures are not just a fashion statement for us, but a matter of strategic control and management efficiency.»

tent and structure (split, make key resources supply a separate bid, etc.), pursues consolidated procurements, etc.

- 3. Changes suppliers’ selection method (e.g. competitive negotiations, using electronic trading facility).

4. Refuses to purchase from dis-credited bidders.
5. Searches for alternative supply sources (e.g. internal resources of the Company).
6. Appeals to an Arbitrazh Court.

Based on inspection results, 4 cases of suppliers' corrupt practices were identified in 2014, and appropriate actions were taken. The total economic impact of Targin procurement procedures amounted to 7.33%.

In 2015, the Company plans to change its procurement principles and move from the existing procurement methods to the following ones:

- Operating (projected) procurement with priority in maintaining minimum stock level for uninterrupted operation of production sites;
- project activities with priority in new products' development and pilot production.

The Company also plans to develop a road map for 2016 services.



MGTS

SUPPORT TO SMALL AND MEDIUM-SIZED BUSINESSES

Small and medium-sized businesses play an important part in Moscow's ecosystem.

In 2014, MGTS, a member of MTS Group, launched a programme to support the capital's small and medium-sized businesses in cooperation with the state organisation Small Business of Moscow. A number of seminars and workshops were given to entrepreneurs as part of the programme.

Also, MGTS introduced a special tariff for small and medium-sized businesses for Internet access, TV and unlimited telephony, which allows businessmen to set up e-document flow, automate customer relations, establish prompt inter-departmental coordination and efficiently monitor business processes.

In addition, MGTS actively recruits small and medium businesses as contractors for construction of its fiber-optic network and customer service. To improve contractors' efficiency and to monitor the quality of their services, MGTS introduced special IT systems. Management innovations have significantly simplified

interactions with small contractors and made it possible to directly recruit small teams of 3-4 people.

In 2014, a total of 159 small and medium-sized businesses acted as contractors or suppliers of MGTS and the company made purchases from such businesses for the total amount of RUB 1 billion.

In 2015, MGTS plans to develop a programme SMB access to procurement, which will increase purchases from small and medium businesses 2.5-fold.



SG-TRANS

HOTLINE

To increase business transparency, prevent corrupt practices and minimize risks, SG-Trans launched a hotline service in 2014.

The hotline allows clients, partners, customers, contractors, employees and any other stakeholders to report any failure of SG-Trans' employees or employees of its subsidiaries to perform or properly perform their duties, or to comply with internal documents or applicable legislation.

Every incoming message is checked by employees of the Corporate Security Department. Messages are received by e-mail or phone, and can also be left on an answering machine. In addition, each Company branch has a separate local phone number to receive such messages so that local residents won't have to pay for the call.

In 2014, the company reviewed 330 messages: 13 of them came from SG-

Trans' staff, 132 from customers or partners, and 185 from other people. After investigations, appropriate measures were taken against 8 SG-Trans employees whose actions were adverse to the company's interests and corporate regulations.

In 2015, SG-Trans will continue improving the hotline and will systematically inform employees of the central office and the branches about its availability.



4.5 Environmental NGOs and Managing Environmental Impact

NIIME and Mikron: Energy Saving and Energy Efficiency — Introduction of an Energy Management System at the Company

mikron

Environmental impact control is among the key aspects of the activity of NIIME and Mikron (a part of the RTI industrial holding). A systematic approach to various fields of energy saving and energy efficiency is introduced into the Company enterprises; in particular, in 2014, NIIME and Mikron completed the implementation of the Enterprise Energy Management System (EEMS) project based on the requirements of the

international energy management standard ISO 50001:2011.

The project was executed in two focus areas. The first one was connected with improvement of the production, office, and warehouse infrastructure. After the EEMS introduction, the electricity, thermal energy, and process water costs were considerably minimized due to recycling possibilities.

The second focus area of the project is connected with the launch of new microelectronic products which should be improved in terms of energy saving in addition to custom programming, size reduction, and performance buildup. In 2014, due to its transition to new technologies, Mikron launched several products characterized by low energy consumption (for instance, LED drivers) in compli-

After the introduction of the Energy Management System in 2014, consumption of the following energy types was reduced as compared to 2011:

power consumption – by

22,4%



electricity – by

19,4%



thermal energy – by

10,3%



ance with current environmental standards and sustainable development principles.

After the introduction of the Energy Management System in 2014, consumption of the following energy types was reduced as compared to 2011:

- power consumption — by 22.4%,
- electricity — by 19.4%, and
- thermal energy — by 10.3%.

Some other results of the EEMS introduction include the following:

1. All employees of the company became more conscious of energy saving (lights in empty rooms are now switched on less often).
2. Accuracy of energy metering increased after the automated electricity metering system was put into operation. The number of energy meters at the company has increased almost three times.
3. The system of planning and identifying energy objectives was improved in all divisions which influences the energy consumption.
4. The requirements for application of the most energy-efficient solutions were included in the process of developing design documentation (equipment, materials, and technical solutions).
5. The company started to consider the energy efficiency requirements in procurement.
6. The production units improved cooperation with the chief engineer service with regard to the consumption reduction. The personnel was retrained in the field of energy saving and energy efficiency.



Before the EEMS introduction, a steady rise in energy consumption was observed. After the introduction, the growth has stopped and the reduction in energy consumption began, while the output at the running production facilities remained unchanged and new production lines were launched.

In 2015, the Energy Management System will be developed in two main focus areas:

1. The practical application of the Energy Management System will be extended to other enterprises of NIIME and Mikron.
2. New products with improved energy saving characteristics will be developed and produced for the Russian, Korean, and Chinese markets: LED drivers, controllers, and convectors compliant with current energy saving objectives.

In June 2014, the Company successfully passed a compliance audit and received a positive conclusion from Bureau Veritas Certification.

G. Krasnikov

CEO of Mikron, member of the Russian Academy of Sciences



«The efficiency and capacity of our company are growing, and, at the same time, we consume clean electricity, so the energy management system is of strategic importance both for us and for our demanding international partners. If only all Russian enterprises could switch to such energy management system, efficiency of the Russian economy would increase.»

The Energy Management System project of NIIME and Mikron won the first Russian contest of energy saving and energy efficiency projects ENES 2014 in the category Efficient Energy Management System at Large Industrial Enterprise.

Segezha Group: Environmental Certification of Forest Reserves



Segezha Group is a major forest user in the European part of Russia. The management of the Group is fully aware of its responsibility for conservation of natural resources of the Russian Federation and mitigation of negative impact on the biosphere in the locations of operation. In particular, uncontrolled deforestation may cause irreparable damage to many fauna and flora species and the local population.

 **certified by**
5,2
million ha
of the forest fund



In order to prevent environmental damage, Segezha Group has cooperated with the Forest Supervisory Board (FSC Russia) since 2002 and carried out voluntary certification of the forest reserves controlled by the Group. 5.2 million ha of the forest fund (94%) has been certified by now.

The voluntary certification process (FSC®) implies concern for forest restoration, close cooperation with environmental organisations, and contact with the local community. When performing forestry

measures, as a responsible forest user Segezha Group holds regular consultations with forest villagers and representatives of environmental communities and provides reasonable help to the locals in their daily needs.

In 2014, forest operators of the Group carried out a number of important and notable measures.

In early summer, joint field discussions on forest use and conservation of biodiversity took place in the Vytegorsky District (Vologda) with participation of FIC Kipelovo (part of Segezha Group), Greenpeace Russia, and SPOK — Regional Public Interest Environmental Organisation in Karelia. This meeting was held after negotiations between timber industrialists, environmentalists, and government officials for the claims of SPOK to the FSC certifying authorities with regard to forest management practices applied by the enterprises leasing forest plots in the Vytegorsky District. Following the field discussions, FIC Kipelovo (within Segezha Group) made efforts on conservation of canopy with significant part of broad-leaved and coniferous trees. It is acknowledged that the lessee seeks to form a proper structure of plantations after clearance.

In July 2014, public hearings were held in the territories leased by Kirillovsky LB and Kovzhinsky LB (within Segezha Group) that covered the same topic: planned and current activities of the enterprises, identification of places of special social value within the leased forest plots. Requests and recommendations of the local population were taken into account by the enterprise representatives and will be executed within production activity management.

Sergey Pomelov
CEO, Chairman of the Board
of Segezha Group



«Conservation and restoration of forests is definitely a duty of our company. We know how to do it and we do it on a regular and systematic basis. Our certificates confirm that we manage forests in a balanced and responsible way. Our consumers know that the Group values its reputation of a responsible forest user and does whatever is necessary to make its business eco-friendly.»

Public hearings are also held in other pulp-and-paper enterprises within business units in Onega, Karelia, and Kirov. In addition, harvesting enterprises of the holding collaborate with scientific organisations and carry out surveys within the leased plots to investigate conservation of biodiversity, identify high conservation value forests (HCVF), etc.

Segezha Group performs large-scale forest restoration activities increasing coverage on a year-by-year basis.

Thus, in 2012, forest restoration covered 11,932 ha, in 2013 — 12,816 ha. In 2014, sowing, planting, and combined restoration activities covered 13,585 ha (6% more than in 2013) of the 33,207 ha of deforested lands.

Segezha Group plans to continue its active cooperation with regional authorities, local communities, and nature management experts in 2015, including:

1. Hold consultations with the Ministry of Natural Resources and Environment of the Republic of Karelia, public and scientific organisations on future development of specially protected natural reservations, identification and conservation of HCVFs in the territories leased by the enterprises of the holding.
2. Hold consultations with interested parties on conservation of

the protective zone of the Onezhskoye Pomorye National Park.

3. Hold meetings with representatives of rural administrations of the Kirov Region on identification and conservation of the HCVFs important for the local population.

MTS: ECO-TELECOM Project



In order to minimize the negative environmental impact of the Company, MTS implements a large-scale environmental project — ECO-TELECOM. The project is executed in several key directions:

1. Recycling of Batteries and Electronic Waste.



In 2014, the Batteries surrender! eco-initiative was held in all administrative offices of MTS to collect used up batteries. Subsequently, the batteries were transported to the only factory in Russia which uses a unique recycling technology to handle consumer batteries and accumulators. Furthermore, Throw Away in the Right Way eco-programmes were launched in Omsk and Novosibirsk with the support of regional and municipal governments. Collection points for used up batteries were opened in major universities across Russia and in the outlets of MTS. In cooperation with the recycling company RETEKO (SibVtorResurs), MTS installed special safe containers for collection, subsequent transportation, storage, and disposal of used up batteries and accumulators.

2. Education of Company's Employees.

The Eco-Office educational project has been implemented since 2012 to promote environmental knowledge and raise the level of environmental culture among the Company's employees. The aim of the project is to involve the employees of MTS in execution of the environmental protection programme,

including activities on waste collection, eco-friendly disposal of waste, and efficient energy use.

3. Waste Paper Collection.

Over 4,810 kg of waste paper were collected in Moscow in 2014 within the Paper Boom initiative, thus, over 80 trees were saved.

4. Education of Children and Teachers.

MTS organised ecology lessons in over 1,500 schools throughout Russia and CIS countries within the Green Schools project. To hold the ecology lessons for pupils of 5th to 9th grades, MTS prepared presentations, methodological materials, and video lessons for teachers. Participating schools were given project certificates, and children — gifts and special pocket-size handbooks on careful attitude to nature. The Mobile Technology for Ecology project is implemented within the Green Schools initiative with the support of the interregional public organisation Russian Green Movement ECA.

It is planned to perform the following activities in 2015-2016 within the ECO-TELECOM project:

1. Launch the project on recycling of batteries and e-waste in the Urals.
2. Introduce an eco-friendly packing for SIM cards throughout the area of operation of MTS.
3. Assess the volume of greenhouse gas emissions caused by the operation of the Company.
4. Carry out Econeshka — educational online eco-contest for students of schools.

RZ AGRO GROUP

RESPONSIBLE LAND USE

RZ Agro Group specializes in cultivation of farming lands and large-scale grain production. The Company implements a set of measures to protect land from pollution and exhaustion, namely: diagnostics of soil condition, climate monitoring, soil rehabilitation, and improving of soil fertility.

In 2014, RZ Agro Group carried out field agrochemical surveys of soils and regular soil-and-plant diagnostics and subsequently adjusted the standards of fertilizer distribution.

To prevent land exhaustion, the Company introduced a sustainable rotation system; to decrease the impact of pesticides on soil, speed up decomposition of plant residues, and maintain fertility, we apply subsurface energy-saving technologies and fertilize soil with compensatory nitrogen and required biological preparations.

RZ Agro Group adopts new technologies on water retention, carries out measures on prevention of soil erosion and restoration of forest belt, applies organic fertilizers and modern energy-packed machines characterized by low POL consumption and a low soil and air pollution index.

The Company performs all these measures in active cooperation with scientific institutions (The Kalinenko Russian Research and Development Institute of Grain Crops, the Don Regional Research and Development Agricultural Institute, the Stavropol Agricultural University, the Stavropol Research and Development Agricultural Institute, the Lukyanenko Krasnodar Research and Development Institute of Grain Crops).

In 2014, the company's total expenditures amounted to RUB 5.9 million, including RUB 1.5 million spent on soil diagnostics.

Mikhail Arkhipov
Vice President
of the HR Management
Department, MTS



«Disposal of high-tech products requires significant resources. Our company considers it important to develop environmental projects and be involved in environment-related educational activities. This is our responsibility before society and nature.

Organisation of open eco lessons is a new activity for us. The authors of interactive training materials tried to combine the task of promoting environmental culture with our children's interest in mobile devices that are used in the exciting learning process. During a lesson, children learn about new applications helping to save resources, about energy saving, disposal and recycling of electronic devices. We hope that the lessons within the Mobile Technology for Ecology project will attract the interest of the teachers' community and will become an annual tradition.»



4.6 Public Organisations and Charitable Activity Management

Detsky Mir Group: Corporate Charitable Foundation



The Detsky Mir Charitable Foundation was founded in 2014 for efficient management of the Company's charitable projects. The Foundation supports the activity of Russian social institutions working with children in need, including large and low-income families.

The priority areas of activity of the Foundation are as follows:

- social development and health — supporting low-income and vulnerable social groups, programmes in the field of health-care, children's and youth sports;
- education and creative work — search for emerging talents and development of creative, technical, and innovation thinking among the young generation;
- culture — development and promotion of national culture, including classical music, ballet, theatre, fine art, as well as technical support of museums and restoration of Russian architectural monuments;
- corporate volunteering.

The activities of the Foundation are financed by donations from Detsky Mir Group, employees, and visitors of the retail chain. Additional sources of financing are funds raised from sales of T-shirts within the Get Involved! campaign and bags in stores of the Detsky Mir chain. In August 2014, the Get Involved! campaign was launched in stores of the chain in Kazakhstan. The gifts for children in need were collected in all stores of the Detsky Mir chain in Astana, Almaty, Karaganda, and Shymkent. Over 14 thousand customers of Det-

The Foundation supports the activity of Russian social institutions working with children in need, including large and low-income families.

participated in charity campaigns over
3 mln
visitors



amount of charitable donations

140 mln



During the year, the employees within the theatre company staged

15 puppet shows

2 performances



sky Mir took part in the campaign and collected more than 15 thousand gifts.

In total, of over 3 million visitors participated in charity campaigns of the Foundation in 2014 and the amount of charitable donations amounted to nearly RUB 140 million.

Detsky Mir Group founded its own voluntary puppet theatre to perform in children's social institutions and take part in social adaptation of children in need. During the year, the employees within the theatre company staged 2 performances and represented 15 puppet shows in orphanages and hospitals.

In December 2014, Detsky Mir Group launched a new project — a charitable fair in the largest children's store of the country in Vozdvizhenka 10, Moscow. Orphans and disabled children from social institutions which are cared for by the Company can present and sell their works at the fair: wood and fabric handicrafts, drawings, Christmas decorations, etc. All revenues are passed to authors of the works after the fair.

The Charitable Foundation plans to focus on the following programmes and projects in 2015:

- Get Involved! campaign is a major project of the Foundation aimed at collection of gifts and first-priority goods for children in need. The campaign has been carried out since 2006 thrice a year — timed to International Children's Day, Knowledge Day, and New-Year holidays. When the campaign is held, goods bought in the stores can be left in special containers located near checkout areas. After the campaign the collected goods are passed as

Medsi Group

FROM HEART TO HEART VOLUNTEER MOVEMENT

In 2014, Medsi Group launched its From Heart to Heart volunteer movement

The movement united proactive employees who seek to help those in need. During the year the volunteers carried out blood donation campaigns and organised activities for children in orphanages and rehabilitation centres, including participation in theatrical and cultural charitable events. A permanent group of 20 volunteers was formed. The volunteers paid special attention to veterans of the Great Patriotic War.

In 2014, a total of 239 people (3.7% of employees) participated in various volunteer projects.



Elmira Morozova

Executive Director of the Detsky Mir Charitable Foundation



«Establishment of Detsky Mir's own charitable foundation was a huge milestone for the company's social work. Since then, it has been organised on a professional and public basis in cooperation with all stakeholders. Over 3 million people participate in the Foundation's every year.»

gifts to children from orphanages, care facilities, and hospitals.

- The Together We Can do More programme aimed at rendering targeted aid to children undergoing treatment or rehabilitation and providing equipment for playrooms in medical and social institutions.
- The Art Without Boundaries programme aimed at development of creativity and aesthetic sense

among the rising generation: support of art festivals, workshops, exhibitions, and concerts and shows.

- The Co-Financing project within which the employees of Detsky Mir Group can transfer part of salary to goodwill projects.
- Voluntary Puppet Theatre. In 2015, a new performance will be staged. It is also planned to expand the geography of the theatre shows.

4.7 Consumers and Product Liability

Detsky Mir Group: Safety of Goods for the Sake of Consumers Health



Good's safety and quality assurance is the key commitment of Detsky Mir Group to customers which at the same time forms a precondition for increasing confidence of the clients to the Company's stores.

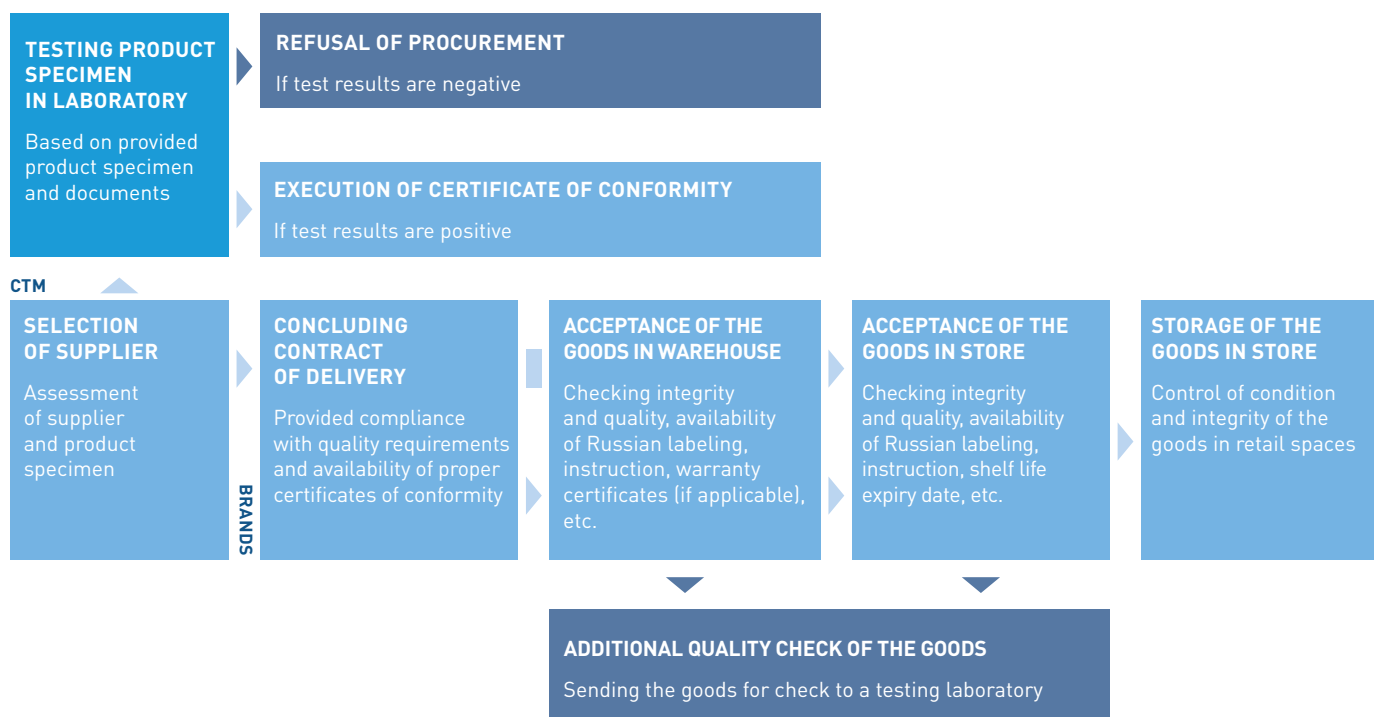
To admit only high-quality products on the shelves, the Company strictly controls safety and quality of goods at all life cycle stages. All goods represented in the outlets and web store of the Detsky Mir chain are certified and comply with applicable regulatory requirements, standards, and technical

specifications in the field of safety for life and health of consumers.

Within the systematic work on goods' safety and quality assurance Detsky Mir Group:

- performs tests of specimen products in independent laboratories;
- carries out regular training of retail personnel in Russian law requirements and corporate policy of the Company in the field of certification and product safety assurance;
- carries out regular monitoring of changes in legislation, new standards and voluntary initiatives in this field in the countries of suppliers;
- updates the system of corporate regulatory documentation in case of changes in legislation and regulatory requirements;
- controls the quality of goods in accordance with the type of contractor by specialists of the Certification, Quality, and Reclamation Department.

Procedure of Goods Safety and Quality Assurance



As part of cooperation with the leading global manufacturers of children's goods, Detsky Mir Group checks availability of documents confirming the compliance of the product with existing regulatory requirements (certificates of compliance, declaration of conformity, state registration certificates, etc.).

If defects are revealed while a product is in service, a customer may submit a quality claim. In this case the product is sent for expert examination to a testing laboratory which will issue a certificate of production fault in accordance with the results of the examination. On the basis of the certificate the customer will either receive a replacement product or refunding. In rare cases, if serious quality or safety faults are revealed in the goods, the whole batch is returned to supplier with subsequent termination of contract. No such cases were registered in 2014.

Certificates and other permissions for import products are 100% original, since Detsky Mir Group itself acts as an applicant in certification procedures. Certificates and other permissions for domestic products are subject to regular authentication once available in the Certification Department. In addition, the information on product labels is compared with the information stated in corresponding certificates.

Due to the measures taken, no significant violations of law in the field of consumer goods' safety assurance were identified in the Detsky Mir stores in 2014.

In 2015, the Company is going to continue its focused cooperation with foreign and Russian suppliers

Vladimir Chirakhov
CEO of Detsky Mir Group



«Customer confidence and loyalty are the major components of our success in the market. We do our best to meet the highest expectations of our customers and offer them a wide range of products, the perfect service, a high quality and safety of goods. After all, they trust us with their most precious possession — the happiness of their children.»

of goods to implement additional quality control procedures for the obtained products, including early sampling of textile materials for school uniform (for the order of Detsky Mir Group) to be tested.

MGTS:

CUSTOMER-ORIENTED APPROACH

MGTS is a household operator for 96% of Moscow residents servicing about 3.4 million households. In 2011-2014, the company carried out a comprehensive upgrade of its network, which included a technical overhaul and drastic improvement of management of all processes related to provision of services to subscribers. As a result, the quality of MGTS' service rose to a new level.

Areas of upgrade:

1. Technical upgrade: development of own GPON fiber-optical network.
2. Updating customer service standards: introduction of an intelligent service management system and a two-level call processing system at the call centre, update of the company's website.
3. Upgrading customer service centres: introduction of CRM (customer relationship management) sensors in sales offices.
4. Faster connection of subscribers: a new dispatching centre on the basis of SAP Workforce Management.

All these measures had a positive effect on customer satisfaction with MGTS services. In particular, satisfaction with GPON connection quality reached 4.26 points on a five-grade scale by the end of the first half of 2015.

Besides, the long-term project of transforming the customer service quality management system won the Consumer Rights and Service Quality Award 2015 established by the Social Projects and Programmes Foundation jointly with the Russian Federal Service for Consumer Rights Protection and Human Welfare (Rospotrebnadzor), the Moscow city administration, the Association of Retail Companies, and the State Duma's Economic Policy, Innovative Development, and Entrepreneurship Committee.



Medsi Group: Introduction of Uniform Customer Service Standards



Thousands of people are daily serviced in clinics of Medsi Group. Since every patient deserves special attention, the Company is focused on introducing the best global practices in the field of healthcare services and creating comfort conditions for enhancement customer loyalty and commitment to future visits.

Thus, in 2014, Medsi Group launched the introduction of a uniform customer service standard helping every employee to act politely and confidently in a dialogue with a patient. To assess the effect of these measures, a 2-stage survey of customer loyalty and satisfaction was carried out in July-September and October-December 2014. As early as in several months after the standard has been implemented positive changes became visible. For example, the satisfaction level of visitors of diagnostic and treatment centres increased by 10

points, and the loyalty of Moscow hospitals' patients increased by 6 points.

2015 plans of the Company on developing client service and introducing a client-oriented approach include:

1. Building a corporate service culture in the company, including training of the employees in customer-oriented servicing.
2. Normalizing all stages of service operations.
3. Introducing and upscaling service motivation of the employees.
4. Training the employees in client-oriented service.
5. Introducing new online technologies to track rendering of services.

Medsi Group:

BE HEALTHY WITH MEDSI! PROJECT

Be Healthy with MEDSI! aims at promoting the healthy lifestyle and raise people's awareness about how to stay healthy.

The project is a free-of-charge programme for customers and partners, which includes a cycle of lectures, webinars, consultations, and newsletters on topical medical issues.

Main results:

- 6 lectures for corporate clients of the Be Healthy with MEDSI programme;

- 2 workshops held as part of the MEDSI Health Lessons partnership programme implemented jointly with the Detsky Mir chain;
- 3 events within Health Days at MTS;
- 14 lessons for schools covering several areas; and
- 17 courses for mothers at the children's clinic.

The project and its results were highly appreciated by partners involved in the project (MTS, Detsky Mir, and Bashneft) and patients of Medsi Group.



Natalya Komarova

Vice President for Marketing and Sales, Medsi Group



«We seek to be not just the largest chain of private healthcare clinics, but also a long-term partner for our patients and their families. To do this, we look at our business with the eyes of our clients to understand what they like and what they don't. The Customer Service Standard is one of the tools that help us to build a proper dialogue with customers and develop efficient and mutually beneficial relations.»

4.8 Scientific Community and Innovation Management

RTI Group: Establishment of an Innovative Ecosystem



Industry-specific group RTI has been developing the R&D division in cooperation with field-oriented scientific centres for many years forming an innovative ecosystem around the Company.

Tasks of the R&D division:

- assure synergy of R&D activity through a uniform management system, standardisation, and unification of research and development management;
- elaborate mechanisms of commercialisation of projects and develop new business directions;
- consolidate R&D budget, switch over to a long-term model of programme and project budgeting;
- create conditions for scientific professional rehabilitation and cooperation, including globally;
- create conditions for protection and efficient use of intellectual rights.

The R&D division of RTI organises development and introduction of innovative technologies while creating ground, water, air, and space monitoring systems. The division develops new systems and solutions in the field of microelectronics, complex protection, and safety through convergence and localisation of best technologies.

The key areas of the R&D division are currently terahertz and radio photon technologies. Application of terahertz technologies will facilitate the development of new products in various civil and military systems: compact precision radars, high-speed communication lines, blind landing systems, systems of remote identification of chemical substances, and non-invasive treatment and diagnostics systems. Application of radio photon technologies will help to improve characteristics of radio engineering facilities, substantially decrease their mass-dimensional parameters and energy consumption, reduce production and operation costs, and increase data communication speed and volume (up to 25 Gb/s). In 2014, the Company launched a new promising direction to develop aerospace systems and hired a team of highly qualified industry specialists.

In 2012, RTI started to form an R&D structure abroad. Entrance points were established in the USA (Silicon Valley), Germany (Saxony), and Switzerland. A subsidiary company of RTI (R&D centre) was founded in Switzerland as a means of entering R&D projects performed jointly with European companies.

In 2013, RTI established an R&D Support Foundation. The R&D Support Foundation of RTI was one of the first foundations in Russia created within the Federal Law On Science and National Research and Development Policy. The Foun-

Sergey Boev
CEO of RTI Group



«R&D plays an important role in the cycle of product development, from the emergence of a concept generation and its formalisation to manufacturing and testing of pre-production prototypes. At RTI, we know how to shape an innovative business environment that is motivated towards the end result. We develop new R&D areas in cooperation with the leading Russian and international institutions and laboratories and actively participate in state R&D projects. This systematic work performed using cutting-edge technology helped us to create such complicated systems as Arctic Surveillance System, environmental and bio monitoring, etc.»

dation was mainly established to form new business directions and strengthen market positions in traditional markets of RTI through development of technological competencies of the Group. The R&D Foundation forms a core of the innovative ecosystem which consolidates financial flows (allocations from RTI and its S/As for R&D activity), development process (pipeline) projects of the Group, uniform scientific and financial expert assessment, as well as best practices of innovative and high-tech project management.

An important component of the innovative ecosystem within the R&D division is Technopark Sarov which aims to develop and commercialize breakthrough technologies of global and national

level on the basis of competences of the Russian Federal Nuclear Centre, RTI, RUSNANO, and other high-tech companies in form of public-private partnership. One of the subdivisions of the R&D division is located in Technopark Sarov — Sistema-Sarov Innovative Technology Centre (see details on Technopark Sarov in chapter 3.4. Contribution to Development of Locations of Operations). Developments of Sistema-Sarov Centre are designed to assure safety in large cities, at industrial enterprises, housing and community facilities, and render analytical support to operations' employees and specialists in decision making.

In 2015, it is planned to demonstrate the first results of work in



the Aerospace Systems direction and proceed with competency building in the field of development of air drone systems and air- and space-based instrumentation.

MTS: Corporate Accelerator



In 2014, MTS launched an acceleration programme for emerging inventors within the Telecom Idea project to support startups in the field of information and communication technologies. Over 100 projects from Russia and CIS countries participated in the programme. Accelerator was supported by Sistema and its subsidiaries. The programme participants were given a chance to complete their projects jointly with the Company's employees and present their work to the top managers of MTS for future implementation.

Accelerator is a unique platform bringing together external inventors (authors of projects selected at the Telecom Idea contest for emerging developers), internal inventors of MTS (who were selected within Idea Factory and Leadership Academy), and invited experts.

Mikhail Arkhipov
Vice President of the HRHR
Department, MTS



«Acceleration is an essential component for projects at the initial development stage. The programme is based on the mechanisms that help to strengthen the projects through skills and expertise of telecommunication specialists, mentors, and experts from various fields. Collaboration on innovative projects is rewarding for both startup founders and MTS employees. No doubt that this is very useful not only for the projects, but also for the MTS employees who joined the teams and will develop their project management skills.»

The participants make a real start-up within a week only: they adapt the project to complicated market conditions, visit lectures, participate in workshops with the MTS employees, etc. In addition to very important knowledge, they acquire an understanding of future development options for their projects.

Based on the results of the acceleration programme, six projects were selected. The authors had the opportunity to elaborate their concepts with professional mentors, students of leading technical and economic higher education institutions, and MTS experts. Ideas of

the finalists can really improve the life of people — a service for planning an ideal urban environment, a wrapper application which simplifies the use of modern tablets by elderly people, and several other very useful inventions.

In 2015, the Accelerator will select and support 18 projects and startups in Russia and CIS countries. It is also planned to integrate the Telecom Idea programme with the federal acceleration programme Generation S of RVC and to expand collaboration of Sistema's S/As in the corporate acceleration project of MTS in 2015-2016.



The Accelerator will select and support

18 projects and startups



MTS:

TELECOM IDEA CONTEST

MTS has been organising its annual Telecom Idea contest since 2011 with support from Sistema, the Lift to the Future programme, the Russian Ministry of Communications and Mass Media, the Ministry of Economic Development, etc.

Telecom Idea is an event that aims at discovering and supporting emerging talents working on IT and telecom technologies and services that can be useful for business, the government or for the social sphere.

Innovative projects submitted to the contest can be at any development stage, from a concept to implementation and operation, including technical solutions and software for communication systems, new services, mobile, content, and web-based services, marketing and managerial solutions. Practical application of technologies and services is the most important criterion for assessment of the projects.

Over 600 projects have been submitted to the contest over four years. Many of them were successfully implemented.

The winning projects of 2014 are: MasterGis — a service for planning an ideal urban environment, SIM for improved safety of online payments, iHealth, an at-home health diagnosing system, and RealSpeaker, a voice recognition project.

In 2014, the first Telecom Idea JUNIOR contest was held by MTS for school chil-

dren aged 13 to 17. The contest brought together children of MTS Group's employees from Lipetsk, Chita, Nizhny Novgorod, Barnaul, Krasnodar, and Moscow. The participants investigated modern information and communication technologies, shared innovative ideas, and imagined the future of information society. The contestants were awarded with trips to the Lift to the Future summer scientific and educational camp.

MTS will continue developing the Telecom Idea programme in 2015. Notably, it plans:

- to establish a Telecom Idea platform in the Republic of Belarus;
- to develop the Telecom Idea JUNIOR project, which discovers and supports emerging talents, and to support the innovative community of schoolchildren (aged 13 to 17).
- to develop educational camps for students jointly with the Lift to the Future project;
- to apply new tools to look for ideas (hackathons, mentoring, and crowd funding).



4.9 Higher Education Institutions and Investments in Human Capital

RTI: Highly Qualified Scientific and Engineering Personnel Training System



RTI Group is a dynamically developing hi-tech holding company that operates successfully at the large and complex information and telecommunication systems market.

The Company is interested in recruiting trained personnel knowledgeable in the main (basic) technologies developed in the Company and who are familiar with its working conditions, and makes big efforts in this area. One of the main aspects is co-

operation with subject-oriented metropolitan and regional higher education institutions. As part of this cooperation higher education institutions have an opportunity to participate in real projects of the Company, while the Company itself has an opportunity to train top-qualification personnel for future projects. Besides, through cooperation with the leading higher education institutions and RAS institutes, RTI can access best scientific achievements and break-

through ideas and technologies from the Russian scientific and educational environment.

The Intellectual Information Radio Physical Systems department of MIPT (NRU) is the basic department of Radio Engineering and Cybernetics faculty at RTI. The department is headed by Sergey Fedorovich Boev, RTI CEO, Doctor of Economics, Professor, General Designer of missile warning system (MWS), State Award laureate

RTI sends its employees to do MBA and master programme training.

At RTI named after A.L. Mints and RPC NIIDAR there are postgraduate training programmes.

took professional development classes and improved skills



4493 employees

presented master and baccalaureate



11 students

of the Russian Federation. The department became the flagship of research, educational, personnel maintenance for RTI activities and all its subsidiaries. It is the core of R&D-chain of basic departments and joint laboratories of partner higher education institutions created at RTI, the initiator of next-generation scientific and educational projects. Such cooperation will inevitably lead to bright solutions of important tasks.

In 2014, 11 students of the basic department successfully presented their master and baccalaureate theses.

RTI sends its employees to do MBA and master programme training. In 2014, 4,493 company employees took professional development classes and improved their skills. At RTI named after A.L. Mints and RPC NIIDAR there are postgraduate training programmes. The Company employs: 309 Candidates and 73 Doctors of Science, 52 Professors, 26 Lenin and State Prize Winners.

The company also actively cooperates with the pre-university sector. Career-guidance programmes offered by RTI and its businesses focus on recruiting to subject-oriented education institutions pupils from Moscow and other cities with RTI businesses for future employ-

ment. Various events are held for this purpose: tours, lectures on professions presentation, workshops given by experts. Support is given to gifted students and young specialists. RTI actively cooperates with The Lift to the Future project and plans to identify talented students for further employment at RTI businesses after they graduate from higher education institutions.

The sponsored Moscow high school No. 227 (these days it hosts an Engineering Centre of P. Popovich) boasts the RU3AWH radio club with collective radio station. Pre-University Career-Guidance and Training Centre (in cooperation with MIPT) housed by the school is the next step in the hard work of setting up a continuous chain of highly qualified scientific and engineering personnel training system. The XXI Century Educational Environment is another joint project with RTI that was initiated by Secondary General School No. 227 in the academic year of 2014/2015. To support IT education within lesson system and as a part of extracurricular activities, a fully equipped Robotic Technology Class was opened as a module of the announced project. Currently the Centre of P. Popovich is graded as engineering and technical with the right to run several engineering classes.

Sergey Boev
RTI CEO



«Development of a modern hi-tech business is impossible without deep integration into the scientific and educational environment. This integration is reflected mostly in setting up an extensive network of partner universities and academic institutions around the company. Such cooperation opens access to academic staff and advanced knowledge not only for RTI, but also for all participants of the partner network. This way our company creates a favourable environment for the development of consumers for the innovation system of the country and individual regions.»

NIIME and Mikron: Departments at Moscow Institutes

NIIME and Mikron, which is a part of RTI Group, has for many years been working in cooperation with the Russian largest technical higher education institutions and participating in the innovative economy specialists training programme. Facilitating co-

operation with higher and secondary specialized educational institutions, NIIME and Mikron promotes scientific knowledge, personnel training and recruitment, and also professional development for the Company's personnel.

mikron

NIIME and Mikron established basic departments for functional nano-electronics as part of Physical and Quantum Electronics faculty on the basis of NRU MIPT (Moscow Institute of Physics and Technology). The department trains highly qualified

specialists who are able to explore, develop and introduce advanced technologies in the field of nano- and microelectronics. The Company also set up and coordinates the basic department of VLSI Submicron Technology in NRU MIET (Moscow Institute of Electronic Technology). To study foreign experience in microelectronics students participate in international conferences and do internships at foreign centres, such as Grenoble in France, Stanford University in California, Fraunhofer Society for the Advancement of Applied Research in Germany. The higher education institutions departments' Chairman is NIIME and Mikron CEO, RAS Fellow G.Ya. Krasnikov.

NIIME and Mikron organises tours and academic lectures for students of various higher education institutions on a constant basis in partnership with leading experts, HR officials and the Company management. The Company specialists show the students the microelectronic components production process and answer their technical questions.

At the end of July, 2014, NIIME and Mikron organised a Summer School. More than 40 students and young scientists from Kazan, Tomsk, St. Petersburg, Novosibirsk, Belgorod and other cities of Russia participated in it. Among them there were physicists, chemists, materials scientists, biologists, and also journalists and communications specialists who are interested in nanotechnologies.

One day, during the Summer School the students visited a business in Zelenograd. The students had a special tour arranged for them which included a visit to the Company's R&D centre, crystals production site in clean rooms, assembly shops where end product is made: transport cards, chip modules for biopassports, etc. After the tour of the enterprise the

Group's CEO gave a lecture on the position and development prospects for domestic microelectronics and new technologies in the nanoelectronics field.

In 2015, NIIME and Mikron plans to continue cooperation with students of both technical and natural science faculties as well as young scientists from leading higher education institutions of Russia in order to promote microelectronics, boosting the profile of a microelectronics engineer as a profession and recruit new employees.

VivaCell-MTS:

SUPPORT OF EDUCATION

In 2014, VivaCell-MTS in cooperation with the Armenian Ministry of Education and Science started introducing specialized training courses into the curriculum of 5 Armenian schools.

Teaching such classes as Basics of Telecommunications and Information Technologies will encourage the development of information and communication technologies as a priority in the country's economic, scientific and technical evolution.

Also, the company has been helping students from disadvantaged families since 2011. The Educational Fund programme implemented by VivaCell-MTS works with special needs students or those from socially vulnerable families. Thanks to the programme, more than 700 students were able to fully devote their time to studies, and 53 received a Bachelor's degree.



Zhores Alferov

President of the Russian Academy of Sciences, Nobel Prize Laureate in physics



«In the past fifty years, we have been active participants of the 'semiconductor revolution'. It was this revolution that gave the most powerful impulse to the development of the human civilization. I am positive that the electronic industry will become the locomotive of the scientific and technical progress of our country. NIIME and Mikron will play a key part in this process because this institution has preserved its unique professional, scientific and educational potential. Today, a real technological breakthrough is taking place at NIIME and Mikron. Young scientists are being trained, new educational programmes created, and world-class researches are underway, including the Academy's Scientific and Educational Nanotechnologies Centre. This guarantees development of science, national science-driven industries and the national economy.»

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5.1 Sustainable Development Results in 2014

Item number	Plan	Status	Comments
Managing subsidiaries and affiliates in the field of sustainable development			
1.	Increasing the number of social projects based on the Shared Value approach, and increasing the number of S/As participating in joint social programmes/projects.	Completed	8 S/As took part in cooperative programmes and projects. In 2014, 7 Shared Value projects were implemented in S/As.
2.	Audit of CSR at Sistema and S/As.	Completed	In April-May 2015, CSR audit of Sistema took place, as well as the study of best CSR practice among large Russian and foreign companies, and jury of opinion regarding social responsibility.
Anti-Corruption Efforts			
3.	Introduction of individual anti-corruption procedures in portfolio companies of Sistema.	Completed	In 2014, anti-corruption procedures were integrated into business processes of BPGC, MTS-Bank, SSTL, according to Sistema standards. Audit of the effective anti-corruption procedures was conducted, which was followed by the development of the plan to improve the regulatory base of the Corporation.
Corporate Governance			
4.	Adaptation of new provisions of Russian Corporate Governance Code (approved in 2014), including with regard to Board candidates selection rules, and the role of the Nomination and Remuneration Committee.	Completed	Relevant regulatory documents have been amended.
Human Resources			
5.	Developing and introducing the project management incentive programme.	Completed	Sistema's Board of Directors approved the Regulation on Bonuses for project implementation and cash profit.
6.	Introduction of a typical short term motivation system within S/As.	Completed	
7.	Strengthening an attractive employer brand.	Completed	Expert RA Rating Agency (RAEX) confirmed the employer appeal of Sistema at the level of A.hr High level of the employer's attractiveness.
Contribution to Development of Locations of Operations			
8.	Development of social and economic partnership with the regions of operation.	Completed	In 2014, Sistema Group signed 5 agreements on cooperation with the regions of operation.
Stakeholder Engagement and Social Reporting of the Corporation			
9.	Preparation of Sistema's corporate social report for 2014.	Completed	For the first time the corporation prepared a non-financial report according to GRI G4 Standard and had it publicly assured at RUIE.

5.2 CSR Regulation at Sistema

Aspects of sustainable development	Legal framework	Responsible
Social responsibility and contribution to progress of the locations of operations	<p>Internal documents:</p> <ul style="list-style-type: none"> • Strategy of the Corporate social responsibility and charitable activity • Policy of the corporate social responsibility • Policy concerning charitable activity • Policy concerning interaction with public authorities <p>External documents:</p> <ul style="list-style-type: none"> • Global Compact (United Nations) • Social Charter of Russian Business (RUIE) • International ISO standard 26000:2010 "Guidance on social responsibility" 	<ul style="list-style-type: none"> • Corporate Communications Function • Sistema Charitable Foundation • Managers of Investment Portfolios
Human resources	<ul style="list-style-type: none"> • HR Code • Code of Ethics • Compensation and Benefit Policy 	<ul style="list-style-type: none"> • HR Department
Economic responsibility	<ul style="list-style-type: none"> • Accounting policy • Code of Tender Procedures and Procurement 	<ul style="list-style-type: none"> • Finance and Investment Function
Risk management	<ul style="list-style-type: none"> • Code of Risks 	<ul style="list-style-type: none"> • Finance and Investment Function
Corporate governance	<p>Internal documents:</p> <ul style="list-style-type: none"> • Corporate Governance Code <p>External documents:</p> <ul style="list-style-type: none"> • Corporate governance Code (letter of the Bank of Russia № 06-52/2463 dated 10.04.2014) • The UK Corporate Governance Code 	<ul style="list-style-type: none"> • Corporate Governance Function • Corporate Secretary
Corruption Management	<p>Internal documents:</p> <ul style="list-style-type: none"> • Anti-Corruption Policy • Code of Ethics <p>External documents:</p> <ul style="list-style-type: none"> • UN Convention against Corruption (adopted at New York on 10/31/2003 Resolution 58/4 at 51 plenary meeting 1-58 session of the UN General Assembly, ratified by the Russian Federation FL No. 40-FZ dated 08.03.2006) • Criminal Law Convention on Corruption (enclosed in Strasbourg 27.01.1999 ETS No. 173, ratified by the Russian Federation FL No. 125-FZ dated 25.07.2006) • Criminal Code of the Russian Federation No. 63-FZ dated 13.06.1996 • Code of Administrative Offences of the Russian Federation No. 195-FZ dated 30.12.2001, Federal law No. 273-FZ dated 25.12.2008 «On Combating Corruption» 	<ul style="list-style-type: none"> • Legal Function • Security and IT Department • Internal Audit Department
Business ethics	<ul style="list-style-type: none"> • Code of Ethics • Anti-corruption policy 	<ul style="list-style-type: none"> • Legal Function • Internal Audit Department • HR Department
Responsible investment	<p>External documents:</p> <ul style="list-style-type: none"> • The principles of responsible investment developed by an international group of investors under the auspices of the United Nations 	<ul style="list-style-type: none"> • Finance and Investment Function • Strategy Function • Sistema Charitable Foundation • Managers of Investment Portfolios
Ecological Responsibility	<p>External documents:</p> <ul style="list-style-type: none"> • The applicable legislation of the Russian Federation in the sphere of environmental protection 	<ul style="list-style-type: none"> • Administrative Department • Sistema Charitable Foundation

5.3 GRI Content Index [G4-32]

Index	Index Name	Disclosure	Page
Strategy and analysis			
1.	G4-1	A statement from the most senior decision-maker of the organisation about the relevance of sustainability to the organisation and the organisation's strategy for addressing sustainability.	Full 12-13
2.	G4-2	Description of key impacts, risks and possibilities	Full 38
Organisational Profile			
3.	G4-3	The name of the organisation	Full 13
4.	G4-4	Primary brands, products, and services	Full 26-27
5.	G4-5	The location of the organisation's headquarters	Full 13
6.	G4-6	The number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report.	Full 26-27
7.	G4-7	The nature of ownership and legal form.	Full 13
8.	G4-8	The markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries).	Full 26-27
9.	G4-9	The scale of the organisation, including <ul style="list-style-type: none"> • Total number of employees; • Net sales (for private sector organisations) or net revenues (for public sector organisations); • Total capitalisation broken down in terms of debt and equity (for private sector organisations); • Quantity of products or services provided 	Full 26-27
10.	G4-10	<ul style="list-style-type: none"> • Total number of employees by employment contract and by gender; • total number of permanent employees by type of employment type and by gender; • total number of employees by corporate and non-corporate employees, as well as by gender; • total number of employees by regions and by gender; • portion of the organisation's work performed by workers who are legally recognized as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors; • seasonal variations in the number of employees. 	Full 51
11.	G4-11	The percentage of total employees covered by collective bargaining agreements	Full 54
12.	G4-12	Supply chain description	Full 28
13.	G4-13	Significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain, including: <ul style="list-style-type: none"> • Changes in the location of, or changes in, operations, including facility openings, closings, and expansions; • Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organisations); • Changes in the location of suppliers, the structure of the supply chain, or in relationships with suppliers, including selection and termination 	Full 26-27

Index		Index Name	Disclosure	Page
14.	G4-14	Precautionary approach	Full	38
15.	G4-15	Externally developed economic, ecological and social charters, principles or other initiatives used or supported by the company	Full	13
16.	G4-16	Membership in interest associations, trade and/or national and international organisations, within which the company: <ul style="list-style-type: none"> • takes a position in governing bodies; • participates in projects or committees; • provides significant financing apart from membership fee; • identifies its membership as strategic 	Full	13
Identified material aspects and boundaries				
17.	G4-17	List of legal entities whose statements were included into the consolidated financial statements	Full	15
18.	G4-18	<ul style="list-style-type: none"> • to determine the contents of the report and boundaries of the Aspects; • explanation 	Full	16
19.	G4-19	List of all material Aspects identified in the course of defining the report content	Full	18-20
20.	G4-20	Description of each essential Aspect, Aspect boundaries within the company (including the list of legal entities or groups of legal entities which are specified in Item 3.2 and for which this Aspect is relevant)	Full	18
21.	G4-21	Description of each material Aspect, Aspect boundaries outside the company (including the list of legal entities, groups of legal entities, facilities and geographical regions for which this Aspect is relevant)	Full	18
22.	G4-22	Results of all restatements of information provided in previous statements, and reasons for such wording	Full	15
23.	G4-23	Material change in the Scope and Boundaries of the Aspects compared to previous reporting periods	Full	15
Stakeholder Engagement				
24.	G4-24	List of stakeholder groups engaged by the organisation	Full	79
25.	G4-25	The basis for identification and selection of stakeholders with whom to engage	Full	79
26.	G4-26	The organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process	Full	80-83
27.	G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns.	Full	80-83
Report Profile				
28.	G4-28	Reporting period	Full	15
29.	G4-29	Publishing date of the previous sustainable development report	Full	15
30.	G4-30	Reporting cycle	Full	15

Index		Index Name	Disclosure	Page
31.	G4-31	The contact point for questions regarding the report or its contents	Full	16
32.	G4-32	The 'in accordance' option the organisation has chosen. The GRI Content Index for the chosen option. The reference to the External Assurance Report, if the report has been externally assured	Full	15
33.	G4-33	The organisation's policy and current practice with regard to seeking external assurance for the report; <ul style="list-style-type: none"> the scope and basis of any external assurance provided; the relationship between the organisation and the assurance providers; involvement of the highest governance body or senior executives in seeking assurance for the organisation's sustainability report 	Full	16
Governance				
34.	G4-34	The governance structure of the organisation, including committees of the highest governance body. responsible for decision-making on economic, environmental and social impacts.	Full	32
Ethics and integrity				
35.	G4-56	The organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	Full	42
Category: Economic				
Aspect: Economic Performance				
36.	G4-DMA	Disclosures on Management Approach	Full	18, 30, 64-65, 120
37.	G4-EC1	Direct economic value generated and distributed (subject to the financial information standard in the organisation's annual report)	Partial	64
38.	G4-EC4	Financial assistance received by the organisation from governments	Full	64
Aspect: Market Presence				
39.	G4-DMA	Disclosures on Management Approach	Full	19
40.	G4-EC5	Proportion of senior management hired from the local community at significant locations of operation.	Full	52
Category: Environmental				
Aspect: Emissions				
41.	G4-DMA	Disclosures on Management Approach	Full	20
Aspect: Effluents and Waste				
42.	G4-DMA	Disclosures on Management Approach	Full	20
Aspect: Compliance				
43.	G4-DMA	Disclosures on Management Approach	Full	19, 102-106, 120

Index	Index Name		Disclosure	Page
Aspect: Overall				
44.	G4-DMA	Disclosures on Management Approach	Full	18, 77-78, 120
45.	G4-EN31	Total environmental protection expenditures and investments by type	Full	77
Category: Social, Subcategory: Labour Practices and Decent Work				
Aspect: Employment				
46.	G4-DMA	Disclosures on Management Approach	Full	18, 51-52, 54-55, 120
47.	G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region.	Partial	52
48.	G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.	Full	54
Aspect: Labour/Management relations				
49.	G4-DMA	Disclosures on Management Approach	Full	19, 54, 120
50.	G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements.	Full	54
Aspect: Occupational Health and Safety				
51.	G4-DMA	Disclosures on Management Approach	Full	18, 54
52.	G4-LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes.	Full	54
Aspect: Training and Education				
53.	G4-DMA	Disclosures on Management Approach	Full	18, 55-58, 120
54.	G4-LA9	Average hours of training per year per employee by gender, and by employee category.	Full	55
55.	G4-LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Full	57
Category: Social, Subcategory: Human Rights				
Aspect: Investment				
56.	G4-DMA	Disclosures on Management Approach	Full	20, 42-43, 120
57.	G4-HR1	Total number of incidents of discrimination and corrective actions taken	Full	43
Aspect: Non-Discrimination				
58.	G4-DMA	Disclosures on Management Approach	Full	19, 42-43, 120
59.	G4-HR3	Total number of incidents of discrimination and corrective actions taken	Full	43

Index	Index Name	Disclosure	Page
Safety Practices aspect			
60.	G4-DMA	Disclosures on Management Approach	Full 20, 42-43
61.	G4-HR7	Percentage of security personnel trained in the organisation's human rights policies or procedures that are relevant to operations	Full 43
Category: Social, Subcategory: Society			
Aspect: Local Communities			
62.	G4-DMA	Disclosures on Management Approach	Full 20, 73-76, 120
63.	G4-S01	Percentage of operations with implemented local community engagement, impact assessments, and development programmes.	Full 75
Aspect: Anti-corruption			
64.	G4-DMA	Disclosures on Management Approach	Full 18, 39-41, 120
65.	G4-S04	Communication and training on anti-corruption policies and procedures.	Full 39
66.	G4-S05	Confirmed incidents of corruption and actions taken.	Full 40
Aspect: Public Policy			
67.	G4-DMA	Disclosures on Management Approach	Full 20, 82
68.	G4-S06	Total value of political contributions by country and recipient/beneficiary.	Full 82
Aspect: Anti-Competitive Behaviour			
69.	G4-DMA	Disclosures on Management Approach	Full 19, 82, 120
70.	G4-S07	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	Full 82
Aspect: Compliance			
71.	G4-DMA	Disclosures on Management Approach	Full 18, 82
72.	G4-S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	Full 82
Subcategory: Product Responsibility			
Aspect: Customer Health and Safety			
73.	G4-DMA	Disclosures on Management Approach	Full 18, 109-111
Aspect: Compliance			
74.	G4-DMA	Disclosures on Management Approach	Full 19, 109-111

5.4 Implementation of Principles of the UN Global Compact

Classification	Principles	GRI G4 Index	Location in the Report
Human rights	1. The business community should support and respect the protection of internationally recognized and asserted human rights	G4-HR1 G4-HR3 G4-HR7	2.6. Business Ethics 4.2. Personnel and Social Policy, Personnel Training and Human Rights
	2. The business community should not be involved in human rights violation.	G4-HR1 G4-HR3 G4-HR7	2.6. Business Ethics 4.2. Personnel and Social Policy, Personnel Training and Human Rights
Employment	3. The business community should support the freedom of association and actual recognition of the right to organise and bargain collectively.	G4-11	3.3. HR Management
	4. The business community should speak in favour of abolition of forced or compulsory labour in all forms.	G4-HR1 G4-HR3 G4-HR7	2.6. Business Ethics
	5. The business community should stand for abolition of child labour.	G4-HR1 G4-HR3 G4-HR7	2.6. Business Ethics
	6. The business community should advocate elimination of occupational discrimination.	G4-HR1 G4-HR3 G4-HR7	2.6. Business Ethics 4.2. Personnel and Social Policy, Personnel Training and Human Rights
Environment	7. The business community should favour the environmental approach based on the precautionary principle.	G4-14	2.4. Risk Management 4.5. Environmental NGOs and managing environmental impact
	8. The business community should launch initiatives targeted at higher environmental responsibility.	G4-EN31	3.7. Ecology and Environment Protection 4.5. Environmental NGOs and managing environmental impact
	9. The business community should facilitate the development and spread of environmentally safe technologies.	G4-EN31	3.7. Ecology and Environment Protection 4.5. Environmental NGOs and managing environmental impact
Anti-Corruption	10. The business community should counter all kinds of corruption, including extortion and bribery.	G4-S04 G4-S05	2.5. Anti-Corruption Efforts 4.4. Business Partners, Suppliers and Responsible Business Practices Standards

5.5 Conclusion on the Review of Sistema's 2014 Sustainability Report by the RUIE Council for Non-Financial Reporting for the Purpose of Public Assurance



5.6 Glossary and Abbreviations

Glossary

Agrochemical soil survey	is a survey done for the purpose of developing rational fertilizers usage recommendations.
Nonmouldboard technology	is a resource-efficient and cost-effective technology of tillage without overturning the soil layer.
Stakeholder Engagement	is a process targeted at clarification of stakeholders' interests to take into account in the Corporation's activities.
UN Global Compact	is a system of network relations organised on the basis of the Global Impact Board and six UN institutions.
Stakeholders	are individuals or legal entities with an interest in the operations of the Corporation able to influence its operations.
Inclusive environment	is an environment enabling full involvement and inclusion of disabled people into society and community.
Key performance indicator (KPI)	is an integrated indicator of a structural unit or certain official activities reflecting target goals (of a structural unit or an official) for a given period.
Content filtering	is website filtering based on their content; does not allow access to certain websites or Internet services.
Corporate Social Responsibility (CSR)	is a set of Corporation-specific and regularly updated commitments which were voluntarily and consistently framed through involvement of key stakeholders, designed to implement internal and external social programmes, resulting in corporate growth, gain goodwill, corporate identity and expanding meaningful and functional connections with stakeholders.
Crowdsourcing	is transfer of some production functions to an indefinite group of people (volunteers).
Cutting Area	is an area in the forest allocated for cutting mature and overripe forest, for renewal felling, forest tending cutting and forest sanitation.
Grid Observability	is taking readings of generating facilities, transformers, switches, circuit breakers, high voltage power lines.
Specially Protected Natural Areas (SPNA)	land, water surface and air space above them, where natural complexes and objects are located which have special environmental, scientific, cultural, aesthetic, recreational and health significance, withdrawn completely or partially from economic use, having special protection.
Shared Value projects	are projects which make positive impact on the Corporation and its stakeholders.
Recycling	is reuse of production waste or garbage or returning it into the turnover.
Russian Union of Industrialists and Entrepreneurs (RUIE)	Russia-wide non-governmental organisation promoting business interests.
Management Practices Data (MPD)	is a description of how an organisation identifies and analyses its actual and potential economic, environmental and social impacts, as well as how it responds to such impacts.
Crop rotation	is scientifically proved crop alternation on the fields and over time; it helps to restore and improve soil fertility.

Social Charter of Russian Business	is a set of basic principles for responsible business practices defining relationships between employer and employee, civic institutions, authorities, local community; gives principles of environmental safety.
Territory of Priority Socio-Economic Development (TPD)	is a part of a constituent territory of the Russian Federation with special legal status for business and any other activities in order to create positive environment and generate investment, to ensure fast economy growth and comfortable living of the population.
Chamber of Commerce and Industry of the Russian Federation (CCI)	is Russian voluntary non-governmental association of entrepreneurs.
Sustainable development	is development that enables to meet the demands of a modern generation without depriving future generations of their chance to meet their own demands and needs.
Hackathon	is a forum for computer programmers where various software specialists work together on a problem.
Knowledge economy	is the topmost stage of post-industrial and innovation economy development.
CRM sensors	represent hardware and software solution to obtain and study comprehensive information on clients' interaction with a company.
Free Cash Flow	is company's cash funds generated through its operating activities less all taxes and capital investment.
LED driver	is a device that stabilizes electrical current flowing through LEDs.
Private Equity	is a type of assets understood as a share in the capital, equity unit or non-floating shares of a company.
Roadshow	is a way of practical preparation of an emitter company when issuing securities.
SAP Workforce Management	is a system of employees' time management that helps plan work shifts.
Smart Grid	are upgraded electrical supply networks that use information and communication networks and technologies to gather data on energy production and energy consumption.

Abbreviations

AKMR	Russian Association of Communication Directors and Corporate Publishing Media
ASI	Agency for Strategic Initiatives
JSFC	Joint-Stock Financial Corporation
BPF	Big Pension Fund
CF	Charitable Foundation
VIAM	All-Russian Scientific Research Institute of Aviation Materials
VC	Volunteer Centre
GDP	Gross Domestic Product
HSMI	Higher School of Management and Innovation
GC	group of companies

POL	petroleum, oil, lubricants
S/As	subsidiaries and affiliates
WWP	woodworking plant
PP	pecuniary profit
IHL	Integrated Hot Line
IP	investment portfolio
IPOS	Institute of Practical Oriental Studies
IAP	Institute of Applied Physics
ITC	Innovative Technology Centre
CB	criteria base
CC	Corporate Centre
SG&A	selling, general and administrative expenses
KPI	key performance indicators
CSR	Corporate Social Responsibility
HCVF	high conservation value forests, whose environmental and / or social value for preserving biodiversity, ecological balance, and / or meeting the needs of local population exceeds the value stored in the raw wood of these forests.
FIC	Forest Industry Complex
LB	logging business
MSLU	Moscow State Linguistic University
MSU	Moscow State University
MIET	Moscow Institute of Electronic Technology
IGC	Intergovernmental Commission
MMW	minimum monthly wage
IFRS	International Financial Reporting Standards
MIPT	Moscow Institute of Physics and Technology
RI	Research Institute
ARI	Agricultural Research Institute
NIS	satellite navigation system
NRU	National Research University
NK	oil company
NGO	non-governmental organisation
NCP	non-commercial partnership
RPC	Research and Production Cluster

NGPP	Non-Governmental Pension Programme
OSOP0	mandatory insurance of hazardous industrial facilities
PFC	Production Pharmaceutical Company
PFR	Pension Fund of the Russian Federation
RAS	Russian Academy of Sciences
RVC	Russian Venture Company
RGS	Russian Geographic Society
RAS	Russian Accounting Standards
VLSI	very large-scale integration circuit
DLS	distance learning system
SPOK	Northern Environmental Coalition
LPG	liquefied petroleum gas
EEMS	Enterprise Energy Management System
TVC	Television Company
TV	transportation vehicle
FSUE RFNC–VNIIEF	Federal State Unitary Enterprise Russian Federal Nuclear Centre All-Russian Scientific Research Institute of Experimental Physics
SIF	Social Insurance Fund of the Russian Federation
FFOMS	Federal Fund for Compulsory Medical Insurance
PPM	pulp and paper mill
ETP	Electronic Trading Platform
4G	the Fourth Generation, the generation of mobile communications with higher requirements
CDMA (Code Division Multiple Access)	communication technology where communication media have a common band, but different code modulation.
CRM	customer relationship management
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation, an accounting measure
ERM	Enterprise Risk Management
ESG risks	Environmental, Social and Corporate governance risks
FSC	Forest Stewardship Council, an international non-commercial organisation.
GPON	Gigabit-capable Passive Optical Network
GR	Government Relation
GRI	Global Reporting Initiative, an organisation that aims to develop and promote non-financial reporting standards.

HR	Human Resources
IRR	Rate of Return
ISO 26000:2010	International Standard “Guidance on Social Responsibility”
ISSF	International Students Science Fair
IT	Information Technology
LED	Light-emitting diode
M&A	Mergers and Acquisitions
MBA	Master of business administration
OIBDA	Operating Income Before Depreciation And Amortisation, an accounting measure
P&L	Profit and Loss
PR	Public Relations
R&D	Research and Development
RFID	Radio Frequency IDentification, a way of automatic identification where by means of radio signals data stored in transponders, or RFID tags, is read and recorded.
TSR	Total Shareholder Return
UNICEF	United Nations International Children’s Emergency Fund
VAS	Value Added Services
WACC	Weighted Average Cost of Capital
WWF	World Wildlife Fund

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Global Compact in Russia

DISCLAIMER

Certain statements in this report may contain assumptions or forecasts in respect to forthcoming events within Sistema. The words “expect”, “estimate”, “intend”, “will”, “could” and similar expressions identify forward-looking statements. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. We do not intend to update these statements to reflect events and circumstances occurring after the above-

mentioned date or to reflect the occurrence of unanticipated events. Many factors could cause Sistema’s actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, deteriorating economic and credit conditions, our competitive environment, risks associated with operating in Russia, rapid technological and market change in our industries, as well as many other risks specifically related to Sistema and its operations.

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