

2015

Sustainability Report



Content

Sistema owns key assets in several industries that are of paramount importance for the development of the Russian Federation`s economy. Thus, as a large investment corporation, Sistema influences significantly 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 to all stakeholders.

88.2
RUB bn

tax payments

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139.2
RUB bn

investment programme

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1.35
RUB bn

charitable and social expenditures

> 155
thousand

employees



To get some more information, please, visit our corporate web site:

<http://www.sistema.com>

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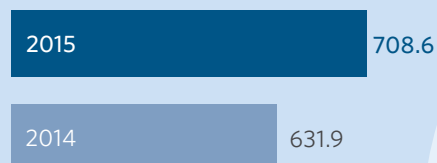
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Key Performance Indicators



Revenue,
RUB bn

708.6



Share of Sistema's
revenue in Russia's
GDP, %

0.88



Operating profit,
RUB bn

69.0



OIBDA,
RUB bn

176.4



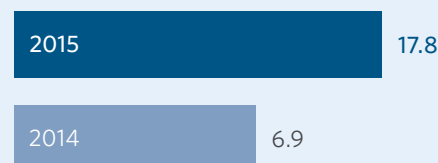
Number of developing
assets that paid out
dividends, pcs.

9



Percentage of dividends
received from developing
assets (vs total dividend
amount), %

17.8





Sistema Group's
investment programme,
RUB bn

139.2



Tax payments to federal
and regional budgets,
RUB bn

88.2



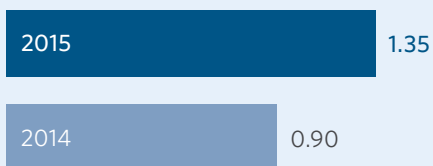
Total environmental
protection expenditures
and investments of Sistema
Group companies, RUB bn

1.6



Charitable and social
expenditures,
RUB bn

1.35



Headcount,
persons

155,251



Personnel engagement
in voluntary
activities, %

6.7



Calendar of Events

January

Idea Contest

Finals of the Intellect2All Youth Contest of promising technology ideas and developments of students, young researchers, developers and entrepreneurs was held in Moscow as part of the All-Russian Lift to the Future scientific and educational programme. More than 400 applications were submitted for the contest.

February

Import Substitution



BPGC signed a contract with Siemens AG for production of innovative import-substituting grid equipment for the Smart Grid project in Bashkortostan.

Education



An agreement was signed between Sistema Charitable Foundation and NPO Chess in Schools to promote the inclusion of chess in the Russian school curriculum and strengthen the role of chess in education initiatives.

March

Youth Summit



Sistema, MTS and SSTL held International Innovation Youth Summit at the Skolkovo School of Management in Moscow.

Partnership with regions

Sistema signed agreements on social and economic cooperation with the Vologda and Kirov regional governments.

Segezha Group and Petrozavodsk State University signed an agreement on scientific and technical cooperation.

Charter

MTS and Detsky Mir joined the Anti-Corruption Charter of Russian Business.

Taking care of veterans



Sistema signed a cooperation agreement with the Moscow City Council of Veterans of War, Labour, Armed Forces and Law Enforcement Agencies (MCCV).



Start of a joint social programme of Sistema Charitable Foundation, Medsi Group, MCCV and the Moscow Department of Labour and Social Protection to provide free sanatorium care to the WWII veterans on the premises of Medsi's sanatorium Otradnoye near Moscow.

Lift to the Future school



Opening of a spring scientific and educational school Lift to the Future in Sukko (Krasnodar Territory), which was attended by 500 children from all over Russia.

HR Brand Award



Sistema became a partner of the HR brand award. Elena Vitshak, honorary member of the jury, Vice President, Head of the HR Department, presented the award in the category "World" for the best HR projects implemented in Russia and other countries.

April

Support for Innovation

Oilfield services holding Targin signed an agreement with Ufa State Oil Technical University on cooperation in the field of training and retraining, introduction of scientific and technical developments, implementation of joint social projects, as well as with Skolkovo Foundation on the establishment of the Centre for Research and Development (R&D Centre) in the Skolkovo Innovation Centre, and was a regional sponsor of the Russian Startup Tour (RST) aimed at finding advanced innovative solutions and developing the competencies of startup teams implementing high-tech projects.

All-Russian Olympiad



With the support of MTS Bank, the finals of the 10th All-Russian Olympiad on Financial Markets and Basics of Consumer Knowledge for high school students took place in Moscow. The event was attended by more than 6,000 high school students from all over Russia, as well as from Kazakhstan, Uzbekistan, Moldova and Ukraine.

Environmental Initiative

MTS announced the start of the Federal Environmental Protection Programme, under which a comprehensive collection and recycling system for waste batteries of cell phones, smartphones and tablets will be introduced in MTS stores in Russian regions.

Contest of projects



Completion of the national contest of regional youth projects System of Priorities of the 2014-2015 academic year held within the framework of Lift to the Future in the All-Russian Children's Centre Smena (Anapa) with the support of the Russian Ministry of Education and Science, and in the Children's health centre named after Yuri Gagarin (Stupino, the Moscow region). More than 700 applications were submitted.

Support for The Russian Museum



The State Russian Museum hosted an exhibition "National War. The Art of 1941-1945" with the support of Sistema Charitable Foundation. As part of the exhibition opening ceremony, Sistema together with MTS and the Committee on Social Policy of St. Petersburg conducted a tour for the veterans of the Great Patriotic War and the survivors of the Leningrad siege and congratulated them on the 70th anniversary of the Victory.

Honouring veterans

The Central House of Scientists in Moscow hosted a gala reception for 200 war and labour veterans, the former employees of Sistema's enterprises.

May

Social Partnership

A tripartite agreement was signed between Sistema Charitable Foundation, the Government of Moscow and MCCV on social partnership in supporting veterans and providing patriotic education for young people.

Victory Day



More than 400 employees of 22 Sistema Group companies participated as volunteers in greeting and assisting veterans in Moscow as part of the celebration of the 70th anniversary of the Victory in the Great Patriotic War.

The Corporation's employees participated in the improvement of the premises of four sponsored orphanages, where cleanup days and holidays for the children and veterans were organised as part of the Volunteer Victory Garden initiative.

A formal opening of a new armoured vehicles exhibition organised with support from Sistema Charitable Foundation was held on the territory of the Prokhorovka Field State Memorial Estate in the Belgorod region.

Road Show in Saudi Arabia

Sistema was the general sponsor of the Russian Business Week "Russia and Saudi Arabia - New Prospects for Trade, Economic and Investment Cooperation" and the Russian regions' road show in Jeddah under the auspices of the Russian Embassy in Saudi Arabia and the Russian Chamber of Commerce.

June

Participation in Economic Forums



Sistema's top managers headed by the Board of Directors' Chairman Vladimir Evtushenkov and the President Mikhail Shamolin held dozens of business meetings on the sidelines of the 19th St. Petersburg International Economic Forum (SPIEF) and took part in its key sections.

The Russian-Saudi Business Forum attended by the Corporation's top managers took place in St. Petersburg with Sistema's support.

Agreements with the Regions

Sistema signed cooperation agreements with the Governments of the Arkhangelsk and Irkutsk regions at SPIEF-2015.

Corporate cleanup day



Sistema conducted a company-wide eco-cleanup day dubbed "Energy of Sistema" in Medsi's sanatorium Otradnoye near Moscow, with more than 2,000 employees of the Corporation as participants. The Corporation's top managers, together with the veterans, laid a commemorative Victory Walkway.

July

Corporate Social Responsibility seminar

Sistema, jointly with MTS, held a corporate seminar on social responsibility, which was attended by more than 50 representatives of the Corporation's subsidiaries.

High technology for Moscow



Mikron signed a contract with the State Unitary Enterprise Mosgortrans for the supply of land transport contactless tickets, thus becoming the main supplier of tickets for the entire transport network of Moscow, namely: ground, underground transport and suburban trains.

August

Backpack for first graders



Sistema Charitable Foundation and the Moscow Book Centre launched a volunteer campaign to collect school supplies for children from 30 orphanages in Moscow and the Moscow region by the beginning of the new academic year.

IASS-2015



RTI and Kronshtadt Group demonstrated their latest developments at the 12th International Aviation and Space Show in Zhukovsky, the Moscow region.

Sistema supported a programme for honouring veterans and heroes of aviation "Wings of Victory". A special cultural programme was organized for the guests of honour with the participation of cadets. Also, VIP stands were provided to watch the demonstration flights.

September

Microelectronics

Mikron became a resident of the Zelenograd Special Economic Zone where it works to implement its chip technologies R&D project.

Forest care Holiday

Sistema, MTS and RTI took part in the international environmental initiative FSC Friday organized by the Forest Stewardship Council (FSC) to support responsible attitude towards forests, and collected the largest volume of paper for recycling among Russian companies that participated in the campaign.

Week of Knowledge

Sistema held its first Week of Knowledge, which was attended by more than 400 employees of the Corporation.

Summer Games

Sistema organized its 13th Summer Games at Yantar stadium, 17 Corporations' teams participating in 14 sports.

October

Memory book



MTS handed over to the State Historical Museum a unique memory book "Life During the War. 1941-1945", which included more than 320 stories and photos of war veterans collected by their relatives – employees of the Company.

Energy Forum

BPGC was the general sponsor of the 15th Russian Energy Forum "Effective Energy" in Ufa, which was attended by more than 1,500 industry professionals. At the forum, BPGC and Rosseti signed an agreement on cooperation in the field of unified technical policy.

Forum of talents in Yaroslavl



NPP Lift to the Future, MTS and RTI jointly presented educational programmes and conducted master classes for young people at the 3rd All-Russian Forum "Future Intellectual Leaders of Russia".

November

Week of Saudi business

Chairman of Sistema's Board of Directors Vladimir Evtushenkov took part in a meeting of the Russian-Saudi Business Council and the Joint Intergovernmental Russian-Saudi Commission on commercial, economic and technological cooperation.

Memoranda of intent were signed with the Saudi company Wafrat Al Tawasul to establish a Russian-Saudi investment company for investing in the agricultural sector, infrastructure, transportation and other industries, as well as to create a joint venture with Targin for the manufacture of drill bits in the Kingdom of Saudi Arabia.

Corporate Education



The Higher School of Management and Innovation of the Lomonosov Moscow State University opened a new "Innovation in Development" corporate retraining programme for Leader Invest's top managers.

December

Support for volunteers

Sistema Charitable Foundation co-organized the 4th Moscow International Forum "Corporate Volunteering: Business and Society", which was attended by representatives of Sistema, SCF, MTS, Medsi, Detsky Mir, Stream and employees of other Sistema Group companies.

Partnership agreements

MTS signed agreements with the Swedish telecommunications equipment manufacturer Ericsson on cooperation in the development and implementation of fifth-generation communication technologies (5G) in Russia and with the international manufacturer of home appliances REDMOND on partnership in the development and promotion of smart household appliances and other devices.

BPGC and Ufa State Oil Technical University signed a cooperation agreement in the field of education, research and innovation, vocational guidance and graduates' employment promotion.

Charitable events



Thousands of employees of different Sistema Group companies participated in a campaign to fulfil wishes of underprivileged children as part of the traditional charitable event "Tree of Wishes", which included buying gifts, holding volunteer tours and New Year's parties for children from eight sponsored orphanages.

A charitable New Year's party for underprivileged children was jointly held by MTS and Detsky Mir in the Cultural Centre of railway employees.

Awards and Achievements

Sistema and Group Companies

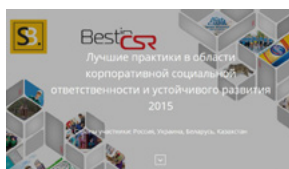
Corporate Social Responsibility

INVESTMENT ANGEL



1. Sistema became the winner of the World Investment Award "Investment Angel" for its contribution to the achievement of sustainable development goals. The award was established by the World Organization for Development (WOD) – an international non-governmental organization having a special consultative status with the Economic and Social Council of the United Nations (UN ECOSOC).

BEST IN CSR



2. Sistema, MTS, Bashkir Power Grid Company (BPGC) and Medsi Group (Medsi) became the winners of a competition as part of the Best in CSR project (organised by Sustainable Business magazine) for implementation of best practices in the field of corporate social responsibility and sustainable development in Russia and the CIS.

LEADERS OF CORPORATE CHARITY – 2015



3. Sistema ranked among the top 5 companies of a nationwide ranking "Leaders of Corporate Charity – 2015" (a joint project of Donors Forum, PricewaterhouseCoopers (PwC) and the Vedomosti newspaper), and was second in the "Best Programme/Project to Support Contemporary Art and Culture" category for its long-term State Russian Museum support programme, and third in the "Best Programme/Project Contributing to the Development of Volunteering in Russia" category for its project to establish a volunteer centre at Sistema Charitable Foundation.

The ranking also included Mobile TeleSystems (MTS) and Detsky Mir. MTS was awarded a special prize "For Transparency" and received a diploma from the Russian Union of Industrialists and Entrepreneurs (RSPP) in the category "Best Programme/Project Reflecting the Corporate Charity Policy and Social Investment Principles" for the All-Russian charity project "Generation M".

BEST RUSSIAN SOCIAL PROJECTS



4. The "Taking Care of Veterans" project was the winner of the 4th annual national programme "Best Russian Social Projects" in the category "Projects for the Underprivileged". MTS was featured in the "Corporate projects" category for the "Memory Book" project.

THE GOOD CAUSE CHAMPIONS



5. Sistema Charitable Foundation became the winner of the national "The Good Cause Champions" Award for contribution to development of corporate volunteering (Russia's Managers Association and the National Council for Corporate Volunteering with the support of the Russian Ministry of Economic Development) in the category "Urban Environment Project" for its "Volunteer Victory Garden" initiative. MTS was awarded in the category "Best Project to Engage and Motivate Corporate Volunteers" for its "Do Good!" project.

Personnel

TOP 1000 RUSSIAN MANAGERS



1. 39 Sistema's top managers took top places in the Top 1000 Russian Managers ranking of Russia's Managers Association and Kommersant publishing house. Sistema's Board Chairman Vladimir Evtushenkov was named among the best Russian business leaders, and President Mikhail Shamolin ranked first among the top managers of multi-business companies.

The Chairman of the Investor Relations and Dividend Policy Committee of Sistema's Board of Directors David Iakobachvili was recognized as the "Best independent Director" in the Top 1000 Russian Managers ranking. Two MTS's top managers - Vice President for Marketing Vasil Latsanich and Vice President for Technology and IT Andrey Ushatsky - became winners in the categories "Best Marketing Director" and "Best IT Director".



CRYSTAL PYRAMID - 2015



2. Sistema's Vice President, Head of the HR Department Elena Vitchak became the winner of the professional "Crystal Pyramid - 2015" award established by the Organising Committee of the summit of HR directors of Russia and the CIS in the category "HR Manager".

3. Four Corporation's representatives were included in the first All-Russian "Top 25 Corporate Social Responsibility Managers" ranking according to the Managers Association.

CEO-OF-THE-YEAR RUSSIA 2015



4. Sistema's President Mikhail Shamolin and Chairman of Mikron's Board of Directors Gennady Krasnikov became winners in a number of categories of an international ranking of presidents of international companies CEO-of-the-Year Russia 2015 compiled by Swiss research company Obermatt.

TOP 25 CORPORATE SOCIAL RESPONSIBILITY MANAGERS

3. Four Corporation's representatives were included in the first All-Russian "Top 25 Corporate Social Responsibility Managers" ranking according to the Managers Association.



Subsidiaries and Affiliates

DIRECTOR OF THE YEAR – 2015



5. Three independent members of Sistema's Board of Directors Robert Kocharian, David Iakobachvili and Roger Munnings, as well as MTS's Independent Director Stanley Miller, were included in the "50 Best Independent Directors" ranking compiled as part of the "Director of the Year – 2015" National Award (Association of Independent Directors, RSPP in partnership with PwC). Ron Sommer, Chairman of MTS's Board of Directors, was awarded in the category "Chairman of the Board of Directors: Contribution to the Development of Corporate Governance". Managers of Sistema, MTS and MTS Bank were named among the "Top 25 Corporate Governance Directors - Corporate Secretaries".



Procurement

NATIONAL PROCUREMENT TRANSPARENCY RATING



1. Sistema and MTS were recognized as commercial customers with a high level of procurement transparency in the National Procurement Transparency rating compiled by the National Association of E-Trade Participants.

COMPETITIVE PROCUREMENT LEADERS



2. Sistema became the finalist of the "Competitive Procurement Leaders" award (the electronic trading centre B2B-Centre) in the category "Trade and Procurement Innovations Leader". MTS became the winner in the category "Best Supplier Management System", BPGC – in the special category "For Stable and Transparent Procurement System".

Corporate Social Responsibility

HR BRAND



1. MTS ranked among Top 5 Best Employers in Russia and became a third-time winner of the HR brand award established by HeadHunter, in the categories "Career Start", "For Contribution to HR Branding Development" and "Big Heart" (for the implementation of the best socially-oriented charity project). The OZON Green project to improve environmental responsibility of OZON Group's employees took the prize in the "Capital City" category.

CORPORATE EDUCATION LEADERS

2. MTS and Moscow City Telephone Network (MGTS) were included in the "15 Corporate Education Leaders" ranking compiled by RBC.

MTS WINING CONTESTS



3. MTS won the following contests:

- "Leaders of Russian Business: Dynamics and Responsibility - 2015" (RSPP) in the category "For High-Quality Sustainability Reporting";
- The 4th All-Russian Small & Medium-Sized Business Support Award "Basis for Growth - 2015" in the category "Infrastructure Project of the Year" (category "Business") for the implementation of the international youth innovation contest "Telecom Idea";
- "For Active Corporate Information Disclosure Policy" established by Interfax news agency;
- "Top 10 IT Projects for Public Sector. Educational and Healthcare Institutions" (ComNews) in the category "Best Education Media Project" for its project "Children Teach Adults".



THE MOSCOW TIMES AWARDS 2015



4. MGTS won in the category "Corporate Social Responsibility" of The Moscow Times Awards 2015 for its "Good Cause" project, and in the category "For Efficient Support of Small and Medium-Sized Telecommunications Businesses" of the "Basis for Growth - 2015" award.

CHARITY IN FOCUS



5. Medsi was second in the "Charity in Focus" contest of the "Donors Forum" for the photo "Forgetting everything" made at the inclusive children's festival at the Moscow International Music Centre organized by Medsi for the Children's Day jointly with MTS, charitable foundations Sistema, Detsky Mir, Galchonok, Downside Up and Podari Zhizn.

BPGC WINING CONTESTS



6. BPGC became the winner in the categories "Socially Responsible Electric Grid Company" and "The Most Transparent Electric Grid Company" of the 6th All-Russian contest "Best Russian Electric Networks" (Energo-News) and took third place in the category "Best Social Project in Business" in the 8th All-Russian contest "Press Service of the Year". BPGC's newspaper "Energetik Bashkortostana" (Power engineer of Bashkortostan) became the winner in the "Best Corporate Publication of the Republic of Bashkortostan" category within the framework of "Press Ball - 2015" contest.

Bashkirenergo (BPGC's subsidiary) was included in the top 10 best Russian companies in occupational safety and health on the basis of the All-Russian contest "Success and Safety - 2015".

ENVIRONMENTAL RATING



8. Segezha Pulp and Paper Mill (SPPM) and Lendersky PPM (companies of Segezha Group) were named among the most environmentally responsible logging operators in Karelia in the rating compiled by the regional public environmental organisation SPOK.

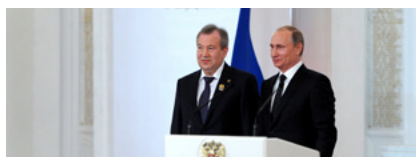
GOLDEN BEAR AWARD



9. Detsky Mir took second place in the category "Social Project of the Year" of the 6th National "Golden Bear" Award in the field of goods and services for children for its volunteer corporate puppet theater.

Personnel

THE STATE PRIZE IN THE FIELD OF SCIENCE AND TECHNOLOGY



1. President Vladimir Putin awarded the State Prize of the Russian Federation in the field of science and technology for the development of semiconductor structures with controlled and stable electro-physical parameters for modern microelectronic production to Mikron's General Designer, CEO of NIIME, and member of the Russian Academy of Sciences Gennady Krasnikov on the Russia Day, in Kremlin.

PERSON OF THE YEAR



2. CEO of Detsky Mir Vladimir Chirakhov came out on top in the category "Person of the Year" of the 6th National "Golden Bear" Award in the field of goods and services for children.

Services

BEST IMPLEMENTED HEALTHCARE FACILITY CONSTRUCTION PROJECT



1. Clinical and Diagnostic Centre Medsi at Krasnaya Presnya became the winner of the citywide competition "2015 Best Implemented Construction Project", organised by the Moscow Department of Urban Planning Policy, in the category "Best Implemented Healthcare Facility Construction Project".

SHOP OF THE YEAR



2. Detsky Mir took the top places in the categories "Shop of the Year" and "Best Goods for Pregnant and Breastfeeding Women" of the 6th National "Golden Bear" Award in the field of goods and services for children.

25 LARGEST RUSSIAN PRIVATE MEDICAL COMPANIES IN TERMS OF REVENUE



3. Medsi took first place in the ranking "25 Largest Russian Private Medical Companies in Terms of Revenue" compiled by RBC.

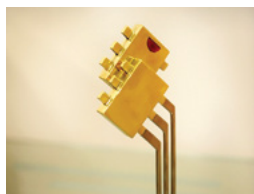
MTS BANK WINING CONTESTS



4. MTS Bank was named among the top 10 companies in the ranking "Best Russian Internet Banks" compiled by J'son & Partners Consulting Company (J&P) and among the top 10 companies in the ranking "Best Mobile Banks" compiled by Deloitte. It also won in the category "Financial Services, Online Banking" and took second place in the category "Best usability/ Ux" (interface and user experience) at the largest annual All-Russian Internet Projects Contest "Golden Website", and won the following awards:

- "Golden App 2015" contest in two categories: "Finance, Business, Insurance" and "Best ui/ux";
- "Runet Rating 2015" in "Finance and Insurance" category.

NEW ELECTRONICS -2015



5. Mikron won "Golden Chip 2015" prize in the category "For Achievements in Import Substitution" within the framework of the international exhibition "New Electronics -2015" for the release of the first Russian microprocessor "Elbrus-2SM".

TELECOM LEADERSHIP AWARDS 2015



6. Sistema Shyam TeleServices Limited (SSTL, MTS India) became the winner of Telecom leadership Awards 2015 in "Product Innovations", "Customer Services" and "Internet Services" categories.

MGTS WINING CONTESTS



7. MGTS became the winner in the category "Best Customer Experience in the Telecommunications Sector" of the National Award "Customer eXperience Awards Russia 2015" held by the International Association of Customer Experience Management Experts (ICXC), the digital magazine "Library of Loyalty" and RBC media holding, and became the winner in the category "Most Dynamically Developing Operator in Terms of Revenue from Fixed and Wireless Broadband Access Services" of ComNews Awards 2015 professional award.

TOP 3 RUSSIAN IT CONSULTANTS



8. NVision Group was named among the top 3 Russian IT consultants according to CNews.

Chairman's Message



I am happy to present Sistema's non-financial report that discloses all aspects of the Corporation's contribution to the social, economic and environmental areas, i.e. improvement of the quality of life and development of Russia's regions, support for innovation, modernisation of infrastructure and manufacturing capabilities in Russia, as well as our key social and charitable programmes.

G4-1

Dear shareholders, investors and partners,

Today, it has become obvious that the world is facing a systemic crisis and new challenges related to the cyclical development of the economy. At the World Economic Forum in Davos experts and business leaders declared an end to the era of rapid growth driven by hydrocarbons production and processing, which is particularly keenly felt by Russia amid sanctions and unstable geopolitical environment. Given the new challenges, the urgent task of the global community is not only to stimulate growth, but also to ensure long-term sustainability, social stability and environmental balance.

These issues were addressed in the revised 2030 Agenda for Sustainable Development adopted by the United Nations and aimed at eradicating poverty, preserving the Earth's resources and ensuring everyone's welfare. Achievement of these goals depends on the joint efforts of the public, private and nonprofit sectors. Sistema, being a member of the UN Global Compact, is involved in this process by consistently investing in the social sector, education, health, new technologies, and creating competitive jobs and decent employment conditions for 155,000 people in more than 13 industries.

Analysts are right to believe that the main drivers of sustainable business development, which should be taken into account by the companies seeking to maintain leadership in a highly volatile and uncertain environment, are investments in fixed assets (primarily state-of-the-art equipment), innovative (primarily information and communications) technologies and human resources. These aspects are the focus of our strategy enabling us not only

to achieve good financial results today, but also to create value in the long term. We consistently invest in the real sector of the economy, development of manufacturing, infrastructure projects and human capital to ensure growth in both traditional and new sectors, where a breakthrough is possible through R&D work, implementation of innovative approaches and improvement of asset management quality. This includes such aspects of sustainable development as human resources management, business ethics, risk management, as well as anti-corruption, social and environmental policies.

Our people are our greatest assets. The value of professionals who are able to act as innovation champions, to generate new ideas, to improve business processes and achieve good results, increases each year as the global competition for talents intensifies. Sistema hires the best professionals and creates favourable conditions for the motivation and development of its management team by making the most of its internal resources and expertise. At the same time, we try to look ahead and fully support the development of additional engineering and technical training using a project-based approach that allows the younger generation not only to develop professional competences, but also to gain valuable skills of teamwork in real-life projects. No school or university offers such an opportunity.

In 2015, Sistema established a record in investments, acquired a number of new assets and started to create vertically integrated groups in such industries as forestry, pulp&paper and agriculture, as well as expanded its high-tech portfolio by adding promising projects of Kronshtadt Group.

1.5 times



increased charitable and social expenditures as compared to 2014

Our sustainability strategy focuses on investments in fixed assets, innovative technologies and human resources.

It is revealing that while the level of investments in fixed assets throughout Russia decreased, Sistema's capital expenditures in 2015 increased to almost 2.5% of the total Russian expenditure in nominal terms. Our portfolio companies continued active implementation of their investment programmes aimed at modernising infrastructure, increasing production capacity, expanding the range, improving the availability and quality of services and products in order to achieve, among other things, the government's import substitution objectives.

Thus, MTS Group, while remaining a leader in terms of mobile revenue volumes and growth rate in Russia, spent more than RUB 96bn for the development of data networks in all target markets and for modernisation of landline communication networks in Moscow and Russian regions. In 2015, MTS launched LTE new-generation networks in 83 Russian regions, and the Moscow City Telephone Network almost completed a major RUB 50bn project launched in 2011, on replacement of the obsolete ADSL network with advanced optical GPON networks providing broadband Internet access at speeds up to 1 Gbit/s on all landline communication lines in the Moscow region. As a result, about 95% of Moscow households obtained Internet access through optical cables and digital television, as well as favourable package rates and additional smarthouse services.

Bashkir Power Grid Company opened one of the most modern and technologically advanced Grid Management Centres in Russia as part of a programme for reconstruction of the Ufa electrical grid complex based on the Smart Grid concept implemented in the pilot area of the capital of Bashkortostan. Jointly with Siemens, BPGC localised the production of modern electrical equipment for smart grids that meets the requirements of Russian regulators, as well as introduced an advanced ERP enterprise management system. I would like to note that in 2015, Bashkir Power Grid Company became the first Russian company that

switched to a 10-year period of RAB tariff regulation, which provides a balance between the required investment needs and the interests of energy consumers. The company also continued its work with the Ministry of Education of the Republic of Bashkortostan aimed at preventing child electrical traumas.

In 2015, a cutting-edge multidisciplinary clinic Medsi was established in Moscow. It became the largest investment project of Sistema, which spent RUB 4.5bn on the creation of this new clinical and diagnostic centre. The clinic has the capacity of +1,200 patients per shift and offers 16 high-tech types of medical care. An Austrian company Vamed, one of the European leaders in the design, construction, equipping and management of complex healthcare facilities, became the company's partner in this project. In addition, a new state-of-the-art children's healthcare department was opened in Krasnogorsk. Large-scale reconstruction of the clinic building in Khoroshevskoye district of Moscow is the next step. We believe that private healthcare will become widespread in Russia in future and intend to further develop this socially significant area in accordance with the best international practices of high-quality affordable healthcare.

We also contribute to the urban environment transformation. In the past year, our real estate development company Leader Invest completed the construction of the first residential real estate in Moscow – "House on Izumrudnaya St." The company's portfolio includes a number of other projects, including transforming obsolete and decommissioned industrial buildings into modern residential complexes. In addition, Leader Invest is engaged in one of the most ambitious projects of the Government of Moscow on integrated development of the territory of the former ZIL car factory, where Nagatino i-Land business park has been established. Now, it is planned to build residential areas and related social infrastructure, i.e. kindergartens, schools, a healthcare centre, recreation and sports areas, pedestrian streets and boulevards.

In the context of the growing demand for domestic tourism, we intend to develop our hotel chain by creating an attractive infrastructure. Therefore, we have built a 5-star health resort within several years at the premises of a maral breeding farm in the Altay Republic. This facility is one of a kind in this area. Sistema also acquired two hotels in Karelia, and launched a new eco-hotel Izumrudny Les (Emerald Forest) in the Klin district near Moscow during the reporting year.

Over the past year, we have significantly expanded the package of cooperation agreements with the Russian regions, particularly the Arkhangelsk, Vologda, Irkutsk and Kirov regions. Our cooperation is primarily concerned with the modernisation and development of the timber industry, and provides for the implementation of relevant investment programmes that have considerable social impact, alongside with their economic value. Thus, the launch of a modern automated line for the production of paper bags in Segezha (the Republic of Karelia) in 2015 resulted not only in creation of 60 new jobs, but also a 15% increase in tax revenues for all levels of budgets. The opening of Detsky Mir's large logistics complex in the Bekasovo village made it possible to create about 2m new jobs, which was a significant contribution to the social and economic development of the Moscow region.

Our social investments also increased, despite the challenging economic environment. Not only have we preserved our key programmes, but we also launched new major initiatives by increasing charity financing by half as compared to 2014. The main share of the funds was invested in the implementation of our flagship programme "Lift to the Future" aimed at building a talent pool for high-tech and knowledge-intensive industries. The programme attracted about 200,000 people from around the country within the five years it has existed.

What is even more important, many young, talented people have already received the opportunity to realise their full intellectual potential and have been quite successful in it. In 2015, our graduates were able to qualify for the presidential grants, which proves the effectiveness of the created mechanism of selection and training of a new generation of specialists for the Russian economy. We intend to continue supporting high schoolers and students who are focused on activities in the engineering sector, and to create conditions for their professional fulfillment in Russia by integrating education and real sector, science and business.

Maintaining a decent standard of living for vulnerable groups of the population is an equally important mission, particularly due to the inevitable increase in the state's role in ensuring social security. A vivid example of efficient cooperation of businesses, the non-profit sector and public authorities in this field is an agreement signed in May 2015 between Sistema, the Moscow City Council of Veterans and the Moscow Mayor's Office on cooperation in the field of social support of veterans of the Great Patriotic War and patriotic education of young people. The Corporation organised an ambitious programme of events for the 70th anniversary of the Great Victory. It includes a health care and rehabilitation programme "Taking Care of Veterans" in Medsi's health centre in Otradnoye near Moscow, assistance to veterans in purchasing land plots near Moscow, numerous charitable, voluntary, cultural and educational campaigns such as cleanup days, meetings of veterans with the youth, foster children visiting the largest military history museums, exhibition at the Russian Museum, etc. Sistema spent the total of about RUB 60m for the support of veterans in 2015. We are focused on extending the programme scope, and hope that other socially responsible companies will join us.

In this report, we do not just sum up the results of the year, but also share specific plans for further work on the key aspects of the Company's sustainable development. We are open to new ideas and look forward to feedback from all our stakeholders.



Vladimir Evtushenkov

Chairman of Sistema's Board of Directors

Sustainable Development Agenda

Sistema develops its corporate social responsibility (CSR) programmes and projects focusing on the current challenges and trends of sustainable development in Russia and abroad, monitoring the relevant documents and concepts to better address economic, social and environmental challenges faced by the Corporation, the society and the state.



12 key areas of sustainable development have been distinguished based on the analysis of a number of Russian and foreign sources⁽¹⁾. Objectives that are consistent with Sistema's activities and reflect its real contribution have been formulated for each of these areas.

By working together to achieve the sustainable development goals, Sistema Group companies achieve synergy. Thanks to our joint efforts, we manage to achieve significant positive results and help to solve the social problems of our country and key regions of Sistema's operations, thereby forming a favourable environment for long-term business development.


12 key areas of sustainable development





for each of these areas have been formulated objectives that are consistent with Sistema's activities and reflect its real contribution

⁽¹⁾ The analysis is based on the following documents:

- Millennium Development Goals 2015 UN Report
- Millennium Development Goals in the context of Russia 2015 UN Report
- Transformation of our world: 2030 Agenda in Sustainable Development Agenda 2015 UN Report
- Concept of Long-term Social and Economic Development of the Russian Federation till 2030 (RF Government)
- Social Charter of Russian Business
- Anti-corruption Charter of Russian Business

No	Area	Goals	References to Report Sections
 ECONOMY			
1.	Making a breakthrough in the transition to a new type of economy – innovative, socially-oriented and competitive in the global arena	<ul style="list-style-type: none"> To maintain economic growth per capita. To win the confidence of shareholders, owners and investors. To support fair competition. To diversify the industry and increase the competitiveness of sectors. To reduce the gap in the development of regions. To support domestic producers. To develop the agro-industrial sector. To develop and implement strategies to promote sustainable tourism that contributes to the creation of jobs, development of local culture and manufacturing of local products. 	1.1. Investment Strategy 1.2. Economic Performance and Investments 1.3. Corporate Governance 2.2.1. Social & Economic Partnership 2.3.1. Innovation and Modernisation of Manufacturing 2.3.4. Promoting Import Substitution
2.	Creation of a sustainable infrastructure, promotion of industrialisation and innovation	<ul style="list-style-type: none"> To improve productivity by developing, among other things, the value-added and labour-intensive sectors of the economy. To upgrade the infrastructure and retrofit industrial enterprises, making them sustainable by increasing the efficiency of the use of resources. To intensify research and to increase the technological capabilities of the industrial sectors. To essentially expand access to information and communication technologies, and seek to provide universal and affordable access to the Internet. 	2.3.1. Innovation and Modernisation of Manufacturing 2.3.2. Development of Science-Driven Industries 2.3.3. Improving Infrastructure 2.4.2. Sustainable Consumption of Resources
3.	Eradication of extreme poverty and poverty reduction	<ul style="list-style-type: none"> To diversify the structure of employment and to create new jobs. To reduce the share of young people who do not work, study or acquire professional skills. 	1.7. Personnel Management 2.1.1. New talents for an innovative economy 2.1.2. Developing the Innovative Potential of the Youth
4.	Anti-corruption efforts	<ul style="list-style-type: none"> To significantly reduce corruption and bribery. To manage companies based on anti-corruption programmes and to engage employees in their implementation. To implement effective financial control. To reject illegal benefits. To ensure transparent and open procurement procedures. To ensure public disclosure of anti-corruption measures. To cooperate with the government. 	1.4. Procurement Activities 1.6. Business Ethics and Anti-Corruption Activities 1.8. Stakeholder Engagement

No	Area	Goals	References to Report Sections
 SOCIAL SPHERE			
5.	Participation in local community development	<ul style="list-style-type: none"> To support the government's efforts and civil initiatives in the field of economic, social and cultural development in regions of operations. To produce only high-quality products and services that are safe and good for the health of consumers, to ensure fair attitude, respect for the human dignity and culture of consumers. 	2.2.1. Social & Economic Partnership 2.2.2. Improving Standards of Living
6.	Promotion of sustainable agricultural development, ensuring food security	<ul style="list-style-type: none"> To increase agricultural productivity and income of small food producers. To increase investment in rural infrastructure, agricultural research and agricultural propaganda. To create sustainable food production systems. To ensure preservation of genetic diversity of agricultural and domestic animals, and their respective wild species. 	2.3.1. Innovation and Modernisation of Manufacturing 2.4.3. Preservation of Biological Diversity
7.	Encouraging life-long learning opportunities	<ul style="list-style-type: none"> To increase the number of young people and adults with relevant skills required for obtaining decent employment and doing business. To establish and improve educational facilities. To ensure equal access to all types of education and vocational training for vulnerable groups of the population. 	1.7. Personnel Management 2.1.1. New talents for an innovative economy 2.1.2. Developing the Innovative Potential of the Youth 2.2.1. Social & Economic Partnership 2.2.2. Improving Standards of Living
8.	Recognizing employees as the most important asset	<ul style="list-style-type: none"> To protect labour rights and promote reliable and safe working conditions for all employees. To treat human life as the supreme asset: no tradeoff between health, safety and profits. To implement social protection systems and measures for all. 	1.6. Business Ethics and Anti-Corruption Activities 1.7. Personnel Management
9.	Supporting healthcare	<ul style="list-style-type: none"> To ensure that healthcare services are available for all To improve the quality of healthcare services. To promote research and development of vaccines and drugs. To substantially increase funding for healthcare and selection, development, training and retention of medical personnel. Promotion of healthy lifestyle skills. To reduce the mortality rate among children, to reduce infant and maternal mortality rate. 	2.2.3. Supporting Healthcare 2.3.2. Development of Science-Driven Industries

No	Area	Goals	References to Report Sections
 ENVIRONMENT			
10.	Ensuring the transition to rational consumption and production models	<ul style="list-style-type: none"> To achieve sustainable development and efficient use of natural resources. To reduce the amount of waste. To improve water quality by reducing pollution, eliminating waste discharges and minimizing emissions of hazardous chemicals and substances. To provide people around the world with relevant information and data about sustainable development and life in harmony with nature. 	2.4.1. Greening of Business 2.4.2. Sustainable Consumption of Resources
11.	Ensuring access to affordable, reliable, sustainable and modern energy sources	<ul style="list-style-type: none"> To ensure universal access to affordable, reliable and modern energy supply services. To increase the share of energy from renewable sources in the global energy balance. To improve the global energy index. To expand infrastructure and upgrade technologies for modern and sustainable energy supply. 	2.3.3. Improving Infrastructure 2.4.2. Sustainable Consumption of Resources
12.	Protection and restoration of terrestrial ecosystems and promotion of their rational use	<ul style="list-style-type: none"> To promote methods of sustainable use of all types of forests. To reduce biodiversity loss. To mobilise extensive resources to finance sustainable forest management and preserve biodiversity. 	2.4.3. Preservation of Biological Diversity

Corporate Profile

28	1.1. Investment Strategy
38	1.2. Economic Performance and Investments
40	1.3. Corporate Governance
45	1.4. Procurement Activities
52	1.5. Risk Management
57	1.6. Business Ethics and Anti-Corruption Activities
64	1.7. Personnel Management
90	1.8. Stakeholder Engagement
100	1.9. Managing Corporate Social Responsibility



"In the reporting period the Group's revenue increased by 9.7% year-on-year. At the same time, Sistema is a well-diversified business with a balanced investment portfolio which is comprised of a number of promising assets. These assets open up unique business development opportunities despite the difficult macroeconomic environment, making Sistema resistant to economic downturns."

Mikhail Shamolin
President of Sistema PJSC



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Sistema Public Joint Stock Financial Corporation (Sistema PJSC)⁽¹⁾ (hereinafter Sistema or the Corporation) is a Russian diversified holding company established in 1993. It is a major private investor in the real sector of the Russian economy. Sistema is one of Russia's top 10 companies by revenue, and is one of the largest private investors in the world.

1.3
tn RUB



Total assets of the Corporation
as of 31 December 2015

G4-5

Sistema's headquarters
are located in Moscow.



Sistema's investment portfolio consists mainly of Russian companies, which serve around 150 m customers in Russia, the CIS, Europe and Asia in more than 13 industries, including telecommunications, high technology, power, finance, banking, consumer sector, logging and timber processing, agriculture, real estate, healthcare, pharmaceuticals, hotel business, and other.

Sistema's activities are focused on improving the operational efficiency of the acquired assets through restructuring and attracting industry partners, strengthening market expertise, reducing financial and non-financial risks. The Corporation is the controlling shareholder in most of its portfolio companies and aims to create leaders in such sectors as healthcare, agriculture, wood processing, and high technologies.

Sistema is included in the list of 199 strategic organizations, approved in February 2015 by the Government of the Russian Federation⁽²⁾, which includes groups and vertically integrated companies that have significant impact on the GDP, employment and social stability, whose total profits account for more than 70% of the total national income, and whose headcount is more than 20% of the total number of employed people in Russia.

Sistema was named among 27 largest Russian companies by total revenues, profits, assets and market capitalisation, included in the Global 2000 rating published by the US Forbes business magazine in May 2015.

Sistema's global depositary receipts are listed under the SSA symbol on the London Stock Exchange. Ordinary shares of the Company are listed under the AFKS symbol on the Moscow Stock Exchange.

SISTEMA'S PORTFOLIO⁽³⁾



61%

Telecom



4%

Banking



11%

High-tech



5%

Pulp & paper



4%

Oil services



9%

Children's retail



6%

Other



SISTEMA'S MISSION

Sistema's mission is to build a first-class Russian investment company capable of ensuring long-term growth of the shareholder value through efficient management of the assets portfolio and achieving high returns on investments.

⁽¹⁾ In accordance with the requirements of the Civil Code of the Russian Federation, on 20 July 2016, Joint Stock Financial Corporation Sistema (Sistema JSFC) changed the company name to Sistema Public Joint Stock Financial Corporation (Sistema PJSC).

⁽²⁾ The list of strategic organizations, source: Ministry of Economic Development of the Russian Federation.

⁽³⁾ Based on Sistema's consolidated revenues.



SISTEMA'S VALUES

OUR BUSSINESS

We create value through our competences

OUR OPERATING PRINCIPLES

Our structure is compact and competitive

OUR STRATEGY

We are focused on achievement of specific targets

OUR EFFICIENCY

Our remuneration depends on the real income of the Corporation



PARTICIPATION OF SISTEMA AND ITS REPRESENTATIVES IN THE WORK OF PUBLIC ORGANISATIONS

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G4-15

Sistema is a member of a number of influential non-governmental organizations and business associations.

Russian organizations and associations:

- Russian Union of Industrialists and Entrepreneurs (RSPP);
- Chamber of Commerce and Industry of the Russian Federation (CCI);
- NPP "Russian Institute of Directors";
- Managers Association;
- Association of the Directors of Communications and Corporate Media of Russia (AKMR);
- Russian Risk Management Society (RusRisk).

International organizations and associations:

- NPP 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, Chairman of Sistema's Board of Directors, is a member of the following entities:

- Bureau of the Board of the Russian Union of Industrialists and Entrepreneurs (Head of the Industrial Policy 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-Arab Business Council);
- Presidium of the National Council on Corporate Governance;
- Management Board of the Moscow Confederation of Industrialists and Entrepreneurs (Employers);
- Supervisory Board of the State Russian Museum Development Foundation, Friends of the Russian Museum (Chairman);
- Supervisory Boards of the Lomonosov Moscow State University and Institute of Russian Language and Culture 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 So-Yedineniye Foundation for the Support of the Deaf-Blind;
- Patriarch's Supervisory Board to restore the Valaam Monastery of the Transfiguration of the Savior.

Corporation's representatives are members of special advisory bodies of a number of industry associations and public organisations, including those dealing with corporate social responsibility issues, i.e. the following:

- CSR and Demographic Policy Committee of RSPP;
- 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 are members of the Donors Forum and the National Council on Corporate Volunteering.

1.1. Investment Strategy

Sistema's strategy aims to increase the shareholder value of the Corporation through monetisation of the investment portfolio and search for new projects with high growth potential. In the long term, the Corporation strives to achieve one of the highest return rates for shareholders in the Russian market and a comparable contribution of assets to the total value of the portfolio through diversification of investments and increase in the level of returns on investment.

Sistema focuses on large and medium-sized assets in Russia and the CIS countries as the main region for investments. Using its experience and competencies, the Corporation creates, based on its assets, recognized market leaders in such industries as high technology, private healthcare, agriculture, wood processing, real estate, and other. Acquiring assets mainly in the sectors that are complementary to our current portfolio enables us to make the most of the synergy of different businesses. Sistema also invests in new attractive industries, if adequate industry expertise or an industrial partner is available.

As part of improving operational efficiency of the acquired assets by means of restructuring and implementing best corporate governance practices, Sistema oversees implementation of the investment strategies of portfolio companies by participating in the work of their governing bodies and nominating industry professionals to the companies' boards of directors.



For more information about Sistema's portfolio strategy, see the [Annual Report](#), pp. 10-11.



"We buy promising assets whose management systems and business processes are in need of improvement. Our investment decisions are based on the assets' competitiveness and product quality. Using Sistema's expertise and experience, we transform the acquired companies into efficiently operating assets, thus contributing to their successful monetisation."

Mikhail Shamolin

President of Sistema

Being an investment company, Sistema builds its business model around investment portfolio monetisation through receiving dividends and selling assets (equity stakes), reinvesting the proceeds in new promising projects with high returns on invested capital and in development of the existing assets in order to increase their value, as well as through distributing profits in the form of dividends among the Corporation's shareholders.

Given the scale of its operations, Sistema's decisions have significant impact not only on portfolio companies, but also on the entire industries, affecting the lives of millions of Russians, i.e. employees, customers, partners and suppliers.

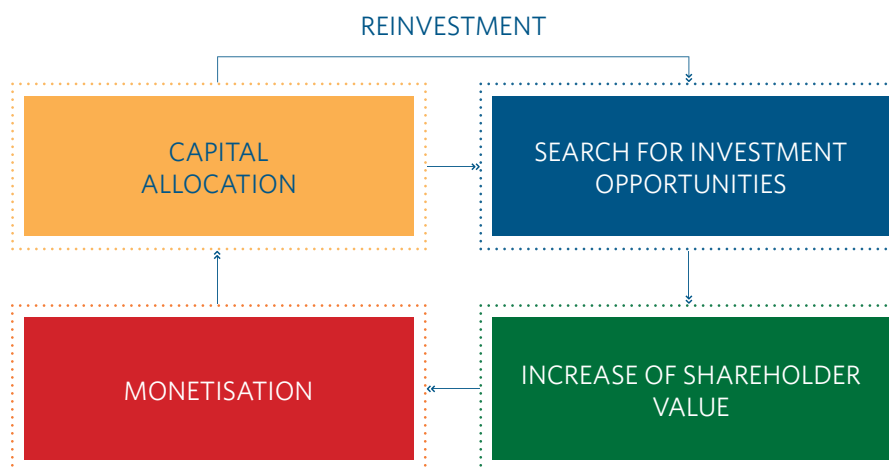
Thus, in its investment process Sistema adheres to the principles of responsible investment:

- takes into account environmental, social and governance factors and risks in analysing opportunities and making investment decisions;
- aligns business objectives with the priorities of socio-economic development of the regions and countries of operations;
- promotes the introduction of uniform standards and sustainable development principles in its portfolio companies as well as the formation of the Corporation's open and transparent business practices based on ethical values, respect for its employees, shareholders and customers, and care for the environment.

Socially responsible investing is the process of making investment decisions, taking into account the social and environmental consequences of investments within the framework of the traditional financial analysis.

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Value Creation Chain

**DIVIDENDS PAID TO SHAREHOLDERS**Total dividend payout of more than **RUB 4.5 bn****STRATEGY DEVELOPMENT**

Updated Sistema's portfolio strategy and the new assets' development strategy (Segezha Group, etc.)

Creation of joint ventures and venture capital funds within the Corporation

MANAGEMENT EFFICIENCY

Best corporate governance practices were confirmed (National corporate governance rating — 8th place)

BUSINESS TURNAROUNDSThe share of dividends received from developing assets increased by **10.9%** in a year**SYNERGY WITH THE COMPANIES OF THE GROUP**Consolidation of procurement activities in the Corporation made it possible to cut costs by **7.5%****REVENUE FROM SALE OF ASSETS**Revenue from asset sales amounted to **RUB 9.75 bn****DIVIDEND YIELD FROM ASSETS**Total dividends amounted to **RUB 28.7 bn****EXPERTISE AND EXPERIENCE**More than **20 years** of market presence**FINANCIAL RESOURCES****RUB 26 bn** invested in new assets acquisition**MANAGEMENT RESOURCES**Sistema has **729 top managers**, 39 of whom were included in the TOP-1000 Russian Managers ranking**REPUTATIONAL RESOURCES**

RAEX confirmed the A+(I) rating of Sistema - "Very high level of creditworthiness"

Compliance with these principles is ensured by multi-level analysis and collective review of all Sistema's investment transactions in compliance with the Corporation's existing procedures. In 2015, to improve the system of managerial decision-making Sistema established Expert Investment Council. It is a new permanent advisory body chaired by Sistema's President, which prepares draft decisions and recommendations on issues related to the management of investment ideas. The respective amendments were made to the Investments and Projects Code.

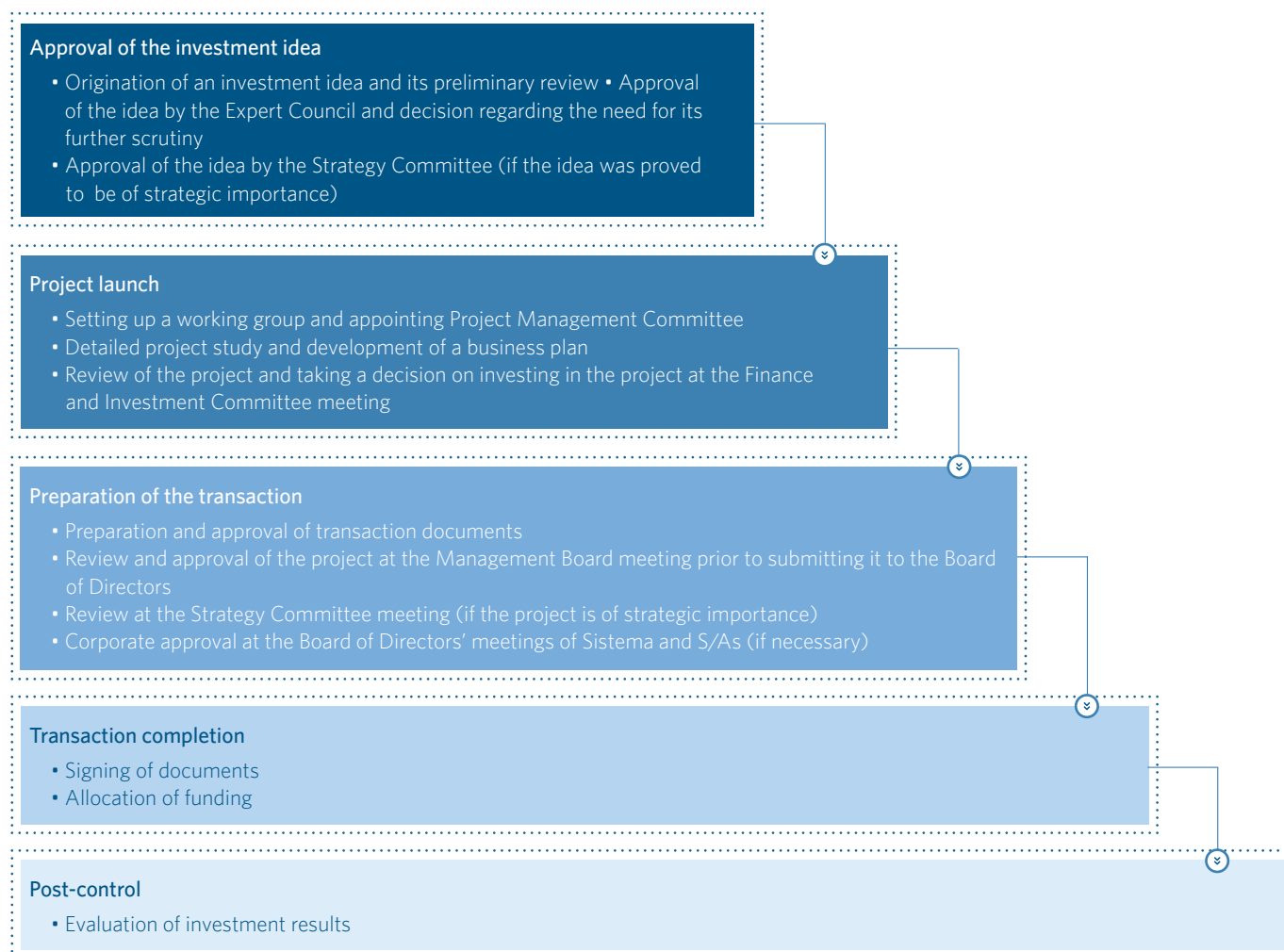


"We are focused on developing our subsidiaries. Many of them have already become leaders in their respective market segments and are making a significant contribution to the vital sectors of the economy. Our investment strategy takes into account not only economic, but also social factors, enabling us to achieve strong financial results and contribute to positive changes in the society."

Vladimir Evtushenkov

Chairman of Sistema's Board of Directors

Corporation's investment process control diagram



Key Results of the Investment Strategy in 2015

In 2015, Sistema invested RUB 26bn in undervalued assets and expanding its operations in the sectors proved to be particularly promising in the current economic environment. In particular, the Corporation acquired a number of agricultural assets with strong growth potential that are involved in import substitution and have an effective model of production cost formation. Also, the Corporation supported the operating strategy of Segezha Group aimed at expansion of the asset base in the forest industry and entry into new export markets.



Our key asset, MTS, completed its transition to 4G, and now the company can spend its uncommitted funds on other large-scale telecommunications projects. At the same time, new opportunities open up for Sistema enabling it to expand its investments in other promising sectors."

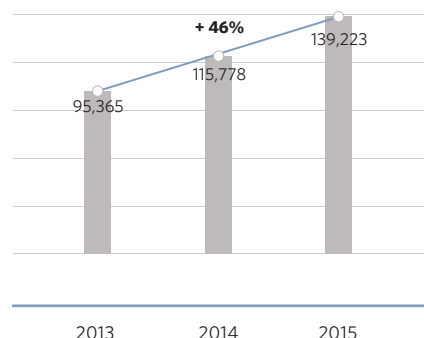
Vsevolod Rozanov

Senior Vice President, Head of Sistema's Finance and Investment Function

"We continued to invest heavily in acquisition of new assets and organic growth of our subsidiaries despite the difficult economic situation. In 2015, the Corporation invested RUB 139bn, a record level in its entire history."

In 2013-2015, the Corporation invested RUB 350bn, thus increasing the scope of its investment programme by 46% compared with 2013.

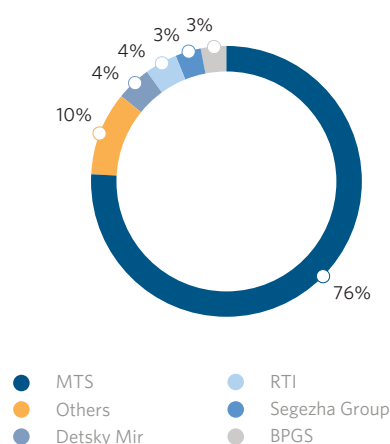
Sistema's investment programme in 2013-2015, RUB m



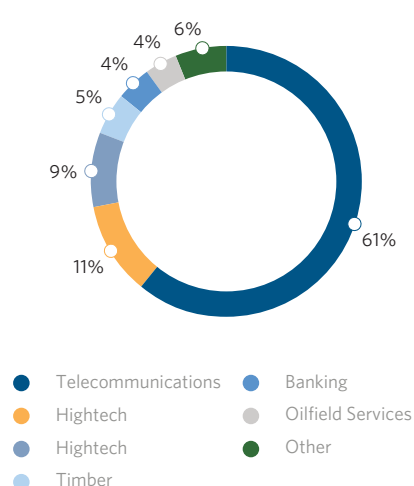
Size of the Corporation's investment programme, RUB m

Company	2013	2014	2015	Total for 2013-2015
Mobile TeleSystems	81,573	92,599	106,537	280,709
Detsky Mir	772	1,591	5,308	7,672
RTI	3,026	4,036	5,115	12,177
Segezha Group	-	-	4,648	4,648
Bashkir Power Grid Company	3,054	3,224	4,035	10,312
Medsy Group	90	3,014	3,775	6,878
Targin	-	3,666	2,720	6,386
Sistema Shyam TeleServices LimitedSTL (SSTL)	1,458	1,664	1,595	4,716
MTS Bank	681	1,060	631	2,372
Others	4,713	4,924	4,860	14,496
Total	95,365	115,778	139,223	350,366

Sistema's investment programme broken down by S/As, %



Sistema's portfolio on the basis of consolidated revenue, %



G4-I3

Key Mergers and Acquisitions (M&As) in 2015

- In January, Sistema consolidated 100% of shares of Intellect Telecom, a developer of high-tech telecommunications equipment for mobile networks and broadband Internet access.
- In July, Sistema Telecom Assets and RTI (Sistema's subsidiaries) completed the sale of 100% of shares of NVision Group to the telecommunications operator MTS.
- In October, Sistema acquired 100% of shares of Kronshtadt Group from the Industrial Investors Group and its partners.
- In October, Sistema acquired 25.02% of shares of Medsi Group from the State Unitary Enterprise Medical Centre under the Moscow Mayor and Government's Department of Business Affairs.
- In November, Sistema signed binding documents on the merger of the Indian telecommunications business of Sistema and Reliance Communications Ltd (RCOM), one of the largest telecommunications operators in India.
- In December, Sistema's subsidiary, DM Finance, sold 23.1% of Detsky Mir shares to the Russian-Chinese Investment Fund (RCIF).
- In December, LLC Razvitie, a joint venture of Sistema and LSR Group, won an open tender for the right to acquire a 100% stake in LLC ZIL-Yug.

Implementation of S/As' Development Programmes in 2015

- Mobile TeleSystems built more than 15,000 base stations to operate in 3G and 4G networks. Active construction of networks allowed the company to become the first operator of the "Big Three" to launch LTE networks throughout Russia, except for the Crimea and Sevastopol.
- Medsi Group invested about RUB 3.8bn in the creation of modern clinical and diagnostic centre in Krasnaya Presnya in Moscow, in the expansion of pediatric services of the clinic in Krasnogorsk, as well as in the implementation of the programme for providing medical centres with modern equipment, which started in 2014.
- The size of the investment programme of Bashkir Power Grid Company exceeded RUB 4bn. These funds were used mainly for major construction, retrofitting and overhaul of power grid infrastructure facilities, including modernisation of distribution networks of the pilot area in Ufa with introduction of Smart Grid elements and creation of a new Grids Management Centre.
- Detsky Mir completed the construction of a distribution centre with an area of about 70,000 m² and worth more than RUB 3bn in the PNK-Bekasovo industrial park. The company has also opened 104 new stores, having increased its total sales area to 491,000 m².
- Segezha Group proceeded with the implementation of a project for comprehensive modernisation of Segezha Pulp and Paper Mill (SPPM) in Karelia, and invested more than RUB 0.7bn in a project to expand the capacity of Segezha Packaging, having increased the enterprise productivity by 90m paper bags per year.
- RTI invested more than RUB 5bn in R&D work and production and technical support, including the modernisation of the Yaroslavl radio factory by updating technologies and bringing production in line with ECSS international standards. In addition, Mikron invested about RUB 450m in the development of its production and technical upgrade. Investments were directed mainly to the implementation of the project to create a line of serial 65 nm technology chip production, to develop own assembly production of 180/90 nm chips and to modernize RFID tags production.
- RZ Agro Group invested about RUB 0.1bn in the renewal of tractors and equipment for tillage and in the expansion of the sowing machinery fleet, which contributed to the improvement of quality and the reduction of the period of field, planting and tillage works.

SISTEMA'S INVESTMENT STRATEGY IMPLEMENTATION PLANS FOR 2016

1. Implementation of new efficient investments, including building up presence in agriculture and timber sectors.
2. Reduction of MTS's share in the revenue structure of Sistema's portfolio through the development of businesses that have rapid value growth potential in the short and medium term.
3. Creation of investment platforms in Europe, Asia and the United States to invest in international projects in order to raise funds from co-investors, to diversify the country-based risk, and to provide additional points of growth for Sistema's portfolio (export markets).
4. Entry into venture capital investment market to search for promising business ideas, products and technologies with high potential for value growth.

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Sistema's Key Assets

Assets	Description	Industry	Headcount, persons	Scope of activities	Sistema's ownership stake, %
1. Mobile TeleSystems (MTS)	Number one telecom operator in Russia and the CIS. MTS entered the system integration (IT) and satellite TV market in 2015.	Telecommunications	71,830 ⁽¹⁾	> 107m subscribers, including 77.3m in Russia MTS's Retail network grew by 22% - up to 5,136 outlets More than 15,000 base stations were built in 2015, including 7300- for work in LTE networks, 4400 - in 3G networks	53%
2. RTI	Major Russian industrial holding company, developer and manufacturer of high-tech products and infrastructure solutions using own microelectronic technologies. RTI's subsidiaries have their own R&D infrastructure and implement projects unique in their complexity and scale in the fields of radio communication and space technology, safety, microelectronics, IT infrastructure, automation and system integration.	High technologies	16,479	5.8m industrial chips per year 1.5m chips for biometric travel passports > 350m transport cards 69th place in the Defense News Top 100 annual international rating of defense companies in the world	85%
3. Detsky Mir	Largest retailer of children's goods in Russia and the CIS. The Group includes the Detsky Mir retail chain in Russia and Kazakhstan, the ELC retail chain (Early Learning Centre) in Russia and online stores.	Retail	10,066	> 420 stores, including 104 ones opened in 2015 Total sales area increased by 26% - to 491,000 m ² . Number One company in the market of children's goods and clothes in Russia > 132m visitors annually	76%
4. MTS Bank	MTS Bank is engaged in banking activities in Russia providing a complete range of financial services to individuals and corporate customers as a system-relevant operator of payment, credit and savings market.	Finance	2,809	Included in the top 50 Russian banks in terms of assets volume ⁽²⁾ The highest capital adequacy ratio in the industry - 18.	87%
5. Segezha Group	Russian wood processing holding with the largest vertically integrated infrastructure and full-cycle logging and high-level timber processing. The holding consists of Russian and European enterprises of timber, woodworking, and pulp-and-paper industries, including paper packaging production plants.	Logging and timber processing	9,249	The total area of the leased forest fund is 5.5m ha, including the forest fund certified according to Forest Stewardship Council (FSC) standards - 5.2m ha (94%). Number One in Russia in terms of paper bag production Number Two in Europe in terms of production of paper bags	100%

⁽¹⁾ Including the Retail network of MTS, MGTS, "NVision group".⁽²⁾ Source: RIA Rating agency.

Assets	Description	Industry	Headcount, persons	Scope of activities	Sistema's ownership stake, %
6. Targin	Large Russian multi-product oilfield services holding company that operates in main oil-and-gas Russian and Serbian regions	Oilfield services	17,436	> 130 kinds of oilfield services Customers: Bashneft, Gazprom Neft, Slavneft-Megionneftegas, NK Rosneft, Tatneft	100%
7. SG-trans⁽¹⁾	One of the leading railroad stock operators in Russia. It renders a full range of services on transportation of a large variety of gas, bulk oil, petrochemical, ore mining and construction loads across Russia, Europe, and the CIS	Railway transportation	1,218	29,829 managed cars The turnover of liquefied petroleum gases is 36.6bn. t/km Loading volume is 19,700 tonnes 30% share in the segment of oil and gas complex products railway transportation	50%
8. SG-trading	Independent distributor of liquefied petroleum gas (LPG).	Sale	756	11 database storage of LPG in 5 Federal counties 53 automotive gas station	100%
9. Bashkir Power Grid Company (BPGC)	The company combines distribution and transmission grid assets, renders services on electric power transmission to population and organizations of the Republic of Bashkortostan.	Power industry	7,540	Length of 0.4 A - 500 kV networks is 87,000 km Total installed capacity of substations is 16,777.5 MVA In 2015, 21,765 new customers joined (10% more compared to 2014).	91%
10. Sistema Shyam TeleServices Limited (SSTL)	Mobile operator rendering telecom services in India (under MTS brand).	Telecommunications	1,432	8m subscribers > 1,250 towns in 9 circles	57%
11. Medsi Group (Medsi)	Medsi is a leading federal private healthcare services provider in Russia, offering a full range of services in prevention, diagnostics and treatment of diseases, as well as rehabilitation of children and adults.	Medical services	6,184	> 1,800 doctors > 7m visits 20 hospitals, 55 healthcare centres 3 sanatoriums > area of clinics and hospitals is 230,000 m ²	100%
12. Concept Group	Fastest growing retailer, one of the leading women's and children's clothes retailers in Russia.	Retail	2,220	> 415 stores in 103 Russian cities 4 brands of children's and women's clothes	40%
13. Intouris	The company operates in the hospitality industry, specializing in the management and development of hotel projects in Russia and abroad. Russia's largest tourist holding company operating in the hospitality industry, specializing in the management and development of hotel projects in Russia and abroad.	Hospitality	1,215	7 hotels 4 countries > 2,500 - room fund	66%

⁽¹⁾ Sistema completed the sale of 50% of SG-trans shares on 31 August 2016.

Assets	Description	Industry	Headcount, persons	Scope of activities	Sistema's ownership stake, %
14. Binnopharm	Binnopharm is a pharmaceutical company that operates one of Russia's largest full-cycle manufacturing facilities, producing biotech drugs in line with the international quality standard GMP (Good Manufacturing Practice).	Pharmaceutics	439	Area of the production complex in Zelenograd – 32,000 m ² 6m HBV doses in 2015	74%
15. RZ Agro Holding Group (RZ Agro)	One of the largest producers of grain and oilseeds in the south of Russia. It comprises six farms grouped into three regional clusters in the Rostov Region and the Stavropol Territory.	Agriculture	953	The top 10 agricultural holdings by land bank size in the South of Russia (100,000 ha) Gross production – 272,000 tonnes, including 168,000 tonnes of wheat 91% of arable land is processed Geography of exports:; shipments are made to Lebanon, Albania and African countries in addition to Turkey, Egypt, and Armenia	50%
16. Steppe Agro Holding (Steppe Agro)	It combines a series of highly efficient agricultural enterprises located in Krasnodar region. Agro Holding's activities are divided into four areas: crop production, animal husbandry, horticulture and vegetable farm-out.	Agriculture	3,095	40% of the harvest of winter wheat was shipped for export, and 60% was sold on the domestic Russian market.	100%
17. Real estate assets	Sistema in the real estate business is represented by a number of companies, the key ones being Leader Invest, Biznes Nedvizhimost and Mosdachrest.	Real estate	519	113,800 sales contracts concluded on the secondary housing market in 2015 19,600 co-investment agreements concluded.	100%
18. OZON Group (OZON)	Leading e-commerce platform in Russia with a strong brand and own logistic service. The Group owns Ozon.ru (one of Russia's leading e-commerce companies) and Ozon. Travel (leading online travel agency in Russia).	Retail		> 700,000 E-shop customers a day > 3.5m of various goods	10,8%
19. Kronshtadt Group (the asset acquired in 2015)	The Russian leader in the development and production of high-tech products and solutions necessary for the creation, development and safe use of gadgetry in the air, at sea and on land.	High technologies	1,273	> 150 products and solutions for a number of strategic areas: aircraft construction and operation of air transport, navigation and communications, defense and national security, prevention of emergency situations, mining, processing and transportation of mineral resources, vocational training, and culture. 25 to 50% of the Russian market in the segment of flight simulators and training hardware (depending on the type of simulators).	100%

Assets	Description	Industry	Headcount, persons	Scope of activities	Sistema's ownership stake, %
20. Intellect Telecom	Developer of high-tech telecommunications equipment for mobile communication networks. The company performs a full R&D-cycle for the manufacturing of products in partnership with leading hardware and software vendors in the most promising segments of the telecommunications market: heterogeneous networks (HetNet); capacity transfer cellular system, the Internet of Things (IoT).	High technologies	131	The company is a member of the International Telecommunication Union (ITU). Products to provide cost-effective coverage of the countryside, roads and railways	100%

1.2. Economic Performance and Investments

The Corporation's performance has significant impact on the development of many industries, the economy and the society of the regions of operations and the entire country due to the distribution of the created value.

≈1%



the total contribution of Sistema Group to the gross domestic product (GDP) of the Russian Federation

The total contribution of Sistema Group to the Russian gross domestic product (GDP) was approximately 0.88% in 2015. Additionally the revenue growth rate of the Group companies exceeded the GDP growth rate in 2014-2015⁽¹⁾. The consolidated revenues showed growth of 9.7% year over year in 2015 due to the consolidation of Segezha Group (the share of the timber holding in the revenue of Sistema Group amounted to 5%), the dynamic growth of revenues from data transmission services and sales of MTS smartphones, as well as the expansion of Detsky Mir on the Russian market, the acquisition of Kronshtadt Group and agricultural assets.



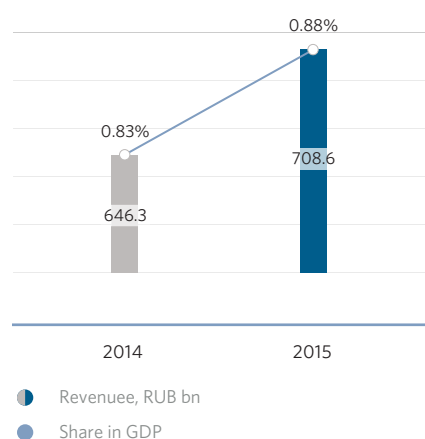
For more information about the financial performance of Sistema Group, see [2015 Annual Report](#).

G4-EC1

Created and distributional economic value, RUB bn

Indicators	2015
Created value	727.1
Revenues	708.6
Financial income	18.5
Distributed value	676
Operating costs	529.5
Wages and other payments and benefits to employees ⁽²⁾	139.7
Payments to the state (tax payments) ⁽³⁾	66.4
Investing in the community (charity)	1.4
Financial expenses	51.2
Dividend payments	27.5
Undistributed value	51.1

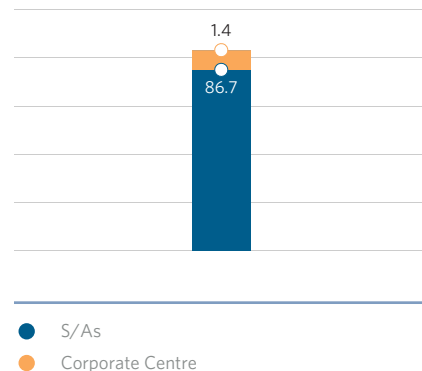
Share of Sistema's revenue in the Russian GDP, RUB bn



Due to Sistema's scope of activities, the Corporation is one of the largest taxpayers in Russia. The total amount of tax payments to federal and regional budgets, and other Sistema's obligatory payments in 2015 amounted to about RUB 88.2bn. About 70% of the total amount of the Corporation's tax payments are paid to the federal budget.

The bulk of the tax payments are paid to the budgets of Moscow (49%), Republic of Bashkortostan (9.2%), Moscow region (3.7%), Republic of Karelia (3.4%) and Trans-Baikal Territory (2.4%).

Tax payments to the federal and regional budgets in 2015, RUB bn

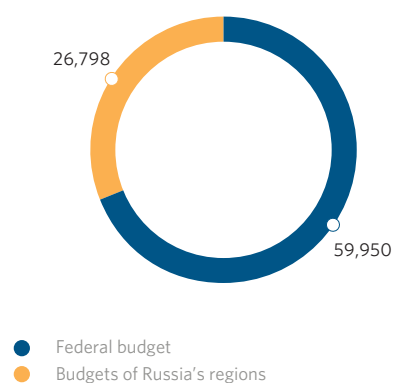


⁽¹⁾ According to Rosstat: Russia's GDP dropped by 3.7% in 2015 after 0.7% growth in 2014. GDP volume in 2015 amounted to RUB 80,412.5bn against RUB 77,893.1bn in 2014.

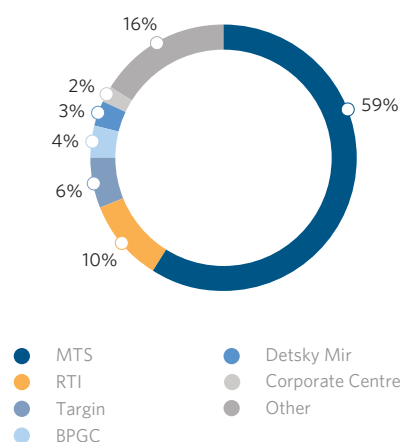
⁽²⁾ It includes the cost of wages, bonuses, social security contributions and employee remunerations in kind.

⁽³⁾ It does not include pension, health and social security payments, which are included in the line "Wages, and other payments and benefits to employees".

Tax payments of Sistema's S/As in 2015 broken down by budgets, RUB m



Tax payments of Sistema's companies in 2015 broken down by S/As, %



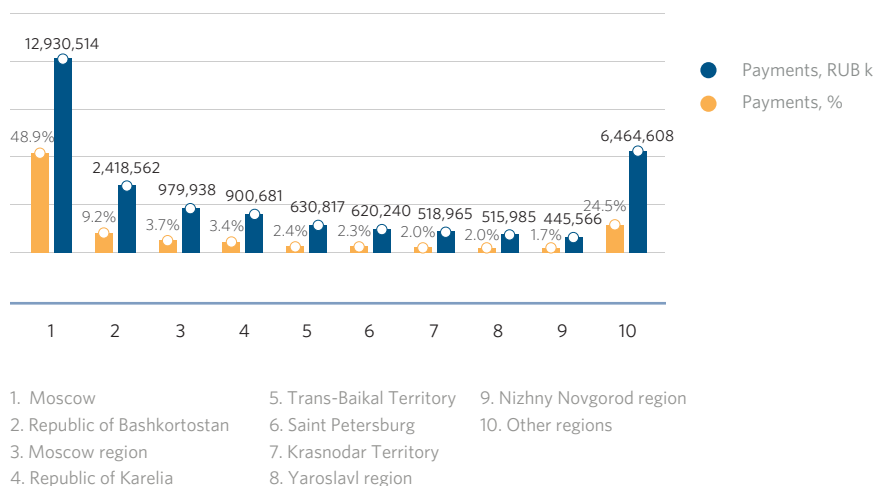
G4-EC4

In 2015 Sistema received no financial assistance from any public authorities.

Payments to non-budgetary funds of the Russian Federation, RUB bn

Indicators	2014	2015
Tax payments, including to the following funds:	100.0	88.2
Russian Pension Fund	10.9	16.6
Federal Mandatory Medical Insurance Fund	2.0	3.9
Social Insurance Fund	0.8	0.9
Regional Mandatory Medical Insurance Funds	0.8	0.4

Tax payments of Sistema's S/As in 2015 broken down by regions, RUB k



≈ 290 RUB bn

Sistema's Group companies paid to budgets and off-budget funds of various levels and regions of the Russian Federation from 2013 to 2015



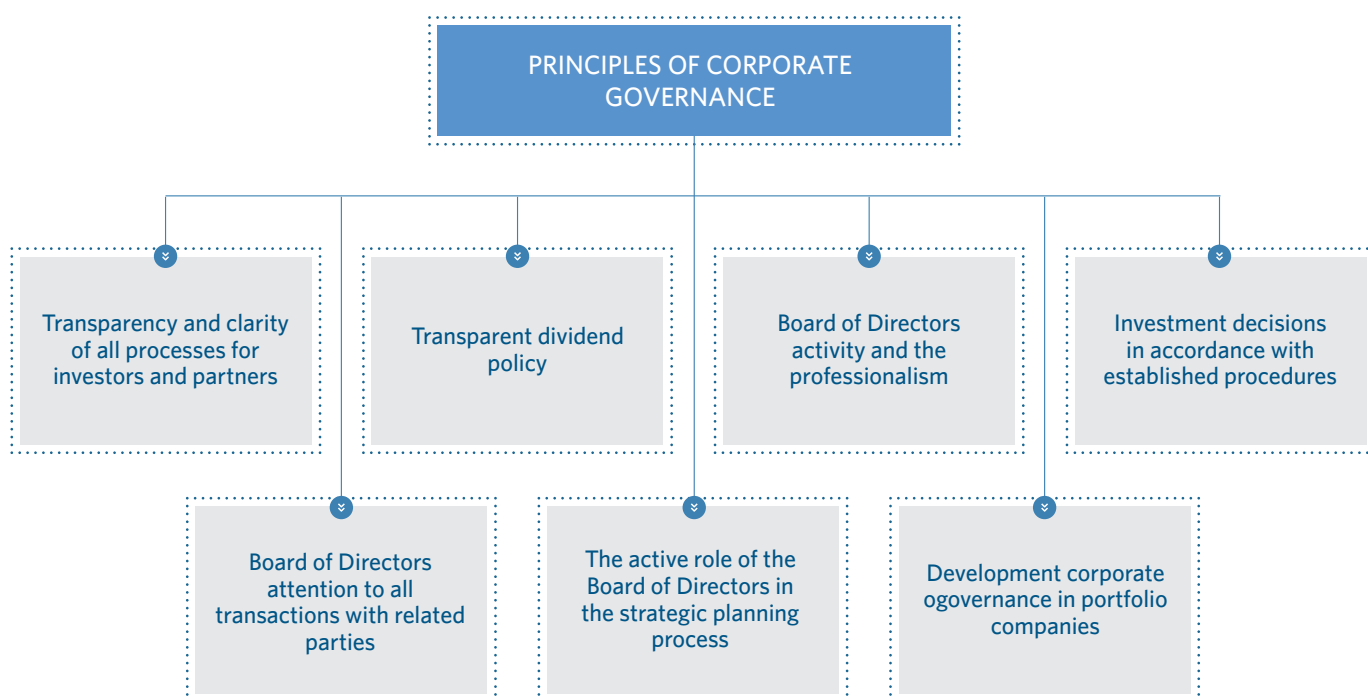
21.8 RUB bn

total tax payments spent on pensions, health and social security in 2015



1.3. Corporate Governance

Maintaining the high quality of corporate governance and informational transparency is one of the most essential components of Sistema's strategy as an investment company. The corporate governance system of the Corporation complies with the best international practices to ensure effective decision-making and serves as a model for developing appropriate governance structure and regulatory documents in the portfolio companies.



Shareholders' Equity and its Structure

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

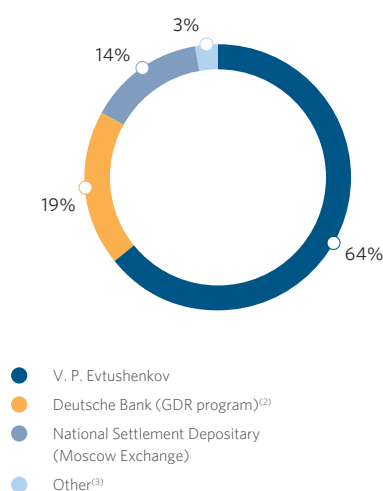


Vladimir Evtushenkov, Sistema's Board Chairman, is its principal shareholder with 64.2%.

The Corporation's shares are traded on the London Stock Exchange (LSE) as Global Depositary Receipts (GDRs). One GDR represents 20 ordinary shares. The Corporation's shares are also listed on the Moscow Stock Exchange.

Sistema's GDRs are included in the MSCI Russia Index – the stock index of the Russian market, which belongs to the MSCI Emerging Markets indices. Inclusion in the MSCI indices evidences the international recognition of the company, which helps to strengthen the issuer's reputation among large institutional investors.

Structure of Sistema's Shareholders⁽¹⁾, %



"In order to maintain the high quality of the Corporation's corporate governance system, we regularly monitor the changing requirements in this area and bring the individual components of the system in line with best international and national practices. Also, being guided by the Corporation's principles, we are aiming to build an efficient corporate governance system in each of the acquired assets."

As part of this policy, we are going to establish a corporate governance system in Segezha Group in 2016. We will implement activities aimed at developing a risk management system, an internal control and audit system, a system for recruiting professional directors, a transparent information disclosure system, and a dividend policy".

Igor Petrov

Corporate Secretary,
Head of the Secretariat of Sistema's
Board of Directors

⁽¹⁾ As of 31 December 2015.

⁽²⁾ GDRs belonging to Sistema Group companies account for 1.4% of the share capital.

⁽³⁾ Ordinary shares belonging to Sistema Group companies account for 0.3% of the share capital.

Corporate Governance Structure

The General Meeting of Shareholders is Sistema's supreme governance body. Its activities and competence are regulated by the Russian laws on joint stock companies, provisions of the Charter and internal documents of the Corporation, in particular by the Terms of Reference of the General Meeting of Shareholders.

In 2015, the General Meeting of Shareholders was held on June 27. It was attended by shareholders who have, in total, 81.57% of the votes, including GDR holders having 9.47% of the votes.

The General Meeting of Shareholders appoints the members of Sistema's Board of Directors, which is responsible for strategic management of the Corporation. The Board of Directors' terms of reference are set out in Sistema's Charter. Sistema's Board of Directors effective as of 31 December 2015 was elected at Sistema's Annual General Meeting of Shareholders on 27 June 2015.

Meetings of Sistema's Board of Directors are held regularly in accordance with the approved annual plan.

11 meetings



were held by the Board of Directors in 2015

3 extraordinary meetings



held in absentia in 2015

8 meetings



were held by the Board of Directors in 2015

91 items

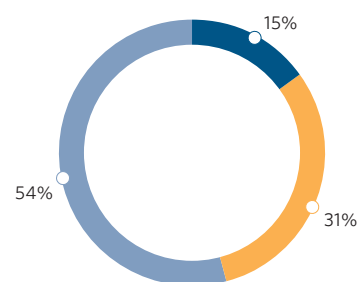


considered according to the agenda in 2015



Russian Institute of Directors confirmed Sistema's rating at level 8 of the National Corporate Governance rating — "Best corporate governance practices" on 26 October 2015. This is the highest level among Russian companies, which in 2015 was confirmed in four organisations only, including Magnitogorsk Iron & Steel Works, TransContainer, and RusHydro.

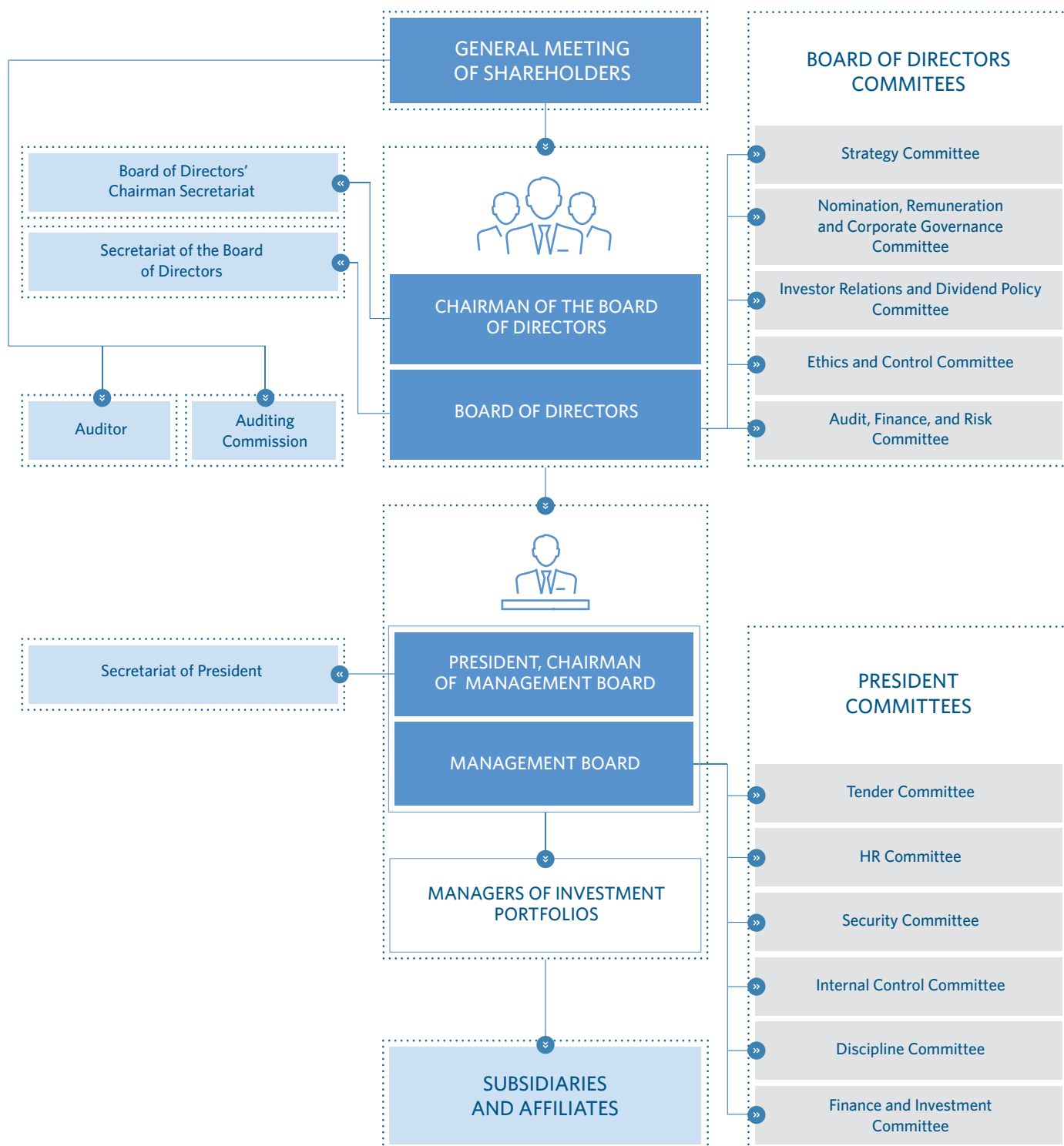
Board of Directors, %



- **Executive Directors:**
F. Evtushenkov, M. Shamolin
- **Non-Executive Directors:**
V. Evtushenkov, A. Dubovskov, D. Zubov, S. Boev
- **Independent Directors:**
B. Dickey, P. Clanwilliam, R. Kocharyan, J. Krecké, P. Mandelson, R. Munnings, D. Iakobachvili

G4-34

Sistema's Corporate Governance Structure



Development of the Corporate Governance System and 2015 Results



13 members were elected to the Corporation's Board of Directors, with seven of them meeting the independence criteria of the Moscow Exchange and the Russian Corporate Governance Code.



Dividends were paid in accordance with Sistema's Dividend Policy.



The corporate governance system has been brought in line with the requirements of the applicable law and the new Listing Rules of the Moscow Stock Exchange. In particular, the content of an independent director concept, used in the Terms of Reference of Sistema's Board of Directors was changed, as well as the number of procedural and substantive clarifications to the powers of the Committees of the Corporation's Board of Directors were introduced.



The requirements to Sistema's employees, particularly to top managers, in the field of ethical business practices and prevention of conflicts of interest were extended.



The procedure for nominating candidates for the members of Sistema's Board of Directors was regulated, and, in particular, the role of the Nomination, Remuneration and Corporate Governance Committee was described in detail.



For detailed information on corporate governance, see Sistema's 2015 Annual Report, pp. 81-101.

Plans for 2016

Bringing the corporate governance system in line with the requirements of EU Market Abuse Regulation (MAR) Regulation No. 596/2014 dated 16 April 2014.

Developing a system for managing the investment funds included in Sistema's portfolio.

1.4. Procurement Activities

Management of the Corporation's procurement activities and supply chain is based on the principles of fair competition, economic feasibility, openness and transparency for potential suppliers, subject to specified quality of purchased goods and services at the best price to meet the needs of the Corporation in a timely manner and in the required amount.

The main internal documents regulating Sistema's procurement activities is the Tendering and Procurement Code and Terms of Reference of the Tender Committee. Procurement activities in S/As are based on the local regulations of the Corporation and Federal Law No. 223-FZ as of 18 July 2011 "On procurement of goods, works and services by certain types of legal entities".

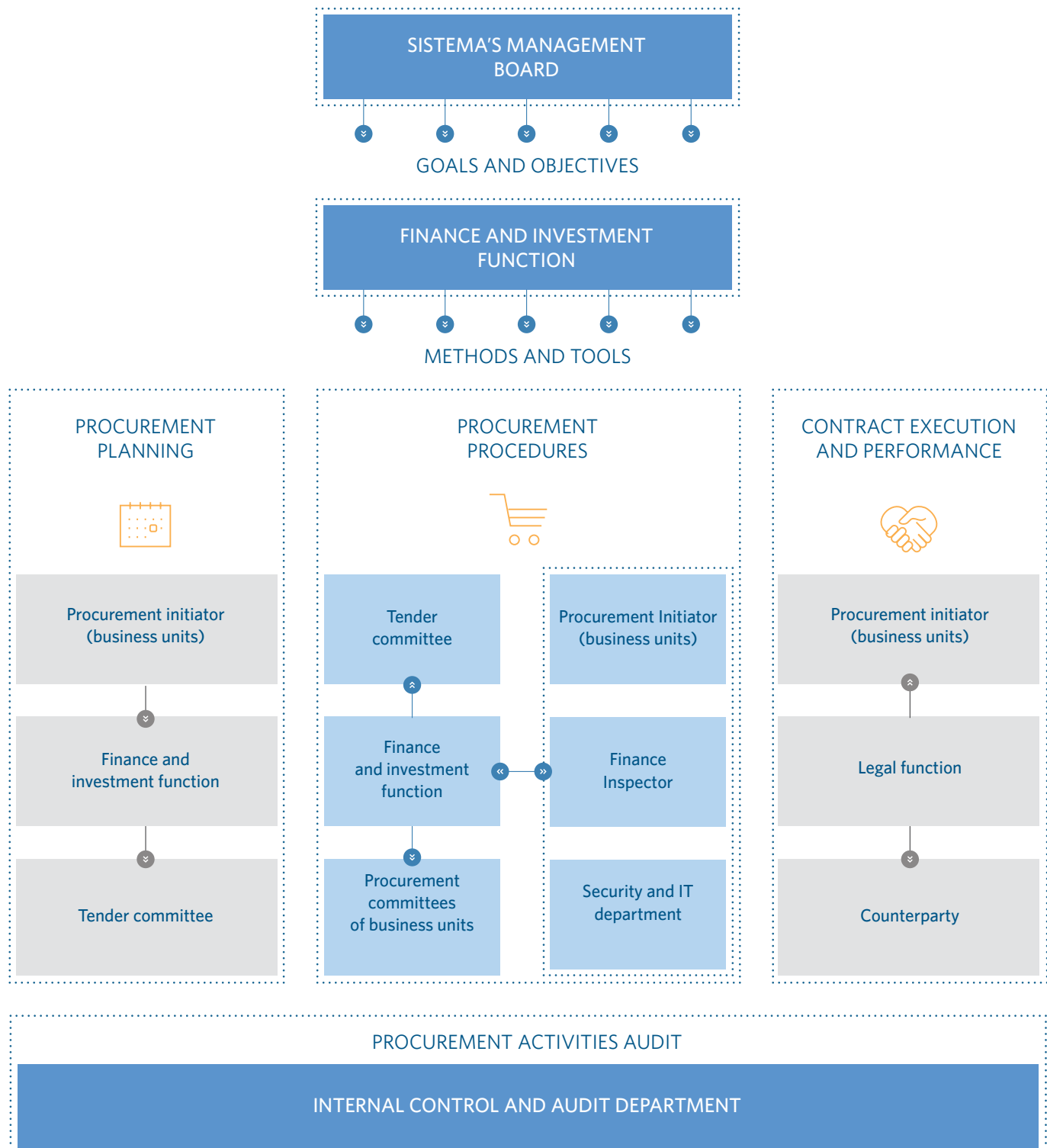
The objectives of the Corporation's procurement activities management are as follows:

- timely provision of high-quality goods, works and services;
- efficient use of funds for the purchase of goods, works and services intended to increase the value of the product/project for whose creation/sale they are acquired;
- ensuring the lowest possible level of expenses related to acquisition (ownership, operation) of goods, works and services;
- ensuring the disposal of the property (by sale or otherwise) and the rights that are no longer needed in production on the most economically favourable terms;
- ensuring transparency of procurement procedures and objectivity of the decisions made;
- prevention of corruption and other types of abuse in procurement.

The Corporation's basic procurement management principles

Competitiveness	Establishing a reasonable level of competition among potential suppliers/customers
Equality	Establishing equal competitive opportunities, uniform and unambiguous requirements for bidders, as well as bid evaluation rules for all potential suppliers/customers
Economic Feasibility	Assessing the necessity/advisability of procurement in terms of economic feasibility at any procurement stage
Openness	Use of open competitive procedures as the priority form of procurement
Transparency	Possibility of monitoring and controlling any stage of the procurement process
Professionalism	Highly professional implementation of procurement procedures with qualified personnel engaged
Procurement Classification	Dividing all procurement operations into categories (sub-categories) based on their purpose, characteristics, application area and markets
Strategic Categories Management	Management of each procurement category based on the principles and management rules described in the category-based strategies and/or individual regulatory and administrative documents of the Corporation
Responsibility	Establishing KPIs for the Corporation's employees who may be personally responsible for the compliance with the Code
Compliance with Fundamental Provisions and Requirements of the Corporate Anti-Corruption Policy	Collective review and decision-making concerning the economic feasibility of procurement, review of the results and contract awarding, as well as verification of compliance with the Corporation's local procurement regulations by the Internal Control and Audit Department

Procurement Management System



Sistema as a leading company in terms of transparent and competitive procurement

Sistema and MTS joined the ranks of the companies with a high level of transparency in the National Procurement Transparency Rating among commercial customers at year-end 2015.

The rating is compiled annually by Non-Profit Partnership National Association of E-Trade Participants with the support of the Ministry of Economic Development, the Federal Antimonopoly Service and the Audit Chamber of the Russian Federation.

In addition, Sistema participated in the 2015 Competitive Procurement Leaders competition held by electronic trading centre B2B-Centre and became the finalist in the category "Trade and Procurement Innovations Leader" together with BPGC, which became the winner in the special category "For Stable and Transparent Procurement System". MTS became the winner in the category "Best Supplier Management System".



Feedback from suppliers

Sistema receives extensive feedback from suppliers: any bidder (including those of subsidiaries) may send all requests or complaints related to the tendering process to zakupki@sistema.ru, as well as to the Group companies' hotlines.

Every message containing information about alleged violations and abuses in the supplier selection process is reviewed and analysed by the Internal Control and Audit Department.

There were no complaints related to the Corporate Centre procurement activities in 2015.

Procurement activities of the Corporate Centre are mainly public, with the information being published on the official website of the Corporation in "Procurement" section. Also, electronic commerce tools are used, with Sistema's trading section at the Sberbank-AST electronic trading platform being operational since 2011.

Management of Procurement Activities and Supply Chains in S/As

In all Sistema's subsidiaries, procurement management systems are based on common principles, a unified legal framework is introduced, the procurement function is treated as a separate business process, the limits and areas of responsibility related to decision-making are set, and collective bodies are created and successfully operate. This work is carried out in each asset acquired by Sistema.

The Corporate Centre continuously monitors the S/As' procurement activities and provides methodological support in terms of the following:

- development and implementation of the legal framework;
- development, implementation and execution of the functional strategy;
- implementation of procurements of high materiality and relevance;
- execution of recommendations issued to improve the level of control, transparency and cost-effectiveness;
- compliance with corporate values and professional requirements to procurement management executives.



Procurement Management Model

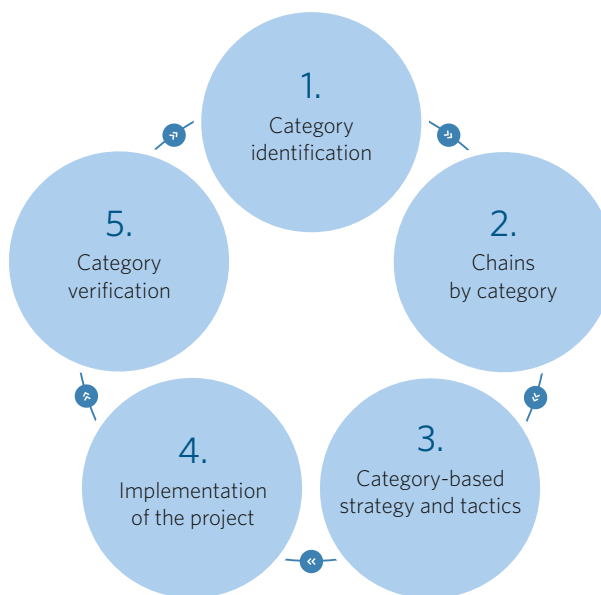
In 2015, Targin started building a modern, high-tech, competitive business, which required developing a new end-to-end procurement management model – Supply Chain Management (Supply Chain Management / SCM):

- centralised planning of the needs of Targin Management Company and classification of inventory items;
- procurement in accordance with the delivery plan including specified indicative prices;
- logistics and timely delivery of quality product to the end consumer, i.e. ruling out downtime of production teams;
- inventory management: creating a module for maintaining minimum levels of inventory and ensure timely restocking, while monitoring unclaimed supplies and their further disposal.

Product Category Management Algorithm

1. Selection of materials and equipment categories that have significant impact on the business.
2. Study of external and internal factors that impact the selected category.

3. Determining approaches to planning materials/equipment. Determining the procurement procedure - procurement strategy.
4. Implementation of procurement strategy, interaction with the supplier.
5. Continuous monitoring of performance by category of materials / equipment.



The reforms are expected to be completed in 2016. However, even at the initial stage, these procurement reforms have generated additional cost savings of at least 5%, resulted in harmonisation of planning

approaches, consolidation of volumes, and thereby strengthened the company's commercial advantage in negotiations with suppliers and ensured the stability of the core business.



Support for domestic manufacturers of children's clothes



"Being a leading Russian retailer we are primarily focused on cooperation with domestic producers. More than 60% of school uniforms sold through our retail chain were made in Russia".

Vladimir Chirakhov
CEO of Detsky Mir

>130 manufacturers

applied for the contest "School Uniform" in 2015



By offering consumers a wide range of high quality children's products at affordable prices, Detsky Mir expands cooperation with domestic manufacturers of children's clothing, including school uniforms of Russian brands. These manufacturers are capable of responding quickly to the local market demand with the needs of schools, students and their parents taken into account.

With a view to making its contribution to import substitution in Russia, the Company has been supporting the All-Russian "School Uniform" contest for two years. This contest organised by the Russian Ministry of Industry and Trade with the participation of the Russian Ministry of Education and Science is part of the programme for promoting Russian consumer goods and textiles. The contest aims to promote domestically manufactured school uniforms and makes it possible for the best school uniforms, including those from regional producers, to enter retail chains.

The main prize for the winners is an opportunity to enter into contracts for the supply of uniforms to School Fairs in 30 flagship stores of the Detsky Mir retail chain. Winners of the first contest offered more than 260,000 items worth RUB 380m for sale in Moscow and St. Petersburg. The contest reached a new level in 2015: the best school uniform styles were selected not only by representatives of the professional community, but also by the general public and educational facilities across Russia. More than 130 manufacturers, including regional ones, applied for the contest. The evaluation criteria took into account both the aesthetic component, and the quality of fabrics, comfort, durability and affordability of school clothes.

The Russian Ministry of Industry and Trade estimated that school uniforms of the Russian manufacturers make up about 35% of the market. The price of school uniforms produced abroad rose by about 40% in 2015, while the increase in the price of domestically manufactured uniforms showed correlation with inflation rate.



"The long-term contracts for production of school uniforms provided manufacturers with certain guarantees, which, against the backdrop of the economic crisis, made it possible not only to avoid production stoppages, but even helped increase production output by up to 20% compared with our crisis plan. The proceeds from sales will be used for further development of production and process modernisation".

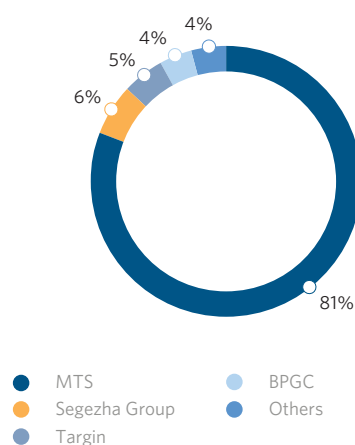
Viktor Evtukhov

Deputy Minister of Industry and Trade of the Russian Federation

Procurement Results in 2015

The Corporation's total procurement volume amounted to about RUB 205bn in 2015. Approximately 90% of the Corporation's total procurement volume accounted for MTS, Segezha Group, Targin and BPGC, which are major customers of goods, works and services in their respective industries in the Russian Federation. The Corporate Centre's procurement volume was less than 1% of the total procurement volume of Sistema's Group Companies.

Corporation's total procurement volume in 2015, %



Procuring voluntary medical insurance services



CMM



Intourist®



SISTEMA



BINNOPHARM
company of JSFC Sistema

БИЗНЕС
НЕДВИЖИМОСТЬ



ЛИДЕР-ИНВЕСТ
ДЕВЕЛОПЕРСКАЯ КОМПАНИЯ

Procurement of voluntary medical insurance (VMI) for the personnel of the Corporate Centre and some S/As was done on a partnership basis in 2015. The project was implemented as follows.

The share of Sistema's procurement procedures using the ETP increased by 15% in 2015 as compared with the previous year, and amounted to about 60% of the total procurement volume. About 70% of the total procurement was conducted through open tender procedures.

Also, the work among the S/As for partner procurement was continued in 2015. Despite the fact that Sistema's Group companies are diverse, there is a possibility of synergy in matching categories in different companies. Procurement consolidation at the Group's level allows additional discounts for large companies due to large volumes, and the best conditions for small companies.

1. Subsidiaries with similar working conditions and medical services provided to personnel (in terms of their range and scope) were identified within the Corporation.





















2. A pool of companies was formed based on this analysis. The list included, in addition to the Corporate Centre, such companies as Binnopharm, Intourist, Intellect Telecom, real estate assets and other small companies.

3. Terms of Reference were formed for the total pool of employees featuring standard conditions in terms of the range and the scope of VMI programmes available to the companies' employees.

4. A multi-stage open procurement procedure was carried out with the use of an electronic trading facility. The largest insurance companies filed their bids.

As a result, conditions were obtained that allowed the subsidiaries not only to save money, but also to improve the quality of voluntary medical insurance programmes available to employees.

The following partnership projects were implemented in 2015

	procurement of TV advertising	    
	purchase of IT equipment	 
	acquisition of mobile communications at unified tariffs and discounts	
	consolidated discount on the purchase of Aeroflot flight tickets	 
	conclusion of the agreement for the acquisition of Microsoft licenses	    

7.5%⁽¹⁾
cost savings



carried out through specialised procurement departments for different product categories across the Corporation



"The Corporation paid special attention to the introduction of joint procurement practices in 2015. Several projects with S/As were implemented, which made it possible to strengthen synergies within the Group, to achieve significant cost savings while expanding the range of services, and to ensure higher quality. All of this was done due to the consolidation of procurement volumes and harmonisation of requirements for suppliers.

Sistema sets stringent requirements for reliability of suppliers and purchased products. In making procurement decisions we strive to minimise the risks associated with purchasing low-quality products or services for financial gain by choosing certified products, optimal conditions of warranty service, etc."

Nadezhda Nosova

Managing Director for Risk Management and Procurement at Sistema

Plans for 2016

1. Improvement of the legal framework for procurement management in Sistema and its S/As.
2. Transition to the quarterly monitoring and control of S/As' procurement activities.
3. Expansion of partnership procurements among Sistema's Group companies by category: IT, facilities and services, marketing, maintenance and supply goods.
4. Creation of a procurement competence centre in the Corporation (professional seminars, sharing knowledge and best practices between affiliate S/As).
5. Completion of the formation / modernisation of procurement management in Targin and Detsky Mir.
6. Reorganization of the procurement business process in Segezha Group in accordance with the Corporation's rules and principles.

⁽¹⁾ Performance indicator for procurement procedures in S/As varies depending on the industry and preferential categories of goods and services procured.

1.5. Risk Management

In its activities, the Corporation faces various risks associated with processes and factors over which Sistema has virtually no control. Assessment of the existing risks and their probability, and efficient risk management comprise an important component of Sistema Group strategy.

The main document regulating the Corporation's risk management activities is the Risks Code. It describes the key stages and principles of establishment and operation of the Integrated Risk Management System, as well as insurance operations at Sistema and its S/As.



"We continuously manage two levels of risks: the Corporate Centre's risks associated with external factors and the risks of our portfolio companies that can affect the stability of the Corporation as a whole. Being part of the Corporate Centre, we are primarily concerned with financial implications of the risks existing in our subsidiaries."

We monitor the S/As' risks through analysing how the risks specific to their activities affect their financial standing and, subsequently, that of the whole Corporation. Following the analysis, we develop risk mitigation plans for our assets in cooperation with relevant departments of Sistema's subsidiaries."

Nadezhda Nosova

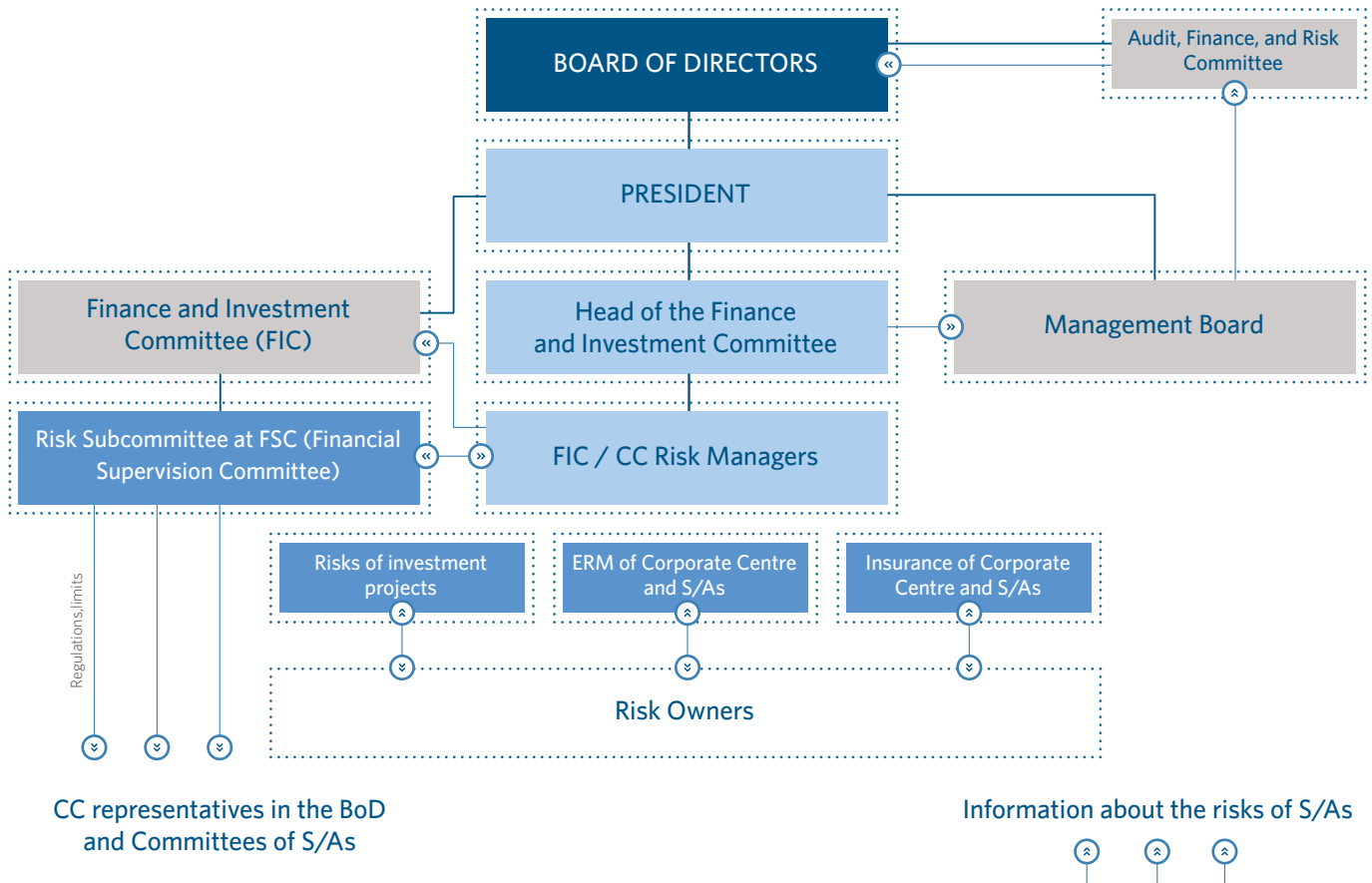
Managing Director for Risk Management and Procurement at Sistema



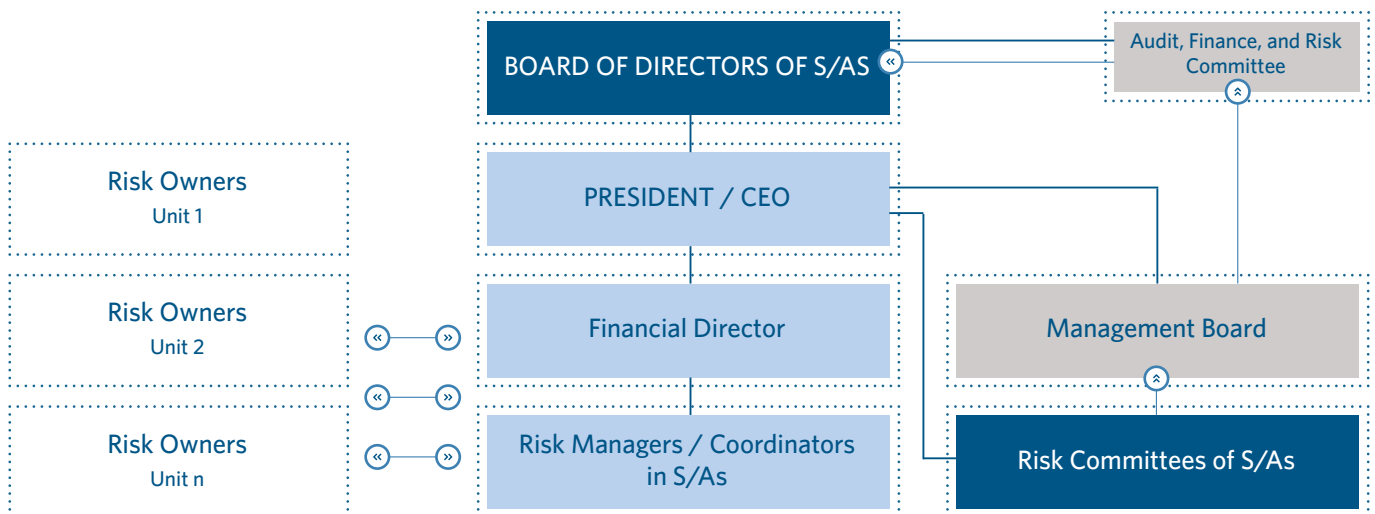
The Risk Management System at Sistema is based on a two-tier approach to risk management, which implies determining the risks existing both in the Corporation and in its portfolio companies (S/As), with their subsequent integration for the purpose of assessing their impact of the Corporation as a whole.

Risk management process in Sistema

CC Level



S/As Level



The Corporation introduced an integrated risk management system (Enterprise Risk Management, ERM) based on international standards and best practices in risk management⁽¹⁾. The main objective of the system is to provide a reasonable guarantee that the strategic goals will be achieved and to ensure that the level of risk will be kept within the limits acceptable for the shareholders and Sistema's management.

Once every three months, S/As' risk managers form registers of the companies' risks and a consolidated register of the Corporation's risks, set priorities, analyse the dynamics of the risk map and the impact of significant risks on the financial performance of individual companies and Sistema. Plans to manage risks and lists of pre-developed activities are prepared with respect to all the risks.

Strengthening control over financial counterparties

An inventory of all types of Sistema's credit risks (both direct and indirect) was carried out at the Corporation's level in 2015.

The audit resulted in more stringent requirements for counterparties, increased control of violations of established procedures and improved the process of placement of idle funds. The frequency of meetings of the Subcommittee on the Corporate Centre's risks was increased to once per month in order to increase the level of control over the risks of counterparties and to rapidly respond to emerging situations.

The risk management system is monitored on a quarterly basis by the Management Board and Sistema's Risk Subcommittee. The top management of the Corporation presents a regular risk management report to the Audit, Finance and Risk Committee of Sistema's Board of Directors. The annual report is submitted to the Board of Directors.



For more details about the activities of the committees, see Sistema's [2015 Annual Report](#), pp. 88, 95.



Internal risks⁽²⁾

- | | |
|--|---|
| 1. Implementation of business strategy | 8. Licenses and permits |
| 2. Acquisition, integration, disposal or restructuring of assets | 9. Privatised companies |
| 3. Management and key personnel | 10. Anti-corruption standards |
| 4. Cash flows from subsidiaries and affiliates | 11. Competition from other companies |
| 5. Dependence on MTS's performance | 12. Brand quality and reputation |
| 6. Raising of capital or financing | 13. Environmental, social and governance risks (ESG) ⁽³⁾ |
| 7. Restrictive covenants | |



External risks⁽⁴⁾

- | | |
|-------------------------------|--|
| 1. Financial risks | 4. Taxation system of the Russian Federation |
| 2. Political and social risks | 5. Securities markets |
| 3. Legal risks | |



For detailed description of risks: see Sistema's [2015 Annual Report](#), pp. 73-77.

⁽¹⁾ Enterprise Risk Management – Integrated Framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2004.

⁽²⁾ Risks associated with economic and productive use of resources; direct or indirect damage risks resulting from core operating activities of Sistema and its S/As.

⁽³⁾ For more details, see Sistema's 2014 Sustainability Report, pp. 37-38.

⁽⁴⁾ Risks associated with changes in the external environment in which the company operates: changes in law, politics, economics, competition risks and risks of external physical interference in the activities of the organisation.



Industrial risks management

Oilfield services business is associated with high industry-related risks, which is why Targin pays special attention to occupational safety.

Industrial accidents occur, but do not exceed average industry rates. For each case, we conduct internal investigations, monitor the corrective actions at all levels aimed at establishing not only direct, but also systemic causes of such accidents (inadequate procedures, standards, training, etc.). At the end of the year, Targin draws up a report for the HSE Committee (Health Safety Environment). Based on this report, lessons learned from such accidents are distributed among all the business units. For each lesson, measures are taken to prevent similar accidents.

In order to further reduce the risks for the personnel, Targin's Functional HSE Strategy for 2015-2020 was revised. As part of the new strategy, it is planned to implement corporate standards and initiatives aimed at improving the culture of occupational safety, achieving the absence of injuries, and reducing the number of accidents, incidents and other emergencies.

In addition, in August 2015, Targin established a compulsory education methodology service. Training of personnel allowed covering up to 97% of employees under the Defensive Driving programme, and up to 85% under the Key Safety Rules standard. Also, a training area with simulators was launched, where production risks are simulated.

> 2,000
employees



were trained during the year at a training area with simulators, where production risks are simulated



Quality assurance

Children's products appear to be a category of goods on which strict requirements in the field of quality and consumer safety are imposed.

In the 2014 school season, the National Union of School and Official Uniform Manufacturers (Soyuzforma) addressed Detsky Mir Group with a request to withdraw a number of school uniform items from sale in chain stores on the basis of the results of sanitary-hygienic examination carried out by this nonprofit organisation. In 2015, the Union performed a repeated examination. For most items, the company presented certificates and reports of compliance tests conducted by suppliers.

However, in order to reduce possible risks from unscrupulous suppliers in the future, requirements were posed to school uniform manufacturers to strengthen the quality control of goods. Before use, all the fabrics shall be tested for compliance with the

Technical Regulations of the Customs Union "On the safety of products intended for children and adolescents" (TR CU 007/2011). Then the finished products made of already tested fabrics shall be tested for the most important indicators: hygroscopicity, breathability and toxicity. Upon detection of serious complaints about the quality and safety, Detsky Mir provides for the return of all the consignment to the supplier and the termination of any relationship with this supplier in the future. At the same time, thanks to the well-functioning and efficient process of safety and quality control of products implemented in the Group, it is extremely rarely necessary to resort to these measures, particularly there was no such an event in the reporting period.

Industrial Safety Management



The company's policy in this area is mandatory for all employees, aimed at reducing the risk of incidents and accidents at hazardous production facilities and minimizing the potential negative economic, social and environmental impacts. In order to ensure the effective functioning of the industrial safety system, SG-trading has assumed a set of commitments, including:

- constant monitoring of accident risks, as well as development, implementation and monitoring of measures to reduce them;
- provision of the activity in this area with all the necessary resources (financial, human, material, methodological);
- public liability insurance of the owner of hazardous production facilities for damage to third parties as a result of an accident;
- prevention of failures, damage to technical devices or deviations from the regulated modes of operation that can lead to dangerous incidents;
- timely replacement and repair of equipment, buildings and facilities for their safe use;
- integration of industrial safety requirements into the labour activity and the increase in the technical level of the personnel, including consultation with the workers of hazardous production facilities;
- enforcement of industrial safety standards from contractors / subcontractors performing work on hazardous industrial objects of the company;
- informing and maintaining an open dialogue with all interested parties of the company (public, government and other supervisory authorities, etc.).

1.6. Business Ethics and Anti-Corruption Activities

Sistema pays special attention to compliance with ethical rules and procedures. The Corporation strictly follows its own Code of Ethics and cooperates fully within the implementation of general principles of responsible business conduct in subsidiaries.

G4-56

To comply with best practices and the recommendations of the Corporate Governance Code prepared by the Bank of Russia, in October 2015 the Board of Directors approved a new edition of Sistema's Code of Ethics, which details the principles of ethical conduct for all major business lines and business processes, and describes the most typical situations that the Corporation qualifies as a conflict of interest. The obligation to comply with the Code of Ethics is fixed in employment contracts and job descriptions of Sistema's employees. Separate rules and regulations of ethical business conduct are also regulated by the Internal Code of Conduct, the HR Code and the Logistics Code.

Matters of employees' adherence to business ethics and responsible conduct are considered by the Ethics Committee of Sistema's Board of Directors and the Discipline Committee under the President of the Corporation.



For more details about the activities of the Committees, see Sistema's [2015 Annual Report](#), pp. 91, 96.)

During the reporting period, no violations of the Sistema's Code of Ethics were registered.

Number of Sistema's Ethics Committees meetings held in 2015

7 meetings



the Ethics and Control Committee of Sistema's Board of Directors

3 meetings



the Discipline Committee under the President of Sistema

In 2015, MTS updated the Code of Business Conduct and Ethics, which contains standards and requirements aimed at promoting fair and ethical business practices. The Code covers relationships between MTS and employees, customers and society. The provisions of the Code establish the procedure for notifying MTS of violations of the Code and the company's responsibility to its employees, subscribers, shareholders, partners and all interested parties, including the general public. Standards of Business Conduct and Ethics set out in the Code also apply to all the assets of the MTS Group companies.

Informing of employees about the principles and procedures for ethical conduct

On the basis of Sistema's updated Code of Ethics, a distance training course was developed in 2015, which introduced key changes in the document to the Corporate Centre's employees. Web-training of every Sistema's employee, and subsequent tests revealed their proper understanding of the applicable rules and principles of the Code of Ethics. This work allowed forming uniform ethical standards of activity, as well as to quickly identify and resolve conflicts of interest.

In connection with the update of the Codes of Ethics in the reporting period, similar online training in S/As is planned in all key portfolio companies of the Corporation for 2016.

Training to prevent the dissemination of insider information

Sistema, as a public company, pays special attention to compliance with laws and regulations governing the work with insider information.

The Corporation strives to fully inform the personnel about the basic requirements of applicable law and securities market regulators in Russia and the UK (Compliance)⁽¹⁾, as well as about the procedures for dealing with insider information set forth in the internal documents of the Corporation which the personnel is required to know and comply with.

In 2015, all employees of the Corporate Centre completed compulsory web-training "Rules for dealing with insider information of Sistema", which was aimed at teaching the basic requirements and procedures in order to minimize the liability risks of the Corporation and/or its employees. In addition, in September Sistema's Legal Function organised an informational and educational training on the topic "Rules, requirements and restrictions when dealing with insider information" and invited an expert from White & Case international law firm for assistance.

In 2016, Sistema plans to continue training aimed at preventing the dissemination of insider information.

Sistema's Plans for business ethics development in 2016

- Distance training of all employees of the Corporate Centre and S/As.
- Conducting of ethical certification of senior and middle managers, who participate in the long-range motivation programme in Sistema and subsidiaries.
- Analysis of received declarations on "Ethics and Conflict of Interest" and their further consideration by the Ethics and Control Committee of Sistema's Board of Directors.
- Development and implementation of measures to address conflicts of interest declared.

Observance of human rights

G4-HR5 G4-HR6

Sistema and S/As are scrupulous about observance of human rights. The Corporation strictly follows the principle of tolerant attitude to racial, religious, physical and other differences of employees; it has never used and will not use any child or involuntary labour.

In its efforts to prevent discrimination and violations of human rights, the Corporation is guided by the norms of the Russian legislation. The non-discrimination provisions are included in Sistema's basic internal regulations: Code of Ethics and HR Code.

G4-HR3

No cases of discrimination and human rights violations within the reporting period were recorded in the Corporation.

Adhering to the principle of privacy, Sistema ensures protection of the personal data in its possession. The Corporation operates the Security Code which regulates in detail all aspects of personal data protection. 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 2015.

⁽¹⁾ Compliance stands for compliance with any internal or external standards. Compliance means a part of the organisation's control/monitoring system associated with compliance risks and legal risks (not meeting the requirements of legislation, regulations, rules and standards of supervisory bodies, industry associations and self-regulatory organisations, codes of conduct, etc.)

MTS – the territory of equal opportunities

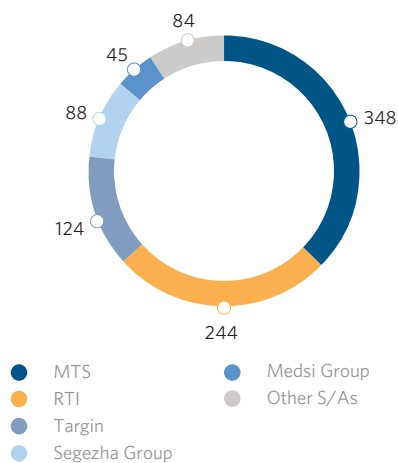
MTS attends to all who wish to work in the company, including applicants of a special category – persons with disabilities.

Since 2014, MTS has been a member of the Business Council on Disability, which unites organisations that initiate the integration of people with disabilities (employees, partners, clients, etc.) in their activities. The company carries out purposeful work to create the territory of equal opportunities: the company assessed the readiness of the infrastructure to the recruitment of people with disabilities, developed an internship programme for students with disabilities, and adapted the profile of candidates for the company's current jobs, MTS recruits applicants with disabilities for open vacancies in full compliance with the requirements of the job. The company also provides for the creation, if necessary, of specialised (equipped) workplaces in case

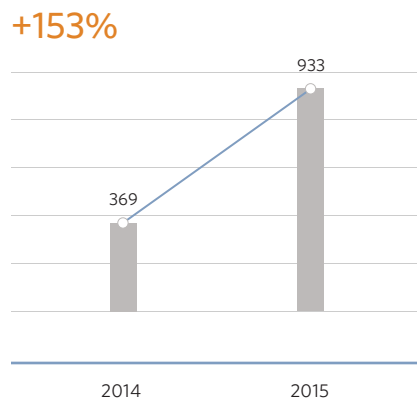
the candidate fully complies with the requirements. At the moment, no employees who need specially equipped workplace work in the company: all the employees with disabilities work in the workplaces with standard equipment on medical grounds.

The survey of about 600 managers of business units from different regions of MTS operation, conducted in order to identify potential vacancies for people with disabilities, showed that 16% of unit heads are already working with people with disabilities, 62% of unit heads are ready to take students with disabilities from specialised universities for internship or practical training in their units, 57% of unit heads are ready to involve employees of their units to conduct tours and master classes for students with disabilities, and 46% of MTS unit heads are ready to consider the possibility of creating specialised workplaces.

Number of Corporation's employees with disabilities



Corporation's dynamics of recruitment of employees with disabilities, persons



Universal hotline

Since 2014, the Corporation has been implementing the Non-Compliance Reporting Programme "Universal Hotline", which aims to combat possible abuse, fraud and corruption.

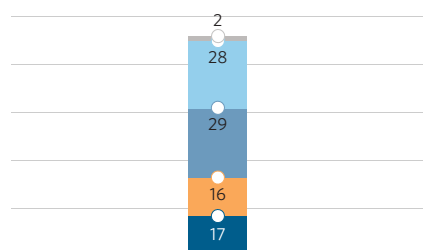
In the reporting year, the Charter of the Non-Compliance Reporting Programme "Universal Hotline" of Sistema was updated. Now, it covers not only the Corporation's employees, but also third parties (including counterparties, partners, customers, clients, suppliers and contractors), which allows the general public to inform the Corporation of detected violations.

The Hotline allows the managers and employees of the Corporate Centre and S/As, counterparties and other persons dealing with Sistema and its S/As to report potential corrupt practices and their reasonable suspicions regarding the actions of employees to the Corporation's top management. 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 of Sistema and its S/As.

During the reporting period, the Universal Hotline office received 92 messages, which initiated checks by Sistema's Internal Control and Audit Department and the relevant units of S/As. According to the results of the checks, the facts stated in 38 messages were fully or partially confirmed, and corrective actions for them were developed and implemented. In particular, 14 employees were brought to responsibility (including dismissals).

As compared to 2014, the number of messages grew more than 6-fold, indicating the increase of confidence in the Universal Hotline.

Number and topics of messages received through Sistema's Universal Hotline in 2015, messages



- Restriction of competition in procurement
- Conflict of interest
- Low-quality services and breach of contractual obligations
- Official's abuse
- Management accounting misstatement

Messages are received mainly through the special page on the [website of Sistema](#), which ensures complete anonymity of applicants, if they do not want to disclose their identity.

As demonstrated by effectiveness evaluation of the Corporation's hotlines, in 2015 the Corporation managed to achieve generally positive dynamics in the organisation and quality of their work.

Number of messages received through the Universal Hotline in 2015 (breakdown by communication channels)

Communication channels	Number of messages
Corporation e-mail and website	85
Voice message	4
Mail	3

Based on Sistema's recommendations, the portfolio companies have developed and updated the Charter of the Non-Compliance Reporting Programme "Universal Hotline"; information about the programme is available on the corporate websites; daily working cooperation between safety departments and internal control and audit departments has been established.

In 2015, S/As received 987 messages through hotlines. More than 30% of complaints were fully or partially confirmed. As a result of their review, various disciplinary measures were applied to 78 employees of the Corporation, twice as many as in 2014.

Improvement of the efficiency of the Universal Hotline has been made possible thanks to the following measures:

- expanding the operating zone of the Non-Compliance Reporting Programme "Universal Hotline" of Sistema;
- placing the link to the Universal Hotline page on Sistema's home page, indicating the purpose of the programme and contacts;
- strengthening the competencies of auditors: experts in the field of financial audits, procurement and construction supervision were accepted for employment;
- conducting joint audits on individual complaints by the Internal Control and Audit Department and the Security and IT Department of Sistema, as well as by the relevant units of S/As.

Plans for 2016 in terms of the Universal Hotline efficiency improvement

- Update of Universal Hotline pages on subsidiaries' and affiliates' websites.
- Informing S/As' employees and counterparties about the Universal Hotline.
- Implementation of the Universal Hotline in new Sistema's assets.

Anti-Corruption

Sistema considers corruption management as one of the basic principles of responsible business practices. The Corporation carries out its activities in strict compliance with anti-corruption legislation, including normative legal acts of the Russian Federation, as well as the UK Bribery Act and the US Foreign Corrupt Practices Act (FCPA).

Corruption management is based on the following principles:

- legality;
- rejection of corruption in all its forms and manifestations;
- inevitability of responsibility for corruption;
- prioritised implementation of measures to prevent corruption;
- involvement of all employees of the Corporate Centre and S/As in corruption prevention and detection processes;
- comprehensive approach to anti-corruption, anti-fraud and anti-theft;
- constant interaction between departments of the Corporate Centre and S/As;
- experience exchange in the framework of anti-corruption.

The Anti-Corruption Policy is the primary document regulating the anti-corruption efforts of Sistema. It promotes the anti-corruption mindset manifested in intolerance of the employees to corrupt practices, and defines measures to prevent and address causes and conditions leading to corruption.

The main set of anti-corruption measures of the Corporation is carried out by the Security and IT Department.

Implementation of the Anti-Corruption Policy

In 2015, the activities aimed at the prevention of corruption and minimising the consequences of corrupt practices were introduced in the core business processes of the Corporation, and included:

- identifying the causes and conditions conducive to the emergence of corrupt practices;
- coming to know partners, customers and competitors;
- developing and implementing teaching aids on anti-corruption;
- assisting the newly created security units in subsidiaries and affiliates;
- auditing the financial and economic activities of subsidiaries and affiliates;
- bringing perpetrators to responsibility and compensation for damage caused by corruption practices.

G4-SO5

As a result of the measures taken:

- 358 disciplinary sanctions were imposed;
- 10 contracts with contractors were terminated;
- 35 results of tender procedures were cancelled;
- 3 S/As' employees ceased to be founders of counterparties and potential counterparties.

Active implementation of anti-corruption measures in the Corporation in 2015 made it possible to prevent damage⁽¹⁾ totalling about RUB 16m and compensate damages⁽²⁾ totalling RUB 8.5m.

⁽¹⁾ Prevented damage stands for aborted losses, including property, and lack of other unwanted changes as a result of measures previously conducted by the security departments of the Corporation and S/As, or the difference between the damage calculated without taking into account measures for its prevention or reduction and the damage calculated with the account of these measures.

⁽²⁾ The amount of damage caused (or damage that could have been caused) by illegal actions is calculated by summing the expenses of the Corporation and S/As which have been or will be incurred to restore the violated rights of the Corporation and S/As, the loss of or damage to property and/or lost income, that the Corporation and S/As could receive if acts of corruption were not committed.

G4-SO5

Key 'anti-corruption measures' results in 2015

16
RUB m

the amount of prevented damage



8.5
RUB m

the amount of compensated damage



Informing about anti-corruption policies and methods

G4-S04

The provisions of local regulations of Sistema in the field of fight against corrupt practices are mandatory for all employees of the Corporation. Employees being recruited undertake to abide by the anti-corruption legislation. Completion of anti-corruption training and proper understanding of the applicable requirements of the rules and procedures by every employee of the Corporation allows minimising the risks of bringing the Corporation and its employees to responsibility for failure to comply with anti-corruption legislation, and reducing the probability of fraud.

In 2015, all employees of the Corporate Centre participated in a mandatory web training "Anti-Corruption Policy of Sistema", which introduced them to the key requirements of the Russian legislation and the UK, as well as to anti-corruption rules and procedures of the Corporation.

Anti-Corruption Plans for 2016:

1. Examination, updating and development of local normative documents of the Corporation in the field of combating and detection of corruption, conflicts of interest and procedures to resolve them
2. Regular anti-corruption monitoring and control of economic feasibility of costs in areas with high corruption risks (including the exchange of business gifts, entertainment expenses, charitable donations, fees to external consultants)
3. Combating unfair competition during procurement procedures
4. Implementation of the mechanism for reducing corruption risks in transactions that require monitoring of compliance with corporate procedures, transactions related to mergers and acquisitions, as well as the disposal of assets of the Corporation



MTS and Detsky Mir joined the Anti-Corruption Charter

ANTI-CORRUPTION CHARTER RUSSIAN BUSINESS

In March 2015, MTS and Detsky Mir joined the Anti-Corruption Charter of Russian Business developed by the largest business associations of Russia in the framework of the National Anti-Corruption Plan for 2012-2013: Russian Union of Industrialists and Entrepreneurs, the Chamber of Commerce of the Russian Federation, the All-Russian Public Organisation of Small and Medium Businesses Support of Russia and the All-Russian Public Organisation Business Russia.

MTS also represents Russia in the international project committee for the development of future international standard on anti-corruption compliance ISO 37001. In 2015, the company tightened the disciplinary responsibility of employees for violation of the compliance procedures, and introduced the Compliance Day, as well as improved regulations to better identify, update and manage corruption risks, focusing on the risks specific to the activities of the company, to the regions of operation, as well as to potentially vulnerable business processes.



For example, the risks associated with the construction of network infrastructure, interaction with public authorities, customers and partners are separately distinguished. MTS conveys its experience to its subsidiaries and affiliates, developing there a full-fledged system of compliance and anti-corruption procedures. To assess the performance of this work, MTS Group conducted an independent evaluation of the effectiveness of anti-corruption compliance system with the assistance of an external consultant.

Detsky Mir was the only retailer in the children's segment of the market that decided to join the business community to jointly combat corruption and form the principles of zero tolerance to its manifestations both in the cooperation with the public authorities and in corporate relations.

Sistema presented certificates of accession to the Charter to its S/As in the framework of the International Scientific-Practical Conference "State and Business Partnership in the Fight Against Corruption" organised by the Chamber of Commerce of the Russian Federation, the United Nations Office on Drugs and Crime and the International Anti-Corruption Academy. Since 2012, the Charter have been acceded by more than a thousand Russian companies which seek to comply with international law and Russian legislation in the field of preventing and combating corruption, and are guided by the ethical standards of conduct of open and fair business.

1.7. Personnel Management

In the new economic conditions, people are the main asset which creates business value, and the effective management of human capital, attracting and retaining the best staff is one of the main competitive advantages in the market.

In view of these trends, in 2015, a new HR Strategy of Sistema as an investment company was developed and implemented. The Corporation continues to maintain its leading position in the ranking of preferred employers.



"The HR system at Sistema is developed in a way providing for maximum flexibility of the Corporation and facilitating efficient adjustment to business environment changes by means of successful implementation of required changes and innovations. Main 2015 challenges called for build-up of competences and motivation of the top managers and for creation of strategic candidate pool for key positions in the Corporation. The main focus was maintaining the operational stability and retaining key employees capable of solving the tasks. Therefore, within the reporting period we have implemented a variety of projects aimed at developing internal reserves of Sistema Group companies, streamlined and consolidated procedures for continuous assessment of the employees' performance, motivation and development. In general, such actions allow the Corporation to keep and improve its reputation as a socially responsible employer."

The Corporation's objectives for personnel management and their implementation in 2015



Improving the efficiency of top executives

- Recruitment, adaptation and evaluation procedure for senior executives was improved.
- Competency model for senior executives was developed and approved.



Creating a system of Corporation continuity and personnel reserve

- Procedure for assessing the heads of the Corporate Centre was implemented.
- Internal succession pool of executives was established: 67% of internal appointments to the position of a functional direction director.
- Internal talent pool was established in S&As: 22% of talents from the pool got promoted.



Creating opportunities for efficient staff retention and development

- Reward system was updated in Corporate Centre and S&As.
- Training activities plan was implemented in excess of the established indicators: compared with 2014, the number of trained personnel has increased by 33%.

In 2016, the main emphasis will be made on adjusting the existing remuneration systems to the changes in the business conditions, on implementing performance improvement tools and on establishing a culture of achievements, responsibility and high performance."

Elena Vitchak

Vice President, Head of HR Department at Sistema

Development of Corporation's HR Community

Today, Sistema's HR Department is responsible for the implementation of and compliance with the corporate standards by HR subdivisions in more than 20 Sistema Group companies. HR departments, the total personnel size of which in the Corporation in 2015 amounted about 1% of the total headcount, play an important role in ensuring the stable functioning of business through high-quality selection, assessment, motivation, training and development of personnel and the formation of corporate culture.

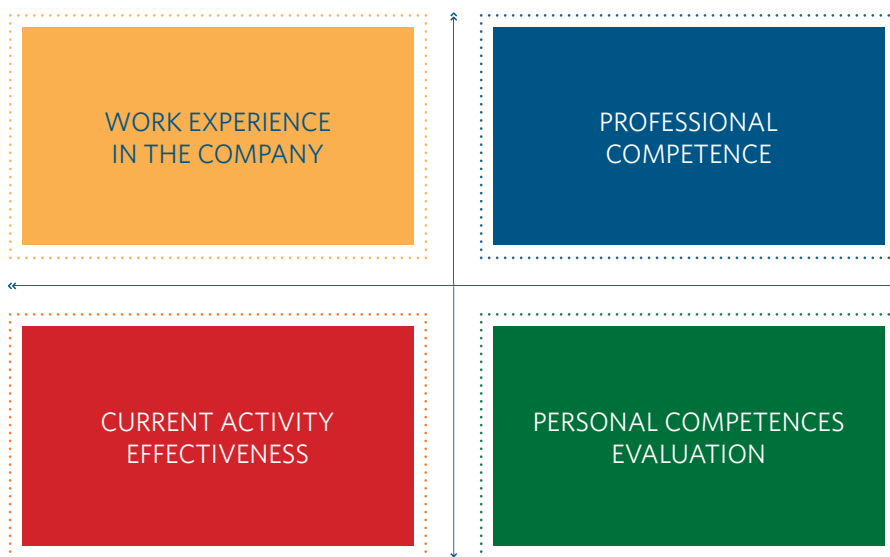
To effectively implement these tasks and to strengthen the integration, the process of formation of internal human resource asset composed of employees responsible for human resources management was launched in 2015.

The target audience of the programme – HR directors of S/As of the Corporation and their direct subordinates. Plans for 2016:

- to systematically analyse the human resource asset composed of employees responsible for human resource management;
- to develop and implement a plan for developing and rotating key managers in the field of personnel management.



Criteria of forming the Corporation's HR high-potential employees' group



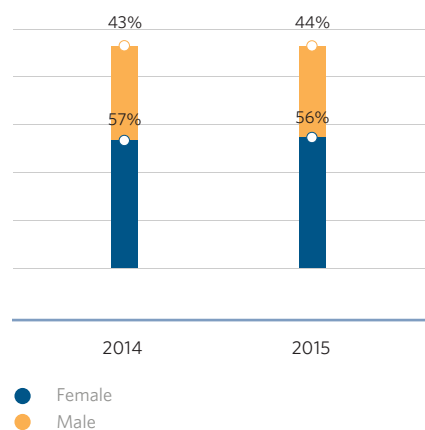
Personnel Structure and Headcount

155,251
people⁽¹⁾

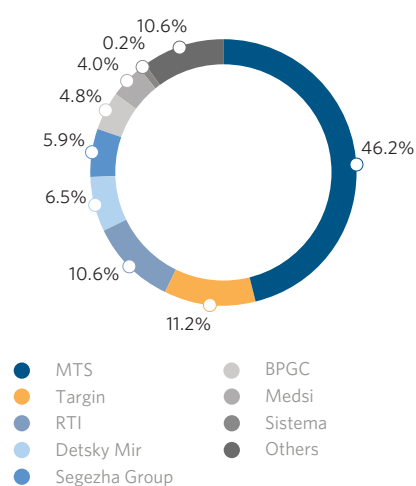
the total headcount of the Corporation in 2015



Number of the Corporation's employees by gender, %



Number of the Corporation's employees by companies, %



G4-10

Headcount of Sistema's Corporate Centre by type of employment and gender

Year	Full time	
	Men	Women
2013	154	164
2014	149	150
2015	151	153

G4-10

Average headcount of Sistema's S/As by type of employment

Year	Full time	Part time
2014	114,522	763
2015	148,714	3,366

G4-10

Headcount of Sistema's Corporate Centre by gender

Year	Men	Women
2013	161	166
2014	156	152
2015	157	158

G4-10

Headcount of Sistema's Corporate Centre by type of employment contract and gender

Year	Indefinite term	
	Men	Women
2013	160	166
2014	155	152
2015	153	152

The vast majority of Sistema's employees work in the company under full-time permanent employment contracts.

The Corporate Centre has no part-time employees at all. The personnel structures in individual S/As depend on the specific features of the industries they operate in.

⁽¹⁾ The data consolidation path includes: Corporate Centre, Targin, Intourist, MTS, SSTL, Binnopharm, Detsky Mir, RTI, Mosdachtrest, SG-trans, Leader Invest, Business Nedvizhimost, Medsi, Intellect Telecom, MTS Bank, Segezha Group, Kronstadt Group, SG-trading, Concept Group, RTC, SMM, Steppe Group (figures are presented for 2015), RZ Agro Holding (figures are presented for 2015). The total number of S/As' personnel in different sections may not match due to different accounting policies in some companies.

G4-10

Average headcount of Sistema's S/As by type of employment contract

Year	Indefinite term	Fixed term
2014	111,044	5,079
2015	143,746	8,266

G4-EC6

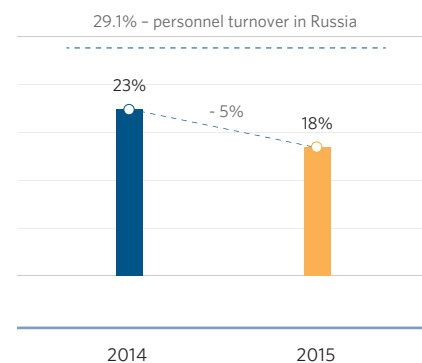
Share of executives of Sistema's Corporate Centre hired from among the local population (Moscow and the Moscow region), %

Year	Number of managers	Percentage of the total number of managers
2015	15	88

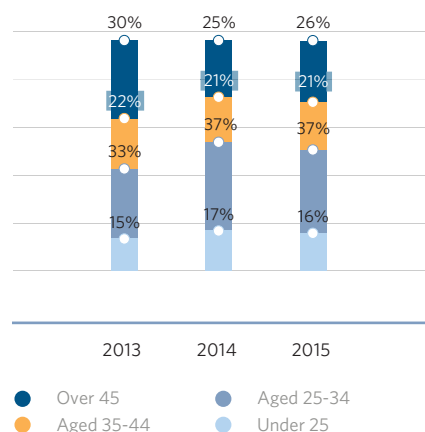
G4-LA1

The average personnel turnover in Sistema Group companies was 18%⁽¹⁾ in 2015. This indicator for Sistema Group companies is generally consistent with industrial trends and, as compared to 2014, is reduced. The total personnel turnover is lower than the total personnel turnover in Russia in 2015, which was more than 29%⁽²⁾.

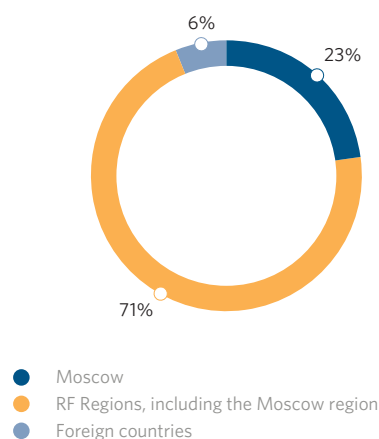
Average turnover rate for Sistema Group companies, %



Age profile of employees of Sistema's S/As, %



Headcount of Sistema's S/As by regions, %



37%
employees

are with the Corporation more than 5 years



> 50%
employees

under the age of 35 years, 37% of them at the age 25-34 years



The Corporation's personnel are a young and dynamic team.

⁽¹⁾ Excluding the retail sector.

⁽²⁾ Number of retired workers as a percentage of the number of employees in the Russian Federation for 2015 (according to the Federal State Statistics Service).

Motivation and compensation

Creation of a competitive remuneration system for Sistema's management, and formation of "success stories" of managers of subsidiaries and affiliates are an important element of the HR strategy and aim to attract and retain the best managers in the Corporation. In general, incentive system in Sistema is tied to the implementation of the investment strategy and is continuously updated with respect to current business objectives.

FINANCIAL INCENTIVE SYSTEM

Compensation system in Sistema and in the majority of its subsidiaries is based on a grading system (levels of positions). Compensation principles, procedure and methods of calculation of remuneration are recorded in the internal regulations of each Group Company.

A new version of Sistema's HR Code was approved in the reporting year. The policy on remuneration payable to Sistema employees for project execution and generation of cash income in 2015 was amended in terms of bonus⁽¹⁾ discounting.

In 2015, Sistema improved the earlier launched programme for long-term incentive for the implementation of investment

projects for senior and middle management of Sistema's portfolio companies. This programme links the direct result of the management of S/As and the portfolio manager.

The history of development of the financial incentive system of the Corporation

- The process of transition to the investment model of business is completed, organisational structure is formed.
- Remuneration system for the implementation of investment projects and the creation of a monetary profit are developed and approved.
- 6 investment portfolios distributed responsibility for assets under 24 S/As' and 8 investment projects' management.

- Project agreement concept is implemented as a basis for motivating investment portfolios managers.
- Triggers of long-term incentive programme for the investment project implementation are installed for S/As.
- Triggers of long-term incentive programme for Corporate Centre managers are installed.

- The results of the first year of Corporate Centre project motivation are summed up - a bonus for individual result in accordance with the project portfolio.
- Corporate Centre motivation is supplemented and specified, including co-financing mechanism.
- Long-term incentive programs for investment project implementation for S/As in the context of individual assets are introduced.

- S/As and the Corporate Centre long-term motivation triggers are updated for portfolio strategies.
- Implementation of co-investment mechanism for Corporate Centre investment portfolios.
- Development and implementation of Corporation investment funds remuneration throughout the perimeter.

2013

2014

2015

2016

⁽¹⁾ Discounting stands for the correction of future (expected) cash payments value to the current moment. Over time, money loses its value, so the starting point shall be the time of evaluation, and all future cash receipts (bonuses) will be adjusted (corrected to the current moment). For these purposes, the discount factor is applied.

In 2015, the Corporation started using three-year TDIs for the Corporate Centre and S/As.

The Corporation is focused on the implementation of the annual key financial performance indicators set in the budget on the basis of TDIs, namely:

- revenues, OIBDA, net profit;
- net cash flow, debt covenants⁽¹⁾.

Programmes of short- and long-term incentives for the management of S/As are implemented in accordance with portfolio strategies.

NON-FINANCIAL INCENTIVE OF EMPLOYEES

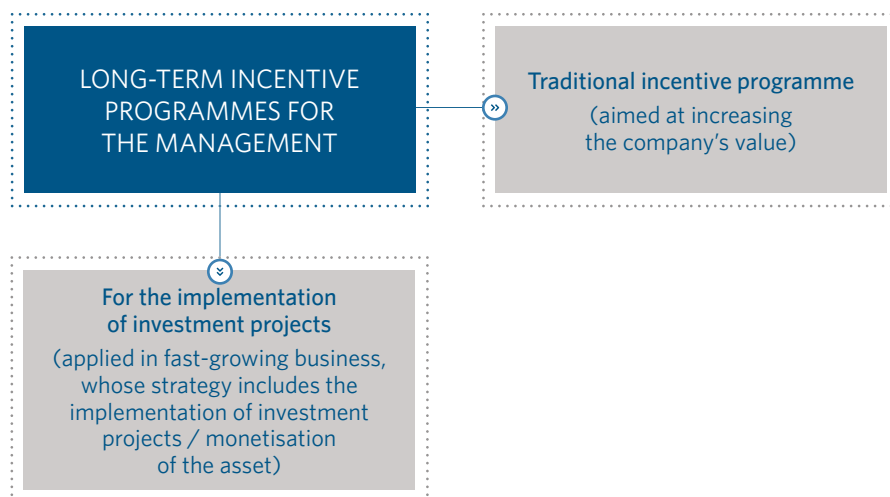
Sistema cares for the welfare and social security of its employees, providing them with additional social benefits in addition to the mandatory package of social benefits envisaged by the legislation.

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

Traditional additional social benefits listed in the adopted local regulatory documents in various Sistema Group companies, usually include payment for sick leave in excess of the minimum specified by the Russian legislation, financial assistance, voluntary health insurance, payment for food, travel, and partial compensation for accommodation of non-resident employees. The exact list of these additional benefits varies depending on the actual needs of the employees of various subsidiaries.

Standard salary of Sistema's employees corresponds to a competitive level for the financial and investment sector.

The system of long-term incentive for the management of S/As



G4-EC5

Standard salary of Sistema's entry-level employees compared to the statutory minimum salary in Moscow and the Moscow region

Year	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, %
2015	32,000	17,300	185

Expenditures of S/As on voluntary health insurance and social programmes for employees (life insurance, pension insurance, etc.) in 2015, RUB

Indicator	Expenditures on voluntary health insurance	Expenditures on social programmes
S/As' Expenditures	848 561 502	353 619 113

⁽¹⁾ TDI – top down indicators (input parameters to define the objectives and budgeting of Sistema) developed to meet shareholders' expectations, portfolio strategies, etc.

⁽²⁾ OIBDA – operating income before depreciation and amortisation.

⁽³⁾ Covenants – obligation of a borrower or an issuer to comply with certain restrictions on financial indicators and individual aspects of activities, which, when broken, entitle creditors to demand early performance of obligations.

G4-LA2

Additional social benefits for employees of the Corporation

Voluntary Health Insurance	<p>Sistema provides its employees (including families of some classes of employees) with voluntary health insurance.</p> <p>Total insurance premium with regard to voluntary health insurance amounted to RUB 12.9m in 2015.</p> <p>Number of employees of the Corporate Centre who received voluntary health insurance services in the reporting year – 304 persons.</p>
Healthcare	<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). In addition, employee's sanatorium treatment in Medsi's sanatoriums can be arranged for with a discount. All employees and their relatives can use the discount.</p>
Retirement Plan	<p>In addition to the mandatory pension insurance, all employees of the companies included in Sistema have the opportunity to participate in the non-governmental pension programme (NGPP).</p> <p>The development of Sistema's pension programmes is based on a non-governmental pension fund (NPF) Big Pension Fund (BPF). Big Pension Fund is a member of the state system, which guarantees safety of pension savings, belongs to a group of pension funds with the highest level of reliability A++ (confirmed by the rating agency Expert RA), and is ranked third in Russia in terms of the accumulated return among all NPFs.</p> <p>The overall size of the pension savings of BPF exceeds RUB 29bn, which belong to more than 560,000 people across Russia.</p> <p>BPF is ranked second among the NPFs in terms of accumulated return (141%), second in terms of average annual return among the market leaders (9.9%) and first in terms of short-term return (6%).</p>
Other	<p>The employees are also 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 RUB 30,000 due to death of close relatives; three extra holiday days for irregular working hours.



Adaptation of Sistema's employees to changes in the pension system

In December 2015, in connection with the changes to the pension system of the Russian Federation, a meeting was held in the office of Sistema for employees of the company and the representatives

of non-governmental pension fund Big Pension Fund, which is an authorised partner of the Corporation to provide pension services. Everyone could learn about the changes in pension legislation, ask questions and conclude an agreement for the formation of the accumulative part of pension.

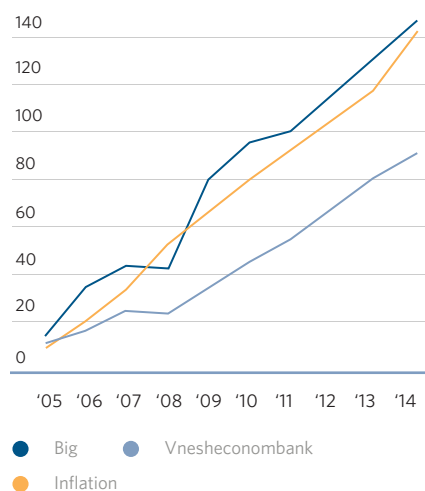
Employer deducts the monthly state premium of 22% of salary, including 6% for accumulation account of future pension. For employees who moved from the state pension fund to the non-governmental pension fund until the end of 2015, replenishment of funded pension will continue.

Selecting Big Pension Fund allows employees of the Corporation the following:

- to save and increase retirement savings in real monetary terms;
- to ensure governmental protection of pension savings by the Deposit Insurance Agency (DIA);
- to manage their accumulation account and transfer it by succession.

In future, BPF, as the operator of pension programmes of the largest employers, plans to develop personnel-incentive programmes and early retirement programmes.

Comparison of accumulated return of Big Pension Fund, Vnesheconombank (Pension Fund of the Russian Federation) and inflation⁽¹⁾



MTS: Cafeteria of Benefits

At the end of 2014, MTS launched a pilot project of the Cafeteria of Benefits programme: now, an employee can form a unique set of benefits based on his/her needs. This approach allows to qualitatively satisfy the distinct needs of employees with a high cost-effectiveness.

A fixed amount is reserved for every employee of the company. Its size does not depend on the position and length of service. Beneficial funds can be spent at employee's discretion: for the repayment of loans, Foodcard, MTS shop certificate, medical services, insurance, sports,



vacation or training of children, tickets to theatres and concerts, etc. – a total of 20 options. The most popular among MTS employees is food compensation (32%), then follows repayment of loans (30%) and purchase of medicines (15%).

The pilot project was considered a success, and as of 1 July 2015 it covered 30 subsidiaries and affiliates.

S/As' special offers for the Corporation's employees in 2015

S/A name	Description of the offer	Valid for all the S/As	Valid for the Corporate Centre
Detsky Mir	Promotions and discounts, invitations to events	●	●
MTS Bank	The Bank at your Office programme Promotions, new offers	—	●
MTS	Promotions, new offers, invitations to events	●	●
MGTS	Promotions, new offers, invitations to events in recreation house Iskra	●	●
Medsi	Special offers of medical and spa services, invitations to events and charity events	●	●

⁽¹⁾ According to Big Pension Fund.

G4-LA3

Providing maternity and paternity leaves to Corporate Centre employees

Indicator	2013	2014	2015
Number of employees entitled to a leave	9	22	20
Number of employees who took a leave	9	22	20
Number of employees who returned to work after the leave	-	3	2
Return to work coefficient, % ⁽¹⁾	0	50	28.5

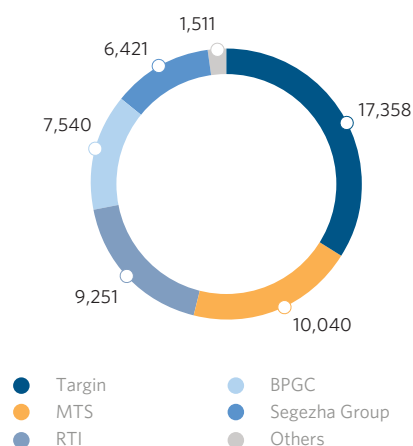
G4-11

COLLECTIVE BARGAINING AGREEMENTS

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 bargaining agreements are in force in eight of the Corporation's subsidiaries.

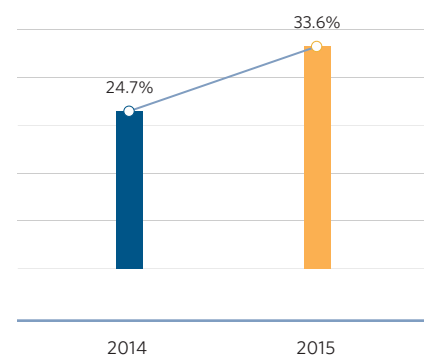
In total, 52,121 employees of Sistema Group companies were covered by collective bargaining agreements in the reporting year, representing about 34% of the total number of employees and exceeding the number of persons covered in 2014 1.4 times, which means that the collective bargaining agreement practice is fairly widespread in the Corporation.

Number of the Corporation employees covered by collective bargaining agreements in 2015



Number of Corporation employees covered by collective bargaining agreements in 2014-2015, %

+8.9%



⁽¹⁾ Return to work coefficient = the total number of employees who returned to work after the leave / the total number of employees who had to return to work after the leave × 100.

Team of professionals

Sistema attaches great importance to the development of personnel. Strong qualifications and expertise allow the Corporation to efficiently compete on the market and successfully perform business tasks.

IMPROVEMENT OF PERFORMANCE OF TOP MANAGERS

The success of the implementation of Sistema's portfolio strategy is largely dependent on the management team, so the Corporation is focusing on the use of internal human resources and attaches great importance to the selection, assessment and motivation of top managers⁽¹⁾.

In 2015, a comprehensive procedure for selecting and recruiting candidates for the top managers positions was implemented, which included an assessment of business reputation of a candidate for the top manager position, a check of his/her references, a test of his/her personality profile, as well as a collective approval of the candidate by the Human Resources Committee under the chairmanship of Sistema's President Mikhail Shamolin. Within the framework of the approved procedure, adaptive training for S/As' CEOs and monitoring of performance during the adaptation period is further provided. Also, an effective model of competencies of top managers of portfolio companies was developed and implemented in the reporting year.

Sistema's top managers are leaders of the ranking of the best Russian executives

In the 2015 Top 1,000 Best Russian Managers ranking prepared by the Managers Association and the Kommersant publishing house, the President of Sistema Mikhail Shamolin ranked first among the top managers of multi-holding companies. Chairman of Sistema's Board of Directors Vladimir Evtushenkov was named among the country's business leaders.

The following top managers of Sistema became the best in their professional categories: Elena Vitchak – Vice President, Head of the HR Department; Oleg Mubarakshin – Vice President, Head of the Legal Function; Alexander Budnikov – IT Managing Director; Sergey Semkin – Managing Director for Government Relations. Two more top managers joined the top three: Vsevolod Rozanov – Senior Vice President, Director of the Finance and Investment Function (second place) and Sergey Kopytov – PR Managing Director (third place).

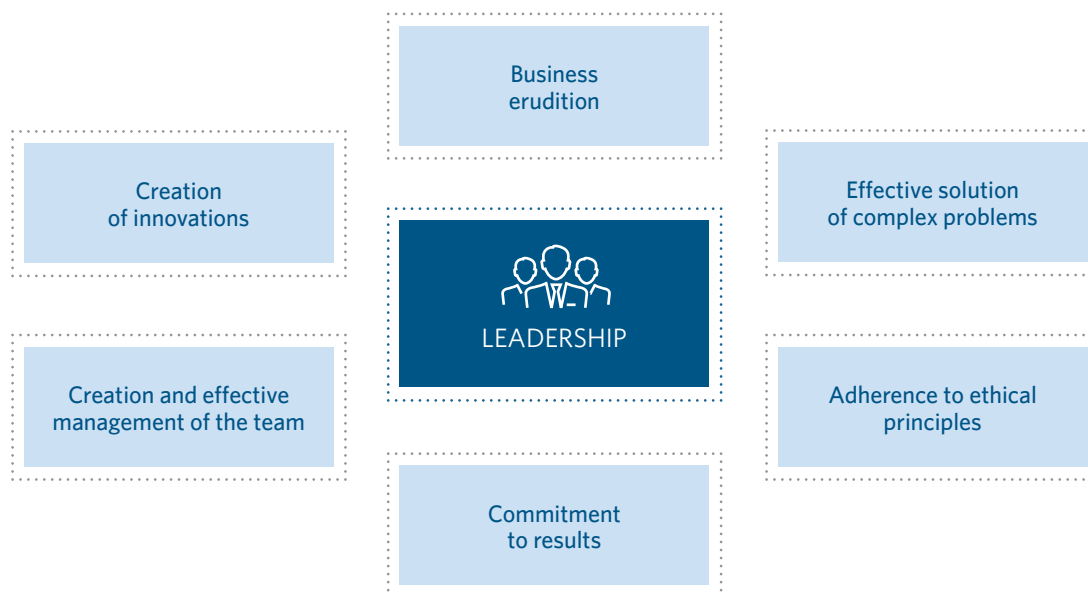
ТОП 1000
РЕЙТИНГ РОССИЙСКИХ МЕНЕДЖЕРОВ

Industry ratings of top managers included the following CEOs of Sistema Group companies: Vladimir Chirakhov – CEO of Detsky Mir, Andrey Dubovskov – President of MTS, Andrey Ershov – CEO of MGTS, Elena Brusilova – President of Medsi.

In total, the 2015 Top 1,000 Russian Managers rating included 39 top managers of Sistema Group companies. The Corporation has demonstrated the best results in Russia.

⁽¹⁾ Top managers in the Corporate Centre – positions not lower than IP Investment Director, Executive Vice President in Departments and Functions, top managers in S/As – employees that report directly to the CEO / President.

Model of competencies of S/As top managers



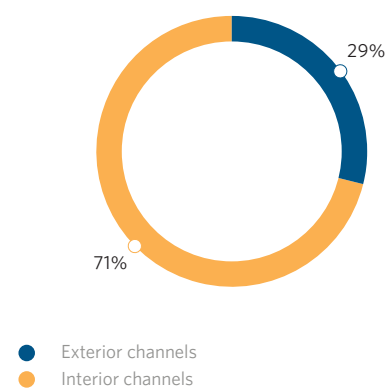
> 70%
of candidates



appointed to top manager positions in the Corporate Centre and S/As in 2015 were the employees of the Corporation (internal candidates)

Recruitment Department of the Corporation independently selects candidates for top manager positions.

Appointments of top managers in the Corporate Centre and S/As, %



Recruitment Department of the Corporation independently selects candidates for top manager positions:

1. raising standards and qualification requirements when selecting and hiring senior executives

2. forming a steady pool of external candidates

3. maintaining a high percentage of internal appointments in S/As



Talent Management at MTS Group

Since 2012, a comprehensive Talent Management programme is being implemented to improve the career development mechanisms within the company and retain the best personnel in MTS.

Purpose of the programme is to provide equal opportunities in promoting every employee on the basis of his/her abilities and talent. The programme content is designed for employees of the three categories: decision-making professionals with a high development potential, employees with unique expertise (IT, engineers, technicians) and successors to leading positions.

Thanks to the Talent Management programme, about 85% of managerial positions and 80% of all vacant positions in the company are filled by internal human resources. From September 2014 to March 2016, 42 successors and 109 high potential employees took new positions.

In April 2016, MTS started selecting human resources for the new programme cycle until 2018.

ASSESSING THE PERSONNEL AND ESTABLISHING THE CANDIDATE POOL

Sistema relies on the development of internal human resources potential and recruitment of prospective managers with successful experience of investment activities and projects that they can successfully implement in the Corporation.

To increase personal effectiveness of key management and form planned "career paths" of top managers, in 2015 the Corporation performed individual assessment of competencies of key personnel: 80% of investment portfolio managers, 55% of heads of Functions and Departments (completion in Q2 2016). Assessment results demonstrated a sufficient level of development of competencies required to solve the problems of the current level of complexity at current positions, as well as allowed to determine the development areas.

Based on the assessment results, the following was made:

- formation of the internal pool of Corporate Centre managers to be promoted;
- development of the corporate programme of development of key managers of the Corporate Centre of Sistema and top managers of subsidiaries and affiliates for 2016;
- approval of the process for setting individual goals and evaluating the performance of key managers of Sistema.

In 2015, 46% of employees of S/As of the Corporation were assessed. In Sistema's S/As, the internal candidates' pool was formed, which included 2,176 employees (2% of the total number of employees in subsidiaries). During 2015, 22% of succession candidates were internally promoted.

Top 5 companies in terms of the scope of personnel assessment activities:

97%
Detskiy Mir



92%
BPGC



85%
RTI



85%
MTS

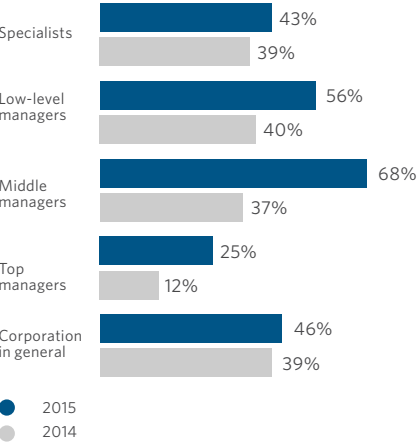


58%
Medsi



G4-LA11

Percentage of assessed S/As' employees,%



For more information about the approach to the formation of candidates' pool of the Corporation, see Sistema's 2014 Sustainability Report, p. 58.

Key objectives for the formation of candidates pool for 2016:

- increase in the share of internal appointments;
- expansion of the practice of promotion of employees from among the candidates' pool of S/As on the basis of transparent job performance.



Corporate personnel training and development system

Human resources are the most important resources for efficient development of the Corporation. In order to increase the number of employees with the skills and knowledge required for efficient professional activity, Sistema initiated implementation of a series of educational and training projects for Corporate Centre personnel and for the personnel of its affiliate companies. Internal corporate educational and training activities involve in-house coaches that consider actual current cases taking into account the specific features of Group Companies.

SISTEMA ACADEMY

Sistema Academy, a corporate-wide educational project launched a year earlier, reached its design capacity in 2015. The best in-house coaches of Sistema Group companies provide training for S/As' managers and specialists based on the uniform certified standards as part of this project. It aims not only to ensure personal and professional development of the personnel, but also to solve daily business tasks.

Having engaged the majority of its companies in Sistema Academy's activities, the Corporation has achieved maximum synergy in its employees' competence development.



"In-house coaches have been working in subsidiaries of Sistema since 2004. Then a key decision was taken on constant skills development of specialists and low-level managers, as opposed to one-off training that involved external business coaches. It all started with MTS that needs to train newly hired employees in the field of communication with clients and salesmanship. In the course of time, other subsidiaries started involving in-house coaches: MTS Bank, Cosmos Hotel, Detsky Mir, Medsi, NVision Group.

Nevertheless, many Group companies still were not able to continuously upgrade skills of their employees. Thus the idea and key principles of Sistema Academy have appeared, and their implementation started in 2014. When developing this project, we were trying to tackle the practical tasks of arranging the education and development function in the Corporation according to unified standards. Today the project is being scaled out into regions."

Elena Vitchak

Vice President, Head of Sistema HR Department

Sistema Academy basic principles are as follows:



Involvement of the best in-house coaches in the programme



Maintaining the cost of programmes at 70% below the market without compromising the quality



Additional motivation for employees and development of the best in-house coaches



Maximum use of corporate resources

19

Sistema's S/As



take part in the project Sistema Academy

The following training courses are offered within the framework of Sistema Academy programme: "Situational Leadership", "Capable Leader: Task Formulation and Achievement of Results", "Capable Leader: Control of Compliance and Communications With Employees", "Basic Management Skills", "Successful Presentation", "Financial Accounting for Beginners", "Negotiation Techniques", "Time Management" and others. The first training for coaches ("Information conversion to a game or a task") was held in October 2015.

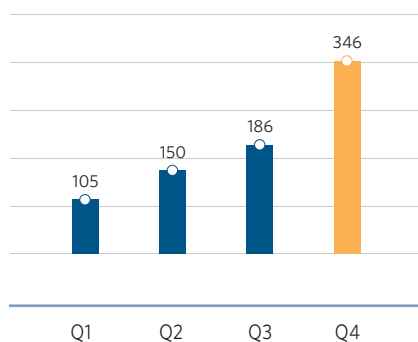
An English Conversation Club within the framework of Sistema Academy project was opened in May 2015. The meetings are organised by professional linguists – Sistema's translators/interpreters.



2015: First results

1. 800 employees of the Corporation's companies upgraded their skills
2. More than 12 training programmes for management and personal efficiency improvement have been developed
3. Employees are provided with a possibility to independently arrange their professional development and to receive training both at cost of the Company and at their own cost
4. The Sistema Academy project has proved its economic efficiency: in comparison with external providers, the education cost of the Corporation's in-house coaches is lower by 70%.

Number of Sistema Academy participants in 2015, persons



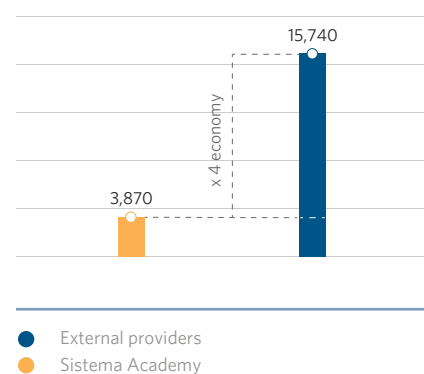
Development plan

Training programmes will be further developed within the framework of Sistema Academy and will be focused on the business needs which will contribute to best expertise interchange between the subsidiaries and creation of the environment for personnel development.

Development plan for 2016:

- Regional replication of the project for Segezha Group, Targin and Concept Club subsidiaries.

Training cost for 787 employees, K RUB



- Distant training concept development with the purpose of covering more employees.
- Increase in the number of coaches, including by means of additional recruitment of in-house coaches in S/As.
- Training for coaches in order to improve training skills of the Corporation's personnel.
- English Club development.

G4-LA10

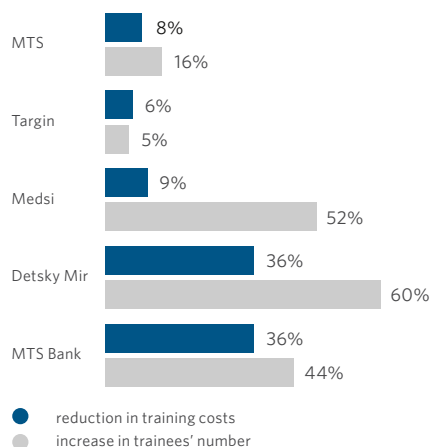
CLASSROOM EDUCATION

The Corporation proceeded with the development of employees' professional competences in the reporting year, including by developing corporate universities in S/As (MTS, MTS Bank, RTI, Targin, Detsky Mir, Concept Group) and in-house forms of study.



Read more: Section 2.1. Human Capital Investment

Quantity index of in-house training efficiency improvement of Corporation S/As, %⁽¹⁾



Training cost reduction was achieved by in-house training activities with in-house coaches engaged.

A "Knowledge Week" event was arranged by Sistema for the first time in autumn of 2015. The event was held in a new format – several short master classes of 1.5-4 hours each in the beginning and in the end of a working day. More than 400 employees of the Corporation took part in Knowledge Week. They gained knowledge in the field of leadership, time management, memory training, negotiation techniques, stress control, public presentations, etc.



G4-LA9

Average number of training hours per Corporate Centre's employee in 2015 by personnel category

Personnel categories	Number of persons	Time for category, hrs	Number of training hours per employee, hrs
Top managers	16	979	61.18
Middle managers	35	103	2.94
Specialists	264	410	1.55
Total	315	1 492	4.74

+33%



increase in the number of the Corporation's employees trained in 2015.

⁽¹⁾ S/As with the greatest part of employees involved in training are presented in the Table.

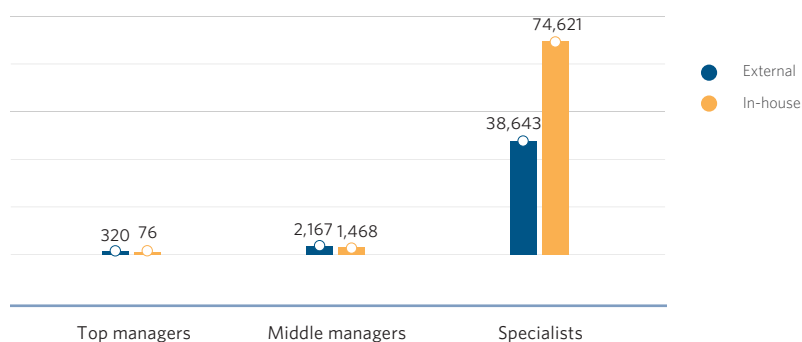
Classroom education at Sistema covers all the personnel categories and includes practical training sessions (complicated accounting and tax issues, accounting and taxes in 2015, changes in tax legislation, etc.), professional workshops (contemporary management technologies, decision making optimisation in the course of personnel selection for leading positions, etc.), conferences (participation in VIII International Coaching Congress and others), as well as training programmes within the frameworks of Sistema Academy (Situational Leadership, Financial Accounting for Beginners, Conflict Control programmes, etc.) and occupational retraining and advanced training (programmes of High School of Management and Innovation of Lomonosov Moscow State University).

DISTANCE EDUCATION

Sistema has a Distance Learning Portal designed to broaden the reach of educational programmes and to make sure that employees learn mandatory information. In particular, the online format is convenient for distribution of corporate materials in S/As.

The Portal provides several training courses developed by the Corporation. Some of the courses are mandatory for Sistema employees and are dedicated to anti-corruption requirements and procedures in the Corporation, fraud risk mitigation, insider information management regulations, information non-disclosure, etc.

Number of S/As' employees who took external and in-house training within the 2015 reporting year, persons



After mandatory training completion, participants must take a test.

The most popular optional distant courses for the reporting year were the adaptive test in English (446 employees of the Corporate Centre and S/As) and Microsoft Excel 2010 master class (474 employees of the Corporate Centre and S/As).

Upon training completion the employees may give feedback on the training course quality which facilitates the development of the training system.

An electronic library was established in 2015 and provided the Corporation's employees with free access to 5,000 books on business and related fields.

+ 237%



increase in the distance learning web portal traffic to 12,000 people

3,715 employees



of the Corporation took distance learning courses in 2015



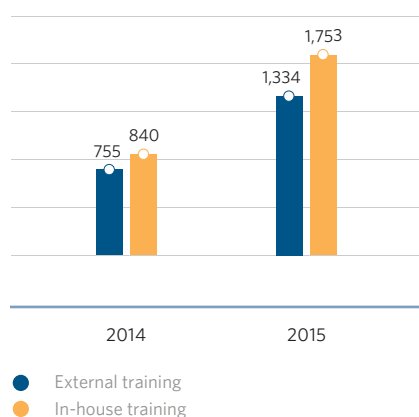
Training and development programme for Segezha Group's employees



Segezha Group pays close attention to the personnel training and arranges training activities for all the personnel categories. The form of study includes workshops and professional skills development events.



Number of employees who took external and internal training, persons



"We maintain high professional level of our specialists by developing external and in-house training programmes; we also cooperate with branch institutes. In the future, we plan to provide training for our employees in the field of production, as well as to develop administrative competence of managers, including such within the frameworks of Sistema Academy and on the basis of High School of Management and Innovation of Moscow State University."

Tatyana Gromova

Vice President for Human Resources and Organisational Development at Segezha Group



MTS: Knowledge Fest

The first Knowledge Fest was held in November in the DI Telegraph co-working area in the building of Central Telegraph. It is a large-scale education event organised by MTS, with the participation of Sistema and other Corporate companies (MTS Bank, Medsi, Detsky Mir, MGTS and others) employees.

During the weekend, the participants had a unique opportunity to attend lectures by external experts and business coaches (in the field of education and development, science, health or parenting style psychology) and improve work and everyday practical skills at master classes (including subjects such as visual thinking, voice as one of business communication tools, parent as a coach and others). The attendees got to know how Big Data will make difference in the next five years, how to manage personal power, how to read books in the right way, how to use computer games and digital gadgets for child development and how to develop creative thinking.





Medsi Training Centre

The Training Centre was created in the end of 2014. It includes business coaches of the high expertise level and work experience in various business directions.

Training Centre courses became mandatory for all Medsi personnel groups. Business coaches develop programmes using unified methodology. Employees have an opportunity to attend more than 10 different training courses. They include "Star Doctor" programme for medical advisers, "Excellent Service" programme for register officers and "Manager School" training cycle aimed at business skills improvement for medical directors and formation of unified management infrastructure. The company has also developed and implemented the expertise support system and business coaches work efficiency appraisal.

Prior to Training Centre creation, the company did not provide any other training courses except for professional re-training of medical workers. The business coach team determined the following key directions: welcome training, customer-focused service and management skills. The training programmes were adapted for industrial personnel by directors and chief medical officers of business units.



2,313 employees

took part in Training Centre programmes in 2015



2,313 employees took part in Training Centre programmes in 2015, 50% of them belong to the main production personnel (doctors, medical personnel and administrators) and 45% of them are junior and middle managers. 8 new training programmes have been developed, 10 facilitation team sessions have been held. According to Medsi employees' inquiry, 95% of them are satisfied with training results and format.

Medsi's strategy up to 2020 includes the following in-house training plans:

- Training process automation;
- Distant training methods introduction;
- Training programme line extension;
- Creation of unique programmes for the medical products market in order to attract personnel of other medical companies to take part in the training;
- Self-sufficiency of the Training Centre.



"The requirements to medical facility administrators become tougher as the need in quality medical services grows. The efficient manager in the field of medical service and health shall be characterised by the following priority features: field-specific medical education, high-scale professional education and administration skills, efficient education programme including economics. We introduce the education system for medical workers taking into account these requirements. Medical specialists of the company regularly attend professional retraining courses and participate in conferences and international forums within this programme. Workshops are arranged for medical workers on the basis of Medsi Training Centre. These workshops deal with customer oriented communication and efficient communication with a patient, improvement of managers' administration competence and creation of a unified management culture, personal performance improvement, including financial literacy, and internal expertise development in a company."

Elena Brusilova

President of Medsi Group

HIGH SCHOOL OF MANAGEMENT AND INNOVATION OF LOMONOSOV MOSCOW STATE UNIVERSITY

High School of Management and Innovation, a joint faculty of Sistema and Lomonosov Moscow State University, was established in 2006 and provides education for highly qualified specialists to be prepared for work in the global market of innovative products and services. The principles and operation formats of the School were revised and re-evaluated in 2015, and a new strategy aimed at creativity and innovations was developed.

School activity results in 2015

The MBA programme Leadership in Innovations was started in the School in October 2015. The first cohort are the leaders selected for the Talent Pool, i.e. the so-called "Golden hundred" (the Corporation's candidate pool).

The Strategic Management and Innovation programme included new courses, such as New Product Development System, Risk Management, Corporate Marketing at Global Markets, Intelligent Techniques of Business Information Analysis.



"Segezha Group, BPGC, Binnopharm and other Sistema's subsidiaries became partners of High School of Management and Innovation in 2015. Currently, the School has moved to a new stage. International cooperation is being developed along with various levels training programmes in innovative theory. It is a completely new specialty for the Moscow State University.



High School of Management and Innovation: corporate professional re-training programme for top managers of Leader Invest

A new professional re-training programme for top managers of Leader Invest, Innovations in Development, started on 11 November 2015. The programme is aimed at professional development and company leaders manager competence enhancement, comprehensive study of global progress in the field of planning and large-scale projects implementation and large cities urban territory development.

Within the programme framework, Leader Invest top managers completed an internship in Beijing Institute of Technology in autumn of 2015. They attended a course of lectures on specific features of running business in China, on state participation in economic process

and relation of business companies with state authorities of China. Top managers of Leader Invest have also visited Economics and Management Department Faculty business laboratory – "Shanghai stock exchange", which is the exact copy of the stock exchange, where students perform real time trading.

In the office of Russian-Chinese University in Shenzhen which is established by Lomonosov Moscow State University in affiliation with Beijing Institute of Technology, the attendees of Innovation in Development programme took part in round-table discussions on the issues of property developers in China and municipal authorities' role in urban development.

But the main goal of the School's activities is still the preparation of Sistema's highly qualified managers who are competitive in the global market."

Viktoriya Pechkovskaya

Dean of High School of Management and Innovation

An MBA programme Strategic Management and Innovations has been implemented since September 2015 in two formats: full-time (evening classes) and part-time (modular training). A new part-time form allowed 20 regional managers from Sistema S/As to start training. A standard for Master's programme in Innovation Studies (Management in Engineering Systems) was developed. Sistema subsidiaries are ready to become sites for student practice with subsequent employment of the most successful applicants. Also, a double degree programme was developed in 2015 together with one of the oldest European business schools, BS University of Durham.

Plans for 2016

- The School plans to train students on integrated bachelor degree courses for Innovative Studies in 2016, which will allow graduates to work in a number of areas. Currently, learning and teaching support materials are being prepared in order to obtain license and accreditation.
- Modular training courses on the corporate social responsibility management basics are being developed with due account for the best practices of the Corporation.
- The School plans to take part in a large-scale project of the largest technology park of Lomonosov Moscow State University.



Sistema's Plans for Personnel Management Improvement in 2016

1. Creation of environment for top managers work efficiency management system:

- Improvement of standards and qualification requirements in the selection and recruitment of top managers;
- Consistent process of individual targets preparation and Sistema employees efficiency assessment;
- Corporation's key management development programme implementation.

2. Development of a candidate pool and succession system in the Corporation's S/As:

- Creation of comprehensive functional candidate pools;
- Assessment activities;
- Approval of the pool of efficient managers and creation of a matrix of professional development and career advancements.

3. Creation of conditions for efficient employees' retention and development:

- Development of motivation programmes according to business needs;
- Creation of the environment for permanent development and qualification upgrade;
- Development of an HR community across S/As;
- Personnel engagement survey;
- Corporate culture improvement.

Corporate Culture and Volunteering

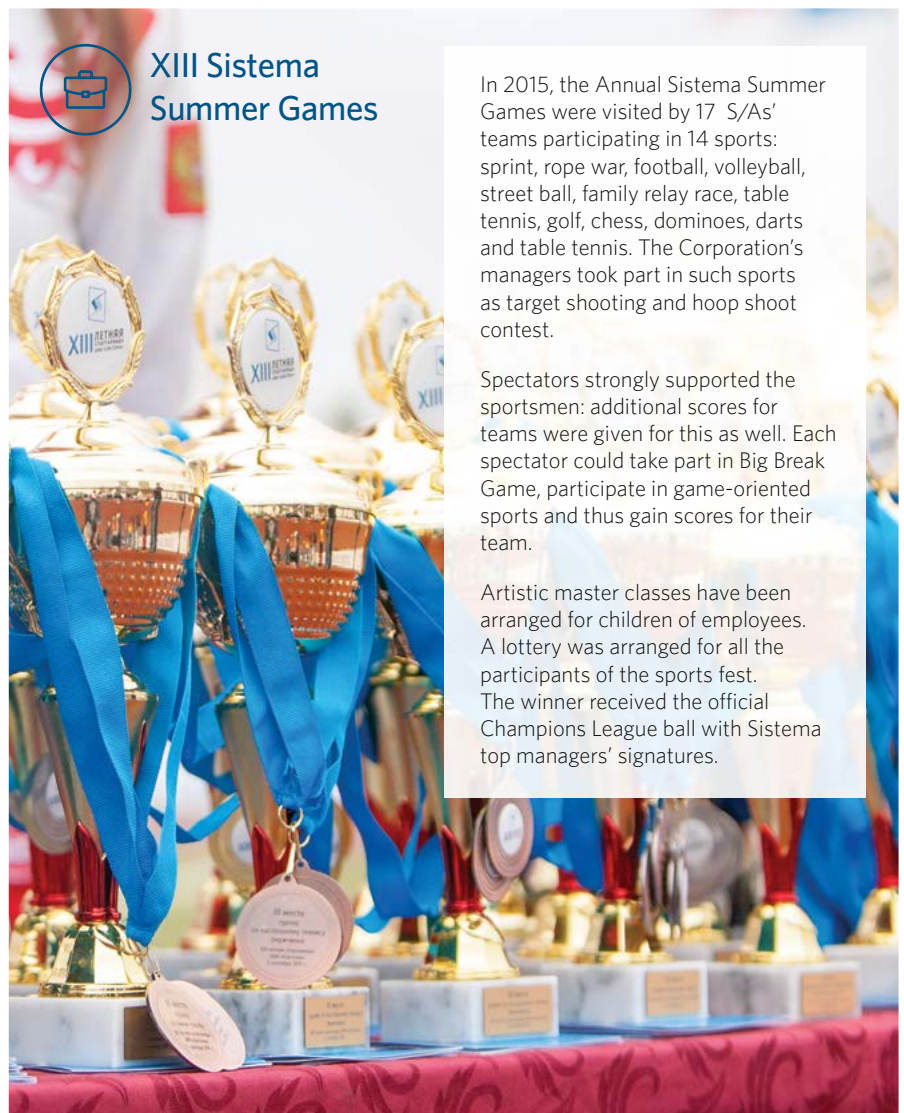
Corporate culture is defined as unique ideological ideas, values, beliefs, regulations and behaviour patterns that integrate the Corporation into a single whole and are shared by the employees. The corporate culture supports the business strategy of Sistema and is used in all the processes within the personnel management field.

Corporate culture was improved in 2015 in the following areas:

- Internal communications development and involvement of subsidiaries into the corporate culture;
- Personnel engagement increase by means of corporate activities;
- Promotion of sports and healthy lifestyles among employees;
- Corporate volunteer services development.

Corporate culture development results as of 2015 are the following:

- 100% of S/As are involved in the Corporation's activities;
- Annual clean-up day attendance rate is increased by 15% (to 4,000 people);
- Number of volunteering activities participants is increased by 1.5 times (over 10,000 employees);
- 18 corporate offers and promotion campaigns for Corporate subsidiaries are implemented;
- Three issues of [Sistema's corporate magazine](#) were published ;
- Content on the internal corporate portal was fully updated;
- A new mobile format of the digital library and opinion surveys of employees was introduced.



XIII Sistema Summer Games

In 2015, the Annual Sistema Summer Games were visited by 17 S/As' teams participating in 14 sports: sprint, rope war, football, volleyball, street ball, family relay race, table tennis, golf, chess, dominoes, darts and table tennis. The Corporation's managers took part in such sports as target shooting and hoop shoot contest.

Spectators strongly supported the sportsmen: additional scores for teams were given for this as well. Each spectator could take part in Big Break Game, participate in game-oriented sports and thus gain scores for their team.

Artistic master classes have been arranged for children of employees. A lottery was arranged for all the participants of the sports fest. The winner received the official Champions League ball with Sistema top managers' signatures.



"Sistema's Energy" united volunteers and veterans in Otradnoye



"The annual corporate clean-up day is a real spring festival enjoyed by employees of Sistema companies and their families. The site choice has its symbolic meaning: on the occasion of the 70th Anniversary of the Victory Day we have jointly improved the territory of Otradnoye Sanatorium where veterans get health care services under a joint social programme with the Moscow government. We joined our efforts in this good and important activity. I'm sure that such community events contribute to the corporate spirit and give energy for new achievements."

Elena Brusilova

President of Medsi Group

A clean-up day dedicated to the 70th Anniversary of Victory Day was arranged on 30 May 2015 at Medsi Otradnoye Sanatorium near Moscow. Over 2,000 employees of Sistema and its 27 subsidiaries and their families took part in the site improvement. Over 1,300 trees, flowers and bushes were planted, more than 17 flowerbeds and flowerpots were beautified and bright playgrounds and gym sites were arranged.

A special programme was arranged for children and adults. It included master classes, sports games, a performance of Detsky Mir puppet show and other outdoor activities.

The clean-up day special guests were the representatives of the Moscow municipal veteran council. A concert was arranged by volunteers for the battle-front veterans along with a tour of the health resort.

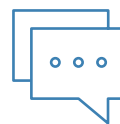
> 2,000 employees

took part in the site improvement



> 1,300 trees

were planted during a clean-up day



"These clean-up days have already become our corporate tradition. In 2015, the clean-up day was arranged for the first time at Otradnoye Sanatorium, where the war veterans undergo rehabilitation treatment. We worked hard to improve the premises and to plant trees in the parks and alleys of the health resort. We established a memorial Victory Alley together with veterans to make walking enjoyable for people. This spring activity is a great opportunity for team-building, involvement of subsidiaries' employees in activities for the benefit of our society. The anniversary of the Victory day is also a good opportunity to remember the heroism of our fathers and grandfathers and to pay tribute to their memory."

Mikhail Shamolin

President of Sistema

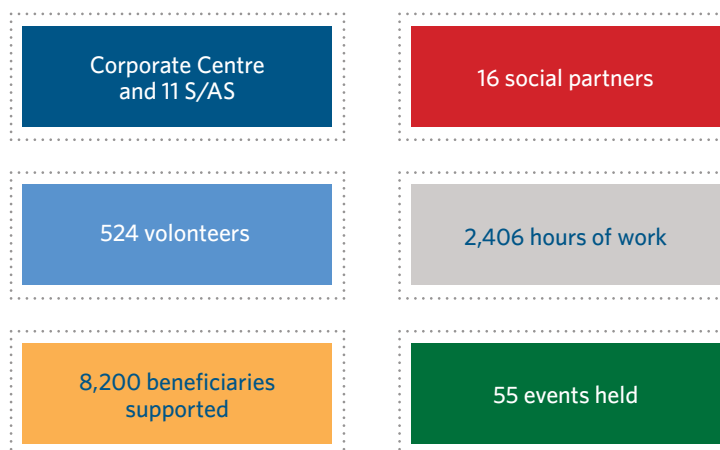
CORPORATE VOLUNTEERING

Corporate volunteer initiatives have been widely developed for the last two years in Sistema companies as an efficient tool for the implementation of social and charity projects and improvement of non-financial motivation.

For many subsidiaries corporate volunteering became part and parcel of corporate culture, with the average rate of engagement in voluntary activities going up by half, to roughly 7% of the total headcount, which matches the maximum penetration of volunteering among Russians⁽¹⁾.

The Corporation's coordination centre for volunteering services is Sistema Volunteer Centre, which develops and implements general corporate social programmes with participation of Sistema and its subsidiaries.

Results of Corporate Volunteer Centre in 2015



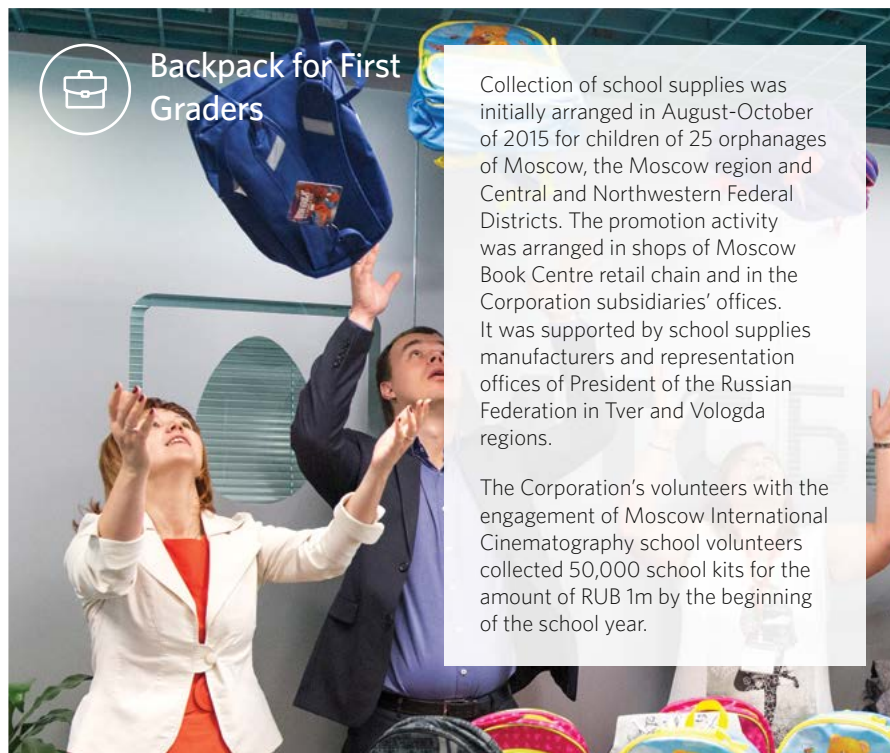
From 4.2 to 6.7%

staff involvement with volunteer initiatives is up by half

Key events of Corporate Volunteer Centre in 2015

Q1	Q2	Q3	Q4
Olympic Sports Day for disabled children of Zhuravushka care home located near Moscow	Aid to Veterans, delivery of groceries to war veterans	Backpack for First Graders, a school supplies collection for children from orphanages (back-to-school season)	Generation Mowgli performance held in Kremlin for children from social establishments
Live History, a programme for patriotic education of children from orphanages. The programme is dedicated to the 70th Anniversary of the Great Patriotic War Victory Day	Celebratory reception for veterans and Leningrad siege survivors at the National War exhibition held in Russian Museum	Acquisition of a tractor for Zhuravushka orphanage in Krasnaya Dubrava with money donated by employees; clean-up day	Career guidance for children from orphanages in cooperation with Stroganov Academy, Russia Today and National News Service
	Honouring of the Corporation's veterans at the Scientists' Palace	Russian Museum Quest for citizens of Saint Petersburg on International Charity Day	Tree of Wishes show, New Year gifts collection for eight sponsored orphanages
	Volunteers Victory Garden, including clean-up days in four orphanages located in Moscow and the Moscow region		Visiting Snow Queen, a benefit performance in the State Academic Maly Theatre for 700 children
	Victory Garden event held within the framework of volunteering clean-up days and meetings with veterans in orphanages		Hospital Clowns non-profit organisation teamed up with Sistema's volunteers to offer New Year greetings to 90 critically ill children at Moscow hospices
	Dr. Powderpill benefit performance dedicated to Children's Day		
Arrangement of registration and accommodation for veterans in MEDSI Otradnoye health resort within the framework of Taking Care of Veterans programme			

⁽¹⁾ According to the survey of volunteering movement in Russia carried out by the Public Opinion fund.



Backpack for First Graders

Collection of school supplies was initially arranged in August-October of 2015 for children of 25 orphanages of Moscow, the Moscow region and Central and Northwestern Federal Districts. The promotion activity was arranged in shops of Moscow Book Centre retail chain and in the Corporation subsidiaries' offices. It was supported by school supplies manufacturers and representation offices of President of the Russian Federation in Tver and Vologda regions.

The Corporation's volunteers with the engagement of Moscow International Cinematography school volunteers collected 50,000 school kits for the amount of RUB 1m by the beginning of the school year.



Tractor for Zhuravushka



Corporate volunteers and donations of MTS, MGTS, Medsi and Sistema Charitable Foundation helped to collect a total of RUB 500,000 for the acquisition of a specialised tractor and its appliances for Zhuravushka disabled children home in Krasnaya Dubrava.

Children with disabilities can move in no other way but using wheelchairs; thus, their chance for outing depends on the state of garden paths. Garden tractor application will significantly facilitate garden cleaning and improvement of the care home territory. Children would spend more time outdoors. SCF arranged a volunteer tour to Zhuravushka children care home in Krasnaya Dubrava in October. Volunteers presented the tractor to this social establishment.



Tree of Wishes show

Over 100 Sistema and S/As' volunteers took part in arrangement of traditional corporate promotion event, Tree of Wishes show in 2015. Real Christmas trees with wishes of children from eight orphanages of Moscow, Tver, Vladimir, Yaroslavl regions were installed in the offices of the Group companies and federal information media holdings – News Media and National News Service. Segezha Group delivered 40 pines from Karelia to Moscow and MGTS arranged for storage of the trees.

Children could also send their wish letters via e-mail. More than 800 gifts for 2,200 children were collected during the campaign. Seven volunteer tours to orphanages were arranged to deliver the gifts and organize New Year's parties.

> 800
gifts



gifts for 2,200 children were collected during the campaign



MTS volunteer initiatives

MTS corporate volunteer project "Do Good!" has been active for more than 6 years. Currently it includes 6,500 people who regularly take part in social activities. The company volunteers arranged more than 500 events in 2015.

A technology platform for corporate volunteer movement development was started in December 2015 together with Dobro Mail.Ru project. The online service custom designed for MTS allowed the company to organise volunteer projects' management and to provide the required tools for coordination of large-scale volunteer movement in various regions. Volunteer movement participants may track the history of their participation in the company's social programmes through a convenient personal profile, via which MTS projects news are also available.

The company employees receive virtual badges for participation in all volunteer initiatives. They may share their achievements in social networks.



Read more about Sistema Corporate Volunteer Centre projects and activities on the website: <http://bf.sistema.ru>.

Corporate culture development plans for 2016

1. Internal communications development:

- Development of a project on internal portal transition to a new digital platforms and mobile version / portal application development;
- Development of a new mobile format of the digital library and internal opinion surveys of employees.

2. Promotion of sports and healthy lifestyle among employees.

3. Involvement of subsidiaries into the corporate culture:

- Development of new corporate promotion activities and S/As' offers for Corporate employees;
- S/As' employees volunteer movement engagement growth;
- Arrangement of clean-up days in the Corporation's subsidiaries;
- Development of promotion activities for veterans support.

4. Loyalty improvement and improvement of employees engagement level:

- Development of new formats for corporate activities.

5. Corporate culture elements development, in particular, creation of employees' unified work principles that contribute to the Corporation's strategy implementation.

1.8. Stakeholder Engagement

G4-26

STAKEHOLDER ENGAGEMENT PRINCIPLES

Stable, mutually beneficial and transparent relationships with all stakeholders are the mandatory condition of business reliability and efficiency of the Corporation's strategy implementation.

Sistema makes efforts to consider opinion of the wide range of stakeholders within the framework of certain tasks' solutions associated with economic, social and environmental role of the Corporation. Individual notification, feedback and engagement methods were developed and implemented for each target group⁽¹⁾.



Read more: [Sistema's 2014 Sustainability Report](#), p. 80.

G4-24

The Corporation's stakeholders include⁽²⁾:

1. **Shareholders**
2. **Management**
3. **Personnel**
4. **Subsidiaries and affiliates**
5. Media
6. **State authorities**
7. State control/supervision bodies
8. Local government bodies
9. Local communities
10. **Investment community**
11. **Business partners**
12. **Customers/consumers**
13. Professional associations
14. Academic community
15. Educational institutions
16. Public environmental organisations
17. Non-profit social and charitable organisations

G4-25

LIST OF STAKEHOLDERS

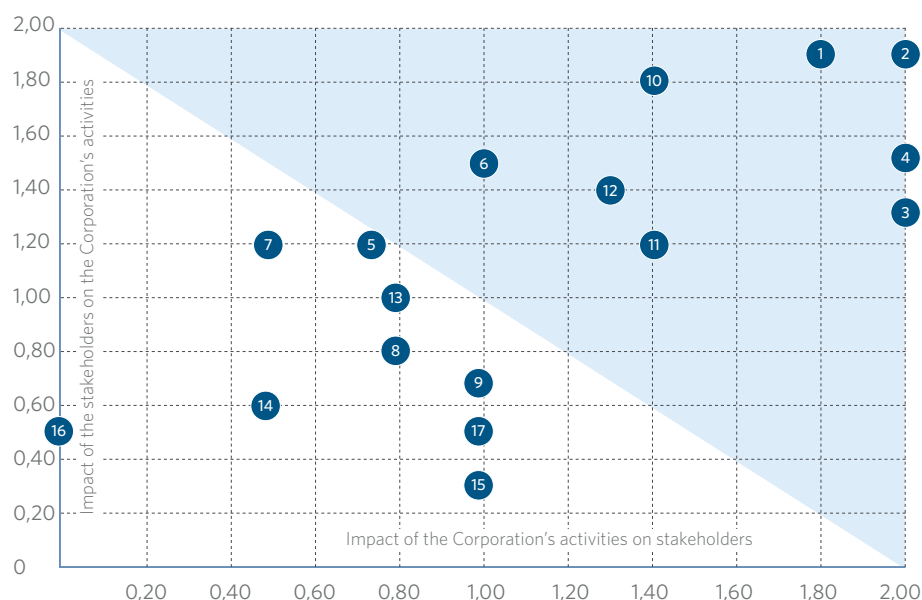
During preparation of Sistema's 2015 Sustainability Report, the managers were surveyed in order to clarify and range the stakeholders by their impact on the Corporation's operations and the impact of the Corporation's operations on them.

The rank map of stakeholders was created and considered relevant in 2016.



Read more: [Sistema's 2014 Sustainability Report](#), p. 79.

Stakeholders rank map



⁽¹⁾ Cooperation of Sistema with the key stakeholders is governed by individual internal regulatory documents such as Information Policy, Internal Communications Standard and Sistema's Interaction with State Authorities and Public officers Policy, etc.

⁽²⁾ Sistema's Stakeholders are marked with boldface type.

G4-26 G4-27

Stakeholder Engagement in 2015

RELATIONS WITH STATE AUTHORITIES

Federal executive agencies

During the reporting year, the Corporation continued stable cooperation with the Russian Government, federal ministries and agencies on supporting investment and social projects of the Corporation.

Agreement with the Russian Ministry of Finance on instalment payment for stock repurchase of SSTL Russian-Indian communication company from the government until 2020 within a stock option plan was one of significant results of this work. The agreed instalment payment terms are considered in the federal budget for 2016 and further confirmed in the Agreement between the Federal Agency for the Administration of State Property and Sistema, concluded in June 2016.

Furthermore, Sistema provided assistance to its portfolio companies in 2015 to get access to the state programme of support for strategically valuable companies that is implemented within the framework of the crisis bailout plan of the Government of the Russian Federation. For that end, anti-crisis measures were analysed and proposals to the State authorities with forms and methods of sectoral support were developed. The preferential focus was given to the S/As operating in the field of pharmaceuticals, forest management, crop farming and high technologies.

In 2015, the Corporation's partnership with the Ministry of Education and Science of the Russian Federation moved to another level in implementation of the programme for search and preparation of young technology leaders for knowledge-intensive companies and perspective branches of domestic industries. The administrative department provided quota for the participants of Lift to the Future's engineering and design schools on the basis of federal child centres.

State legislative authorities

During the reporting year, Sistema continued its active expert cooperation with the specialised committees and commissions of the State Duma and the Federation Council of the Federal Assembly, in particular, in the field of mobile commerce. The State Duma passed a bill on amendments to Article 54 of the Federal Law "On Communications" and Article 15 of the Federal Law "On the National Payment System", which improves the payment procedure using a cellphone and cancels significant restrictions on mobile commerce in Russia.

Sistema also contributed to the introduction of a bill on Network Sharing to the State Duma. According to preliminary estimates, communication providers could save significant capital and operational expenses through the construction of common base stations for LTE networks. It will contribute to quality improvement and accessibility of current telecommunication services.

International cooperation

A road show of Russian regions and companies was held from 26 to 28 May 2015 in Jiddah (Saudi Arabia) under the authority of the Chamber of Commerce and Industry of the Russian Federation. Among the participants were Vladimir Evtushenkov, Chairman of the Board of Directors, who headed the Russian delegation; Mikhail Shamolin, President of Sistema, and other representatives of the Corporation's top management; Oleg Ozerov, extraordinary and plenipotentiary ambassador of the Russian Federation to the Kingdom of Saudi Arabia; Mikhail Bogdanov, Deputy Minister of Foreign Affairs of the Russian Federation, and more than 100 representatives of Russian business communities, authorities and regional governments. The event showed opportunities for cooperation with partners in Saudi Arabia in agriculture and oil and gas sector.

The Russian-Saudi Business Forum was held on 17 June during the visit of Mohammad bin Salman Al Saud, deputy royal prince of the Kingdom of Saudi Arabia, to Saint Petersburg. Its participants included about 60 representatives of Saudi Arabia companies and state organisations, as well as over 100 Russian businesspeople and government officials. Vladimir Evtushenkov, Chairman of Russo-Arab and Russo-Saudi business councils, held a speech at the forum opening event; top managers of Sistema, Targin, Medsi and Binnopharm participated in the round-table events on infrastructure development, transportation and electric power resources, oil and gas sectors, agriculture, medicine and healthcare.

According to the results of the meetings held in Moscow in 2015 by Russo-Saudi Business Council and Joined Intergovernmental Russo-Saudi commission on commercial, economic, scientific and technological cooperation, Sistema and Wafat Al Tawasul, a Saudi company, announced the intention to create a Russo-Saudi investment company for capital investments to agricultural sector, infrastructure construction, transportation and other industries. A Memorandum of Understanding was concluded between Targin and Wafat Al Tawasul on establishment of joint venture in the territory of the Kingdom of Saudi Arabia for drilling bits manufacturing.





"The trade and economic relations between Russia and the Kingdom of Saudi Arabia are gradually evolving, although there is still room for greater cooperation. The Russian business week in Riyadh, and now the Saudi Arabian business week in Moscow are landmark events contributing to effective cooperation between Russia and Saudi Arabia. The promotional tours and visits of delegations to the Russian companies are extremely important for facilitating informational exchange and fostering a relationship of trust and openness between the business communities of the two countries."

Vladimir Evtushenkov

Chairman of Sistema Board of Directors,
Chairman of the Russian-Arab Business
Council on behalf of Russia



Representatives of private and state companies for Saudi Arabia visited the following assets of Sistema Group companies within the framework of Saudi Business Week in Moscow in November 2015: Medsi diagnostic and treatment centre at Belarusskaya underground station, flagship store of Detsky Mir on Vosdvizhenka Street, business park Nagatino i-Land and Krasnodar-Agro agricultural enterprises

in Krasnodar region. Guests from Saudi Arabia learned about the companies' operations, market position, plans and development strategy. The Saudi delegation was composed of several dozens representatives of private and state companies and organisations, including Saudi General Investment Agency (SGIA), agricultural investment company SALIC, Saudi Food & Drug Authority, etc.

Relations with India are traditionally important for Sistema in the context of international relations. Sistema representatives took part in a meeting of Intergovernmental Russian-Indian Commission that was held in Moscow on 20 October. The issues of commercial, economic and industrial cooperation between the two countries were discussed during this meeting.

The most important result of longstanding relationship of Sistema and Chinese banks was a successful closure in December 2015 of a long-term club deal with China Development Bank and Bank of China for an unsecured 6-year credit limit of USD 350m.

INTERACTION WITH REGIONAL AND LOCAL AUTHORITIES

A number of business meetings were held with local administrations across Russia with a view to searching and extending regional investment opportunities in 2015. The possibility of cooperation in areas of priority relevance to Sistema was discussed as well. Special focus was placed on the forest and woodworking industry.



"In current economic conditions, China steps forward as an international source of funding for Russian borrowers. But the main condition for cooperation with Chinese lenders is time. They examine the borrowers for a long time and tend to build long-term relationships. The deal that Sistema succeeded to close is a result of the said long-term relationships, which have been developing for ten years."

Vsevolod Rozanov

Senior Vice President, Head of the Finance
and Investment Function at Sistema

As a result of these meetings, framework cooperation agreements were signed with the Arkhangelsk, Kirov, Irkutsk and Vologda regions, seeking to create beneficial economic, investment, and social conditions in the geographies that are of particular importance to the Corporation. The general idea is to overhaul the local businesses, improve their operating efficiency, and enlarge their footprint in local markets. E.g., the Vologda Region Administration provided Segezha Group with optimum conditions for developing their existing business while also making the region more attractive to other Sistema companies, such as Medsi Group, Detsky Mir Group, MTS, Sitronics KASU, Binnopharm, and OZON Group.



For more detail see Section 2.2.1. Social & Economic Partnerships.)

Within the framework of the Agreement with the Republic of Karelia, the Corporation issued "Republic of Karelia Investor Guide" in Russian and in English, which was presented at Russian Federation Security Council Secretary meeting, dedicated to the 100-th Anniversary of the Republic of Karelia formation and implementation of the federal target programme for the Republic of Karelia Development for a period up to 2020.

Furthering cooperation with the Government of the Republic of Dagestan in the security area, Sistema's businesses in 2015 worked hard to implement their signature projects such as Safe Region, System 112, etc.

Within the framework of the Corporate social policy, a three-party agreement was signed in May 2015 between the Moscow City Government, the Moscow Municipal Council of Veterans, and Sistema. This marked the start of a broad social partnership in the area of veteran support and patriotic education of young people. Together with the Moscow Municipal

Counsel of Veterans, Medsi Group, and the Department of Labour and Social Protection, the Corporation started a large-scale programme titled Taking Care of Veterans, giving access to free healthcare to over 500 beneficiaries.



For more details please see Section 2.2.2. Improving Standards of Living

In 2015, the Moscow region and the Krasnodar territory provided vast support to Lift to the Future's school of engineering and design organised locally. Representatives of the two regional administrations took part in official school opening and closing ceremonies.

On 16 July 2015, the Prime Minister of the Republic of Kalmykia Igor Zotov held a business meeting involving the local Minister of Economic Affairs and Labour Erdeni Boldyrev and representatives of Sistema's Security & IT Department to discuss potential cooperation in setting up Safe City infrastructure and a crisis prevention centre in the republic.

INTERACTION WITH SHAREHOLDERS

Several major institutional funds became Sistema's shareholders in the autumn of 2015. Currently, the top ten shareholders of the Corporation include the Singapore-based investment firm GIC (No.1 by holdings), BlackRock Group, Skagen, Norges, and Pictet. This results from regular investor meetings and greater transparency of Sistema's non-public assets.



For more details about Sistema's shareholders see [Sistema's 2015 Annual Report](#), pp. 81-83

INTERACTION WITH INVESTMENT AND BUSINESS COMMUNITIES

The success of Sistema's business is largely defined by long-term relations with co-investors and industrial partners. In 2015 Sistema's senior management held several business meetings with investment funds, large-scale international companies and financial analysts in Russia and abroad, including road shows organised specifically to present the new strategy and meetings at the largest global business forums:

January 21-24: the 45th World Economic Forum in Davos (Switzerland),

June 18-20: the XIXth Saint Petersburg International Economic Forum,

September 3-5: the Eastern Economic Forum (Vladivostok),

September 9-11: the IVth International Business Summit Russia: Together to the Future! (Nizhny Novgorod),

October 2: the International Investment Forum Sochi-2015,

November 24-26: Exhibition & Forum Russia and the Kingdom of Saudi Arabia: new prospects of commercial, economic and investment cooperation,

November 27: Russo-Saudi Business Investment Forum (Moscow),

December 8-9: Moscow Exchange Forum (organised jointly with UBS) in London,

October 13-14: VTB Capital's Investment Forum RUSSIA CALLING!

A new corporate website of Sistema was launched in May of 2015. Among the new conceptual features of the website is a compelling presentation of the broad scale of Sistema's investment portfolio and activity in various national industries.

INTERACTION WITH PERSONNEL

In 2015, Sistema strengthened and furthered its existing mechanisms of interaction with personnel, including the Hotline, a channel for employees to report problems such as abuse of rights, fraud, and corrupt practices.



For more detail see Section 1.6 Business Ethics and Anti-Corruption Activities.

Special attention was also paid to the development of the corporate volunteer movement. Campaigns organised by SCF's volunteer centre engaged employees of virtually all Sistema Group companies.



For more detail see Section 1.7 Personnel Management.

INTERACTION WITH S/AS

Existing assets of Sistema are grouped into Investment Portfolios based on the principles of deal origin and available industrial expertise. Portfolio managers and their teams help subsidiaries formulate and implement their development strategies. In order to coordinate this work, the leaders of numerous portfolio companies took part in Sisteama's offsite strategy sessions held in September and November 2015 to discuss the Corporation's portfolio strategy.



Binnopharm: strategy session

Like every other business of Sistema Group, Binnopharm held a strategy session on 24-25 June 2015 aiming to formulate a long-term development strategy for the company.

On Day 1 of the event the participants determined the area ("convenient drugs") to focus on when moving towards leadership in the pharma market. Day 2 was dedicated to formulating the key vision, mission, and values of the company.

At the end of the session, the participants had a ready list of principles to adhere to in their business practices.

Openness: be open to new opportunities and to discussing failures and problems to search for optimum solutions

Leadership: set new goals in improving the standards of living of customers and employees and assume responsibility for their achievement

Scientific approach: support your case with facts and analytical thinking

Productive results: serve practical interests of customers and employees as much as possible

Sistema's Functions and Departments regularly interact with subsidiaries too address corporate management and implementation of Corporate standards in the field of business ethics, procurement, personnel management, anti-corruption actions, social accountability and other areas. Representatives of S/As regularly take part in on-site and off-site sessions, task groups and meetings held by Sistema to discuss various subjects.

Sistema's investment and budgeting procedures, accounting methodology and other issues were discussed during an offsite session of Sistema's Finance and Investment Function in October 2015. A programme of activities to improve the efficiency of hotlines used at various S/As along with progress reports and targets for 2016 were discussed in June and December 2015 at joint meetings of the Internal Control and Audit Committee and the Safety Committee under Sistema's President, as well as at the meetings of Internal Control and Audit Committees of specific S/As.

In 2015 Sistema and S/As established some specific mechanisms to cooperate in the fields of security and information technologies and organised a series of extended sessions to discuss comprehensive security, hotlines, and measures to prevent terrorism, fraud, theft, abuse of powers, and other issues.



Corporate Social Responsibility (CSR) is one of the crucial areas of cooperation between Sistema and its subsidiaries with an eye on integration and synergies. E.g., Lift to the Future's programmes in 2015 engaged representatives of RTI, Sarov Technopark, Mikron Group, MTS, BPGS, Business Nedvizhimost, Detsky Mir Group, Binnopharm, Medsi, Targin, STREAM, MGTS, and Leader Invest, who provided lectures, master classes, and assessments of proposed projects in such areas as information and telecommunication technologies, medicine and biotechnologies, transportation, industrial technologies and new materials, living environment and society, and energy.



For more information on Lift to the Future's programmes see Section 2.1 Investments in Human Capital

On top of that, S/As continued cooperating to develop new social projects based on the shared value approach and enhance the transparency of Sistema Group's businesses.



For more information on cooperation between S/As in CSR see Section 2 Investments in Sustainable development.



"Security is a prerequisite for sustainable functioning of business processes and comfort of our employees. In 2015 we upgraded our earlier accomplishments in the comprehensive security area by implementing new endeavours in terrorism prevention, recovery of financial damage, etc. To improve the manageability of security systems of specific subsidiaries, we integrated all security teams into a single comprehensive security system."

Vladimir Shukshin

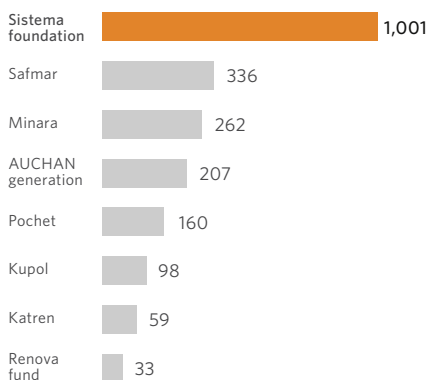
Vice President, Head of Sistema's Security and IT Department

INTERACTION WITH MASS MEDIA

Sistema actively cooperates with leading business media in Russia and abroad to ensure all-round coverage of its activities, business strategy, key deals, and assets. In 2015 special emphasis in public communications was given to Sistema's stability, i.e., the corporation's image as a reliable investor and partner of the national government and images of specific S/As as leaders in their respective industries. Numerous publications, including interviews with senior managers in printed media and on TV, showcased Sistema's informational openness and a clear vision of existing development prospects.

Another area of Sistema's publicity focus in 2015 was the corporation's numerous social projects, with Lift to the Future (23 media partners, over 380 media publications) and Taking Care of Veterans (more than 100 publications and TV stories) becoming the highest-profile endeavours. According to an annual research performed by the Donors' Forum, Sistema Charitable Foundation maintains leadership among Russian charities in terms of media coverage, having made Top-25 funds by media references.

Top corporate foundations by media mentions⁽¹⁾



⁽¹⁾ Source: Donors' Forum 2015 Report on current status & development of Russian charities.



Partnerships with media to help children

In 2015 Sistema Charitable Foundation (SCF) launched a series of partnerships with media outlets to provide occupational guidance to children in orphanages and promote the concept of charity nationwide by engaging journalists in socially-oriented volunteer initiatives.

In November-December 2015, children from Moscow's Orphanage No.12, Boarding School No.587, Boarding School No.1363, and Noginsk Social Rehabilitation Centre for the Minors visited the editorial offices of the major federal media Multimedia Holding, Russia Today, and News Media, welcoming them with master classes and tours and inviting them to apply for internships.

To celebrate the New Year, Russia Today organised a charity screening of the new animated motion picture The Snow Queen 2: The Snow King. The invitees included more than 150 beneficiaries from family education centres Yuzhny and Solnechny Krug and the Interregional Social Aid Fund Vozrozhdeniye. The project titled The Wishing Tree invited employees of Sistema and News Media to donate Christmas gifts for children from four orphanages, including a social rehabilitation centre under the auspices of the Svyato-Alekseyevskaya Monastery in the Yaroslavl region.



> 150 children



participated in the New Year charity screening of the new animated motion picture The Snow Queen 2: The Snow King

The initiative received coverage by dozens of media outlets. SCF is committed to further developing socially-oriented projects for the underprivileged children in and around Moscow in concert with federal and regional media.

Sistema's new corporate website version contains a CSR newsfeed to keep readers updated about the corporation's efforts in sustainable development. In 2015 alone, Sistema released 190 news reports about various social projects and campaigns, which, along with business news, were fed into the corporation's official Twitter account (whose number of followers has quadrupled since March 2015) and a dedicated YouTube channel demonstrating corporate videos and TV stories. The total audience of Sistema's social media accounts is now ~2.5 million users.

INTERACTION WITH LOCAL COMMUNITIES

Sistema has been working hard to expand programmes targeting the well-being of local communities in geographies where Sistema Group is active.

The nation-wide programme Lift to the Future enabled more than 700 high school students from all over Russia to take part in science contests in 2015, resulting in 350 young talents receiving tickets to inspiring think-tank school sessions.

Among other community-oriented initiatives is Sistema's long-term programme seeking to support art exhibitions and virtual reality branches of the State Russian Museum that brings Russia's largest collection of national arts near to local audiences.



For more detail see section 2.2.1 Social & Economic Partnerships.

Sistema's involvement with the XIVth Moscow Easter Festival allowed residents of vast swathes of Russia—from the Black Sea coast to the extreme North-East—to visit concerts of the Mariinsky Theatre Orchestra, one of the world's best symphony orchestras that performed 170 shows in 22 Russian cities.

Several subsidiaries of Sistema (MTS, Medsi, Detsky Mir, and Kronshtadt) became partners of KidZania Moscow, Europe's largest occupational learning project for children. The companies will organise whole interactive areas for kids to try their hand at different professions under the guidance of experts.



Partnership with RusRisk

Sistema is a partner to the Russian Risk Management Society, a member of the Federation of European Risk Management Associations (FERMA). RusRisk sees its mission in shaping national risk management standards in various industries and improving the quality of risk management systems on the ground in order to reduce potential economic and social consequences of environmental, man-induced, and other disasters.

Sistema's executive in charge of risk management is on RusRisk's Supervisory Board, while other risk officers of Sistema Group are engaged in ISO's TC262 risk management committee and other task groups along with representatives of the

INTERACTION WITH PROFESSIONAL AND BUSINESS ASSOCIATIONS

In January 2015 Vladimir Evtushenkov (along with leaders of other Russian businesses) joined the task group of the Russian Union of Industrialists and Entrepreneurs (RSPP) charged with matters of financial stability and economic recovery. Chaired by RSPP's president Alexander Shokhin, the group discussed a whole range of anti-crisis measures to help economic recovery, including those in industrial production.



Federal Agency for Technical Regulation and Metrology (RosStandart), RSPP, and the Russian Chamber of Commerce and Industry, attending regular forums, seminars, and conferences. In particular, in 2015 Sistema's risk managers delivered speeches at a number of conventions, round tables, and business breakfasts arranged by RusRisk, Ernst & Young, IC Energy, Palisade, etc.



Sistema Charitable Foundation (SCF) is a permanent contributor to the annual conferences of the Donors' Forum, a partnership of Russian and foreign charities that pursue comprehensive philanthropic campaigns in Russia. The XIIIrd conference held on 22 October 2015 in Moscow was themed on assessing the efficiency of charity projects.

In 2015 Sistema contributed to two CSR events organised by the Russian Managers' Association, one of Russia's leading business societies aiming to develop the management expertise of professional communities and foster social responsibility of businesses. The first event is the VIIIth PEOPLE INVESTOR forum conducted on 19 November at Plekhanov Russian University of Economics. As a partner of the forum, Lift to the Future in concert with Sistema launched a dedicated forum thread titled Investment in Human Capital and Modern Education.

The participants discussed top-of-the-agenda matters pertaining to occupational guidance for the young, interaction of businesses with schools and colleges, and new-generation education programmes designed to strengthen the ties between the national educational system and the real economy.

The second event is the 4th international forum Corporate Volunteering: Business and Community organised by the Russian Managers' Association, the National Council for Corporate Volunteering, and SCF. The forum discussed success cases and best practices in corporate volunteering presented by SCF, Sistema, MTS, Medsi, Detsky Mir and Stream.

INTERACTION WITH THE ACADEMIC COMMUNITY AND EDUCATIONAL INSTITUTIONS

Sistema is a long-standing partner of Moscow State University in two major projects: the Higher School of Management and Innovation (effectively a fully-fledged university department) and Lift to the Future, a project that greatly expanded its academic outreach in 2015, closing partnerships with the Moscow Aviation University; the Tsiolkovsky Russian State University of Technology; St. Petersburg National Research University for IT, Mechanics & Optics; Lobachevsky Nizhny Novgorod State University; Moscow State University of Mechanical Engineering; and Ufa State Petroleum Technological University.



For more detail about the Higher School of Management and Innovation see section 1.7 Personnel Management; for more detail about Lift to the Future see section 2.1 Investments in Human Capital.



For several years SCF has been cooperating with the European University in Saint Petersburg. In 2015 SCF provided support to the University's programme designed to promote promising educational initiatives and help leading research and education centres of Russia.

Sarov Technopark—a project jointly pursued by Sistema, Rosatom, and Rusnano—continued the implementation of innovative knowledge endeavours at the National Nuclear Research University for the benefit of the larger economy or Russia.



For more detail about Sarov Technopark see section 2.3.1 Innovation and Modernisation of Manufacturing

Not confining itself to national boundaries, Sistema is heavily engaged in international innovative projects. In particular, in March of 2015 Sistema teamed up with its offshoots MTS and SSTL to hold a first-ever Russian-Indian Youth Innovation Summit in New Delhi designed to promote social cooperation and development of social entrepreneurship in Russia while sharing innovative expertise with India.



For more detail about the summit see section 2.1 Investments in Human Capital.

INTERACTION WITH ENVIRONMENTAL NON-PROFITS

In 2015 Sistema continued cooperating with the non-profit organisation Far Eastern Leopards, making yearly donations to preserve and restore the population of leopards in the Primorye (Russian Far East).

Sistema also carried on cooperation with the Russian Geographic Society, one of Russia's oldest civic organisations tasked with research and preservation of the country's natural riches.



For more detail see section 2.4.3 Preservation of Biological Diversity.

INTERACTION WITH SOCIAL AND CHARITY NON-PROFITS

In 2015 Sistema's Corporate Volunteer Centre closely cooperated with numerous non-profit organisations, such as the Russian Paralympic Committee, Moscow's IT Department and Social Security Department, the private nonprofit Hospital Clowns, charity funds under the patronage of V. Gergiev and V. Spivakov, etc.

One of Sistema's longest-standing non-profit partners is the charitable foundation Detsky KinoMay. Among the charity's many endeavours supported by Sistema was the conference titled Time. Culture. Children held in Moscow in June of 2015 to discuss specific initiatives promoting cultural initiatives for Russian children as well as strategies for streamlining interaction between professionals creating art for kids.



Sistema Charitable Foundation (SCF) also sponsored Detsky KinoMay's 2015 charity film forum that swept across Moscow.

In February 2015 SCF invited Paralympic champions to arrange a sport event for disabled children in Zhuravushka, a care home in the Moscow region. The volunteer campaign was designed as a celebration of the first anniversary of XXIIInd Olympic Games and XIth Paralympic Games of 2014 hosted in Sochi.



For more detail about Sistema's charity efforts see sections 1.9 Managing Corporate Social Responsibility and 2.2 Development of Regions and Communities, as well as SCF's official website www.bf.sistema.ru.

1.9. Managing Corporate Social Responsibility

Having a significant impact on the development of various Russian industries, Russian society and environment, Sistema perceives corporate social responsibility (CSR) as a strategic platform for sustainable development that blends successful businesses in various industries and geographies with basic human values and the nation's development priorities.

In 2015 Sistema updated its corporate policies governing CSR and charity initiatives⁽¹⁾ to reflect progress made in the fields of corporate governance and corruption prevention, while Sistema Charitable Foundation (SCF) upgraded its regulatory base in compliance with Sistema's standard anti-corruption policy, regulation on expenses, and regulation on settling conflicts of interest, and updated its corporate governance regulations.

Sistema's Board of Directors reviews annual reports on the corporation's CSR and charity strategy as well as progress made in these areas, after which it determines priority areas of strategic focus and KPIs to pursue in the future.

On top of this, every socially oriented or charity programme/project of Sistema is assigned specific KPIs based on the particular goals and objectives pursued. Such KPIs may include both quantitative (e.g., number of events organised, charity recipients, social partners involved; amount of funds raised; volunteer hours, etc.) and qualitative (e.g., relevance & maturity of practices to be rolled out nation-wide) parameters.

General corporate KPIs in the CSR area approved for 2015

Corporate volunteering

% of staff participating in volunteer projects (average for the Group)

Shared Value projects

number of social projects aiming to shape shared values and benefit society and the business

Social reporting

number of Group companies that release GRI reports

Regional development

number of new social & economic cooperation agreements signed with local governments

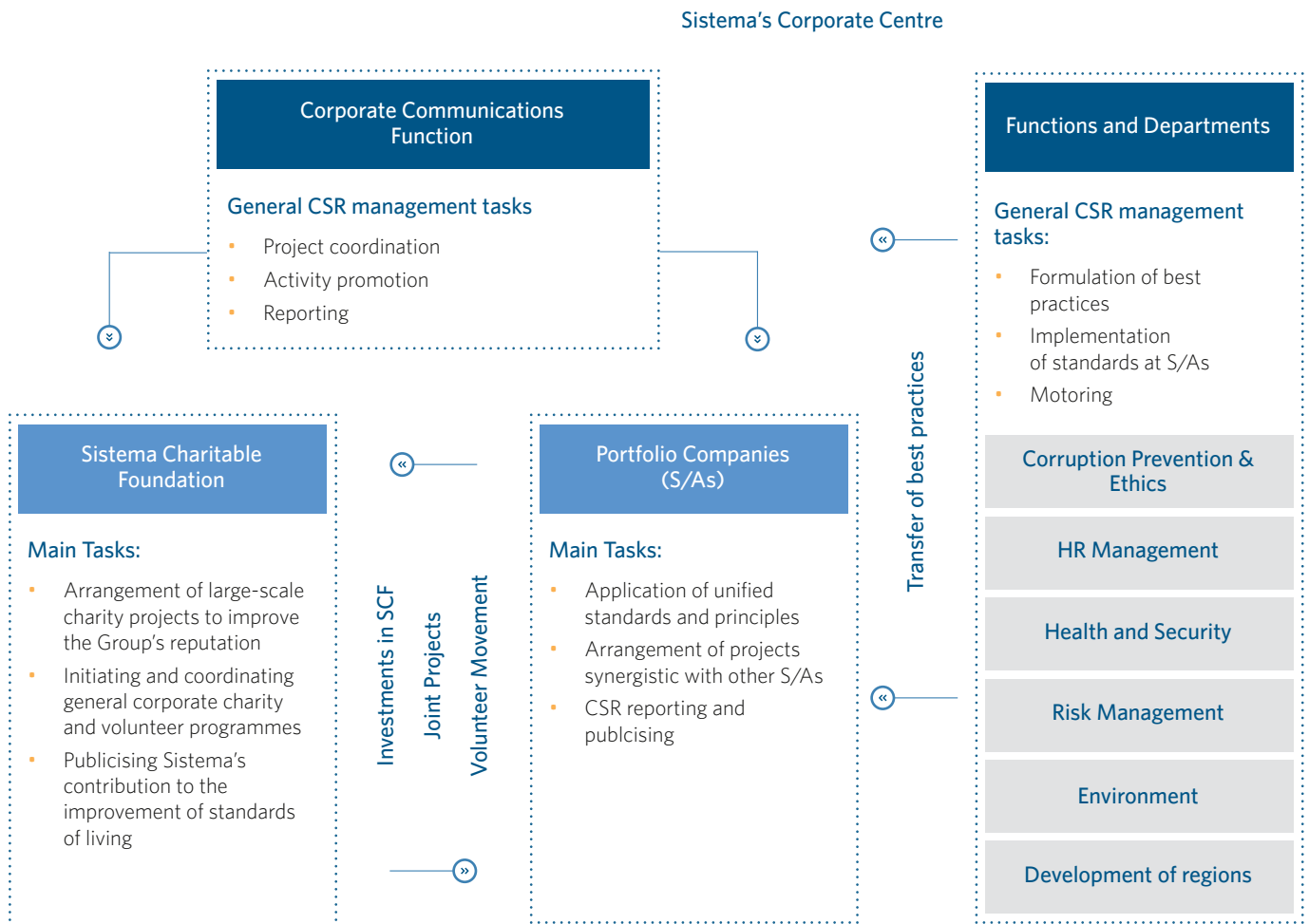
Mass media coverage

number of media publications about the Group's CSR & charity projects

⁽¹⁾ These internal regulations include:

- Sistema's CSR & Charity Strategy;
- Corporate Social Responsibility Policy;
- Charity Policy;
- Charter.

CSR & charity management structure



Sistema's Corporate Communications Function supervises any and all matters pertaining to CSR, charity, and non-financial reporting, coordinates interaction with SCF and with/between subsidiaries in the CSR & charity spheres, and ensures media coverage of Sistema's socially oriented efforts.

Each of Sistema Group companies has special officers or whole departments tasked with interacting with Sistema and SCF in pursuance of general corporate programmes and with managing such company's own social, charity, and volunteer initiatives.



CSR as a platform for sustainable business development

In July 2015 Sistema and MTS conducted a joint seminar titled CSR as a Platform of Sustainable Business Development designed to improve the efficiency of the Corporation's CSR efforts, strengthen integration between subsidiaries, internalise best non-financial reporting practices, and enhance the performance potential of social investments made. The seminar was attended by 50 representatives of Sistema Group businesses.

In his opening speech, Sistema's Vice President & Head of the Corporate Communications Function Evgeny Chuikov formulated Sistema's key objectives and strategic priorities in the CSR area:

- better transparency of non-financial reports and implementation of unified reporting principles based on the GRI standard;
- deep engagement with the regional development of geographies where Sistema's businesses are active;
- more social projects based on the Shared Value approach;
- support to talents, science, education, and innovation.

The seminar addressed the findings of a CSR audit performed in the spring of 2015 and commended the best social projects performed by S/As: The Memory Book (MTS), Taking Care of Veterans (Medsi), Participate! and Operation Toys (Detsky Mir), Safe Childhood (BPGC), and promotion of financial literacy (MTS Bank).



MTS's Vice President for HR Mikhail Arkhipov shared the company's know-how in CSR standard implementation: MTS became Russia's first company ever to perform a self-assessment of business practices using the ISO 26000 standard.

Representatives of RSPP (Russian Union of Industrialists and Entrepreneurs), the Higher School of Marketing and Business Development, the corporate development agency Da-Strategy, EY, and other invitees made reports on the latest global and national trends in non-financial reporting and CSR, synergies achievable through blending business with CSR efforts, and key tools for assessment of socially oriented projects.

Sistema intends to make the seminar a regular practice.



Charity is one of the crucial components of Sistema's corporate social responsibility cultivated in parallel to the corporation's business strategy through "social investments", i.e., a targeted long-term strategy blending corporate strategic goals in the sphere of sustainable development with the interests of its shareholders and evolution of society at large.

When managing its social investments, Sistema relies on best global and Russian practices that typically involve intra-corporate SCR programmes along with standalone charitable foundations with a management of their own and advanced expertise in strategically crucial areas. Entrenched at Sistema, the model is also applied at several S/As that have established their own charity foundations (CF): Detsky Mir, Mikron (Miloserdie Foundation), and Segezha Group (Veterans Support Foundation).

In 2015 SCF continued the transformation of its structure and activities in accordance with Sistema's business model as an investment company, targeting a transition from corporate philanthropy to social investments with defined goals and measurable results. The foundation has been designing a whole new corporate investment strategy, planning large-scale corporate programmes, accumulating requisite funds, and building a portfolio of charity projects to carry out.

Sistema sees its key charity goals in boosting the nation's intellectual potential through the support of learning, science, and talent; in building a harmonious society by aiding underprivileged demographics and local communities; and in preservation and promotion of Russian cultural legacy through new technology.

SCF's governance and controlling bodies are:



the Board of Trustees as the highest governance body



the Management Board (chaired by president) as a collective body for managing operations

Sistema's social investments pursue realistic targets and contribute to the social development of the entire nation



Charity principles



Financing of social and charity efforts in 2015

To carry out their social programmes, Sistema Charitable Foundation (SCF) and Sistema Group businesses use a broad system of both financial (target donations, grants, fund raising) and non-financial (volunteering, pro bono⁽¹⁾) charity tools, delivering highest possible results at optimum costs.

Sistema's Management Board and Board of Directors recommended that Sistema Group companies donate up to 0.65% of their previous-year net income to charity, to be distributed between:

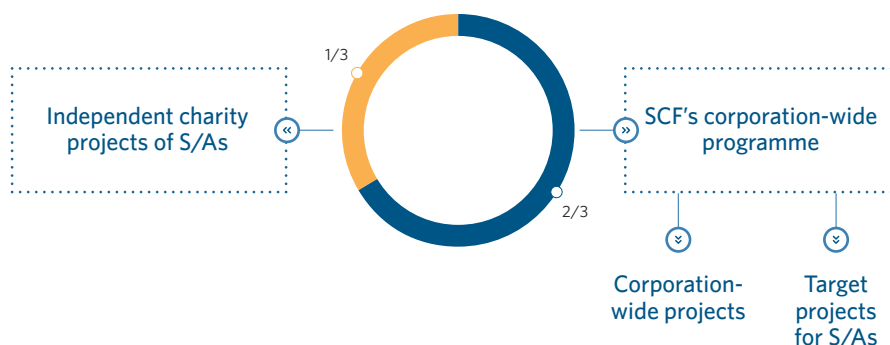
- standalone charity projects pursued by each S/As individually;
- SCF's general corporate programme, including nation-wide projects and target initiatives serving the interests of S/As.

4.1 RUB bn

Sistema Group's total social investment over the past 3 years



Sistema's consolidated charity budget



In 2015 Sistema Group's total social investment (S/As included) reached roughly RUB 1.35bn, or 0.19% of the entire revenue, up from 0.14% in 2014. While the Corporation's consolidated revenue climbed 9.7%, its social investment grew by half year-on-year. The dramatic growth in charity donations is in line with global trends: charity donations in 2015 rose by 10% YoY worldwide ⁽²⁾.

In 2015 the aggregate pool of funds administered by Russian charities climbed 39% YoY (from RUB 6.77bn to 9.38bn). SCF's share in the Russian charity sphere remains at about 6% of the total monetary investments made, while that in the corporate segment is up from 23 to 26% ⁽³⁾.

Investments made in charity and social programmes, RUB m

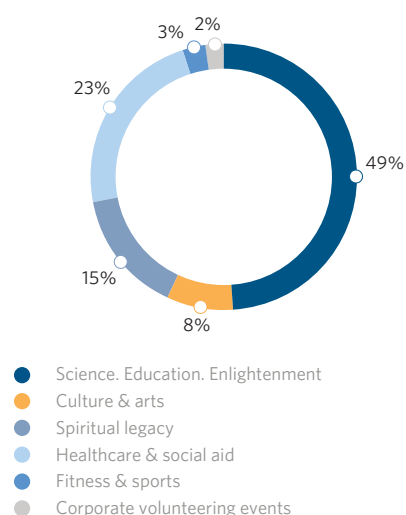
	2013	2014	2015
SCF	1,400	340.7	542.7
S/As (contributions to SCF excluded)	425	574.7	807.3
Total	1,825	925.2	1,350

⁽¹⁾ Pro bono publico (Latin): professional work done free of charge on a voluntary basis.

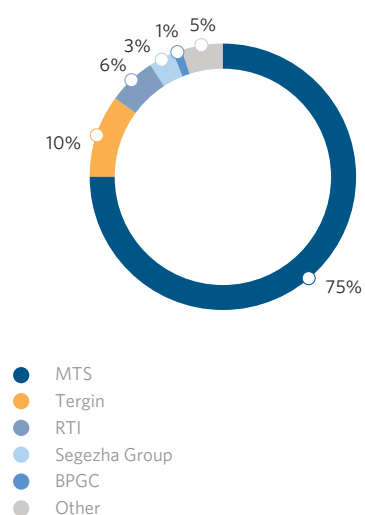
⁽²⁾ Source: <http://www.charitynavigator.org/>.

⁽³⁾ Source: Donors' Forum 2015 Report on current status & development of Russian charities.

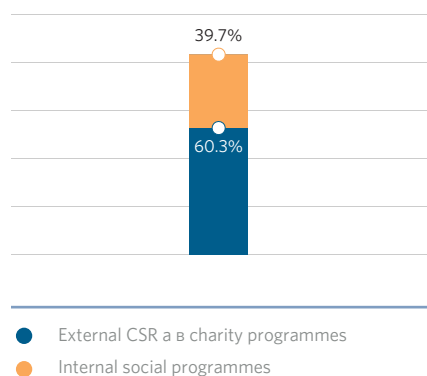
Distribution of funding between SCF's projects in 2015, %



Total investment in charity and social programmes broken down by S/As, %



Distribution of charity & CSR funding provided by Sistema's S/As in 2015, %



Charity profile of Sistema Charitable Foundation

Sistema's general approach to charity targets the highest possible efficiency of socially oriented and charity investments, including the effects on Sistema's reputation and business. Sistema Charitable Foundation (SCF) prioritises long-term charity programmes that harmoniously fit the broader CSR strategy.



"Although up to 2015 SCF used to pursue a plethora of social and charity initiatives in diverse spheres, from 2016 on we aim to maintain just 2 or 3 key projects that will absorb all of our efforts and resources. That's a crucial change building on the fact that every charity in Russia has had the bitter experience of being swamped with diverse requests and calls for aid. To create really efficient and comprehensive social programmes capable of delivering lasting effects, we need to narrow down to a small portfolio of projects where we can become leaders and nation's best experts."

Elena Chernyshkova

President of SCF

From the end of 2015 on, SCF has been focusing its effort on broad-based projects of utmost relevance to Sistema and the wider economy as a whole:



Lift to the Future: teams for knowledge-intensive industries

Accumulation a pool of young talents to feed into Sistema's HR resources and promotion of hi-tech industries through support, education, and career guidance of the talented youth, from school students to recent graduates.



Social projects and volunteering

Social campaigns to aid veterans and the underprivileged as part of an agreement signed between Sistema, Moscow City Government, and Moscow City Council of War Veterans with a view to providing social support to Great Patriotic War veterans and their family members and promoting patriotism among young people. Development of Sistema CF volunteer centre as a consolidation centre for the best Russian volunteering organisation practices.

Development of SCF's Volunteer Centre as a hub for consolidating Russia's best practices in volunteering.



Culture and art: partonage and new technology

Support to best programmes in culture, arts, and education with a focus on new models and state-of-the-art tech solutions.



For more detail about SCF's programmes see [SCF's official website](#), and [Lift to the Future's official website](#).

Plans for 2016

1. Reorganising the management system at SCF, establishing expert bodies to offer guidance for SCF as a whole as well as specific projects.

2. Restructuring the charity programmes portfolio with strategic focus on projects and campaigns of as high a social and reputational impact as possible.

3. Reinforcing complementary interaction with Sistema and its S/As.

4. Designing/updating CSR strategies of S/As, including newly acquired ones, in line with the general corporate priorities and realities of specific businesses.

5. Introducing unified policies to govern CSR, charity, and environmental protection at S/As in compliance with general corporate standards.

6. Scaling up the flagship programme Lift to the Future and improving its efficiency.

7. Upscaling the veterans support programme.

8. Expanding social partnerships into geographies of strategic relevance for the Group.

9. Growing the corporate volunteer movement into a national scheme.

10. Launching new social initiatives, including environmental ones.

11. Improving the transparency of CSR reports: preparation of GRI sustainability reports for Sistema and key S/As.

12. Enhancing partnerships with media to publicise CSR projects.

Investment in Sustainable Development



2.1. Investment in Sustainable Development



2.3. Technological Leadership



2.2. Development of Regions and Communities



2.4. Green Economy

Sistema interprets the concept of “Sustainable Development” as continuing economic and social change where cash investments, sci-tech progress, manpower, and natural resources complement each other in strengthening the existing and future potential for addressing society’s current and anticipated needs. Building on this outlook, Sistema prioritises projects that target:

Intellectual development of the young and promotion of continuous life-long learning



Improvement of standards of living in specific geographies and support to local communities and underprivileged demographics



Better accessibility of education and healthcare



Infrastructure improvements and industrial modernisation



Reduction of adverse environmental impact of businesses and conservation of the environment



Sistema’s subsidiaries heavily promote shared-value CSR projects that aim at both commercial and social results and benefit Sistema and society at once.



For more detail see Appendix 3. Shared Value Projects of Sistema Group

Investments in Human Capital

- 112 2.1.1. New talents for an innovative economy
- 121 2.1.2. Developing the Innovative Potential of the Youth



"Our flagship programme Lift to the Future is designed to pick out outstanding talents from a motley crowd of high school and college students, identify leaders and acute minds early on, and give them the right training to fit into existing companies and industries."

Vladimir Evtushenkov
Chairman of Sistema's Board of Directors



2.1.1. New talents for an innovative economy

Innovative economy requires competent workforce with strong professional expertise and an actual track record of carrying through hands-on projects. Investment in human capital is part and parcel of Sistema's general strategy aiming, among other things, to recruit and retain best professionals, develop talents, and offer incentives to achieve meaningful results.

LIFT TO THE FUTURE, A NATIONAL-SCALE EDUCATIONAL PROGRAMME

Lift to the Future is a nation-wide educational programme started by Sistema Charitable Foundation (SCF) and Moscow State University in 2011 to find and develop young talents and support creativity of the young in various fields of science, technology, engineering, and research. The programme purports to create a learning infrastructure for proactive beyond-the-classroom training of young specialists for their early integration in innovative industries. Lift to the Future aims to bring new talents to Sistema's hi-tech companies specifically and to knowledge-intensive enterprises and whole national industries in general.

263.8
RUB m



Sistema's spending on programmes supporting science and education in 2015



The programme receives support from the Russian Ministry of Education and Science and numerous local administrations across Russia. Lift to the Future events have been welcomed in the Moscow region, Yakutia, Bashkortostan, the Yekaterinburg region, the Smolensk region, the Krasnodar region, the Vladimir region, etc.

The programme extends to high school and college students enthusiastic about science as well as school teachers and college professors committed to promotion of the scientific knowledge and yearning for professional fulfilment.

In his State of the Nation Addresses made in 2014 and 2015, Russia's president Vladimir Putin invariably stressed the importance of the National Technical Initiative, a governmental programme targeting an internalisation of latest technical trends and preparedness for challenges that will inevitably face Russia on a 15-20 year horizon. Launched in 2011, Lift to the Future has been consistently addressing the task, striving to raise a new generation of engineering elite for the nation.



The programme's favoured tool is practical projects aiming to develop innovative industries of most relevance for Sistema and specific geographies and knowledge-based industries involved. Target initiatives prepared in concert with Sistema's portfolio companies based on their vast understanding of their respective industries give a personal touch to projects offered to talented students and employ special methodologies rooted in the cross-disciplinary learning concept.

In 2015 alone, applications for the annual idea competition A System of Priorities were reviewed by a panel of 50 industrial experts from Sistema Group. Lift to the Future's engineering and design schools and project evaluations engaged professionals from 14 businesses, including MTS, RTI, Binnopharm, Medsi, Detsky Mir, MTS Bank, Segezha Group, Kronshtadt Group, Sarov Technopark, etc.

The Expert Board of the national Agency for Strategic Initiatives acclaimed Lift to the Future as an efficacious tool for identifying true talents, placing them in learner-friendly environments, and raising them to become new leaders of hi-tech businesses and the Russian economy and society as a whole. The Agency recommends that the programme be rolled out across the Russian Federation.

The efficacy of Lift to the Future's model as a talent screening platform to feed the workforce of hi-tech knowledge-based industries received recognition of Russia's federal government, whereby RUB 6m was allocated from public funds in 2015 to finance the travel costs of students of the movable Lift to the Future's engineering and design schools, events enabling contest winners to vie for learning grants from the Russian President.



"The way it is arranged now, Lift to the Future mostly targets high school students. We intend, however, to gradually expand the programme to reach out to other age brackets, enabling the participants to grow together with the programme all through school and college years. Today we encourage school students to apply for college-level contests, and we plan on introducing a whole subprogramme to support young scientists and entrepreneurs in hi-tech and engineering fields. Our unique edge is in the understanding of what qualities are sought for specifically in each of Sistema businesses, and in the ingenious learning methodologies we offer. A broader outreach of the programme is in Sistema's best interest, as our mentees make up a potential talent pool for our businesses to draw from a few years from now."

Elena Chernyshkova
President of SCF

Lift to the Future in 2015

One of Lift to the Future's many initiatives carried out in 2015 was A System of Priorities, a nation-wide contest of student projects designed to engage high-school and early college students in regional programmes driving innovations. The contest brought applications from roughly 700 high school students from 19 regions of Russia. 350 winners from 40 regions received tickets to Lift to the Future's engineering and design schools, inspiring 3-week events aiming to encourage students and teachers to use their knowledge and creativity to address specific challenges facing particular industries or regions.

Lift to the Future's cross-regional engineering and design schools in 2015

Venue	Date	No. of participants
Anapa	19 March-09 April	150
Stupino	07-27 August	100
Artek	13 November-03 December	100



Best projects designed by winners:

- a prototype sensory substitution system (supported by the Skolkovo Foundation and So-Yedineniye Foundation for the Support of the Deaf-Blind);
- a modular drone for use in hard-to-reach regions of East Siberia (special acclaim from RTI);
- design project to enhance the electrical connectivity of Crimea and an urban redevelopment plan for Sevastopol.



"I am happy to witness the progress made by our Ministry's continuing partnership with SCF. Our new achievement is that Lift to the Future's engineering and design schools in 2015 gave access not only to 150 winners of A System of Priorities, but also to 350 recipients of special quotas from our Ministry."

Veniamin Kaganov

Deputy Minister of Education and Science of the Russian Federation

Other events organised in 2015 under the auspices of Lift to the Future include: a contest of original teaching methodologies Mentor (13 winners); a contest for students, young researchers and post-graduates Intellect1ALL (58 winners); a contest of online start-ups proposed by college students (4 winning projects included in the Plekhanov University of Economics's "Business Incubator"); and an internship programme for young professionals A Step towards Success. The winning projects were presented at the Nauka 0+ science festival at Moscow State University and the national forum Russia's Future Intellectual Leaders in Yaroslavl.

A Step towards Success enabled 46 college students and recent graduates of Russia's leading universities to find jobs at MTS, MTS Bank, Detsky Mir, Binnopharm, Business Nedvizhimost, BPGC, Medsi, MGTS, Intellect Telecom, Targin, and SG-trading.

To prepare competent staff to carry out the diverse knowledge-intensive programmes, Lift to the Future launched the so-called Chief Designer Schools, training courses that involved more than 30 teachers and lab supervisors in 2015 alone.

In 2015 Sarov Technopark (supported by the education departments of Sarov and Diveyevo, communities in the Nizhny Novgorod region) provided 22 winners of local and national science and robotics contests with tickets to Lift to the Future's spring- & autumn-break schools that ran in Smena and Artek, two famous summer camps at the Black Sea coast. Inspired by the good cause, the Technopark is now preparing to offer its own facilities for new learning endeavours.



Contests, grant-giving campaigns & domestic internship programmes carried out in 2015

Format	No. of events in 2015	No. of participants in 2015
Contests	3	770
Grant-giving campaigns	1	400
Domestic internships	2	185

Progress made since 2011:

200k

high-school & college students took part in a variety of projects

> 300

representatives of business, science and education communities worked for the programme

> 70 contests

were held for high-school & college students

> 8k

students became winners/received prizes

3.2k

school students received learning grants

500

university students received scholarships

50 winners

of student paper contests completed internships with Europe's largest hi-tech companies

250 academic mentors

mentors received grants to organise projects for school students in the labs of Russia's leading universities

400 educators

who worked with the winners of the programme's contests later attended professional development courses at Moscow State University

Development plans

Lift to the Future is a long-term programme. Its main objective in 2016 will be to establish comprehensive infrastructure to support the development of talented youth, including:

- stronger integration with the National Technical Initiative;
- proactive training of students and teachers in Lift to the Future's engineering and design schools held at recreational centres across Russia;
- further support in implementation of best projects for the benefit of Russia's specific regions; administration of projects; practical training and internship programmes; inclusion of best talents in Sistema's "succession pool";
- grant-giving campaigns to promote engineering knowledge;
- organisation of out-of-class engineering education projects in various regions of Russia to prepare competent staff to carry out diverse knowledge-intensive programmes.



Medsi Group: Sharing Expertise

To shape an attractive employer brand and cut recruitment costs in the mid term, in 2015 Medsi embarked on a new project titled Sharing Expertise designed to give training to students and graduates of the Healthcare Management and Economics Department of the Higher School of Economics (HSE) and of Moscow Medical College No.8.

HSE students received their first master class titled Certain Aspects of Remuneration of Medical Professionals. Efficiency Management in the summer of 2015. The trainees learned how to design motivation systems and what tools to use to manage the efficiency of medical staff. In August-September 2015, three HSE students did internships at Medsi's clinics pursuing specific business projects under the local management's guidance. Medsi intends to continue the cooperation with HSE in 2016 with a series of master classes from the company's experts and more internships.

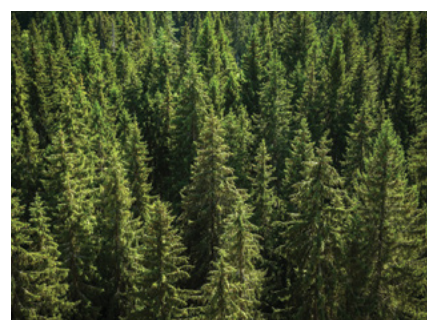
In December 2015, Medsi organised a Knowledge Day, an interactive workshop for 70 students of Moscow Medical College No.8. Encouraged by the positive experience, Medsi plans to repeat the practice in 2016 with a much broader audience.



70
students



participated in Medsi Knowledge Day



Segezha Group and Petrozavodsk State University: cooperation agreement

On 05 March 2015, Segezha Group signed a cooperation agreement with Petrozavodsk State University (PSU) to run a series of science & tech campaigns in the following priority areas:

- knowledge-intensive and resource-saving technologies in the forest industry, wood processing, and paper production;
- innovations in "green" pre-fab log house production and new materials derivable from wood waste.

Once the agreement was signed, the experts from PSU's IT Park provided Segezha Group with an array of tailored presentations showcasing the team's latest solutions as well as completed projects already in use.

"Segezha Group looks forward to cooperating with PSU experts both in innovative spheres and in traditional cross-disciplinary applied research. We know for a fact that PSU's team has a track record of transforming latest scientific concepts into real business projects, many of which are earning profits as we speak."

Sergey Pomelov
President of Segezha Group



RTI: preparation of future workforce and student training

RTI pursues a dedicated long-term programme designed to train high-school students as potential future RTI experts. The programme is comprised of several inter-related projects: establishment of special learning groups in high schools and supervisory support of such groups; preparation of school graduates for entry exams of leading technical colleges; occupational guidance; and arrangement of practical learning projects.

The RTI-sponsored Popovich Engineering & Tech School in Moscow gladly provides the company with access to a state-of-the-art radio laboratory and classrooms to teach aspiring pundits physics, math, and engineering, for which purpose RTI invites best professors from Moscow Institute of Physics and Technology (MIPT). MIPT's Smart Information and Radio Systems Department has been RTI's long-standing partner in matters of research, education, and provision of talents for RTI Group.

Aiming to recruit competent specialists well-prepared to operate the company's technologies, RTI cooperates with Russia's leading technical universities (Bauman Moscow State Technical University,

MIPT, Moscow Aviation Institute, Moscow State Aviation Technological University, Moscow Institute for Radio Technology and Electronics, Veliky Novgorod Technical University, etc.)

Qualifying students are invited to complete on-the-job training and internship programmes at RTI, potentially to be later hired for the company's science & production departments. On top of that, RTI conducts special learning projects in such areas as "radioelectronic instruments in IT" or "functional nanoelectronics".

RTI's subsidiary Mikron provides regular vocational training to young people in Zelenograd and elsewhere in Russia. In 2015 alone, the company conducted 25 educational tours for more than 500 young people.

25 educational tours 

conducted for more than 500 young people in 2015



MTS: Investments in technical education

MTS is an active partner to several universities that train would-be telecom specialists. The company has been a major sponsor of Innopolis (NTI University) since its establishment in 2012. The Tatarstan-based university educates future experts in IT and robotics and conducts extensive research programmes.

In 2015, MTS opened college laboratories at the IT & Applied Math Dept of Plekhanov Bryansk State University, the Computer Science Dept of the Smolensk branch of the National Research University, and the Orel branch of Moscow State University of Railway Transport. The highly equipped laboratories provide technical students with an opportunity to build up technical skills.

While working at the laboratories, the students get acquainted with actual data transfer protocols and traffic routing practices applied by telecom operators. The students also have the opportunity to study voice IP technologies widely used by companies of various scale and specialisation. On top of that, MTS readily shares its expertise and resources to help students in preparing projects related in the telecom area, carries out master classes, and arranges educational, industrial and pre-graduation internships.



"We support Innopolis as one of Russia's hubs of innovation-driving knowledge. Our cooperation aims to foster education in the field of innovative technologies, including telecom, by attracting talented students from all across country, applying state-of-the-art educational tools and methods, and inviting the best international and Russian teachers."

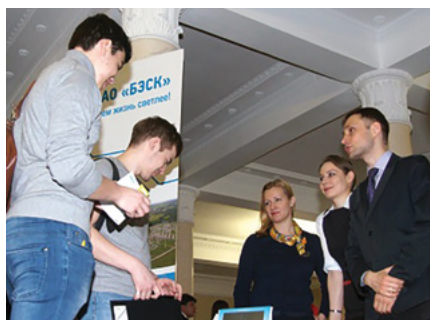
Andrey Ushatsky

Vice President for Technology
and IT at MTS





Targin and BPGC: cooperation with Ufa State Petroleum Technological University



On 1 April 2015, the oilfield service company Targin signed a cooperation agreement with Ufa State Petroleum Technological University (USPTU), with BPGC following suit on 25 December. The agreements envisage cooperation in various areas, including education, research, innovation, professional guidance, and employment of graduates.

The university developed working curricula and programmes with consideration to needs and production features of the two companies. With assistance from BPGC, the University arranges preparatory training courses for aspiring students. Besides, USPTU will provide BPGC with scientific and technical services to address top-of-the-agenda issues facing the power industry, whereas BPGC will review scientific and technological solutions proposed by the university and test them at its grid premises as necessary.

The University will cooperate with Targin in formulating topics for term & graduation theses and in holding lectures, seminars and workshops involving practical experts. The parties are also keen to perform joint R&D projects, co-write learning guides, and test new ideas using Targin's facilities.

Among specific cooperation projects is a science & tech conference titled Oilfield Services, first held in 2014 and repeated in 2015. The conference aims to develop professional knowledge and engage best professional minds in solving pressing engineering problems. The 2015 conference attracted 253 visitors, gave floor to more than 60 speakers, and released 114 articles.



"Two years into our scientific and practical cooperation with USPTU, I am proud to state that it is not just bearing fruit, but is becoming visibly stronger and gaining gravitas by the hour. We still aim to spot tomorrow's best specialists in today's students and welcome them as our new employees. We hope that the conference will unravel talents and give young minds confidence about themselves via thorough feedback from highly experienced specialists in the oil-and-gas area."

Kamil Zakirov
CEO of Targin

2.1.2. Developing the Innovative Potential of the Youth

MTS: OPEN INNOVATIONS

#TELECOMIDEA



"Over the past five years, Telecom Idea has proven its efficacy as an open-access launching pad for promising ideas of young minds, many of whom have built their own businesses and become successful entrepreneurs by now. This is the true proof of the project's relevance in our eyes. Transcending its initial geographic and industrial boundaries, Telecom Idea has become a global presence capable of attracting serious partners from various spheres liable to benefit from breakthroughs in the telecom industry. I'm happy to say that MTS and other Sistema Group companies are already using practical solutions that started as Telecom Idea projects."

Andrey Terebenin

Senior Managing Partner of Sistema Asia Fund

Telecom Idea is an open cross-functional innovation platform set up by MTS in cooperation with Russia's Communications Ministry, the Higher School of Economics, Sistema, and several other partners (including Sistema Group companies) to identify young talents enthusiastic about IT and telecom technologies and provide them with support in developing projects of potential relevance for commercial, social, and public applications. Telecom Idea is also the name of an annual contest of innovative projects of the young conducted since 2011, an initiative that has involved roughly 900 teams since its establishment.

**≈ 900
teams**

involved in Telecom Idea since 2011



The International Youth Innovation Summit

On 27 March 2015 Sistema, its subsidiaries MTS and SSTL, the Higher School of Economics, and the Skolkovo School of Management joined efforts to conduct an international innovation summit for the young in Moscow.

The event's primary purpose was to develop international cooperation in the innovation and telecom spheres and support social entrepreneurship across Russia. The summit was attended by the winners and shortlisters of Telecom Idea, college students and teachers, young authors of breakthrough technologies, and entrepreneurs of the two countries.

The summit discussed 11 projects (5 from India and 6 from Russia) judged to have the best scientific, economic, and financial parameters, in four categories: innovations in software, innovative solutions for telecom systems, innovations in service applications and content, and management innovations.

The winning projects from India included a service application for growing plants in urban conditions, an automatic power meter reading system, a telecom platform for the job market, a smart device for video surveillance and intruder detection, etc.

The winning projects from Russia comprised a service application to analyse penetration of socially critical

infrastructure on a per capita basis, a device improving the security of online payments, a mobile health diagnosing device, an application for audio/video voice recognition, a smart-home cloud system for controlling household appliances, a system for remote storage of dash camera records, etc.



"Telecom Idea celebrates its fifth anniversary in 2015, which is quite a life for a project like this. We are happy to start the anniversary year with an international educational endeavour involving our Indian colleagues. Innovations become increasingly global, and it's vital for us to have a chance to learn from each other, share ideas, or even criticise each other's viewpoints, as thought always thrives in conflict. The young scientists of today have access to vast knowledge in all spheres of science and numerous open-access programme platforms, which is a powerful launching pad for bold ideas."

Andrey Dubovskov
President of MTS

Opportunities for Telecom Idea contestants:



opportunity to present start-ups to expert councils of MTS and other S/As of Sistema



free participation in the mentoring and acceleration programme



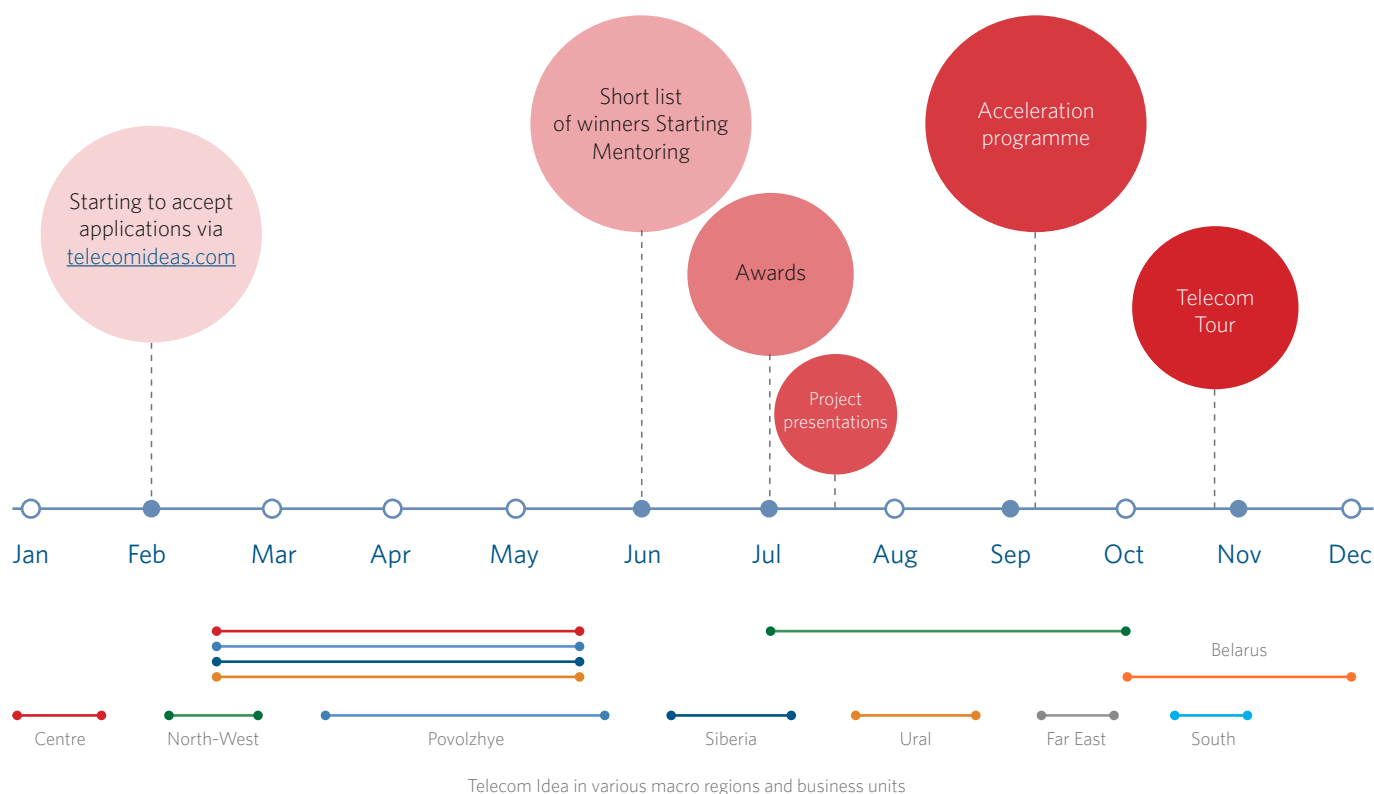
education and project development grants from partners



participation in the cross-border Telecom Tour

The winners of Telecom Idea go to foreign countries on annual educational tours to look into the activities of leading telecommunications operators, research centres, and IT clusters. During the last four years winners of Telecom Idea visited Switzerland and Germany (2011), UAE (2012), Estonia and Sweden (2013), and India (2014). In 2015, nine of best project teams went to Israel, where they visited ECI, SimilarWeb, Jerusalem Venture Partners, Simgo, Altair, Viber, Golan Telecom, Fone Do, and MASH. The business programme was crowned with an investors' session at Tel Aviv University.

Telecom Idea in 2015: timeline



In 2015, Telecom Idea comprised three stages:

1. Qualification round (collection of electronic applications on the website the contest and assessment voting by experts).
2. Educational programme (winners of the qualification round participated in workshops and webinars by experts in innovative entrepreneurship).
3. Mentoring programme (mentors from the Higher School of Marketing and Business Development, National Research University Higher School of Economics helped semifinalists to refine and customize projects with consideration to market demands).

Telecom Idea 2015 was themed on "green" and "smart" solutions for business development, municipal services, and improvement of general standards of living. The participants of the contest presented projects contributing to the development of environmentally friendly, comfortable and affordable urban environments based on high-speed mobile and fixed data networks. Project bids were invited in the following key areas: academic solutions for communications, telemedical healthcare services, environmental projects, educational projects, finance and banking services, utilities, creativity and advertising projects, and solutions for retailers.

Special prizes in specific industrial categories were provided by MTS Bank, Medsi Group and Stream.

Pre-qualification for the contest was organised in the Central, Northwestern, Urals, Siberian, and Volga federal districts, as well as in Belarus, aiming to provide support for young professionals and their teams in the development of projects and the search for innovative ideas for the telecom and IT industries. For the first time in the contest's history, Telecom Idea employed novel cooperation formats like hackathons.

Telecom Idea BY MTS 2015

In 2015, MTS jointly with the Innovations Commercialization Centre replicated Telecom Idea in the Republic of Belarus. Telecom Idea BY MTS 2015 Hackathon was held in Minsk for the first time. The purpose of the event was to help young Belarusian specialists and student teams in the development of IT and telecom projects. During the Hackathon, MTS experts described current trends and market needs

to the participants. The winners received tickets to Telecom Idea's semi-finals. Other participants of the coding fest were provided with opportunity to work out the projects with leading industry experts, demonstrate the developments of potential customers, partners and the media, to attract new members to the team, and also to receive prizes and gifts from the organizers and the event partners.



MTS: corporate accelerator



In 2015, MTS held its second "corporate accelerator", a week-long follow-up programme for Telecom Idea winners.

The partners to the programme included the Russian Ministry of Communications, Moscow City High Technology Department, Russian Venture Company (RVC), the Higher School of Marketing and Business Development, Sistema, Medsi, Stream, Kondratyev Centre of Managerial Innovations, Business Incubator, the Higher School of Marketing and Business Development, Nokia, Google Russia, and others.

The acceleration programme was developed in 2014 to follow up on projects proposed by Telecom Idea contestants with expertise of mentors and specialists in telecoms and other fields. The scope of the project provides for the best experts of MTS, partners and representatives of S/As of Sistema to assist young entrepreneurs to learn the ins and outs of technological business, to dive into the markets and trends, to develop roadmaps, to learn to simulate business processes and to plan cash flows. In just 2 years the acceleration programme processed more than 30 projects.

In 2015, the corporate accelerator reviewed 28 best projects in the IT and telecom spheres and selected five innovative ideas. The winners of the programme were promoted to the finals of GenerationS, a tech start-up accelerator organised by the RVC, received an intensive business development training programme, and became contenders for a total of RUB 6bn in grand-finals prizes.

Telecom Idea JUNIOR



In 2015, MTS held Telecom Idea JUNIOR, a contest among schoolchildren of grades 7-11 for the second time. Participants from Moscow, the Moscow and Samara regions, Chita, Nizhny Novgorod, Barnaul, Taganrog, Pyatigorsk and Obninsk were tasked with modelling a city of the future using modern information and communication technologies making urban environment more comfortable, convenient, safe and environmentally friendly. The authors of the best ideas received tickets to Lift to the Future's engineering and design schools to finish their projects with the help of experienced mentors.

PLANS FOR 2016

1. Establishment of regional and international Telecom Idea offshoots, including those in the Far-Eastern and Southern Federal District.

2. Use of novel interaction models, such as meetups⁽¹⁾, harvests⁽²⁾.

Educational initiatives of Sarov Technopark

In a bid to develop the nation's innovation potential, Sarov Technopark pursues an educational programme for innovative companies and young talents. In 2015, the programme comprised over 50 events, including 15 trainings for ST residents and 12 trainings for high-school & college students and young professionals. In particular, in cooperation with Sarov Nuclear Physics and Technology Institute, Nizhny Novgorod State Technological University, and ST residents such as the Education Laboratory and the computer science school Vector ++, the following events were arranged:

- Winter-break Physics and Mathematics festival for students and a qualification round of the national Engineering Contest, which engaged over 100 high school students from Moscow, Kovrov (the Vladimir region), Nizhny Novgorod, and Sarov;
- Sarov Open Spring School, a Physics & Math event visited by more than 50 talented students from schools from across Russia;
- 2nd open robotics championship for 60 school students from Nizhny Novgorod and Sarov;



> 900
people



participated in Sarov Technopark's events

- Sarov Open Autumn School, a Physics & Math event visited by more than 50 talented students from schools in Moscow, Nizhny Novgorod, and Sarov.

For the residents of the Technopark, three workshops were arranged to discuss the professional training of management. The total outreach of all of Sarov Technopark's events organised in 2015 exceeds 900 people.

⁽¹⁾ Meetups - a meeting of experts in an informal setting for the discussion of any topic or range of topics.

⁽²⁾ Harvests - "working weekends" concept, a programme for the rapid creation of innovative business projects from scratch.

Development of Regions and Communities

- 129 2.2.1. Social & Economic Partnerships
- 135 2.2.2. Improving Standards of Living
- 146 2.2.3. Supporting Healthcare



"Sistema's consistent effort to improve economic efficiency not only makes for stronger financial performance and business results, but also creates a broad range of economic benefits for all parties concerned. Seeing its future as inextricably entwined with Russia's prosperity and achievements, Sistema works hard to develop the infrastructure of Russia and local communities."

Mikhail Shamolin
President of Sistema PJSC



2.2. Development of Regions and Communities

Sistema's subsidiaries service roughly 150 million consumers in Russia, the CIS, Europe, and Asia. A systemically important company influencing the economic and social well-being of the geographies it operates in, Sistema looks beyond financial investments in infrastructure and industrial production and keeps sustainable development in mind when carrying out projects in the following key areas.

> 150 m
consumers



use products, services and doing business
with Sistema's S/As



social & economic
partnerships



social investments
and charity



improvement of standards
of living



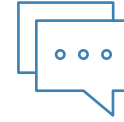
support
for healthcare



2.2.1. Social & Economic Partnerships

In 2015 Sistema signed new master cooperation agreements with the administrations of the Arkhangelsk, Vologda, Irkutsk, and Kirov regions, geographies of particularly high relevance for Sistema's businesses. The agreements envisage joint initiatives to carry out through public-private partnerships, aiming to create favourable economic, investment, and social environments in particular regions; attract investors; bring in technologies;

create state-of-the-art manpower training systems to fuel modernisation of the forest & wood processing industries and boost the competitive power of national players in these segments; create jobs; and expand Sistema's footprint in local markets and beyond. Priority areas for cooperation with the regions include modernisation of the forest & wood processing industries along with a number of infrastructure enhancement projects and socially oriented initiatives.



"I am positive that Sistema's unique experience as a player active in 13 industries will be of benefit to the regions we deem of crucial importance for our business. The new agreements signed will enable us to expand our footprint via existing businesses and potential new investments."

Vladimir Evtushenkov
Chairman of Sistema's Board of Directors

Regions having cooperation agreement with Sistema in force as of 2015

1. Republic of Karelia



For details see [Sistema's 2014 Sustainability Report](#), p. 65

Regions that entered into cooperation agreements with Sistema in 2015

	Promising areas of cooperation
1. Vologda Region	development of Kipelovo wood processing complex, Sokol wood processing complex and Sokol pulp and paper mills, as well as implementation of joint projects in areas such as IT and telecommunications finance, logistics, and the consumer sector
2. Kirov region	development of Vyatka plywood mill and three logging companies, cooperation between Detsky Mir with local players of the childrens' goods market, establishment of document processing centres for Sistema Group companies; innovative technologies; telecommunications; finance and trade; Safe City
3. Arkhangelsk region	development of three logging companies and Onega sawmill and woodworking plant; information security systems for critical infrastructure facilities of different degrees of complexity; information security monitoring systems; automated systems to control metering devices (electricity, water, gas) and quality of utility services; energy saving solutions
4. Irkutsk region	timber, innovative technology, telecommunications, finance, healthcare and pharmacy

Plans for 2016

1. Expansion of agreements with the Republic of Karelia and the Kirov region to address the needs of the timber industry.
2. Execution of a memorandum on cooperation with the Rostov region to build modern production facilities.
3. Deeper cooperation with the Krasnoyarsk and Krasnodar regions.
4. Execution of a social partnership agreement with the Republic of Altay.



Agreements between MTS and regional authorities

The S/As of Sistema also actively sign agreements with regional authorities, making commitments to help the geographies they operate in. E.g., under the framework of agreements made with 13 regions of Russia as of 2015, MTS plans to invest over RUB 16bn in 2015-2017 in the telecommunications infrastructure and social development.

1. Murmansk region
2. Ryazan region
3. Voronezh region
4. Yaroslavl region
5. Kursk region
6. Tula region
7. Krasnoyarsk Territory
8. Krasnodar Territory
9. Nizhny Novgorod region
10. Kirov region
11. Republic of Bashkortostan
12. Udmurt Republic
13. Khanty-Mansi Autonomous District

13 agreements

made with regions of Russia



> 16 RUB bn

invested in the telecommunications infrastructure and social development



From 2015 to 2017

investing period



Segezha Group: Contributing to Regional Development



Sistema's investment projects in the timber industry are a powerful driver of the socio-economic development of the regions where Segezha Group operates. E.g., the corporation plans to invest up to RUB 8bn and create roughly 820 jobs in the Vologda region over 2015-2020 as part of development of its local timber business. By 2018, Sistema will be paying an estimated RUB 900m in taxes a year, a triple of the current figure.

Segezha Group is a responsible citizen of the regions it does business in, including single-industry towns and villages, where the company's enterprises are major employers and providers of basic utilities including hot water and heat supply. Segezha Group services 40%-100% of total utility needs of Karelia as well as the Arkhangelsk and Vologda regions. In 2015, the company's investments in utilities amounted to about RUB 800m.

Besides, the enterprises of Segezha Group provide desired help to small town communities by arranging transports, recreational facilities, healthcare, hospital supplies, and providing fuel timber to those who need it. The company also sponsors constructions and renovations of local schools, sports facilities, museums, and churches, and helps organise festive community events.

≈ 800 RUB m

company's investments in utilities in 2015





RZ Agro: support for the Stavropol region

Interaction with local communities (support of veterans, young athletes, etc.) is an essential prerequisite of RZ Agro's sustainable development, as most of local residents either work for the company or own the land it cultivates.

In 2015, RZ Agro Group entered in an agreement on social and economic cooperation with the administration of the Izobilnenski district of the Stavropol region, home to one of RZ Agro's production clusters. The scope of the agreement provided for the following:

- sponsorship of six sports clubs (football, table tennis, and carete), including local championships and participation in international ones;
- support of infrastructure projects (road cleaning, repair of sidewalks/playgrounds/rural stadiums, provision of aid to a school and a hospital);
- organisation of social and cultural activities and Farmer Day & Victory Day festivals in six RZ Agro subsidiaries.

The scope of the agreement implementation for 2016 included construction of three new mini-football fields, participation in the restoration of a church in the village of Markinskaya, and construction of sidewalks in the village of Novotroitskaya.



Support for the State Russian Museum: St. Petersburg and Elsewhere in Russia

A partner of the State Russian Museum since 2003, in 2013 Sistema extended its cooperation agreement with the museum for another 10 years. The largest-scale project pursued by the partners is the unprecedented "virtual chain of branches" extending across Russia and beyond. Leveraging the latest information and communication technologies, this unique enlightening project transcends regional and national boundaries and makes the country's largest collection of Russian arts available to a vast audience far beyond St. Petersburg. Today the museum operates more than 180 local branches, including 140 in Russia, 41 abroad, and 5 at Arctic stations and on marine vessels.



Drawing help from Sistema, in 2015 the museum set up 12 new branches in Russia and 4 abroad: in Romania, Spain, Chile, and Cuba. The project includes museums and educational, cultural and scientific institutions. More than 500,000 people attend the virtual museum branches annually.

Another event that the museum organised in 2015 with the help of Sistema Charitable Foundation (SCF) and corporate volunteers from MTS and OZON was an educational quest game in St. Petersburg dubbed The Summer Garden's Mystery.



The Virtual
Russian
Museum

Yet another outstanding joint project of SCF and the Russian Museum is the annual international festival of garden art titled The Imperial Gardens of Russia. The festival is designed to revive the traditions of the Russian topiary art, exchange ideas with international landscape design experts, and raise funds for the preservation of the Summer Garden, Engineering Gardens, Mikhailovsky Garden, and the Russian Museum's historical premises. In 2015, the festival was themed on the countries of the Great Silk Road. Visitors were invited to tea ceremonies, national cuisine tastings, master classes, lectures, sports activities for children based on the traditional sports of the countries involved, and motion picture screenings.

> 500
K people



attend the virtual museum branches annually

> 180 local
branches



of the museum operates today



Technology of the Future for “Smart Cities”

Sistema's hi-tech arm SITRONICS KASU that specialises in IT and system integration is the provider of comprehensive automated security systems for urban applications and intellectual transport systems, including solutions for Moscow's Traffic Control Centre.

The company's flagship project Smart City aims to create a single operations control centre to ensure fast response to emergencies and wrongdoings and minimise traffic congestions throughout whole cities. The project comprises a system of solutions enabling quick notifications about and response to day-to-day challenges as well as capacity to simulate all kinds of situations and counter threats. Rather than duplicating the functions of public emergency agencies, Smart City's single operations control centre serves to coordinate and organise efforts and resources in the best possible way.

Smart City offers off-the-shelf solutions ready for replication across Russia. SITRONICS is already working hard to have the project launched in the Tula, Bryansk, Smolensk, Penza, Nizhny Novgorod, Ivanovo, Kostroma, Yaroslavl, Vologda, Novosibirsk, and Rostov regions, as well as in Dagestan, Bashkortostan, and Karelia.

Today's information technology enhances the efficiency of local crisis management efforts in a number of ways, such as speeding up response and decreasing potential social and economic damage caused by emergencies.

An important component of Safe City is the Intellectual Transport Systems, a network of automatic systems designed specifically to address challenges facing urban transport and comprising solutions for video surveillance and monitoring of public transport, traffic light & parking space management, and online traffic status updates for road users.



Increase

Intellectual Transport Systems



Decrease

Increase the road capacity by up to 15%

Increase average driving speed by 15%

Make public transport more passenger-friendly

Help law enforcement track offenders and terrorists

Decrease the number of incidents and accidents at high-speed road segments by up to 30%

Reduce the number of traffic accidents resulting in injuries by up to 20%, and fatal casualties by up to 15%

Reduce transport delays inside the city by up to 25% and on highways by up to 10%

Reduce fuel consumption and emissions by up to 25%

Reduce public-transport travelling time by up to 25%



Segezha Group: Sustainable Log House Production and Comfortable Urban Environment

NLK Domostroenie, a subsidiary of Segezha Group, is a national leader in environmentally-friendly housing construction. A member of the Wood Housing Association since 2005, the company became one of the first fellows of the Friends of Forests club established in 2015 by the Russian branch of Forest Stewardship Council (FSC). The products of Sokol Woodworking Plant, another subsidiary of Segezha Group, are certified by both FSC and EcoMaterial and make up the only entry in the section Houses and Components for Houses with Walls Made from Local Materials of Russia's first issue of GREEN BOOK, a catalogue of eco-friendly materials.

Building on sustainability principles, Segezha Group works hard to promote the wood log home production industry in close cooperation with a variety of partners. In June 2015 Russia's Chamber of Commerce and Industry conducted a round-table discussion titled Innovations in Log House Construction. Experience and Practices. The recommendations formulated by its participants (including experts from Sokol WP and NLK Domostroenie) were reported to the Russian Government in a bid to foster a new approach to one- and two-storey log house construction and speed up the federal governmental programme Affordable Housing.

Another endeavour made in 2015 is TERRITORIUM, an educational event in the areas of urban planning and architecture designed to provide a comprehensive showcase of various methods of managing public space, including wooden structure solutions. A brain child of Segezha Group, TERRITORIUM first ran on 14-15 November 2015 in Kazan, followed up by sessions in the Republic of Altay (at Altay Resort), Nizhny Novgorod, St. Petersburg, and the Moscow region in February 2016.

Segezha Group is also a contributor to a number of annual culture festivals, such as Afisha Picnic, Eco_Tektonika, Archstoyaniye, and Zodchestvo. The company teamed up with young Russian architects to create unorthodox street furniture and landscape structures for the architectural festival ReWoodLution and with leading Russian architects to create artwork for Archstoyaniye, Europe's largest festival of landscape arts. Segezha Group also build an "Olympic Residence" for Father Frost, the Russian counterpart of Santa Clause, in the city of Vologda.



"Sokol WP is an enthusiast of numerous projects seeking to make urban environment more comfortable. Among other things, our social citizenship is reflected in partnership projects. Artwork produced at our premises is already installed in several eco-friendly parks and promenade areas, such as embankments in Samara and Yevpatoriya."

Yevgeny Batalov

Vice President

Head of Wood Processing at Segezha Group

2.2.2. Improving Standards of Living

Improvement of the standards of living of communities is one of the crucial areas of focus of Sistema's CSR effort. Sistema Group companies work hard to create well-paid jobs, make state-of-the-art healthcare more accessible to various demographics including the underprivileged, conduct educational and cultural events, and give financial aid to those who need it. Many of Sistema's socially oriented projects are carried out in partnership with various non-commercial organisations and public agencies.

TAKING CARE OF VETERANS

The large-scale social initiative Taking Care of Veterans, a new joint project of Sistema, Moscow City Government, and local veteran support organisations, is a vivid example of efficient partnerships between businesses, non-profits, and the government.

In February 2015 Sistema's executives had their first meeting with activists of war veteran support organisations (an event made possible thanks to PR Committee of Moscow City Government), which resulted in a task group being made to prepare specific cooperation projects based on actual needs of war and home front veterans. The task group comprised members of Moscow Veterans Council (MVC) and Sistema Charitable Foundation (SCF). The programme prepared by the group first translated into an agreement closed between Sistema and Moscow Veterans Council on 25 March 2016 and then into a tripartite agreement signed by Moscow's mayor Sergey Sobyenin, MVC's President Vladimir Dolgikh, and Sistema's CEO Mikhail Shamolin in early May 2016.

The master agreement spans a five-year term (liable to be further extended) and welcomes potential new entrants in the future. It envisages joint projects to provide social support to the veterans of Great Patriotic War of 1941-1945 (GPW) and other wars, other military & public service veterans, labour veterans, and retirees (as well as families of such veterans and retirees). The initiative also seeks to conduct volunteer campaigns and organise special events to promote patriotism.

Key areas of cooperation between Sistema, Moscow City Government, and MVC:

- improvement of the standards of living of the elderly by means of high-quality healthcare services, consultations, and entertainment events;
- optimisation of forms and methods of social support, including targeted charity initiatives such as volunteer campaigns at hospitals and care homes;
- promotion of patriotism among children, including special programmes at war & history museums and schools.



"We have always prioritised support of veterans and military professionals. In 2015, the year when the whole nation celebrates the 70th anniversary of the victory in the Great Patriotic War, it is especially critical to do our best to create adequate standards of living for those who sacrificed their health and well-being for the fatherland's sake. We intend to make our veteran-oriented efforts a regular practice, always ready to give help to those who need it."

Vladimir Evtushenkov
Chairman of Sistema's Board of Directors



"I'm happy to see such inspiring initiatives in Moscow. Our agreement with Sistema will serve as a template document for other businesses to use if they wish to help veterans and the elderly. I hope to see many more signatures under the agreement down the line. It will give a good start to new partnerships with veteran support organisations for the benefit of ex-servicemen and the elderly."

Sergey Sobyenin
Mayor of Moscow



The agreement primarily targets cooperation in providing outpatient and hospital care to war veterans in need of therapy and rehabilitation. Back in 2012, Medsi acquired a chain of once state-run clinics and hospitals that had used to provide free medical care to combat and home-front veterans. As a responsible corporate citizen, the company made it a priority to continue servicing these demographics free of charge. The patients get high-quality care services at the clinics they are used to, consulting the same doctors they trust. Today Medsi's clinics and hospitals in Moscow are lifetime providers of free healthcare to roughly 300 veterans of different categories.

In 2015 SCF in partnership with Medsi, the Social Security Department of Moscow, and MVC launched Taking Care of Veterans, a programme to provide free spa treatment to veterans at Medsi Otradnoye Sanatorium, one of the few health institutions in Russia with expertise in medical rehabilitation of the elderly. Inspired by the good cause, the sanatorium prepared special rehabilitation programmes factoring in each beneficiary's health status and organised full board, luxe-class accommodation, and a rich entertainment programme involving volunteers from Sistema Group. 260 veterans received the free spa treatment in 2015, with another 450 to get sanatorium vouchers in 2016.

The programmes heavily involves volunteers from Sistema and its portfolio companies. In celebration of the 2015 Victory Day, Sistema organised Aid to Veterans, a volunteering campaign whereby more than 60 volunteers from among Sistema employees visited over 100 veterans in and around Moscow to deliver special food baskets, help around the house and write down personal war stories for future generations.



Along with veterans from the Moscow region, the programme was extended to GPW veterans from other cities. In October 2015 Medsi Otradnoye Sanatorium welcomed a group of veterans from Karelia, sponsored by Segezha Group's corporate Charitable Foundation for the Support of Veterans.

60 RUB m



was invested by SCF in the veterans support programme in 2015 alone (donations from other Sistema Group companies excluded)

Another initiative launched to celebrate the Victory Day is a series of volunteer tours organised by SCF. This included Volunteer Victory Garden, a project where Sistema's staff teamed up to clean up and landscape the premises of four orphanages and care homes for children (Bereg Nadezhdy, Ilyinskaya and Emmaussskaya boarding schools, and Zhuravushka) and organised celebratory events bringing together children and GPW veterans, who received V-Day greetings and presents. SCF provided 3 thousand plants, 120 kg of paint, and 60 garden tools to landscape the childcare premises and organised a "field kitchen" for the volunteers.

Among SCF's traditions are the annual festive receptions for "corporate veterans". On 28 April 2016, the Scientists' Palace at Prechistenka St. in Moscow received 120 Great Patriotic War veterans and home front workers who had been previously employed at Sistema's companies. On top of the concert programme, the guests received personal certificates for much-needed household appliances of their choice.

On May 16, MVC with the support of Sistema and MTS arranged Salute to Victory, a charitable gala concert in the Museum of the Great Patriotic War on Poklonnaya Gora for 250 veterans from 12 administrative municipal districts, and on May 24, MTS organised Tango of Victory, dance master classes for veterans in the style of 40-50s accompanied by wind orchestra.

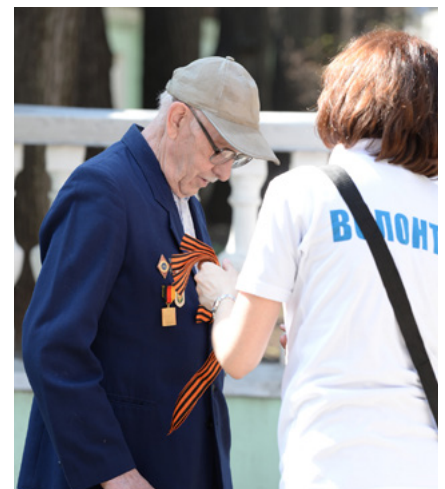
Key element to the programme is to preserve the historical memory on the war years and to strengthen ties between generations. Thus, as part of socio-educational campaign Living History over 1,000 schoolchildren from orphanages of Moscow, Vladimir, Tver and

Sistema became an official partner of Wings of Victory, a programme to greet air and space veterans during the official opening ceremony of the International Aviation and Space Salon MAKS-2015. The greeting ceremony co-organised with the non-profit Moscow Club for Heroes of the Soviet Union, Heroes of the Russian Federation, and Full Cavaliers of the Order of Labour Glory addressed GPW veterans, Heroes of the Soviet Union & the Russian Federation, and combat pilots: all those who made personal contributions to the great victory and later evolution of the national aviation. Students of Moscow Cadet Corps prepared a special concert for the honourable guests.



Comfortably seated in a VIP terrace, the veterans were able to enjoy a breathtaking air show, an experience well complemented by a rich exhibition of the latest aviation products.

Moscow regions took part in free historical-patriotic tours organised by the Sistema Charity Foundation with aid of volunteers of the Corporation in the Central Museum of the Great Patriotic War of 1941-1945, in the central Museum of the Armed Forces of the Russian Federation and the State Central Museum of Contemporary History of Russia. Over 30 tours were arranged and over 100 volunteers from Sistema, Medsi Group, MTS, MTS Bank, RTI, SG-trans, MGTS, Binnopharm took part in the project. Besides, the project office the School of New Technologies under Department of Education and Information Technologies of Moscow jointly of Sistema CF and Canon arranged photographic contest for the Moscow schoolchildren and pupils of orphanages.



The volunteers of the Corporation contributed to the perpetuation of the memory of the heroes of the Great Patriotic War to celebrate the 70-th anniversary of the Great Victory. The employees of MTS Group created a unique memory book *Life During War. 1941-1945*. The book is an assembly of photographs and 327 stories of soldiers provided by their relatives. Copies of the book were given to MGSV Library and State Historical Museum, and its electronic version is available on the project website <http://vov.mts.ru/> and is supplemented continually.

BPGC also published "Memorial Book" dedicated to the Bashkir power engineers. The Memorial edition included the names of members of war and labour fronts of the Great Patriotic War, who worked in electrical grids of Bashkirenergo, provided with illustrations by drawings of children sent to the company within the framework of the republican contest of children's drawings *Our Victory*. The first copies of the book were presented to veterans on April 28 at the gala of power engineers in held Ufa.

> 400
employees



of 22 companies part of Sistema participated as volunteers in the greeting and providing targeted aid to veterans, conducting tours in the museums of military history for children from orphanages, arranged historical quizzes on the Great Patriotic War in Moscow schools and other activities

Sistema has provided support to creation of a new exhibition of armored vehicles in the Prokhorovskoye Field State Memorial Estate in the Belgorod region, which was inaugurated on 16 May 2015 by the Deputy Prime Minister of the Russian Federation Dmitry Rogozin in the presence of veterans of Prokhorovka village, the village of the main battle of the Kursk Salient of 1943. Work on the museum construction were included in the plan of the main activities of the Victory Organizing Committee engaged in preparation and celebration of the 70-th anniversary of Victory in the Great Patriotic War.

Since 23 April to 6 July 2015, the State Russian Museum hosted with the support of Sistema CF the exhibition "National War. The Art of 1941-1945", which comprised works of Soviet artists during the war (paintings, sculptures, posters), and unique historical documents. The first visitors of the exhibition were the guests from Saint-Petersburg State Stationary Institution of Social Service Home of War Veterans No. 2 and the Home of Veterans of Scene named after Savina. On the day of the official opening of the exhibition Sistema with assistance of volunteers from MTS and Stream has arranged ceremonial reception for veterans of war and home front workers and residents of Blockaded Leningrad. They were provided with private tour and gifts for the Victory Day. After the tour, MTS provided an opportunity for each veteran to make free call to any corner of the world and Russia and congratulate their family and friends with a holiday.

The future plans of the Corporation assume development of cooperation with the Mayor's Office and the veteran organizations of Moscow and scaling the programme to other regions of the country with the involvement of new social partners from the public, non-profit and business organizations.



In honour of 70-th anniversary of the Great Victory, MGTS provided the war veterans with a fortnight of free calls to any phone number across the country and the world. Besides, on 1-14 May 2015 all veterans of the Great Patriotic War and persons of preferential categories equated to them and residing in Moscow, were provided with free and unlimited in terms of call duration right to call from their home phones to landlines and mobile numbers in the Moscow region. In 2015, MGTS continued its programme of free telephones for veterans residing in Moscow. During five years of the programme, the operator has installed over 1,000 landlines.

SOCIAL PROJECTS



MTS: Secure, Convenient and Affordable Internet for Everyone

MTS attaches much significant to improvement of the digital literacy of Russians and to children protection against harmful content, and implements a set of federal education programmes for all ages.

The Children in the Internet programme was launched in 2011 to promote the useful and secure use of the Internet for children, parents and teachers. As part of the programme, the company arranges interactive exhibitions on the basis of museums and libraries, hosts Internet literacy lessons for younger pupils, seminars for teachers and parents. In 2015, the project was successful in Novosibirsk, Tomsk, Syktyvkar, Kaliningrad and Penza. The interactive exhibition was opened on the basis of the Saratov Regional Universal Scientific Library. During the year of the programme implementation, 12 educational events (open classes, parent meetings, webinars, etc...) were carried out and attended by over 1,700 persons including 1,230 - the parents of underage children and 360 education professionals. As of today, the project participants comprised over 300,000 people. The exhibitions and lessons on useful and secure Internet were hosted in over 30 regions of Russia.

Besides, in 2013 MTS started implementation of social and educational project Children Teach Adults aimed at closing the digital gap between generations through teenagers training their parents on useful features of mobile Internet.

The project activities take place in schools in over 50 cities of Russia among schoolchildren of 7-10 grades. In 2015, over 300 schoolchildren from across the country gave their video lessons for the seniors. In Moscow, the project is implemented jointly with the Government of Moscow and will cover 200 schools in the city. During the 2015-2016 academic year it will be attended by about 6,000 of students.

Another educational project the Network for All Ages is implemented by MTS Group since 2012 with support of the Internet Development Fund, the Health of Nation League and other partners. The project is aimed at increasing Internet literacy, promotion of modern information technologies and useful on-line services among seniors, provision of assistance in acquiring practical skills of Internet user for everyday tasks. In 2015, the company started a free Mobile Academy course, which was aimed at people in their 50-s and older becoming the users of smartphones and tablets. Free classes of Mobile Academy are opened in Moscow, Kazan, and Obninsk. Graduates from the Network for All Ages presented the MTS team at the V All-Russian Championship on Computer Decathlon Among Seniors in Kazan, organised by the Russian Pensioners Union with the support of the Federation Council Committee on Social Policy, the Ministry of Communications and Mass Communications, the Ministry of Education and Science and the Pension Fund of the Russian Federation. Over 15,000 persons went through training under the programme over the four years.



MGTS: The Good Cause



≈ 300 devices

received the beneficiaries by the end of the year



In 2015 MGTS (a subsidiary of MTS) in association with Moscow Department of Information Technologies, the Social Security Department of Moscow, and the online community DaruDar became partners of The Good Cause, a socially oriented project designed to provide underprivileged Muscovites (the disabled, retirees, and large families) with modern digital devices (laptops, tablets, smartphones, and feature phones).

Second-hand devices in good operating condition were handed over to new owners using a special exchange platform on DaruDar's portal. Those wishing to donate their old devices were invited to use a hotline and specifically organised collection points. MGTS advertised the campaign on phone bills and at its broad sales chain.

By the end of the year, the beneficiaries received about 300 devices, with the project getting the CSR award from The Moscow Times Awards 2015. MGTS intends to remain the project's partner in 2016, ready to make available its communication channels and encourage its staff and customers to make donations.



"Our joint initiative brought together those having good devices they don't actually use with those desiring to possess but unable to afford the latest technologies much needed in everyday life for a slew of purposes, including access to electronic public services. The project showcases efficient interaction between private businesses, executive authorities, and common city residents. The project enabled still more Muscovites to use modern means of communication to exchange information and impressions and take care of their near and dear ones."

Andrey Ershov
CEO of MGTS



BPGC: Safe Childhood

One of the key social projects Bashkir Power Grid Company is the prevention of electric injuries of children in the region. In August 2015, the Company entered in the new agreement on cooperation with the Ministry of Education of the Republic of Bashkortostan in the 2015-2016 academic year, and continued implementation of a comprehensive programme on electrical safety training for schoolchildren. In 2015, the engineers of BPGC carried out over 350 extracurricular activities aimed at prevention of electrical injuries of children in schools of the republic. In total, the programme comprised over 5,250 children.

The company also released the animated series The Adventures of BPGCmen reminding children about electrical safety rules. Presentations and showing of the cartoon are carried out in preschool institutions, orphanages, schools and at various children's events organised in the cities and districts of Bashkortostan. The presentations is

accompanied by appearance of BPGCman, who is performed by professional actors or volunteers BPGC. Besides, the animated series were broadcasted by national, municipal and regional TV channels. In 2015, BPGC also has continued its annual tradition of theatrical performances for children dedicated to the electrical safety. The performances went off in 8 cities of the republic for over 800 children. The plans for 2016 assume continuation to this practice.

Due to the active implementation of Safe Childhood project, no electric injuries of children was registered in 2015 at BPGC electric power transmission lines.

5,250 children 

participated in 350 extracurricular activities aimed at prevention of electrical injuries of children in schools in 2015





Meds: Social Inclusion of Children with Special Needs

Meds Group actively supports projects aiming to help children with disabilities, promote the topic of social inclusion, and the culture of philanthropy and volunteering.

The company provides systemic support to Galchonok Charitable Foundation, the mission of which is to help children with organic neurological disorders, and their families. In 2015 the company was a partner of several major events in Moscow organised by the Foundation, including Galafest — Russia's only inclusive children's festival, and the charity race "Patriki begut" (Patricks are running).

As a partner of Galafest, the company provided medical support to the participants of the event, arranging for the availability of ambulance crews during the festival, and organised the team "Be Healthy!". More than 300 children — with and without disabilities — visited the Medsi team during one day. The children actively participated in the "Obnimashki" (Hugs) and "Modular Origami" workshops, conducted by the volunteers from Medsi Management Company and Olympic Star Fitness Centre.

1.1 RUB m

were raised during the charity event dedicated to International Children's Day



Everyone could have a medical examination at the sports testing station, and the best doctors delivered lectures to the children's parents in the GalaMAMA hall. On this day, more than 5000 people visited the festival in the Hermitage Garden in Moscow, resulting in almost RUB 2.5m raised. All of the raised funds were used to finance the rehabilitation of Galchonok's wards.

In May 2015, Medsi Group took part in holding the charity race "Running Hearts", the slogan of which was #meaningfulrunning, by providing medical support to the participants of the race. During the 5 and 10 km marathon races, which took place in Gorky Park of Culture, several ambulance crews were on duty, ready to provide emergency medical help at any moment. The event was organised by Natalia Vodianova, the founder of the Naked Heart Foundation, and Polina Kitsenko, Creative Director of Podium Market. Famous people — representatives of sports, culture and arts — participated in the race. For beginning sportsmen, Medsi experts prepared special memo booklets "From Heart to Heart" with useful information on how to properly prepare for jogging and where to go in case of health problems. All funds raised at the event were used to organise summer training integrative recreation for children and adolescents with developmental disabilities, who are the recipients of special assistance from Natalia Vodianova's Naked Heart Foundation.

In June 2015, Medsi Group, together with MTS, Sistema and Detsky Mir charitable foundations, initiated a charity event dedicated to International Children's Day. The campaign was supported by Galchonok and Gift of Life, the well-known charitable foundations. Donations cubes were placed in the offices of Medsi, Sistema, and the subsidiaries of the Corporation. Employees could also transfer donations for the wards of the charitable foundations via SMS messages.



A total of RUB 1.1m were raised during the event, of which RUB 550,200 were personal donations. This initiative became a powerful unifying factor, the next step in the development of corporate volunteering and personal donation-making practices of Medsi and Sistema employees. The collected funds were used for the benefit of the children that the charitable foundations take care of. Another memorable event was the benefit performance "Dr. Powderpill", shown at the Moscow International House of Music, which was attended by more than 300 children with special needs. The students of the theatrical and ballet studios at the Olympic Star Child Development Centre made a creative gift for young viewers — they staged a play titled "Children for Children". As part of this event, Medsi presented the wards of Galchonok Foundation with two certificates: one for the purchase of a specialised PLIKO pram, and another for taking a rehabilitation course in Medsi's Otradnoye resort.

In December 2015, Medsi took part in the biggest charity event of the country — the New Year's Fair "Soulful Bazar". It was the first time the company participated in this Fair. The event brought together at Expocentre Fairgrounds 74 charitable foundations, dozens of large business organizations, and more than 10,000 residents of the city.

Acting as a "soulful partner", Medsi ensured medical support to the participants of the event by providing ambulance crews. Throughout the event, the doctors of Medsi Clinic — cardiologists, neurologists, mammologists, gastroenterologists, psychologists, children's ophthalmologists and physiotherapy pediatricians — provided free consultation and made medical examinations (Doppler sonography, ultrasound breast examination, and express diagnostics) for all comers. Company volunteers conducted fascinating workshops "Obnimashki" (Hugs) and "Snezhinka" (Snowflake) for anyone wishing to learn how to make beautiful Christmas cards and Christmas decorations. At the sports testing station, any of the participants could have their health checked under the supervision of the instructors from the Olympic Star MEDSI Fitness Centre. During the day, more than 200 adults and children attended the workshops and the Medsi sports testing station, and more than 260 participants of the fair received consultation and underwent medical examinations. The company also supported and the crowdfunding project of the "Soulful Bazar" on planeta.ru, during which more than RUB 7.5m were raised for the implementation of charitable projects and programmes of the participating organizations. The participation of medical specialists and volunteers from Medsi in the "Soulful Bazar" marked the beginning of the next stage in the development of corporate social responsibility, and is a successful example of synergy of social partnership and volunteer initiatives in the framework of a large-scale charity event.

200 adults
and children



attended the workshops and the Medsi sports testing station



Altay Resort: Jobs for residents of the Altay Mountains

The Altay Resort, a five-star modern natural recreation complex under the management of VAO Intourist, where Russian athletes regularly undergo rehabilitation, is located in Maiminsky District of the Altay Republic. There are no industrial enterprises in the area, and the main tourist spots of the Altay Mountains are also located far away; therefore, the eco-resort and Sistema-owned Biryulinskoye Agricultural Enterprise, supplying environmentally friendly farm products to the resort and the local market, are virtually the only employers for the residents of the surrounding villages Urlu-Aspak, Biryulya, and Aleksandrovka.

At the end of 2015, the Altay Resort offered 100 jobs for local people, including representatives of indigenous peoples of Altai. The Complex provides wages, which are higher than the average for the region, and renders financial assistance to its employees, as well as carries out regular charity support of the Urlu-Aspak Secondary School, the Centre of Culture of Maiminsky District, the children's Greco-Roman wrestling sports club in Urlu-Aspak, and other educational and cultural institutions in the area.



RZ Agro: Providing Food to Low-Income Families



Together with the Russian Grain Union, the Union of Sugar Producers of Russia, and the Russian Meat Union, RZ Agro Group is involved in the provision of charitable assistance to the movement Orthodox Russia in support of the programme Save a Life of the volunteer movement For Life!

As part of the programme, food packages are sent to low-income families with children, single mothers, including those with children suffering from cerebral palsy, refugee families, and families from remote villages. E.g., in November 2015, the enterprises of RZ Agro Group sent one tonne of sugar, 200 tonnes of flour and 7 tonnes of various grains for 125 women with pregnancy complications, low-income families with children, families with disabled children, and families with many children in Rostov-on-Don and nearby settlements.



Detsky Mir
RETAIL CHAIN

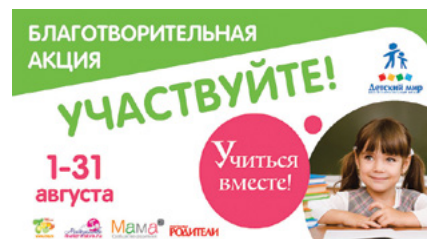
Detsky Mir: Supporting Underprivileged Children

Children's World Foundation provides support to 450 social institutions in more than 150 cities of Russia and Kazakhstan. For over 10 years, the company has regularly conducted a large-scale charity campaign dubbed Participate!

Customers of the chain's numerous stores are invited to help children from social institutions, orphans, the disabled, and children from large families. The campaign runs three times a year: before International Children's Day, the Knowledge Day, and New Year. During the campaign, anyone can leave goods, purchased in the Detsky Mir stores, in special pens located near cash desks.

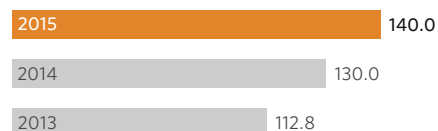
In 2015, one million customers participated in the collection of gifts dedicated to the beginning of the school year. More than 2.6m gifts were collected during the campaign, in particular clothes, shoes, stationery, notebooks, toys, construction sets, and more. Over 120,000 children received parcels with presents from the customers.

In 2015, the charity campaign was held in 140 cities of Russia and Kazakhstan, and the collected gifts were given to 450 social institutions. The total cost of the gifts amounted to about RUB 140m.



The cost of the gifts collected through Participate!, RUB m

+24%



≈ 1 m of customers



participated in the collection of gifts dedicated to the beginning of the school year



SSTL: Assistance to Residents of India

In the course of its operations, SSTL, a mobile operator providing telecommunications services in India under the MTS brand, takes into account the needs of local communities in the regions of its operations.

In December 2015, the company provided assistance to the residents of Tamil Nadu, a state in India, where normal activities of many cities were interrupted due to heavy rains and flooding for more than 10 days. To support reconstructions in the disaster zone, SSTL launched a charity fund-raising campaign (each employee donating their one day's salaries), and provided all of its customers in Tamil Nadu with 1 GB of free traffic for 3 days enabling them to maintain communications with the residents of the affected areas.

Also in 2015 the company took part in the campaign launched by Goonj, an Indian non-profit organization for processing clothes, and held a week of winter clothing donations in the company's offices in Delhi. As part of the programme, employees collected, on a voluntary basis, more than 250 kg of winter clothing, which was subsequently given to the people in need.

MTS Bank: Online Donations

In 2015, as part of a programme to improve its remote banking services, MTS Bank implemented commission-free online donation collections for SCF's projects, accessible both through online banking and mobile banking systems. The two primary objectives of the project are to support the social initiatives of Sistema Charitable Foundation, and to simplify the transactions carried out by the bank's clients, including the Corporation's employees, for the benefit of the Foundation. Now the Bank's customers have a convenient way to transfer charitable contributions. MTS Bank also plans to implement similar projects in collaboration with the other subsidiaries of the Corporation.

2.2.3. Supporting Healthcare

Healthcare is one of the important areas of the international efforts in the social sphere. Sistema has been actively investing in the development of healthcare in Russia, creation of up-to-date medical centres, procurement of new equipment for medical facilities, and promotion of healthy lifestyles.



Medsi: CDC Krasnaya Presnya: New Quality of Modern Medicine

The construction of the state-of-the-art Clinical and Diagnostic Centre (CDC) at Krasnaya Presnya in Moscow is the largest-ever investment project implemented by Medsi Group. The total investment in the project is roughly RUB 4.5bn. The Centre received its first patients in December. The CDC uses a total floorspace of 22,800 m², including 11,119 m² of medical areas, prepared to receive 1,250 visits per shift.

CDC is a medical institution of a format new for the Russian market, and the most efficient socio-economic model used in Europe and America. The project allowed the company to make a wide range of quality health services, including high-tech medical care meeting best international standards, more accessible to patients of all ages in Moscow.

The CDC uses modern equipment meeting European quality standards applying to layouts, technology and operations of medical organisations. The eight-storey building was designed in a way that makes all of its facilities accessible to the disabled.

The multi-specialty health centre is home to numerous centres of excellence specialising in family health, outpatient surgery, ENT diseases in children and adults, male and female health, endoscopy and gastroenterology, radiology, oral and maxillofacial surgeries, dermatology and medical cosmetics, pain, rheumatology, and arthroscopy. In the Personalised Healthcare Centre, patients are offered a wide range of tests, screenings and consultations applying the latest diagnostic and treatment methods with due consideration for genetic characteristics of each patient, resulting in individual treatment plans and prescriptions. An in-house laboratory, advanced technological equipment, and cutting-edge treatment methods make it possible to detect diseases early on and promptly begin therapy.

Another socially significant event was the opening of a multi-specialty pediatric department at the Medsi Clinic in Krasnogorsk, Moscow Region, in 2015, in celebration of the International Children's Day. Conveniently located in a large residential area of the city, the clinic embodies the very concept of family medicine, giving adults and children full access to quality health services just around the corner. Convenient working hours, individual approach to each patient, highly competent and mindful medical staff, modern equipment, and the highest medical standards all add up to showcase why whole families in Krasnogorsk entrust the clinic with their health. For the convenience of visitors, the clinic has a baby care room equipped in accordance with European standards.



"Practical application of modern technologies and methods of treatment and responsibility for our patients' health at all stages of therapy are part and parcel of our work. For the past few years we have been focused on integrating diverse medical institutions into a single network. CDC Krasnaya Presnya is a large-scale, socially significant project aiming to develop an integrated healthcare system to service not just Moscow and the Moscow Region, but also the Central Federal District as a whole. State-of-the-art equipment and profound expertise of our medical staff translate into high quality of medical care on a par with the world's best clinics."

Elena Brusilova
President of Medsi



Be Healthy with MEDSI!

"Be Healthy with MEDSI!" is the company's major socially significant project with free options for corporate customers and partners. The key objectives of the project include the promotion of healthy lifestyles and broad education about ways to preserve their health. The project Be Healthy with MEDSI! reflects the company's core values in the field of corporate social responsibility, namely the formation of a fundamentally new approach to patient care and a culture of responsibility for one's own health.

The project is an integrated communication programme, under which Medsi's best doctors and fitness instructors deliver lectures and provide consultations on various top-of-the-agenda subjects in the offices of the companies participating in the project, including those held in the Health Days format. Relevant information from Medsi experts is also proposed in the form of articles, corporate blogs on the company's website, and weekly newsletters.

For the partner companies, participation in this project is a manifestation of social activity and an opportunity to join the team of responsible employers who care about the health of their employees. In addition, the programme is an effective social marketing tool, positioning Medsi as a socially responsible medical company that unites a wide range of competences in various medical fields. The implementation of measures in the framework of the project contributes to raising the population's awareness of the commercial healthcare market, increasing the flow of patients due to a larger number of individuals in the network of clinics, and enhancing the loyalty of corporate customers, which are served at Medsi clinics under voluntary medical insurance programmes, including employees of Sistema's subsidiaries.



One of the key features of the project Be Healthy with MEDSI! lies in the specialized training courses (Schools) in several medical fields, organised and held at the clinics. In April 2015, the MEDSI School of Mothers, a socially significant project that aims to support the health of children from the first days of life and provide advice to parents on how to take care of a baby, began its work at the Medsi Children's Hospital in Blagoveschensky Lane. Sessions for parents in the MEDSI School of Mothers are conducted by qualified pediatricians and medical specialists with extensive experience in neonatal care free of charge. During the workshops, experts cover various aspects of child care, regimen, nutrition, preventive vaccination, tell parents about the specific features of children's nervous system, and skin problems that can occur in children under the age of 18 months. In 2015, 30 sessions were held within the framework of the School of Mothers.

In the Medsi's CDC Belarusskaya training sessions are regularly held addressing the following medical areas: cardiology, neurology, dermatology, psychology, etc. In 2015, 28 sessions were conducted there, during which the participants were able to get consultations from leading experts of Medsi on the prevention of disease and promotion of health.

In May 2015, the clinics together with La Roche-Posay held a campaign, dedicated to the World Day of Melanoma Diagnostics, in which everyone could undergo free screening for cancer diseases of the skin, and consult a dermatologist.

In the framework of the integrated project to promote a healthy lifestyle "Be Healthy with MEDSI!", the following activities were implemented for corporate clients:

- non-Smoking Days in MTS offices, with a webinar and speeches made by doctors on the MTS radio;
- medical consultation in MGTS offices, MTS retail network, and SG-trans;



28 educational sessions



were conducted, during which the participants got consultations from leading experts of Medsi on the prevention of disease and promotion of health

- 2 workshops as part of the partnership programme Health Classes from MEDSI, in cooperation with Detsky Mir;
- a lecture delivered by a physician from Medsi CDC Belarusskaya on HIV prevention, dedicated to the World AIDS Day;
- 14 lectures with the participation of Medsi doctors in the National Insurance Group, KPMG, Philips, Ernst & Young, Siemens, Nestle, and PJSOC Bashneft.

According to the results of the Corporate Social Responsibility audit of Sistema Group, Be Healthy with MEDSI! Was acclaimed as one of the best practices used by the company and recommended for joint development with other subsidiaries of the Corporation.



Detsky Mir: Opening Playrooms in Hospitals



"Our social project is greatly welcomed all across the country. A playroom is a wonderful gift to little patients, a cozy place where they can come any time to relax and get a break from tiresome therapy. This is especially important for kids who have to stay hospitalised for a long time. All in all, we have opened about 130 playrooms by now, enabling tens of thousands of children to spend time in a comfortable homelike environment with toys and educational games."

Elmira Morozova

Executive Director of Detsky Mir Charitable Foundation



Since 2013, Detsky Mir Charitable Foundation has been implementing a project dubbed Operation Toys organising children's playrooms in hospitals. The project aims to help children feel comfortable while in hospital. The rooms offer dolls, prams, construction sets, toy cars, educational games, kits for role-playing games, and many other toys; various aids for the development of speech, memory, thinking, and attention; and musical instruments. Each child will find something to his/her liking. Not confining its effort to supplying toys and decorating playrooms, Detsky Mir also sponsors hospital renovations and procurement of new furniture and even medical equipment where necessary.

In 2015, the company opened 58 playrooms in 20 medical and social establishments all over Russia. New playrooms have been arranged in 12 cities: St. Petersburg, Kaliningrad, Kazan, Smolensk, Tula, Rostov-on-Don, Perm, Ivanovo, Nalchik, Pskov, Yaroslavl, and Tomsk. In previous years, playrooms had been arranged in children's hospitals in Moscow, Bryansk, Kurgan, Petrozavodsk, Ryazan, the Vladimir region, Tver, and Dzerzhinsk.

58 playrooms

were opened in 20 medical and social establishments all over Russia in 2015





MTS: "Generation M": Creative Work to Save Lives

The priority area of MTS charity activity is gratuitous assistance to children with serious illnesses whose families cannot afford the expensive treatment they need. The aim of the All-Russian charity project "Generation M", organised by the Company in cooperation with the Konstantin Khabensky Foundation, is to contribute to the solution of this social problem. The large-scale initiative held under the motto "Creative Work to Save Life" combines two aims — to help seriously ill children and to develop the creative abilities of young people in Russia's regions.

The project "Generation M" includes a virtual creative platform — an Internet portal and a group in VKontakte social network, where children can show their talents by participating in contests and interactive workshops. Users earn points for all the online activities, and thus top up the general charity account of the project. At the end of the year, MTS turns the points earned by users into real money, which is then used for the treatment of children through partnership charitable foundations.

All proceeds from the sale of tickets for the children's benefit musical performances "Generation Mowgli" are used for the same purpose. In 2015, the unique theater performances, in which

young actors played together with the well-known Russian artists, were held in Moscow, St. Petersburg, and Novosibirsk, and raised almost RUB 2.8m. The Sistema Charitable Foundation bought 500 tickets worth over RUB 700,000 for children from the children's establishments of Moscow and Moscow Region it sponsors to visit one of the performances in the State Kremlin Palace, and volunteers of the Corporation accompanied young guests.

At the end of 2015, the Internet audience of the project exceeded 8.5 million people, and more than 400,000 participants were involved in the creative activities under the project. More than 250 creative laboratories were organised across the country. National film, theater and music stars, famous artists, photographers, and cartoonists act as the masters in the project. Since its inception, the project has helped save the lives of 21 children with cancer by raising almost RUB 14m for their treatment.

≈ 43 RUB m



raised for the treatment of children since the project started



MTS: partner of Operation 'Smile'



Like in many years before, in 2015 MTS supported the international charity campaign Operation 'Smile'.

Using raised sponsorship funds, MTS's non-profit subsidiary organises one-week trips of teams of Russian and foreign medical volunteers to different regions of the country, where they provide medical assistance to 20–40 children with congenital maxillofacial defects. The medical help is especially needed by children from orphanages, shelters, and low-income families.

MTS provides phone and online communications to the volunteers and coordinators of Operation 'Smile' as well as the parents of young patients.

In 2015, in a field trip to Krasnoyarsk, volunteer doctors performed more than 40 operations and provided consultations

to more than 60 children from the Krasnoyarsk Territory and Khakassia free of charge. In addition, MTS equipped local pediatric hospitals with special playrooms for young patients who had arrived for scheduled operations from different regions of the Transbaikalia, Bashkiria, and Siberia.

26 leading experts arrived at the Ivanovo-Matrenenskuyu Children's Clinical hospital in Irkutsk to perform surgeries and provide consultations. During the week, they examined more than 120 children and adolescents with congenital maxillofacial defects, and performed more than 60 free surgeries, to correct congenital lip and palate defects.



Meds: Supporting Innovations in Healthcare

Meds Group actively supports initiatives aimed at creating favourable environments for the development of social projects and promising healthcare endeavours.

In 2015, Meds provided expert support for the contest of social startups dubbed UP. Glad to accept the invitation of the multinational corporate software provider SAP SE, representatives of Meds Group sat on the contest's jury tasked with choosing the best socially relevant market-ready start-ups, in order to further support their authors through educational practices and grant systems.

247 projects from all across Russia were admitted to the contest. Meds experts focused on innovative projects in the area of medicine, digital health, and rehabilitation treatment, as well as current trends in the development of socially-minded medical startups in Russia. The two healthcare start-ups judged to be of most potential received extensive support from Meds. Especially worthy of mention is Motorika, a project aiming to produce inexpensive functional prosthetic hands and forearms to significantly improve the quality of life of people with disabilities.

Another innovation-promoting project backed by Meds Group is Digital Health, a discussion platform organised in cooperation with the Higher School of Marketing and Business Development and the digital health company Medme. The project transcends national boundaries and aims to share practical experience in digital medicine, find and accumulate new ideas, and create

an effective mechanism for interaction between the professional medical community, innovators, and investors in order to address existing problems. The three Digital Health meetings held in 2015 raised numerous subjects of utmost relevance to the current healthcare market, such as the role of information technology in the development of commercial healthcare and new services to meet specific needs of patients.

3 digital health meetings



held in 2015 raised numerous subjects of utmost relevance to the current healthcare market

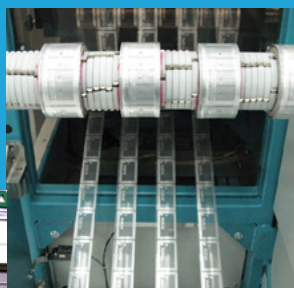
Technological Leadership

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R&D centres in high-tech, oilfield technologies and pharmaceuticals

Innovation cluster Sarov Technopark



Microchips for Russian Processors and Payment Cards



Smart Grid



Modernisation of the Timber Industry and agriculture



2.3. Technological Leadership

Technology, in particular the promotion of innovation and industrialization, and the creation of reliable infrastructure, occupies a special place in the international agenda for sustainable development. In addition, the Russian government has set a strategic goal of making an innovative breakthrough to transition to a new type of economy, based on the development of new technologies and competitive in the global market.

Sistema's operations are inextricably connected with innovative development. Over the years, the Corporation has regularly invested in science, education, infrastructure and the introduction of advanced technologies, paying special attention to the domestic market.



2.3.1. Innovation and Modernisation of Manufacturing

Sistema has made a concerted effort to increase its economic productivity through diversification, technological modernisation, innovation and efficient use of resources.

DEVELOPMENT OF THE INNOVATION CLUSTER IN THE NIZHNY NOVGOROD REGION

Sarov Technopark is a joint project of Sistema, Rosatom Group and the RUSNANO Fund for Infrastructure and Educational Programmes, established to implement innovative projects promoting Russia's economic development. It is located in the Nizhny Novgorod region, and is a key segment of the Sarov Innovation Cluster. Sarov Technopark has been member of the International Association of Science Parks and Areas of Innovation (IASP) since 2009. In 2015, it was accredited, on a voluntary basis, in accordance with the system of the Association of Clusters and Technology Parks, and received the status of a technology park in the area of innovation (one of the seven technoparks in Russia).

Sarov Technopark is seen by its shareholders as a tool for commercialisation of breakthrough technologies. The key role in its development strategy belongs to implementation of major national innovative projects in a few selected areas:



information technology



laser technology



energy-efficient technology



sensors and automation



new materials and coatings



The choice of the areas was based primarily on the competencies of Sarov's key partner — the Russian Federal Nuclear Centre — All-Russian Research Institute of Experimental Physics (RFNC-VNIIEF). The general strategic management of the technopark is carried out by RTI Group, whose representatives are included in the Scientific and Technical Council and are directly involved in the examination of projects proposed for implementation.

SAROV TECHNOPARK'S PERFORMANCE RESULTS FOR 2015

The technopark is the platform of a unique public-private programme for financing innovative projects — the Rosatom-Sistema Science and Production Cluster Programme, which has no analogs in Russia. The programme makes it possible to use public funds for capital expenses on condition that the resident company co-finances the operating costs.

In early 2015, with the support of RUSNANO, the technopark launched a venture division to source innovative projects, select and support them at an early stage. At the end of 2015, 10 projects were approved for financing. Sarov Technopark became a member of nine startup companies. As many as 13 new small businesses were given the status of a Business Incubator resident and received discounts for the rental of premises.

In 2015, the production of a new generation of multi-component materials was launched in the technopark, and a startup was created to develop and implement the technology of applying ultra-thin zinc coating with anti-corrosion properties. A shop for manufacturing products using injection impregnation-based know-how was also opened in the technopark. It will produce sheet piles, rods for the oil industry, and window frames and fittings for the construction sector. Some of the startups of Sarov Technopark, such as Ultramer, Synthesin, and Plazmoran, won the Startup Tour 2015 and became finalists of the Startup Village 2015, competitions organised by the Skolkovo Foundation.



At the end of 2015, Sarov Technopark included:

> 60

resident companies



730

jobs were created



> 30

medium-sized companies, including R&D departments of large corporations



1.2 RUB bn

the revenue of the resident companies for the year



20

start-ups



> 160 RUB m

tax deductions



10

venture capital firms





The biggest project of 2016, with an investment of RUB 1.2bn, will be production of powder high-speed steels (that have higher wear resistance and strength compared to ordinary steel) and high-performance cutting tools. Today, there is virtually no production of such powders in Russia, so it will be an import-substitution project.

The Sistema-Sarov Innovative Technology Centre (Sistema-Sarov ITC) — an R&D Department of Sistema and RTI Group — has been operating in the technopark since 2010. It develops solutions for Russian and international high-tech companies, designed to tackle security problems in big cities, at industrial plants and public utilities, and to provide analytical support to decision-makers at law-enforcement structures.

Programmes to finance innovative projects in Sarov Technopark

Rosatom-Sistema science and production cluster programme

(Founded in 2008)

Financing of capital expenses of projects at the stage of mass production, using the principle of public-private partnership

Venture financing

(Started in 2015)

Financing of startups at the stages of launching, growth and expansion

16



innovative projects are already being implemented

> 60



applications have been reviewed

1.6 RUB bn



financing amounted

10



startup companies have been created



"All projects of our technopark are aimed at forward-looking import substitution and the development of new technologies for the core industries. Today, the technopark

operates in various fields: new materials, security technology, information technology, etc. Our main strategic goal is to ensure its integrated development, notably, to increase the number of resident companies and jobs, to develop infrastructure, to build a chain of business incubation and technology transfer, and to raise financing for projects. The main condition for achieving these objectives is to create a comfortable environment for the development of innovative companies."

Yury Sumin

CEO of Sarov Technopark

In June 2015, Sistema Sarov performed a trial run of an audio surveillance system installed at the heart of Kostroma (a city east of Moscow) as part of Safe City, a project designed to improve law enforcement and crime prevention in urban environments. Inspired by the successful first run, Kostroma's administration decided to launch the system as a pilot project to be further rolled out across the city.

The smart audio system combined with video cameras enables easy identification of specific acoustic alarms, such as screams, explosions, claps, car alarm signals, shots, and sirens. The video cameras automatically turn towards the source of such sounds and make immediate video records.



Key projects of Sistema-Sarov ITC



System of measuring water flow in HPP turbine channels

The system is based on continuous direct measurements of water velocity in supply channels. It helps to make flow measurements with an error of not more than 0.5%, which makes it possible to optimally manage HPP work with maximum efficiency.



Multichannel distribution system for remote electronic voting

The system offers a safe and easy tool for online voting, taking into account the requirements of the Russian legislation.



Programme for the development of security technologies for big cities

These technologies help to prevent crises in cities by monitoring the current situation and providing timely information for authorities to take required action.



Setting up a Simulation Centre for Railway Technology

The programme will help to address traffic safety problems more effectively, to optimise the development and implementation costs, as well as to facilitate the use of modern innovative methods in dealing with current issues.



Intellect Telecom: Transformation into a Full Cycle R&D Company

In October 2015, Intellect Telecom approved its development strategy for 2016–2020, which envisages transformation of Sistema's telecom research centre into a full-cycle R&D company, and the creation of an innovative product line for the fastest growing and most promising segments of the market of communications network equipment. The technologies developed by Intellect Telecom can be used, for example, to provide mobile communications services in rural areas and organise continuous radio coverage along railways and highways.

Intellect Telecom has developed a series of cost-effective solutions for areas with low population density, where the construction of base stations is not economically feasible. The lack of coverage in these areas, as well as in areas along railways and motorways leads to the "digital divide" and prevents the implementation of the government projects "ERA-GLONASS" and "System 112". To address this socially important issue, Intellect Telecom offers communications service providers a system based on a set of retransmission equipment with capacity transfer, which ensures radio coverage in GSM networks without the use of base stations, microwave or fiber optic lines. The advantages of the system include lower capital and operational costs, a significant decrease of energy consumption, and support of shared use by two telecom operators.

Innovative product development cycle at Intellect Telecom

Identification of problem areas and search for solutions

Analysis of market trends and demands of potential consumers; development of case studies and learning to efficiently use them; construction of road maps of technologies and products; preparation of forecasts and foresights; evaluation of barriers and risks.

Creation and substantiation of the product characteristics

Systemic design; creation of the product structure and architecture; definition of main interfaces and function algorithms; choice of the element base.

Verification of the concept

Creation of product prototypes, which go through field testing, and, if necessary, further simulation and model testing.

Designing and construction of the product

Designing work and preparation of documents necessary to start serial production. Development and maintenance of operation, including modernisation and adaptation of the product; addressing complex maintenance tasks; development of usage recommendations.

⁽¹⁾ RA-GLONASS is a Russian state system of emergency response in case of accidents.

⁽²⁾ System 112 is a system that supports calls to emergency services in Russia using a single number (112).



Segezha Group: Modernisation of the Timber Industry in Karelia

In 2015, Segezha Group started implementing a three-year investment programme to modernise the Segezha Pulp and Paper Mill, which is expected to improve its performance efficiency and increase the sack paper output. Allocations in the reconstruction of one of the republic's core enterprises, amounted to RUB 0.7bn in the reporting period.

One of the key events in the reporting period was signing of an EUR 80m contract for the supply, construction and installation of a paper machine with Voith, a German engineering corporation. The new machine will increase the mill's sack paper capacity by 40%, to 110,000 tonnes per year. The machine will go into operation in 2017. Its installation will create 120 new skilled jobs in Segezha.

In 2015, Segezha Group launched a new line manufacturing paper bags for dry mixes at the plant in Segezha, which greatly increased its production capacity. Previously, the mill produced more than 400m bags a year. Now, the use of eight-color printing will add another 90m units per year to the existing output, and will further increase the performance of the existing machines, which, all in all, will allow the company to produce 540m bags per year.

The new machine is capable of printing small lots of products (bags for dry mixes and consumer packaging) with high colour value, and quick

reconfiguration of equipment will allow meeting the needs of a growing number of customers with small orders, who need to have photographic images printed on bags. The new machine can be reconfigured almost 5.5 times faster than the old one — in 7-8 minutes. It is now possible to begin fulfilling a new order while the previous one is being produced.



"From the very start, we intended to use the best available technology in this project; we engaged top-notch professionals. In the long run, it is not only about increasing capacity. Over the next three years, we will invest more than RUB 13bn in modernisation of the timber industry of Karelia, a republic with plentiful resources and a huge human potential."

Sergey Pomelov

President of Segezha Group



RZ Agro Group: Technical Overhaul of Agriculture

RZ Agro Group has developed a programme of technical overhaul of its subsidiary agricultural enterprises for the period of 2015–2019. The programme, which, will be carried out at the former state-owned companies Donskoye and the First Cavalry Army Horse Farm (with 47,000 ha of cultivated land), among others, envisages replacement of obsolete agricultural equipment with modern high-performance units, upgrade of machinery, and modernisation of the enterprise management system and employee retraining. One of the main selection criteria for the new machinery is its compatibility with chosen technology aimed at improving soil fertility and water retention.

In 2014–2015, the company purchased modern tillage machinery and invested in the installation of monitoring and security systems, such as fuel consumption monitoring, video surveillance, fencing, and automated accounting of products in the barnyards. In addition, RZ Agro intends to invest in early-stage startups that develop modern agricultural technologies, which could allow the company to optimise costs in agriculture and improve the crop yields.



> 30 units



of modern agricultural equipment were purchased by the company in 2015

"Our goal is to gradually transform RZ Agro into a state-of-the-art integrated international agricultural company. To do this, we need to achieve not only maximum yields per hectare, but also the projected margins for each crop. RZ Agro's produce is both exported and sold domestically. We intend to significantly expand our business and increase sales abroad."

Stephane Mac Farlane
CEO of RZ Agro Group


TARGIN

Targin: Building a State-of-the-Art Oilfield Services Company

The amount of easily recoverable oil and gas reserves is decreasing steadily, and the oil industry is shifting its attention to hard-to-extract reserves in hard rock formations, where new drilling and well completion technologies are actively used.

In view of this, in 2015, Targin launched a multi-stage hydraulic fracturing project, which can significantly increase the share of oil recovery by reducing the well development time by 40% and improving formation productivity. In the reporting period, the company hired specialists with work experience at the world's largest oil companies and with profound knowledge of technology; contracts for the purchase of necessary equipment were signed with Russian suppliers; the Precision Engineering Centre was established at the production site in Ufa, where the first pilot models will be assembled. In 2016, Targin plans to manufacture two prototypes using the new technology, and get the product certified.

In addition, within the framework of its technological development programme, which, among other things, provides for expansion of the fleet of drilling rigs, the company started to design and manufacture its own drill bits. The Targin Tarbit Polycrystalline Diamond Bit (PCD) is the main part of the drilling tool used to break rock during oil well drilling. These drill bits differ from the conventional ones in that they contain plates with a diamond layer. In the course of design, a three-dimensional simulation of the interaction between the drill bit cutters and rock was used to identify possibilities for increasing the efficiency of the tool.



"Today, traditional oilfield services, even performed well, are not enough to carry out such tasks as construction and maintenance of complex wells. Our company is actively developing and expanding its presence in the market — in terms of geography, customers, and technological solutions. Thanks to the use of the multi-stage hydraulic fracturing method, Targin expects to become a leader in well completion and in creating technologies for development of hard-to-extract oil reserves not only in Russia and the CIS, but also in the international market."

Kamil Zakirov
CEO of Targin



40%



reduction of the well development time

2.3.2. Development of Science-Driven Industries

Sistema has always paid special attention to the development of high-tech industries, setting up R&D centres on the basis of its subsidiaries engaged in the commercialisation of innovative technologies and manufacturing of high-tech products.



RTI Group's R&D Structures

Having own R&D⁽¹⁾ facilities is integral to the business model of RTI, a high-tech holding company, since this model implies continuous research and development work aimed at obtaining new knowledge and its practical application for the development of new technologies and innovative products based on them.

In 2015, significant results were obtained in key R&D projects launched in 2013–2014, such as the development of terahertz, radiophoton, and aerospace technologies. Notably, terahertz radiation emitters can be used as scanners to control product quality, for security screening of people and luggage, and in medicine. Also, R&D experts designed the model of a transceiver module for a 3-mm range radar used in smaller radar stations, and developed a technology for manufacturing radar absorbing coatings.

Also in 2015, a measurement system for testing radiophotons devices was created; an investment project was

launched to develop vertically emitting lasers for use in radiophoton devices; and cooperation was organised with the Northwest Scientific Centre for Radio Photonics. The achieved progress in radio photon technologies is essential for the development of land-based and mobile radar stations, signaling channels, and heating systems.

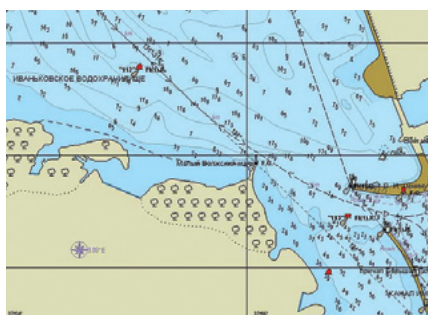
RTI Group participated in major international exhibitions, such as MAKS 2015 (Moscow Aviation and Space Salon) and RAE 2015 (Russian Arms Expo), where it demonstrated unique “flying” laboratories to be installed on board aircraft to monitor engine parameters during a flight, display and record information on board and transmit it to the flight experiment control point on the ground in real time. The company also completed testing of the automatic control system for optionally manned⁽²⁾ or unmanned airplanes, and developed and tested various types of advanced unmanned aerial vehicles.

⁽¹⁾ R&D — Research and development.

⁽²⁾ Optionally manned aircraft — the class of aircraft that can fly with or without a pilot.


IKT

Kronshtadt Group: Electronic Cartography for Safe Navigation



53th km

of the 60,000 km of navigable areas was digitalised



Kronshtadt Group is implementing a number of infrastructure projects of national importance that will promote the development of strategic industries. One such area is the creation of the first common navigation database for electronic maps of Russia's inland waterways using the GLONASS satellite system. The project includes the development of new and adjustment of existing electronic maps of Russian waterways to ensure the safety of river navigation.

During 2015, company specialists developed a database for compiling and updating electronic navigation charts for 14,477 km of waterways (including new charts for 5,234 km and updated ones for 9,243 km). The collection of satellite photos of waterways was supplemented with pictures of 20,425 km of waterways taken from air.

By the end of 2015, nearly 53,000 km out of the 60,000 km of navigable areas was digitalised. All river navigation charts are expected to become electronic by 2020. To make using navigation charts easier, Kronshtadt Group built a dedicated national automated system for propagation of digital cartographic data of the European part of Russia, Siberia and the Far East.



"The main task set before us was to build a unified electronic database for all navigable rivers and channels of Russia. We have done a great amount of exploration, topographic and space surveying, built a digital database and are constantly updating it. The company's work is of strategic importance for the development of inland navigation. I am confident that the implementation of the "Map-River" project will significantly increase the efficiency and safety of navigation in our country."

Armen Isaakyan

CEO of Kronshtadt Group



Targin: Establishment of an R&D Centre at SKOLKOVO

In accordance with the agreement between Targin and the SKOLKOVO Foundation signed in April 2015, the company's new R&D centre will be established at the SKOLKOVO Innovation Centre to conduct large-scale comprehensive research in the area of oilfield technologies.

By creating its own R&D centre, Targin expects to get a number of additional technological and competitive advantages:

- an opportunity to effectively test new ideas and transform them into original laboratory technological solutions, which can be scaled and implemented on large industrial sites in the near future;
- more commercialisation opportunities for the results of ongoing R&D in construction and related fields;
- an opportunity to attract new partners from among SKOLKOVO residents to existing and new projects.



In November 2015, Targin's R&D Centre presented its project of creating test sites for oil and gas companies as part of the panel discussion "Prospects for Creating Test Sites at Existing Fields" at the SKOLKOVO Petroleum Conference 2015. The company's approach is to create test sites outside the field, using test benches and specially constructed test wells. The construction of test sites has a number of significant advantages over using existing wells in the field, in particular: it is possible to ensure the integrity of testing; there are no environmental hazards; environmental and technological risks are significantly reduced.

In 2016, Targin's R&D Centre in SKOLKOVO will employ at least 10 people, and the headcount it expected to reach 20 by 2018. Investment in the project will amount to RUB 110m in the next three years.



"We are happy to have the opportunity to cooperate with the SKOLKOVO Foundation, and are optimistic about the prospects of our cooperation. Ongoing development of new technologies, new products, and new materials is one of the key factors of competitiveness and success in any industry. In the segment of oilfield services and equipment for oil and gas production, this factor is of vital importance in the long term. Targin is focused on technological development, and is confident that this collaboration will be a success."

Kamil Zakirov
CEO of Targin

2.3.3. Improving Infrastructure

For many years, Sistema has been investing in telecommunications infrastructure, which is of critical importance for the country, as well as actively modernizing power grids at the regional level.



MTS: Developing M2M Services

MTS is Russia's leader in implementation of cutting-edge technological solutions in the field of Machine-to-Machine (M2M) communications, and has been consistently involved in the formation of the Internet of Things ecosystem since 2010, when, jointly with NVision Group, it launched the Nika technological platform for telematic services.

The new infrastructure, which is based on advanced mobile data network, makes it possible to manage the equipment more effectively, to ensure the security of operations, to pinpoint the location and monitor the movement of vehicles, etc. At present, M2M services in Russia are most widely used in the transport sector: in taxis, for information boards at bus stops, and for traffic speed measurement. They are also used in ATMs and vending machines, utilities and the energy sector, and in the consumer segment — in trackers, navigation devices, etc. The demand for M2M solutions comes from the anticipated explosive growth in the number of devices that can exchange information without human intervention. In the next few years, it is projected that M2M traffic in LTE networks will grow 2-3-fold due to the spread of video surveillance, emergency monitoring, and urban infrastructure automation.

The number of connections of automatic devices to mobile networks grew by 20% in 2015, to 6.6 million SIM cards, out of which MTS accounts for about 3.6 million. The mobile operator connected about 0.5 million new devices last year, and the overall M2M traffic in its network doubled compared to 2014.

In 2015, MTS implemented a number of socially significant M2M projects, notably:

- launched the sales of Smart Home household appliances controlled remotely (by mobile phone), together with the international company REDMOND;
- installed several thousand telematic SIM cards to record utilities meter readings in the Saratov and Samara regions and in the Far East;
- launched an M2M project for emergency monitoring at residential buildings in Tyumen together with LLC Safe City, providing SIM cards to be installed in the intercom systems in order to warn citizens in case of an emergency;
- launched a major regional M2M project — public transportation monitoring in the Rostov region (more than 900 public service vehicles in the region were equipped with telematic MTS cards);
- installed SIM cards for telematic services in the fire protection systems of the Fire Monitoring Service in the Republic of Tatarstan;
- installed SIM cards and secure communication channels in more than 2,000 payment terminals of Sberbank in the Samara region, which increased the availability and reliability of banking services.



"Innovative services that allow devices to communicate with each other via communications networks have a great potential for the development of many sectors of the economy. The increasing consumption of M2M services is due to their high efficiency. We estimate that a company can save up to 40% of its operating expenses on average by introducing M2M. In the future, we expect this segment to grow even faster both through the existing projects and the emergence of new ones, including development of the "smart home" concept and integrated industrial solutions."

Vasil Latsanich

Vice President for Marketing, MTS

0.5 m

new devices in 2015





Bashkir Power Grid Company: Introduction of Smart Grid in Ufa

In the reporting period, Bashkir Power Grid Company completed the upgrade of the power grids in a residential area with a population of 25,000 people as part of the programme for comprehensive modernisation of grid infrastructure in Ufa based on the innovative Smart Grid concept, which was launched in 2014. The results of the introduction of the new technology in the pilot district have proven the effectiveness of the applied solutions, as commercial power losses have decreased by 70%, and technical losses by 30%.

An stage in the implementation of the power grid modernisation project was the opening of the new Grid Control Centre (GCC) in August 2015 in Ufa. It collects all information from distribution and transformer substations, and has no analogues in Russia. Special equipment installed at the GCC, makes it possible to perform an entire range of operations with the Smart Grid, monitoring the workload and modes of electric equipment, and controlling it in real time.

+10%

will be prolonged the service life of existing equipment due to the implementation of the project



In addition, the company commissioned three state-of-the-art power substations during the reporting period, to meet the growing energy demand of its consumers in the region. It was for the first time in the past 7-10 years that such facilities were put into operation in the region. The work to modernize existing substations and build new ones will continue.

The Republic of Bashkiria was the first in Russia to launch a comprehensive upgrade of power grids. Following the success of the project in the pilot district, the company plans to re-equip 512 observed and 157 controlled transformer stations in Ufa in 2016. By early 2020, the Bashkir capital is expected to fully transition to the Smart Grid system, which will ensure a new quality to electricity supply to consumers and sustainability of the regional energy system. The maintenance and repair costs of the updated equipment will be reduced by 20%, the time for troubleshooting and switching will decrease by 70%, and the service life of existing equipment will be prolonged by 10%. After transition to the Smart Grid, commercial and technical power losses in Ufa will drop from 16% to 8%, and overall power losses across the republic will be lowered from 8.5 to 7%.



"Many grid companies have thought of introducing smart technology; yet we are the only company today that has managed to put this concept into practice. Having assessed the wear of existing equipment as up to 60%, we made it our priority to update the fixed assets using only "smart" solutions, and we are confidently implementing the adopted investment programme. Advanced technologies and cutting-edge equipment will help us to reduce the number of breakdowns in the grids, to minimize power losses, and to ensure uninterrupted power supply to consumers. If the project in Bashkiria is successful, can be later replicated in other regions of Russia."

Dmitry Sharovатов
CEO of BPGC

2.3.4. Promoting Import Substitution

By investing in high-tech industries, Sistema contributes to faster technological development of domestic manufacturing through improvement of its efficiency and development of new competitive products with high added value to promote import substitution in a number of strategically important industries.



Binnopharm: Establishing an R&D Centre

In 2015, Binnopharm, one of Russia's largest biopharmaceutical full-cycle companies that develops and produces genetically engineered biotechnological drugs (including a hepatitis B vaccine fully compliant with international GMP standards)⁽¹⁾, began construction of its own R&D Centre.

The main objective of the Centre is to create its own product line, to develop and register new drugs. The Centre is located in the Zelenograd special economic zone, occupies 400 m2 and has state-of-the-art equipment for product development and testing manufactured in Russia, Germany, Switzerland and the UK. It has 11 employees with degrees from the leading Moscow chemical universities: the Lomonosov State University, the Dmitry Mendeleev University of Chemical Technology, the Peoples' Friendship University, and the Moscow State University of Food Production. The Centre's capacity will be three drugs per quarter. In 2015, five new drugs were registered. The official opening of the R&D Centre is scheduled for 2016.

Priority areas

The company's focuses on development of original combined drugs, biosimilars, original and biotechnological drugs in various therapeutic areas.



Cardiology



Pulmonology



Neurology



Oncology



Endocrinology



Gastroenterology



"In 2016, we plan to launch all R&D laboratories at the company's existing production facilities in Zelenograd to continue work on registration of new drugs, as well as carry out further work under the project for manufacturing of monoclonal antibodies and dry powder inhalers. I am sure that if Russian producers take advantage of the opportunities offered by the market today and the government supports them, we will have a competitive industry that will be able to provide the country with domestic medications."

Aleksey Chupin
CEO of Binnopharm

⁽¹⁾ The GMP (Good Manufacturing Practice) standard is a system of rules, regulations and guidelines for the production of pharmaceuticals, medical devices, diagnostic products, food, food additives and active ingredients. This standard reflects the holistic approach to product quality control, and regulates and evaluates the actual parameters of production and laboratory testing.



Mikron Group: Microchips for Russian Processors

At the end of 2014, the factory of NIIME and Mikron (part of the high-tech RTI Group) in Zelenograd produced the first pilot lot of Elbrus-2GM high-performance general-purpose microprocessors, manufactured using the 90nm technology. MCST plans to use these processors as the basis for serial production of compact motherboards.

It is an advanced dual-core processor with low power consumption, which is fully made in Russia. Elbrus-2GM processors can be used in mass market computers, but their main use is industrial: industrial and transportation systems, telecom equipment, servers, and databases with enhanced information security. To organise manufacturing of new processors at a Russian factory, MCST experts revised the project using the libraries of Mikron's standard elements, while engineers of the Zelenograd factory developed physical layer IP interface and a technological production chain.

Previously, Elbrus processors were manufactured in South-East Asia. The first attempt at producing a complex chip at a domestic factory was an important step towards import substitution and the country's technological independence. The partnership between Mikron and MCST will help to localise manufacturing of higher-performance processors developed in Russia after the factory introduces the required technological standards.



"Microelectronics is not only about engineering design of unique products, but also about their serial production, which requires an appropriate technological base. Given that Mikron is currently the only domestic manufacturer of 90nm microchips, our main task is to support Russian R&D centres working to localise manufacturing of import-substituting products."

Gennady Krasnikov

Member of the Russian Academy of Sciences, Chairman of the Board of Directors of Mikron, Chief Designer of Mikron, CEO of JSC NIIME, PhD (Engineering Science), Professor


mikron

Mikron Group:
Manufacturing Microchips
for Russian Payment Cards



NSPK
NATIONAL
PAYMENT
CARDS
SYSTEM



In 2015, Mikron Group developed a microchip for the Mir National Payment Card System and manufactured Russia's first payment cards with Russian-made chips.

The new chip, which successfully passed functionality and security tests of the MasterCard International Payment System, offers a high level of protection of user data and a memory capacity sufficient to record and use all necessary applications. Mass production of MCU and chip modules, as well as bank cards for Mir was organised at the Mikron factory in Zelenograd. The pilot issue of Mir cards using Mikron's microchips took place at the end of the year.

In 2016, Mikron plans to launch production of a new version of the chip, to have it certified with Mir and international payment systems, and expand the supply of chips to Russian manufacturers of bank cards. Notably, MTS Bank intends to team up with Mir to issue Mir-Maestro cards on the basis of the Russian-made microchips.



"The microchip manufactured by Mikron is a completely domestic product, and its serial production will ensure ready availability of chips for the Russian banking system. The chip will be used by the National Payment Card System, which intends to take up half of the Russian plastic cards market by 2018. The Russian chip can be used not only in the domestic, but also in international payment systems. Our chips are quite competitive: they comply with the same standards, and have passed the same certification as their foreign analogs."

Gulnara Khasyanova

CEO of Mikron



Bashkir Power Grid Company: Localisation of Smart Grid Equipment Manufacturing

In February 2015, BPGC and Germany's Siemens, one of the world's leading technology corporations, signed an agreement on localisation of manufacturing of innovative electrical equipment for the Smart Grid in the Republic of Bashkiria. Under the agreement, BPGC received access to the manufacturer's know-how, while the setup of a state-of-the-art enterprise in Ufa created new jobs for its population.

The first manufactured pieces of equipment have already been installed at the Ufa Power Grid facilities. Some components (power units and vacuum tanks) are still supplied from Germany, but relay protection and automation are assembled by BPGC Engineering from domestic components. Localisation is expected to reach up to 50% in the future.



"In the past year, we built a new shop and got our personnel to complete a Siemens training programme in Dubna. All suppliers of components, without exception, are selected through tenders. Localisation of manufacturing in Bashkiria will reduce the cost of modernisation of the city power grid infrastructure, create new jobs, and encourage development of similar projects in other regions, beyond Ufa and the Republic of Bashkiria. For example, a Smart Grid project is now being developed for the city of Kumertau."

Ilnur Gazizov
CEO of BPGC Engineering



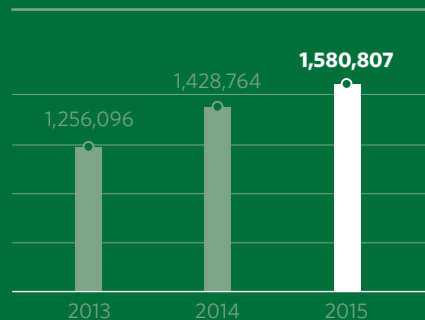
Green Economy

- 177 2.4.1. Greening of Business
- 180 2.4.2. Sustainable Consumption of Resources
- 184 2.4.3. Preservation of Biological Diversity

1.6
RUB bn

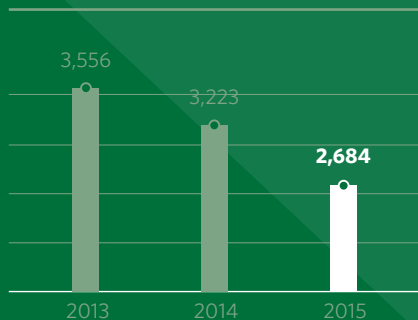


total environmental protection expenses in 2015



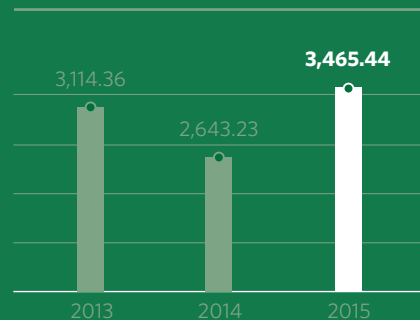
539
K kWh

reduction of the energy consumption in 2015



822
Gcal

increase of the heat power consumption in 2015





2.4. Green Economy

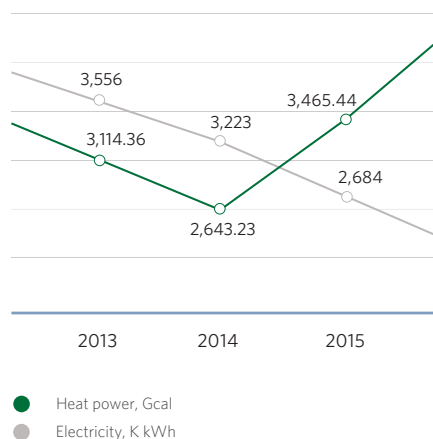
While increasing its production capacity, the Corporation also takes care of the environment by ensuring environmental sustainability, preservation and rational use of resources, and introduction of rational production models and consumption patterns.

to 1.6
RUB bn



Sistema Group's growth of investment in environmental protection in the course of three years

Fuel and energy consumption by the Corporate Centre, 2013–2015



Being an investment company, Sistema has no significant direct impact on the environment. The responsibility of the Corporate Centre includes identifying environmental management priorities for the subsidiaries, as well as monitoring their activities in the area. All companies of the Group must strictly adhere to environmental standards and participate in environmental programmes, as stipulated by Sistema's Code of Ethics.

G4-14

This year, Sistema has for the first time organised centralised collection of data on the environmental impact of the Corporation's enterprises, and intends to continue work to consolidate and analyse environmental data in order to effectively manage environmental impacts.

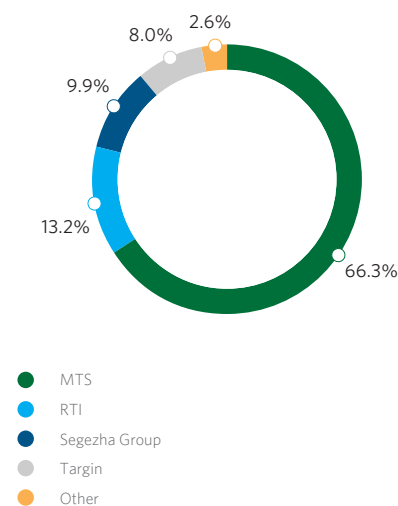
Sistema Group companies actively invest in environmental protection, increasing allocations every year.

In 2015, the largest amounts for environmental protection were allocated by MTS, RTI, Segezha Group, and Targin.

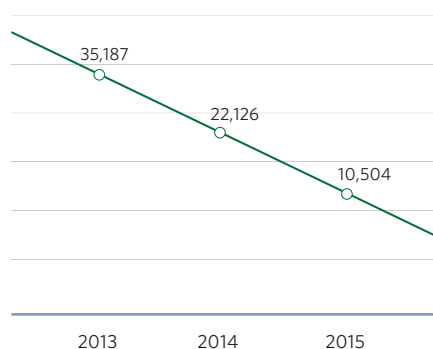
Guided by the precautionary principle, Sistema strives to avoid any potential harm to the environment, even if there is no definite scientific evidence about an activity being harmful, and to preserve natural resources. The Corporation assesses environmental risks and takes steps to prevent and reduce the negative impact on the environment.

G4-EN31

Total environmental protection expenses in 2015, broken down by S/As, %



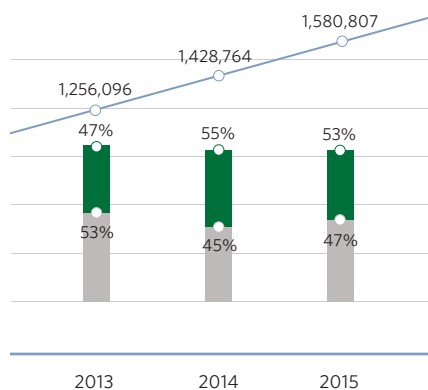
Water consumption by the Corporate Centre, 2013–2015, cubic meters



Direct management of the environmental impact is carried out at the subsidiary level and depends on their sector. In general, most environmental efforts are aimed at increasing energy efficiency, saving resources, managing waste, and protecting air, water, and land resources. Special attention is paid to environmental responsibility of the subsidiaries that, due to the nature of their business, have a significant impact on the environment: Segezha Group, Targin, SG-trans, SG-trading, BPGC, and others.

⁽¹⁾ The consolidated environmental profile for 2015 is incomplete, and each indicator is shown separately.

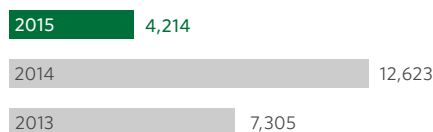
G4-EN31

Structure of environmental protection expenses in 2013–2015, %⁽¹⁾

- Costs of preventing environmental impact and of the environmental management system
- Costs of waste management, emissions purification, and environmental damage elimination
- Total environmental protection expenses in 2013–2015, RUB K

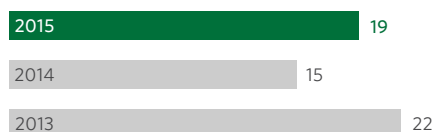
The overall amount of fines imposed on Sistema Group companies decreased more than 1.7-fold in 2013–2015 to RUB 4.2m, while the number of non-monetary sanctions fell by almost 14%.

G4-EN29

Fines imposed for non-compliance with environmental laws and regulations in 2013–2015, RUB K⁽²⁾

G4-EN29

Non-monetary sanctions imposed for non-compliance with environmental laws and regulations in 2013–2015, items

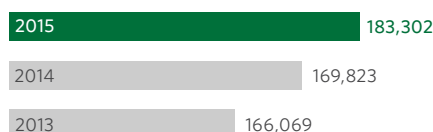


⁽¹⁾ The consolidated profile includes: RTI, SG-trading, BPGC, Detsky Mir Group, Cosmos Group, Segezha Group (since 2014), MGTS, MTS Bank, MTS, SG-trans, Steppe Group, Targin, Intourist, Leader Invest, Binnopharm, and RZ Agro Holding.

⁽²⁾ The consolidated profile includes: RTI, SG-trading, BPGC, Detsky Mir Group, Cosmos Group, Segezha Group (since 2014), MGTS, MTS Bank, MTS, SG-trans, Steppe Group, Targin, Intourist, Medsi Group, and Leader Invest.

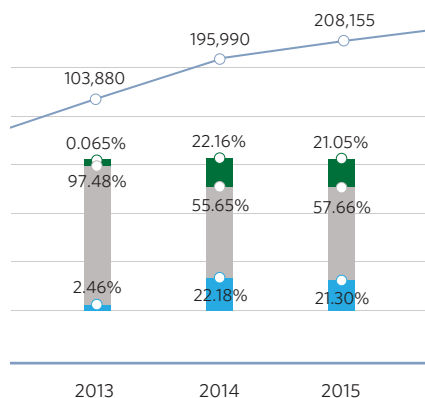
The increase in greenhouse gas emissions by 10% over the last two years was due to the acquisition of new assets, primarily in agriculture, and the expansion of production by the subsidiaries.

G4-EN15

Direct greenhouse gas emissions in 2013–2015, tonnes⁽³⁾

The same factors were behind the two-fold increase in water consumption in 2013–2015. RTI, Segezha Group, Targin, and Steppe Agro Holding are the biggest water consumers. From 56% to 98% of the water is taken from water treatment plants.

G4-EN22

Water consumption in 2013–2015, %⁽⁴⁾

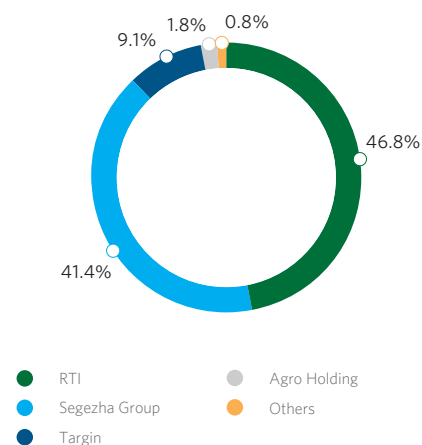
- Recycled water
- Water from water treatment plants
- Water from natural sources
- Water consumption in 2013–2015, K cubic meters

⁽³⁾ The consolidated profile includes: SG-trading, Detsky Mir Group, Cosmos Group, MTS Bank, MTS, SG-trans, Steppe Group, Targin, Intourist, and RZ Agro Holding.

⁽⁴⁾ The consolidated profile includes: RTI, SG-trading, BPGC, Detsky Mir Group, Cosmos Group, Segezha Group (since 2014), Kronstadt Group, MGTS, MTS, SG-trans, Steppe Group, Targin, Intourist, Leader Invest, Binnopharm, and RZ Agro Holding.

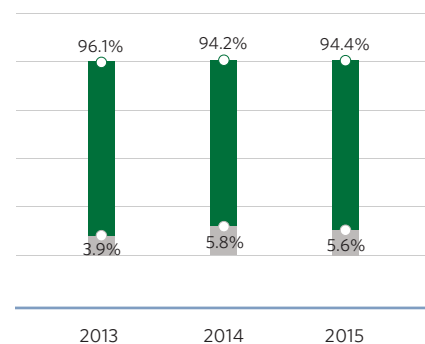
⁽⁵⁾ The consolidated profile includes: RTI, SG-trading, BPGC, Detsky Mir Group, Cosmos Group, Segezha Group (since 2014), Kronstadt Group, MGTS, MTS Bank, MTS, SG-trans, Steppe Group, Targin, Intourist, Leader Invest, Binnopharm, and RZ Agro Holding.

Water consumption in 2015 by S/A, %



The bulk of water is treated by specialised companies, and approximately 6% is purified using own resources.

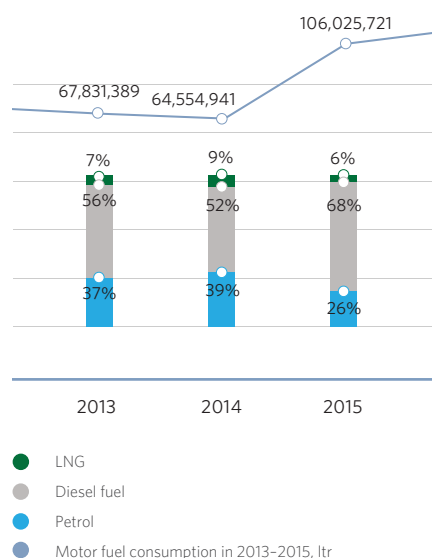
G4-EN22

Total volume of waste water discharges in 2013–2015, %⁽⁵⁾

- Transferred to other organisation for treatment (sewage)
- Purified water

In 2013-2015, consumption of electricity and thermal energy increased by 83% and 18%, respectively, while fuel oil consumption fell by 5%. Motor fuel consumption in the same period almost doubled, reaching 106m litres due to the expansion of the subsidiaries' machinery fleets. At the same time, diesel steadily accounts for the bulk of fuel consumed.

Motor fuel consumption in 2013-2015, %⁽¹⁾



In 2015, the total weight of waste generated by Sistema Group companies amounted to 1.8m tonnes. The companies mainly generate waste of hazard class IV (66%) and V (33.5%). This is low-hazard and essentially non-hazardous waste, after the emission of which the environmental system can recover in about 3 years, or from which there is absolutely no damage to the environment.

G4-EN3

Fuel and energy consumption in 2013-2015⁽²⁾

Indicators	2013	2014	2015	Change in 2 years
power consumption, million kWh	71,394,066	92,473,285	130,671,871	+83%
heat consumption, Gcal	944,890	1,035,682	1,114,930	+18%
boiler and furnace fuel, tonnes	2,134,741	2,184,475	2,021,017	-5%

G4-EN23

Total weight of waste by hazard class in 2015⁽³⁾

Hazard Class	Waste, tonnes	Waste, %
I	42	0.002
II	101	0.01
III	4,858	0.27
IV	1,192,466	66.25
V	602,497	33.47
Total	1,799,965	100.00

G4-EN23

Total weight of waste by treatment method, %⁽⁴⁾

Waste management methods	2013	2014	2015
Re-use	2.84	0.93	0.54
Multiple use	0.03	0.001	0.01
Composting	57.11	40.39	29.75
Extraction of valuable components, including the release of energy	0.03	0.01	0.01
Bulk combustion	0.04	0.01	0.01
Disposal in a landfill	19.42	46.03	60.07
Storage on a company site	0.06	0.18	0.11
Another way of disposal	20.47	12.44	9.51

⁽¹⁾ The consolidated profile includes: RTI, SG-trading, BPGC, Detsky Mir Group, Cosmos Group, Segezha Group (since 2014), Kronstadt Group, MGTS, MTS, SG-trans, Steppe Group, Targin, Intourist, Leader Invest, Binnopharm, and RZ Agro Holding.

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2.4.1. Greening of Business

The Corporation strongly supports projects that make the business more environmentally friendly, thereby minimising the environmental risks of the assets and potential negative consequences. Following international environmental trends, Sistema's portfolio companies actively implement projects aimed at:



reducing discharges and waste



preserving natural resources



ensuring power supply



developing sustainable methods of production



MTS: An Ecotelecom

In doing business, MTS adheres to the principle of nature preservation. The company strives to minimise its impact on the environment. Guided by the recommendations of ISO 26000, it is implementing a set of environmental measures.

MTS Group has carried out a number of internal and external activities aimed at achieving one of the goals of the global environmental agenda, namely, transition to rational management of chemicals and waste, as well as minimised emissions of hazardous substances.

As part of its environmental efforts, MTS assesses the environmental impact of production of plastic and packaging (including SIM cards). Based on the assessment results, the company decided to introduce ecofriendly cardboard packaging in 2016.

MTS's procurement procedures envisage mandatory testing of all smartphones and accessories, making sure that products of dubious quality are not admitted to tenders. In some cases, smartphones were excluded because of a strong chemical odor or fragility of the materials used. All customised equipment (smartphones, USB modems, routers, TV tuners) have EAC certificates. In addition, the packaging and accessories are marked with "Do not dispose of with household waste".



≈15.5
m SIM-cards



were sold in the framework of the project Ecotelecom



OZON Green: Green Goods for a Green Lifestyle

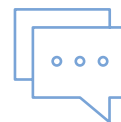
> 6,000
customers



were attracted by the ecofriendly goods' section on OZON.RU

In 2015, the online megastore OZON.RU launched a special section, OZON Green, on its website, which attracted more than 6,000 new customers in just one year. The section offers goods that save energy and preserve nature, and also gives useful everyday tips on the green lifestyle.

The OZON Green programme involves the company's employees, too. As part of the project, volunteers planted trees, conducted workshops for colleagues and their children, learned about sorting waste, toured the Moscow Water Utility Plant, collected used batteries, and tried to assess their personal impact on the environment. Activists engaged third-party environmental experts for conducting workshops and training sessions, and each event was attended by an of 40 participants.



"In the past, OZON.RU organised only one-time campaigns involving employees, without evaluating the results and their connection to the business. OZON Green is not just a project, but part of the strategy to develop internal communications in the company, and the strategy of our business as a whole."

Danny Perekalsky
CEO of OZON.RU



Segezha Group: Production and Consumption of Ecofuel

Segezha Group strives to use and produce inexpensive, reliable and modern energy sources, increasing the share of energy from renewable sources in its overall energy balance.

In 2015, the Sokol Wordworking Plant in the Vologda region began manufacturing a cutting-edge bioenergy fuel — pressed sawdust briquettes. They do not contain any harmful substances and are absolutely safe and environmentally friendly. The calorific value of fuel briquettes is close to that of black bituminous coal, surpasses that of brown coal by 25%, is twice as much as the calorific value of dry wood, and three times as much as that of firewood with

natural moisture content. When burned, fuel briquettes leave less than 1% in ash, compared to 20% and 40% for black and brown coal, respectively. The density of such briquettes is two times higher than that of ordinary firewood, while their price is lower. Such briquettes are often referred to as "European firewood" by shop assistants.

On 25 August 2015, a test batch of fuel briquettes was produced at Sokolsky WWP. At present, assembly of equipment for fuel briquettes production is nearing completion. The company has held talks with the administrations of municipalities in the Sokolsky district, where many boiler houses use coal. Now many of them will be able to use fuel briquettes.

In 2016, Sokol WWP intends to build a boiler running on bark waste in order to meet its own energy needs. The company's further plans include an energy-efficient project for production of fuel pellets, which will allow the plant to fully transition to an automated, robot-aided and environmentally friendly process of heat energy production.



"Segezha Group adheres to common global environmental policies aimed at reducing the negative impact on the environment. When implementing new projects — building new facilities and upgrading the existing ones - we only use cutting-edge clean technologies, increasing the share of energy produced from renewable sources."

Sergey Pondar
Vice-President for Production,
Segezha Group



Detsky Mir Chooses Eco Packaging

Detsky Mir Group is committed to environment protection, preservation of natural resources, and recycling of packaging. Launch of brown kraft paper bags was a logical next step in the series

of environmental initiatives of the largest chain of children's goods, aimed at reducing the harmful impact on the environment.

Segezha Group, which supplies ecofriendly paper bags and sacks certified according to the FSC standards to major retailers and manufacturers, became a partner of the project. In 2015, the project was launched in the pilot mode in Moscow and the Moscow region. The first lot consisted of 385,000 bags. The retail price of is RUB 15 per bag, which can hold up to 7 kg. Part of the proceeds goes to charity programmes of Detsky Mir Charitable Foundation.



Segezha Group: Modernisation of Wastewater Treatment Control Systems

One of the focus areas in Segezha's environmental efforts is the modernisation of wastewater treatment control systems. In 2015, Karelia Woodworking Plant commissioned the second part of the stormwater treatment facility, the construction of which was completed in 2014. This drastically reduced the amount of formaldehyde and iron in wastewater, 35- and 20-fold respectively. The Federal Service for the Supervision of Natural Resources (Rosprirodnadzor) in the Republic of Karelia confirmed the efficiency of the new facility based on the results of test sampling.



2.4.2. Sustainable Consumption of Resources

As global consumption grows, the world will soon face an acute deficit of natural resources for power generation and production of goods and other conveniences. Because of this, Sistema and its subsidiaries are making concerted efforts to reduce the energy intensity of manufacturing and introduce sustainable consumption practices, including recycling and switching to alternative energy sources, taking into account environmental and economic efficiency.



Sistema Group was the leader for waste paper collection among businesses participating in FSC Friday campaign

On 25 September 2015, FSC Friday — an annual international campaign devoted to forest care — was held in Russia. The campaign aims at attracting the attention of the public and businesses to environmental issues and the importance of using certified products in their work. The campaign is organised by the Forest Stewardship Council (FSC).

As part of FSC Friday, Sistema, MTS and RTI joined the Collect Waste Paper — Help the Forest campaign for the first time. Together they demonstrated the best results among business participants, having collected 1,650 kg of waste paper in their offices,



which made it possible to save 28 trees, 11,550 litres of water, 6,600 kWh of electricity, and to prevent the discharge of 2,805 kg of CO₂ into the atmosphere. In the individual ranking of companies, MTS landed the first place, and RTI the third.



MGTS: Saving Paper with WWF Russia

>3,000 trees

will be saved from being cut down by abandoning paper bills



MGTS, a member of MTS Group, has been developing remote customer service channels and simultaneously trying to reduce paper consumption by suggesting that its subscribers switch to electronic bills since 2015.

Abandoning paper bills the company will not only contribute to preservation of natural resources, but will also cut its production costs by several million roubles a year. Moreover, MGTS donates 1% of the funds saved on paper bills to World Wildlife Fund.

A total of 200,000 MGTS subscribers have already switched to e-bills, which will save 3,000 trees from being cut down.





MTS: Eco Office and Waste Management

Since 2012, MTS has been implementing the Eco Office project, which tries to involve the company's employees in environment protection through such initiatives as waste sorting, ecofriendly waste management, and rational use of electricity and paper. The project aims at spreading environmental knowledge and raising employees' environmental awareness.

In 2015, MTS's Corporate Centre switched to a new document registration system of based on the modified web version of the Boss-Referent Document Management System. The company also updated posters promoting environmentally responsible behavior.

In 2016, it plans to introduce electronic document flow with its business travel agency (organising employees' business trips), which will significantly cut costs of paper and courier services used.

MTS also recycles telecom equipment and re-uses materials. Since 2012, it has been organising the Give Up Batteries campaign at its offices to collect used batteries.

In 2014, the campaign went beyond the company offices: stations for collecting used batteries opened at some leading universities and MTS outlets. Since 22 April 2015, MTS retail stores have been accepting small batteries and batteries of phones, tablets and other devices for safe storage, transportation, and ecofriendly disposal at LLC Megapolisresurs. The campaign has grown into a large network of battery collection stations, which are now present in 230 cities of Russia, from Kaliningrad to Yuzhno-Sakhalinsk.

A total of 350 kg of batteries were collected and sent for disposal in 2015, while the aggregate result of the four years of the campaign exceeds 1,500 kg of batteries. In 2016, MTS plans to start collecting used batteries at its outlets across Russia.



Mikron: Energy Management

Mikron, part of RTI Group, was one of the first Russian high-tech companies to implement a comprehensive energy management system that meets the requirements of ISO 50001:2011 in the area of energy management.

In 2015, Mikron successfully passed the second compliance certification audit and obtained an endorsement from Bureau Veritas Certification. The audit confirmed that the company's energy management system meets the requirements of ISO 50001:2011.

In the course of four years, the energy management system allowed the Mikron to reduce electricity consumption by 27.2%, heat energy consumption — by 15.5%, and power consumption — by 27.3%.

As part of energy management development and R&D work, the company is working on new products with improved energy saving characteristics for the markets of Russia, Korea, and China, notably, LED drivers, controllers, and converters meeting the modern requirements for energy efficiency.



Bashkir Power Grid Company: Energy Saving and Energy Efficiency

In the reporting year, BPGC continued to implement its Energy Saving and Energy Efficiency Programme for 2014–2023.

As a result, the company achieved a decrease of the following indicators compared to 2014:

- technological power losses in distribution grids — down by 28m kWh, and in transmission grids — by 11m kWh;
- consumption of heat and electrical energy by buildings and facilities owned by the company — down by 0.9% and 2.5%, respectively;
- consumption of fuel and lubricants by BPGC for electric power transmission — down by 1.8% (including a 8.9% reduction in fuel consumption).

The programme also provides for introduction of an automatic power consumption metering system, and BPGC installed

30,000 smart meters on the borders with consumers and at main substations. The move put the company ahead of schedule in the State Programme for Energy Efficiency and Energy Development, which was by the Russian government in 2014.

Indicator	Programme	2014	2015
Modernisation of the commercial electric power metering system (introduction of smart meters)	Targets set by the State Programme for Energy Efficiency and Energy Development, %	8.5	11.1
	BPGC's performance, %	11	16



Leader Invest: Energy Saving Technologies in Construction

Leader Invest consistently introduces new technologies in real estate construction, including installation of energy saving equipment, such as LED lighting, light control based on light and motion sensors, and fan engines, which reduce energy consumption. The aim of these innovations is to ensure sustainable use of natural resources. Pumping stations with smooth-start systems, used for hot and cold water supply, allow avoiding surge of loads during a start, and saving energy. The company installs meters with pulse output, encouraging water saving behaviour.

In 2015, three residential houses with a total area of 39,000 sq m and a 31, 000 sq m office building were built using these technologies in Moscow.



"In construction projects, we widely use technologies that help to save resources necessary for the operation of apartment buildings, and cut living expenses. One of the company's objectives is to minimise the negative impact on the environment, and that is why every year we develop new anti-pollution technologies."

Evgeny Rubtsov

President and Chairman of the Board of Directors, Leader Invest



MTS: Using Alternative Energy Sources

MTS is actively introducing alternative energy sources, such as solar panels and wind turbines, in its telecommunications network. These sources provide power supply to base stations in some areas in the Far East, the Caucasus, and on the shore of the Barents Sea.

In December 2015, MTS launched Russia's only LTE base station with a backup power unit using hydrogen-air fuel.

The unit turns on automatically in case of power decrease or outage. The system is environmentally friendly and has a 5 times longer service life than electrochemical batteries (15 years).

MTS plans to continue replacing energy sources for its stations.



Segezha: Transition to Intensive Forest Management

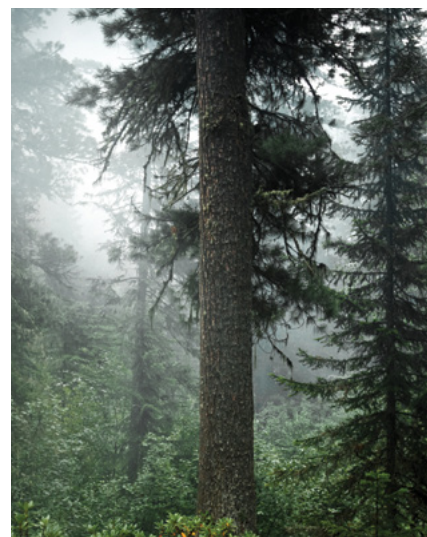
1.6 m cu m

area of the leased forest fund
Segezha Group, covered by Intensive Forest
Management



In 2015, Segezha Group participated in a number of pilot projects to address the problems of transition to intensive forest management within the framework of a government programme developed by the Russian Ministry of Natural Resources and the Federal Forestry Agency. Intensive forest management is the preferred forestry development model in the Republic of Karelia, since it can ensure proper treatment of forests and meet the demand for raw materials from the region's manufacturers.

Segezha Group is a stakeholder and investor of the project, since it will significantly increase availability of wood resources for Segezha PPM without increasing the leased area of forest plots. The project currently covers 1.6m cu m, and the figure is expected to grow to 2m cu m.



2.4.3. Preservation of Biological Diversity

Some of the Group companies' production facilities are situated near the habitats of rare animals and plants. Sistema is aware of the need to reduce the worldwide loss of biodiversity, and not only encourages its portfolio companies to demonstrate a responsible attitude to preservation of biodiversity in the areas where they operate, but also invests in projects to protect rare species in Russia.



Saving the Far Eastern Leopard



Since 2012, Sistema has supported the autonomous non-profit organisation Centre for the Preservation of Leopards, annually allocating funds for environmental initiatives aimed and preservation and recovery of the population of this rare species of wild cats in the Primorye region. The donations are also used to finance biotechnical work, and to upgrade the facilities and improve the territory of the Land of the Leopard National Park. Sistema's contribution to the project totals RUB 3m annually.

In 2016, the Centre plans to carry out numerous research and educational programmes, to upgrade the security system and to build a specialised laboratory to biomaterials.



"Thanks mainly to our joint efforts, the number of leopards has increased to 85, and their habitat has expanded considerably. This is a commendable result!"

Sergey Ivanov

Head of the Russian Presidential Administration, Chairman of the Supervisory Board of the Far Eastern Leopards non-profit

COOPERATION WITH THE RUSSIAN GEOGRAPHICAL SOCIETY

10 RUB m

Sistema donated to support the RGS in 2015



For the past five years, Sistema has been cooperating with the Russian Geographical Society (RGS), one of the oldest non-governmental organisations in Russia, studies and preserves the country's natural wealth. In 2015, Sistema donated RUB 10m the RGS. The money was used to finance a number of studies, including integrated environmental assessment of Russian cities and regions, and of the ecological and geochemical state of the mouth of the Don River, and to develop the first electronic atlas of Karelia.



Segezha Group: Protection of Rare Species

The companies of Segezha Group are committed to preservation of biological diversity, including at the local level (the level of forest plots), and they conduct their business in accordance with the recommendations of the regional forest management and environmental authorities.

At the end of 2015, high conservation value forests accounted for 21% of Segezha's total leased forest area. Protected natural areas, where no production activities are allowed, totaled over 900 ha, and another 338 ha are classified as area of concentration of rare and endangered species. When marking cutting areas, elements of biodiversity and biotopes are marked with tape and shown in operating charts as non-commercial land.

This land is kept intact during subsequent logging. Segezha Group pays special attention to the preservation of lungwort (*Lobaria pulmonaria*), a red-listed lichen.

In December 2015, Segezha Group was named the most responsible forest user in the Woodland Tenants Rating compiled by the Northern Environmental Coalition, a Karelian NGO.

>900 ha



protected natural areas, where no production activities are allowed



MTS Armenia: Preserving Biological Diversity in the Caucasus

The Caucasus is one of the world's biologically richest areas, and has the greatest biodiversity among the forest regions of temperate latitudes. There are 6,500 vascular plant species, 25% of which are unique to the region, as well as some endemic animals, including the East and West Caucasian turs, the Armenian mouflon, and the Caucasian salamander. In addition, the large differences in altitude, the varied climate, soils and vegetative conditions form a wide range of landscapes, from semideserts to alpine tundra.

Since 2010, the Foundation for the Preservation of Wildlife and Cultural Assets of Armenia (FPWC) with the support of VivaCell-MTS, a member of MTS Group, has been protecting natural areas in the South Caucasus, by renting or buying them.

By the end of 2015, the area of the Caucasian Nature Reserve exceeded 4,000 ha. In addition to preservation of natural areas, the Reserve is used as a territory for research, educational activities, and ecotourism. VivaCell-MTS uses available technology to improve control over the preservation of the pristine natural environment of the Reserve. In 2014, the company provided

high-speed Internet for online monitoring of the area through IP and GPS cameras, as well as for fast and efficient communication between the Reserve's employees. In 2015, the operator helped to launch air drones equipped with cameras for monitoring the territory.



"The Research Centre of the Reserve plays an important part in the monitoring and protection of biodiversity in the region. We were happy to provide state-of-the-art monitoring equipment for the Reserve, and are looking forward to hearing about new discoveries that will be made using this equipment."

Ralph Yirikyan
CEO of VivaCell-MTS

Appendices

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Appendix 1. About this Report and Determining Materiality

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Sistema continues the practice of preparing annual non-financial reports, and is hereby presenting its third Sustainability Report (hereinafter — the Report). Previously, the Corporation published several social reports (since 2006)⁽¹⁾. The previous Sustainability Report for 2014 was published in the fourth quarter of 2015.

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Some of Sistema Group companies prepare their own public non-financial reports, detailing their approaches to sustainable development, social projects, and interaction with stakeholders. They are MTS (since 2009), Detsky Mir (first report for 2013–2014), and Segezha Group (first report for 2014–2015).

The purpose of this Report is to inform a wide range of stakeholders (the public) about the principles, goals, practical results, and prospects of Sistema's activities in the field of sustainable development and corporate social responsibility. The Report represents a comprehensive picture of Sistema's efforts in the above areas in 2015.

PRIORITY ASPECTS OF THE REPORT FOR 2015

1. Responsible investment in the national economy
2. Improving the quality of life in Russian regions
3. Ensuring technological leadership

LEVEL OF APPLICATION OF THE GRI GUIDELINES

This Report has been prepared on the basis of recommendations of the Sustainability Reporting Guidelines (G4 version) of Global Reporting Initiative (GRI), in accordance with the core disclosure level.

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The place of standard disclosures and performance indicators is shown in Appendix 4.

The Report also takes into account:

- The principles of the UN Global Compact;
- The provisions of the Social Charter of Russian Business;
- The basic performance indicators developed by RSPP;
- The Responsibility and Transparency Index and the Sustainable Development Vector Index (developed by RSPP and the European University in St Petersburg).

IDENTIFYING MATERIAL ASPECTS FOR DISCLOSURE IN THE REPORT

The materiality assessment procedure in accordance with the requirements of the GRI G4 Guidelines was for the first time followed when preparing the 2014 Sustainability Report.

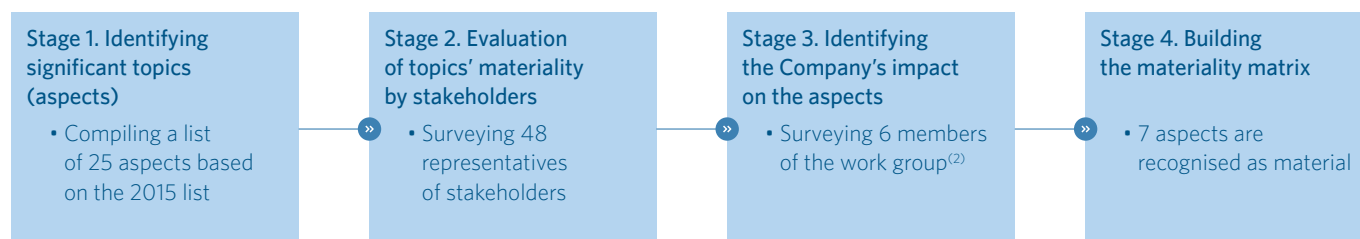


For details on the defining materiality, see Sistema's 2014 Sustainability Report, p.p. 16–17

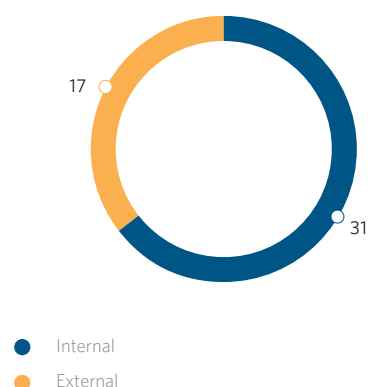
In the preparation of this Report, the Corporation updated the materiality of the disclosed aspects. This year's list of important topics was formed based on last year's material aspects, supplemented with specific topics related to the Corporation's activities in 2015, and aligned with the GRI aspects.

⁽¹⁾ For more information: <http://www.sistema.ru/ustoichivoe-razvitie/socialnye-otchety/>

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Stages of Defining Materiality⁽¹⁾

Number of questionnaires received from the Corporation's internal and external stakeholders, items



In the course of the survey, stakeholders assessed the materiality of each of the topics proposed for disclosure in the Report on a 5-grade scale. They were also asked to elaborate the wording of important topics and propose additional ones. Members of the working group, which comprised Sistema employees involved in the preparation of the Report, assessed the impact of the Corporation on each of the 25 material aspects, also on a 5-grade scale.

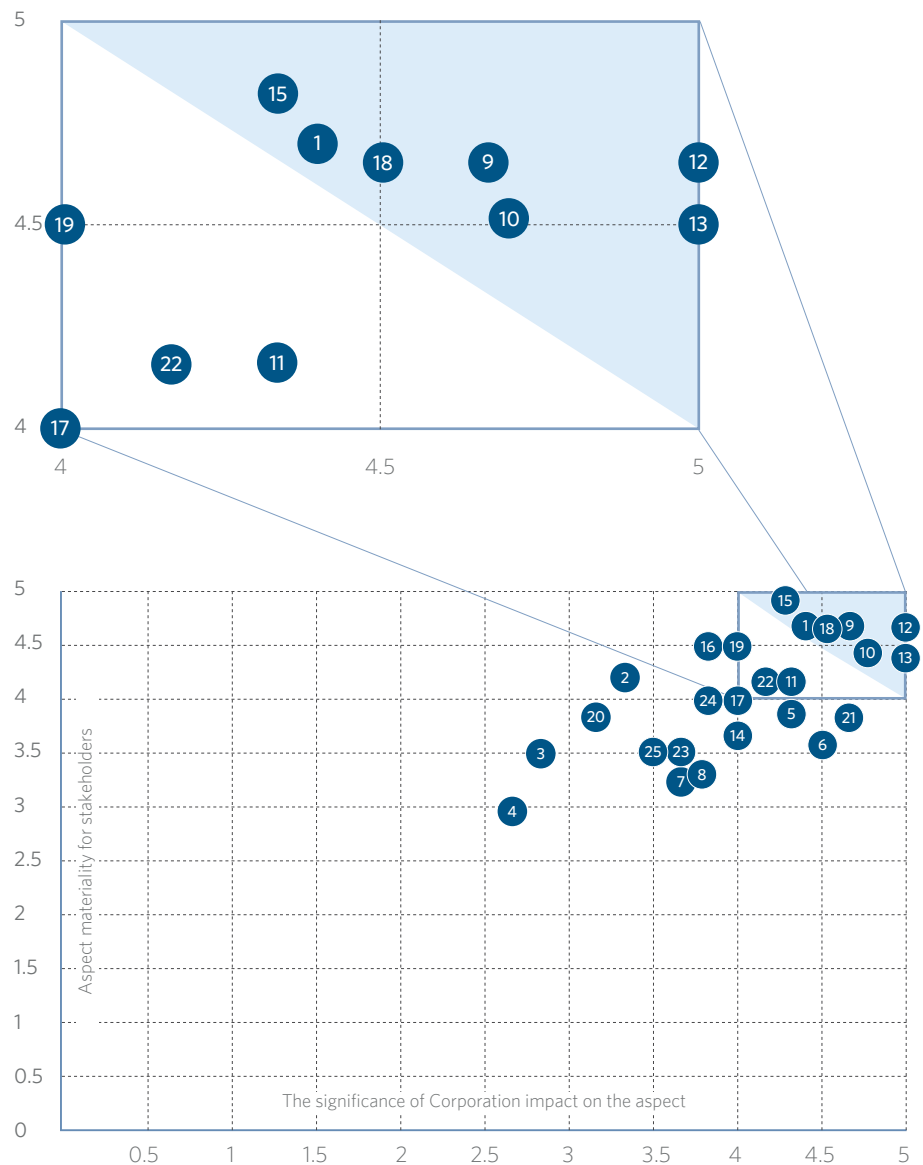
⁽¹⁾ Internal: personnel and management (20 representatives), subsidiaries and affiliates (11 representatives). External: shareholders (an independent member of Sistema's Board of Directors), investment community (Russian-Chinese Investment Fund), innovative development institutions (RUSNANO), government authorities (the Russia Ministry of Economic Development, the Karelian Ministry of Economic Development and Industry) and public supervision bodies (the Public Chamber of the City of Moscow), professional bodies (including the Association of Managers, the Industrialists' Roundtable on Cooperation with the European Union) and expert organizations (the Russian Government's Analytical Centre), social and charity organizations (the Russian National Council of Corporate Volunteering, the Donors Forum, the Charities Aid Foundation (CAF)) and environmental organisations (World Wide Fund for Nature Russia, the Forest Stewardship Council Russia), educational institutions and scientific community (the CSR Centre at the Moscow International Higher Business School MIRBIS, the Research Centre for Civic Institutions Economics, and the High School of Management and Innovation of the Lomonosov Moscow State University, the European University of St Petersburg).

⁽²⁾ D. Kolchugin – Corporate Communications Manager; S. Kopytov – Managing PR Director; Y. Krebs – IR Director; A. Menshikova – Director for Methodology, the Internal Control and Audit Department; I. Petrov – Corporate Secretary, Head of the Secretariat of the Board of Directors; S. Syomkin – Executive Vice President for GR.

Compared to the previous year, stakeholders' involvement in the preparation of the Report has grown considerably: the number of questionnaires received grew almost by 50%, and of those received from external stakeholders — by 20%.

The results of the survey of stakeholders and the working group was used to build a materiality matrix, which offers a visual representation of sustainable development topics that are material for Sistema. The horizontal axis shows the Corporation's impact on material aspects, while materiality of the aspects for stakeholders is shown on the vertical axis. The 7 topics that ended up at the top of the materiality matrix were deemed as priority and mandatory for disclosure in the Report.

Materiality Matrix



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Complete List of Significant Topics⁽¹⁾

Item No	Aspect
Economy	
1.	Economic performance of Sistema and its subsidiaries
2.	Activities of Sistema and its subsidiaries to ensure the country's technological leadership : projects for implementation of innovation and modernisation of manufacturing, development of high-tech industries, and investment in infrastructure
Environment	
3.	Activities aimed at the development of a "green" (environmentally responsible) economy : projects for greening of businesses in Russia, promotion of ecofriendly products
4.	Programmes of Sistema and its subsidiaries aimed at preservation of biological diversity in the regions of their operation
5.	Compliance of Sistema and its subsidiaries with legal requirements in the field of environmental protection
6.	Total investments of Sistema and its subsidiaries in environmental protection
7.	Data on emissions by Sistema's subsidiaries (volume and intensity of emissions, reduction of emissions)
8.	Data on discharges and waste generation by Sistema's subsidiaries (volume and intensity of discharges and waste generation, their reduction)
Human Resources	
9.	Sistema and its subsidiaries as attractive employers : the level of wages paid to employees in the regions of operations, the share of executive positions held by local candidates
10.	The main characteristics of personnel of Sistema and its subsidiaries (headcount, turnover, employee benefits)
11.	Employee health and safety in the workplace at Sistema and its subsidiaries
12.	Employee training and education at Sistema and its subsidiaries (training programmes, duration of training)
13.	Ongoing training programmes implemented by Sistema and its subsidiaries to train specialists for innovative sectors of the Russian economy
14.	Openness and quality of communication between employees and the management of Sistema and its subsidiaries
15.	Business ethics and anti-corruption practices at Sistema and its subsidiaries
Human rights	
16.	Non-discrimination at Sistema and its subsidiaries (by gender, ethnicity, religion)
17.	Data on training programmes for employees of security units of Sistema and its subsidiaries on the observance of human rights
Regions of presence and communities	
18.	Charitable activities and social investment of Sistema and its subsidiaries
19.	Contributions made by Sistema and its subsidiaries to the development of the regions of their operations and local communities (support of healthcare, development of domestic tourism, integrated development of territories, enhancement of the country's food security)
20.	Participation of Sistema and its subsidiaries in the development of government policies (development of federal and/or regional legislation, political contributions)
21.	Compliance of Sistema and its subsidiaries with antitrust laws
22.	Social partnership and interaction of Sistema and its subsidiaries with local communities, regional and local authorities
23.	Data on fines and non-financial penalties or sanctions for noncompliance with laws , imposed on Sistema and its subsidiaries

⁽¹⁾ Topics highlighted in bold were deemed material.

Item No	Aspect
Product responsibility	
24.	Ways to ensure health and safety of consumers of products and services of Sistema's subsidiaries (assessment of the impact of products and services on consumers' health, steps taken to minimise harmful effects)
25.	Data on fines and non-financial penalties or sanctions for non-compliance with laws in the field of product liability , imposed on Sistema's subsidiaries

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REPORT BOUNDARIES

Boundaries of GRI Indicators Disclosure in the Report⁽¹⁾

Aspect	GRI Indicator No.	Sistema's Corporate Centre	Subsidiaries and affiliates
Economic performance of Sistema and its subsidiaries in 2015	G4-EC1	✓	✓
	G4-EC4	✓	
Sistema and its subsidiaries as attractive employers	G4-EC5	✓	
	G4-EC6	✓	
Main characteristics of employees of Sistema and its subsidiaries in 2015	G4-LA1	✓	✓
	G4-LA2	✓	✓
	G4-LA3	✓	
Employee training and education at Sistema and its subsidiaries in 2015	G4-LA9	✓	✓
Ongoing training programmes implemented by Sistema and its subsidiaries to train specialists for innovative sectors of the Russian economy	-	✓	✓
Business ethics and anti-corruption practices at Sistema and its subsidiaries in 2015	G4-56	✓	✓
	G4-SO4	✓	
	G4-SO5	✓	✓
Charitable activities and social investment of Sistema and its subsidiaries in 2015	-	✓	✓

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The results of production, financial and economic activities of Sistema included in the Report are presented on a consolidated basis for the Corporation as a whole (unless otherwise stated) and are based on the audited financial statements prepared in accordance with the International Financial Reporting Standards (IFRS).

The list of legal entities whose reports were included in the consolidated financial statements is published on the Corporation's website⁽²⁾.

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The Report does not contain restatements of indicators given in the previous reports of the Corporation.

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⁽¹⁾ Aspects were deemed immaterial outside the Corporation.

⁽²⁾ The consolidated financial statements of Sistema and its subsidiaries for 2015.

DISCLAIMER

The unaudited non-financial report for 2015 contains assessments and forward-looking statements with respect to industrial, financial, economic, social, and other indicators describing the development of the Corporation. For various reasons, actual events or results in future reports may differ materially from those contained in projections or forecasts, due to the rapidly changing situation on the markets, as well as many other factors and risks related to the activities of Sistema and its subsidiaries.

PUBLIC (EXTERNAL) ASSURANCE OF THE REPORT

Sistema's 2015 Sustainability Report has passed the external assurance procedure, which was performed by the RSPP Council for Non-Financial Reporting. For the Opinion on Public endorsement, see Appendix 5. Recommendations and comments received in the process will be taken into account as far as possible during future reporting cycles.

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Taking into account recommendations of the RSPP Council for non-financial reporting, given based on Sistema's 2014 Sustainability Report

Recommendation of the RSPP Council for non-financial reporting (excerpt ⁽¹⁾)	Consideration and implementation of the recommendations in the 2015 Report
1. Provide more information on how the values and principles communicated by the Corporate Centre are introduced in the decision-making process and management systems of the subsidiaries.	Done; see: 1.2. Corporate Governance; 1.4. Procurement Activities; 1.5. Risk Management; 1.6. Business Ethics and Anti-Corruption Activities; 1.7. Personnel Management; 1.9. Managing Corporate Social Responsibility.
2. Increase the number of indicators, aggregated for the Group, and show their development for at least three years	The Group's consolidated figures are given for all all major areas of the Corporation's activities. In future, we plan to consolidate these indicators on an annual basis to show the dynamics for three years.
3. Include more indicators in the Corporation's consolidated report; show the key performance results against the triple bottom line for the whole Group and for its key assets.	Done; see: Section 1. Profile of the Corporation.
4. Provide more information on how the principles of responsible investing are applied to Sistema's business strategy and its policy in this area.	Done; see: Sustainable Development Agenda; 1.1. Investment Strategy; 1.9. Managing Corporate Social Responsibility.
5. Show the approaches used to measure the impact of the Corporation's social projects on target audiences.	Done; see: 1.9. Managing Corporate Social Responsibility.
6. Include information on specific measures and expected results, both qualitative and quantitative indicators, in line with the best practices of non-financial reporting.	Done. The description of the Corporation's impact on the external environment, and the results of CSR management have been supplemented with quantitative indicators.
7. Decide on the list of environmental indicators to be consolidated at the Corporation's level and disclosed in reports; provide more information on Sistema's position with regard to the environmental aspects of sustainable development and management in this area.	Done; see: Sustainable Development Agenda. 2.4. Green Economy.

⁽¹⁾ The full version of the RSPP's opinion on external assurance.

8. Expand the interpretation of corporate social responsibility to consider all of the Corporation's activities in this context.

9. Make maximum use of the opportunities provided by interaction with stakeholders in the course of preparation and presentation of the Report, including dialogues and public hearings.

Done; see:

Sustainable Development Agenda;
1.9. Managing Corporate Social Responsibility

The reach of stakeholders' survey held to identify material topics for disclosure has been expanded.

We plan to organise a public presentation of the 2015 Report for stakeholders.

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For any information regarding this Report and its contents, please contact Dmitry Kolchugin, Corporate Communications Manager at the Corporate Communications Function of Sistema, by phone:

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+7 (495) 692-10-88

or by e-mail:
kolchugin@sistema.ru

Appendix 2. Implementation of Sustainable Development Plans in 2015

Item No.	Plan	Status
Corporate Governance		
1.	Implement the dividend policy	Done ⁽¹⁾
2.	Improve the procedures of Board meetings; increase Board members' involvement in the development of the Corporation's strategy and its specific projects; develop communications between Board members and the management	Done
3.	Maintain the high level of the corporate governance system; align its elements with the new listing requirements of the Moscow Stock Exchange	Done
4.	Carry out corporate governance audits at S/As	Done
5.	Carry out an external evaluation of the work of Sistema's Board of Directors for compliance with the new Corporate Governance Code, as recommended by the Russian Central Bank in 2014	Done
Interaction with Shareholders and Investors		
6.	Increase the amount and quality of information disclosure at the majority of key assets, including disclosure of Segezha Group's results together with the release of information on Sistema's performance	Done
7.	Get S/As ready for independent disclosure of financial information in accordance with IFRS	In progress ⁽²⁾
8.	Organise regular meetings between the Corporation's top managers and investors	Done
9.	Overhaul Sistema's website, providing more information about its assets and CSR activities	
10.	Update one of the key regulations, the Tender Procedures and Procurement Code	Done
11.	Analyse the Corporation's needs for certain categories of goods for consolidated procurement	Done
12.	Reform procurement processes at Targin and Segezha Group in order to enhance the effect on performance indicators	Done
13.	Increase the share of purchases made using electronic trading platforms	Done
14.	Organise a series of workshops on procurement to exchange best practices and provide methodological support to S/As	In progress ⁽³⁾
Risk Management		
15.	Improve the existing risk management mechanisms and procedures both at the Corporate Centre and at S/As, with a focus on financial risk management	Done
16.	Implement the ERM process at the new assets in accordance with corporate standards	Done
Business Ethics		
17.	Update Sistema's Code of Ethics	Done
18.	Organise distance and in-person training of employees on compliance with the legislation and internal procedures of the Corporation related to the requirements of the Code of Ethics and insider information	Done
19.	Modernise the personal data protection system due to changes in legislation	Done
20.	Introduce a mechanism for resolving conflicts of interest	Done
Anticorruption Efforts		
21.	Improve the anti-corruption system at Sistema, including investment and procurement processes and contractual activities, as part of implementation of the HR policy	Done
22.	Introduce common anti-corruption procedures for all S/As of the Corporation	Done
23.	Monitor the relevance of and compliance with regulations on implementation of Sistema's Anticorruption Policy	Done
24.	Use information resources to carry out anticorruption activities	Done
25.	Organise distance training for employees on compliance with Sistema's Anticorruption Policy	Done

⁽¹⁾ In 2016, Sistema plans to adopt a new progressive dividend policy to offer attractive returns for shareholders.

⁽²⁾ Sistema began disclosing financial information in accordance with IFRS in 2015.

⁽³⁾ In 2016, it plans to establish a procurement centre of excellence within the Corporation (to organise workshops, and share knowledge and best practices among S/As).

Item No.	Plan	Status
26.	Prevent and/or stop legal entities and individuals committing corrupt acts that cause physical and/or reputational damage to the Corporation	Done
27.	Compensate for the damage caused by corrupt activities, minimise and/or eliminate the consequences of corruption-related offenses	Done
28.	Inform the Corporation's management corruption-related incidents and economic damage caused	Done
29.	Perform financial and economic audits of S/As	Done
Personnel Management		
Introduce tools to improve the performance efficiency of senior executives:		
30.	<ul style="list-style-type: none"> improve the procedure for recruiting executives; develop and implement performance assessment of the Corporation's executives; introduce flexible mechanisms of cooperation with portfolio managers using the best practices of the Private Equity sector, including project contracts; develop common criteria for measuring success of S/As' CEOs and approaches to their professional development 	Done
Create a system of continuity and a succession pool at the Corporation:		
31.	<ul style="list-style-type: none"> develop a continuity programme for senior executive positions; develop the Talent Pool project 	Done
Create opportunities for retention and development of efficient employees:		
32.	<ul style="list-style-type: none"> update the system of bonuses for project execution for the Corporation's employees; develop the principles of project motivation for S/As; create an environment for continuous professional development; shape the Corporation's HR community 	Done
Improve the corporate culture:		
33.	<ul style="list-style-type: none"> improve the quality of corporate events; develop loyalty programmes for employees; build the image of an attractive employer; improve the quality of internal communications; assess the level of employee engagement 	Being implemented ⁽¹⁾
Corporate Social Responsibility Management		
Improve the CSR management system within the Group:		
34.	<ul style="list-style-type: none"> update corporate policies on CSR and philanthropic activities; focus the CSR and philanthropy strategy on priority and promising areas; restructure the social investment portfolio; improve the performance efficiency of Sistema Charitable Foundation by making the Supervisory Board more active and involving independent expertise in the development and implementation of the social investment strategy and the programme of charitable activities. 	Being implemented ⁽²⁾
Increase the transparency of CSR activities; introduce unified principles and standards of non-financial reporting:		
35.	<ul style="list-style-type: none"> organise training for employees of Sistema and S/As responsible CSR on corporate non-financial reporting; introduce annual social reports at Sistema; increase the number of S/As that prepare social reporting in accordance with the GRI standards; 	Done

⁽¹⁾ The next cycle of the employee engagement survey is scheduled for 2016.

⁽²⁾ The composition of the corporate governance bodies of SCF will be updated in 2016, along with development of a new strategy.

Item No.	Plan	Status
36.	Standardise the CSR function at S/As; Develop CSR integration within Sistema Group:	Being implemented
37.	<ul style="list-style-type: none"> replicate best CSR practices among S/As; define and distribute S/A's areas of responsibility for priority social projects, develop joint initiatives; Improve the efficiency of social projects while keeping social investment reasonable:	Done
38.	<ul style="list-style-type: none"> increase the number of joint CSR projects with S/As, and shared value projects; develop social and economic partnerships with authorities in the regions where the Group operates. Develop volunteering:	Done
39.	<ul style="list-style-type: none"> further promote volunteering, increase the involvement of Sistema's S/As in the movement and the share of the Corporation's employees involved; upscale projects by involving social partners 	Done
GR, Contribution to the Development of Regions where the Corporation Operates		
40.	Update the policy "Sistema's Interaction with Government Authorities and Public Officials"	Done
41.	Analyse anti-crisis measures in the sectors where the Corporation operates; prepare proposals with regard to the key industry initiatives and government programmes and communicate them to the Russian government	Done
42.	Develop comprehensive cooperation with the government of the Republic of Karelia to modernise the region's timber industry and launch new joint projects	Done
43.	Conclude cooperation agreements with regions that have good prospects of the timber industry: the Arkhangelsk, Vologda, Kirov, and Irkutsk regions	Done
44.	Organize regular communication the administration of the Krasnoyarsk region	Done
45.	Develop contacts with other countries, such as India, Saudi Arabia, and China; ensure participation of representatives of Sistema and/or S/As in the meetings of intergovernmental commissions and their specialised committees devoted to international economic issues that are of interest to the Corporation	Done
Implementation of the Lift to the Future National Scientific and Educational Programme		
46.	Organise and support regional stages of the System of Priorities competition, aimed at involving students of secondary and vocational schools in regional innovative development programmes	Done
47.	Implement programmes of advanced training for school and university students and teachers on the basis of the Lift to the Future regional science schools	Done
48.	Participate in the development of additional education programmes for school and university students and teachers in the field of innovative engineering design, with view to staff the Lift to the Future programme	Being implemented
Charity and Social Investment		
49.	Carry out key long-term projects in the focus areas of Sistema Charitable Foundation	Done
50.	Redistribute resources in favor of implementation of the most efficient and promising projects with higher social importance	Done
51.	Strengthen the role of private and public partnerships in the implementation of social and charity projects.	Done
52.	Expand the range of partners involved in the implementation of the Corporation's social and charity projects	Done
53.	Expand programmes targeting local communities in the key regions of the Corporation's operations	Done
54.	Create a single mechanism for receiving charitable donations on the basis of MTS Bank's online payment services	Done

Item No.	Plan	Status
55.	Increase public awareness of the Corporation's social and charitable activities, including launch of the updated website of Sistema Charitable Foundation; expand cooperation with mass media	Done
Ecology and Environment Protection		
56.	Continue cooperation with the Russian Geographical Society and the Centre for the Preservation Leopards	Done
57.	Expand cooperation with regional authorities and environmental NGOs in implementation of forest management projects	Done
58.	Implement the programme for preservation of red deer as part of development of the Republic of Altay's tourist and recreational potential	Done
Interaction with the Academic Community and Educational Institutions		
59.	Continue cooperation with the Moscow Lomonosov State University to develop the joint department, the High School of Management and Innovation (HSMI)	Done
60.	Develop and expand cooperation between the HSMI and Sistema Group companies; develop a curriculum for the bachelor degree programme in Innovation	Done
61.	Hold the International Youth Innovation Summit together with the Higher School of Economics and the SKOLKOVO Moscow School of Management	Done
62.	Continue cooperation with the Russian Federal Nuclear Centre - All-Russian Research Institute of Experimental Physics for the development of Sarov Technopark	Done
63.	Expand cooperation with Russian universities under the Lift to the Future programme	Done

Appendix 3. Shared Value Projects of Sistema Group

No.	Initiators	Project	Value for the business	Value for the community	Partners / participants
1.	Sistema and SCF	Lift to the Future — support to talented youth; promotion of natural and technical sciences	Building a succession pool for Sistema and S/As in the long term	Vocational guidance in the sphere of high technologies; training of a new generation of personnel for science-driven industries	13 S/As
2.	Sistema and SCF	Corporate Volunteer Centre	Increased engagement and non-financial motivation of personnel (HR)	Expanding the scope of non-financial charity	11 S/As 16 social partners
3.	Sistema	FSC Friday — collection of waste paper in offices for processing	Reducing the costs of waste paper disposal	Reducing the harmful impact on the environment	MTS, RTI
4.	MTS	Telecom Idea — sourcing and launching innovative youth projects in the field of ICT	Search for advanced solutions and new market niches for telecom and other industries	Support, development, and promotion of projects and inventions of young scientists and entrepreneurs	Medsi, Stream, MTS Bank, SITRONICS, NVision Group, RVC, HSE, etc
6.	BPGC	Safe Childhood — prevention of child electricity-caused injuries	Increasing the loyalty of customers and local authorities	Reduction in the rate of child injuries at power facilities, raising electrical safety awareness of children, parents and teachers	The Bashkirian Ministry of Education
7.	Detsky Mir	Participate! campaign — collecting goods for underprivileged children at Detsky Mir stores	Increasing customer loyalty and store revenue	Promotion of philanthropy and volunteering; assistance to orphanages and social services	MTS
8.	Detsky Mir	Operation 'Toys' — opening playrooms in hospitals in the regions of operations	Increasing brand awareness among the target audience, increasing its value for customers	Contribution to the development of local communities and children's healthcare	-
9.	Medsi	Be Healthy with MEDSI! — promotion of a healthy lifestyle	Attracting new customers and corporate partners, increasing loyalty of existing ones	Promoting public awareness about health care activities	Sistema, MTS, MGTS, RTC, MTS Bank, SG-trans, Detsky Mir, Stream, OZON, NVision Group
10.	MTS	Internet for All Ages and Mobile Academy — teaching older people to use the Internet and mobile services	Increasing the number of users and brand awareness in the age group with the lowest level of Internet penetration	Adaptation and socialisation of older people in today's digital society; expansion of the database of public e-services users	MTS Bank (financial literacy) The Russian Union of Pensioners, 50 Plus project, and others
11.	MTS	Children Online, Children Teach Adults — training for schoolchildren, parents, and teachers on how to use the Internet safely and benefit from it	Promotion of data services; growth of mobile Internet use	Promotion of Internet safety for children and adults	The Foundation for Internet Development, IT Department of Moscow

No.	Initiators	Project	Value for the business	Value for the community	Partners / participants
12.	MTS Bank	Creating an online service for receiving donations	Promotion of online banking services, expansion of the customer base, customer loyalty	Involving the bank's clients in social and charitable projects	SCF
13.	Detsky Mir	Ecofriendly paper bags at the chain's stores	Expansion of the sales market for packaging products	Promotion of sustainable lifestyle and consumption patterns, reduction of the impact on the environment	Segezha Group
14.	MGTS	Support programme for small and medium-sized businesses	Expansion of the base of corporate customers	Encouraging the development of small and medium-sized businesses in Moscow; contribution to the development of local communities.	Small Businesses of Moscow state-financed organisation
15.	MGTS	Transition to electronic bills	Reduction of production costs	Preservation of natural resources through reduced paper consumption	WWF Russia
16.	Segezha Group	Line for production of sawdust fuel briquettes	More efficient use of raw materials (waste)	Reducing the impact on the environment through use of ecofriendly fuel	-

Appendix 4. Table of Compliance with GRI G4 Guidelines and the UN Global Compact Principles

No.	Index of the indicator	Indicator	Disclosure	Location in the Report, 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	17
Organizational Profile				
2.	G4-3	The name of the company	Full	26
3.	G4-4	The primary brands, products and/or services	Full	34
4.	G4-5	Location of the organisation's headquarters	Full	26
5.	G4-6	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	Full	34
6.	G4-7	Nature of ownership and legal form	Full	26
7.	G4-8	Markets served, including geographic breakdown, sectors served, and types of customers and beneficiaries	Full	34
8.	G4-9	Scale of the organisation, including:	Full	34
		<ul style="list-style-type: none"> 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 		
9.	G4-10	<ul style="list-style-type: none"> Total number of employees by employment contract and gender; total number of permanent employees by type of employment and gender; total workforce broken down by employees and supervised workers and by gender; total workforce by region and gender; portion of work performed by employees that are legally recognised as self-employed or by individuals other than employees or supervised workers, including employees and supervised employees of contractors seasonal variations in employment. 	Full	34 66 67
10.	G4-11	Percentage of employees covered by collective bargaining agreement	Full	72
11.	G4-12	Description of the organisation's supply chain	Full	29
12.	G4-13	Significant changes regarding the organisation's size, structure, ownership or supply chain in the reporting period, including:	Full	32 34
		<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 		
13.	G4-14	Use of the precautionary principle	Full	174
14.	G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	Full	27

No.	Index of the indicator	Indicator	Disclosure	Location in the Report, page
		Memberships of associations (such as industry associations) and national or international advocacy organisations in which the organisation:		
15.	G4-16	<ul style="list-style-type: none"> holds a position on the governance body; participates in projects or committees; provides substantive funding beyond routine membership dues; views membership as strategic 	Full	27
Identified Material Aspects and Boundaries				
16.	G4-17	List of entities included in the organisation's consolidated financial statements	Full	192
17.	G4-18	<ul style="list-style-type: none"> The process for defining the report content and the Aspect Boundaries; explanation of how the organisation has implemented the Reporting Principles for Defining Report Content 	Full	189
18.	G4-19	List of all the material Aspects identified in the process of defining report content	Full	191
19.	G4-20	Description of each material Aspect, the Aspect Boundary within the organisation	Full	192
20.	G4-21	Description of each material Aspect, the Aspect Boundary outside the organisation	Full	192
21.	G4-22	The effect of any restatements of information provided in previous reports, and the reasons for such restatements	Full	192
22.	G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	Full	192
Stakeholder Engagement				
23.	G4-24	List of stakeholder groups engaged by the organisation	Full	90
24.	G4-25	Basis for identification and selection of stakeholders with whom to engage	Full	90
25.	G4-26	<ul style="list-style-type: none"> The organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group; indication of whether any of the engagement was undertaken specifically as part of the report preparation process 	Full	90 91
26.	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	Full	91
Report Profile				
27.	G4-28	Reporting period for information provided	Full	188
28.	G4-29	Date of most recent previous report	Full	188
29.	G4-30	Reporting cycle	Full	188
30.	G4-31	Contact point for questions regarding the report or its contents	Full	194
31.	G4-32	The 'in accordance' option the organisation has chosen. The GRI Content Index for the chosen option. Reference to the External Assurance Report, if the report has been externally assured.	Full	188

No.	Index of the indicator	Indicator	Disclosure	Location in the Report, page	
		The organisation's policy and current practice with regard to seeking external assurance for the report;			
32.	G4-33	<ul style="list-style-type: none">Scope and basis of any external assurance provided;relationship between the organisation and the assurance providers;whether the highest governance body or senior executives are involved in seeking assurance for the organisation's sustainability report	Full	193	
Corporate Governance					
33.	G4-34	Governance structure of the organisation, including committees of the highest governance body. Any committees responsible for decision-making on economic, environmental and social impacts	Full	43	
Ethics and Integrity					
34.	G4-56	The organisation's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	Full	57	
Category: Economic					
Aspect: Economic performance ⁽¹⁾					
35.	G4-DMA	Disclosure on Management Approach	Full	In accordance with the financial information standards of Sistema's 2015 Annual Report, 38	
36.	G4-EC1	Direct economic value generated and distributed	Full		
37.	G4-EC4	Financial assistance received from government	Full		
Aspect: Market Presence ⁽²⁾					
38.	G4-DMA	Disclosure on Management Approach	Full	69	
39.	G4-EC5	Ratio of the entry level wage by gender at significant locations of operation to the minimum wage	Full		
40.	G4-EC6	Percentage of senior management at significant locations of operation that are hired from the local community	Full		
Category: Environmental					
Aspect: Energy					
41.	G4-DMA	Disclosure on Management Approach	Full	176	
42.	G4-EN3	Total fuel consumption within the organisation	Full		
Aspect: Emissions					
43.	G4-DMA	Disclosure on Management Approach	Full	175	
44.	G4-EN15	Direct greenhouse gas emissions	Full		

⁽¹⁾ Corresponds to the aspect No. 1 in the Materiality Matrix.⁽²⁾ Corresponds to the aspect No. 9 in the Materiality Matrix

No.	Index of the indicator	Indicator	Disclosure	Location in the Report, page
Aspect: Effluents and Waste				
45.	G4-DMA	Disclosure on Management Approach	Full	
46.	G4-EN22	Total water discharge by quality and destination	Full	175
47.	G4-EN23	Total weight of waste by type and disposal method	Full	176
Compliance				
48.	G4-DMA	Disclosure on Management Approach	Full	
49.	G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations	Full	175
Aspect: Overall				
50.	G4-DMA	Disclosure on Management Approach	Full	
51.	G4-EN31	Total environmental protection expenditures and investments by type	Full	174 175
Category: Social, Sub-Category: Labour Practices and Decent Work				
Aspect: Employment⁽¹⁾				
52.	G4-DMA	Disclosure on Management Approach	Full	
53.	G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	Full	67
54.	G4-LA2	Benefits provided to full-time employees that are not provided to temporary or parttime employees, by significant locations of operation	Full	70
55.	G4-LA3	Return to work and retention rates after parental leave, by gender	Full	72
Aspect: Training and Education⁽²⁾				
56.	G4-DMA	Disclosure on Management Approach	Full	
57.	G4-LA9	Average hours of training per year per employee by gender, and by employee category	Full	79
58.	G4-LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Full	79
59.	G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Full	76
Category: Social, Sub-Category: Human Rights				
Aspect: Non-discrimination				
60.	G4-DMA	Disclosure on Management Approach	Full	
61.	G4-HR3	Total number of incidents of discrimination and corrective actions taken	Full	58
Aspect: Child Labour				
62.	G4-DMA	Disclosure on Management Approach	Full	
63.	G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour	Full	58

⁽¹⁾ Corresponds to the aspect No. 10 in the Materiality Matrix.

⁽²⁾ Corresponds to the aspect No. 12 in the Materiality Matrix.

No.	Index of the indicator	Indicator	Disclosure	Location in the Report, page
Aspect: Forced or Compulsory Labour				
64.	G4-DMA	Disclosure on Management Approach	Full	
65.	G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour	Full	58
Category: Social, Sub-Category: Society				
Aspect: Anti-corruption ⁽¹⁾				
66.	G4-DMA	Disclosure on Management Approach	Full	
67.	G4-SO4	Communication and training on anti-corruption policies and procedures	Full	62
68.	G4-SO5	Confirmed incidents of corruption and actions taken	Full	62

IMPLEMENTATION OF THE UN GLOBAL COMPACT PRINCIPLES

Classification	Principles	GRI G4 Indicators	Location in the Report
Human Rights	Businesses should support and respect the protection of internationally proclaimed human rights.	G4-HR1, G4-HR3, G4-HR7	1.6. Business Ethics and Anti-Corruption
	Businesses should make sure that they are not complicit in human rights abuses.		See 2014 Sustainability Report
Labour/ Management Relations	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	G4-11	1.7. Personnel Management
	Businesses should uphold the elimination of all forms of forced and compulsory labour.	G4-HR6	1.6. Business Ethics and Anti-Corruption
	Businesses should uphold effective abolition of child labour.	G4-HR5	
	Businesses should uphold the elimination of discrimination in respect of employment and occupation.	G4-HR1, G4-HR3, G4-HR7	1.6. Business Ethics and Anti-Corruption
			See 2014 Sustainability Report
Environment	Businesses should support a precautionary approach to environmental challenges.	G4-14	
	Businesses should undertake initiatives to promote greater environmental responsibility.	G4-EN3, G4-EN15, G4-EN22, G4-EN23, G4-EN29, G4-EN31	2.4. Green Economy
	Businesses should encourage the development and diffusion of environmentally friendly technologies.		
Anti-Corruption	Businesses should work against corruption in all its forms, including extortion and bribery.	G4-SO4, G4-SO5	1.6. Business Ethics and Anti-Corruption

⁽¹⁾ Corresponds to the aspect No. 15 in the Materiality Matrix.

Appendix 5. Certificate of Public endorsement of a Corporate Non-Financial Report by the RSPP Council



Glossary and Abbreviations

GLOSSARY

Acceleration programme	a programme of intensive development of companies through mentoring, training, financial and expert support in exchange for a stake in the company's equity
Corporate social responsibility (CSR)	the responsibility of a company for the impact of its decisions and activities on the society and the environment through transparent and ethical behaviour that contributes to sustainable development, takes into account the expectations of the stakeholders, complies with the applicable legislation and conforms to international rules of conduct; a set of obligations voluntarily and consensually undertaken with the involvement of key stakeholders, including implementing internal and external social and environmental programmes, which is regularly revised and complies with the company's unique features and development level
Creating shared value	a business concept that identifies the link between competitive advantages and CSR, and envisages implementation of projects that have a positive impact both on the company and the stakeholders
Disclosure on Management Approach (DMA)	a description of the way the organisation identifies and analyses its actual or potential economic, environmental and social impacts, and how it deals with such impacts
Hackathon	a forum of software developers where experts from different fields work together to solve a particular issue
Harvest	the "working weekends" concept, a programme for accelerated development of innovative business projects from scratch
Key Performance Indicator (KPI)	an integrated performance indicator of a business unit or an official that shows the achievement of the goals within a certain period of time
LED driver	a device stabilising the current flowing through LEDs
Meet-up	a meeting of experts in an informal setting to discuss any topic or a range of topics
Mentoring	teaching by providing the learner with different types of action models and their adjustment through feedback
Protected areas (PAs)	land, water and corresponding air space, with natural complexes and objects of special conservational, scientific, cultural, aesthetic, recreational and health-promoting value, which are withdrawn from economic use in full or in part and for which a special protection regime is established
Roadshow	a series of meetings with potential investors and analysts in key cities around the world
Russian Union of Industrialists and Entrepreneurs (RSPP)	a national Russian public organisation representing the interests of the business community
Smart Grid	an upgraded electricity grid that uses information and communication technologies for accounting and control of energy transmission and consumption, which improves the efficiency, reliability, economic benefits and sustainability of power distribution
Social Charter of Russian Business	fundamental principles of responsible business practices developed by RSPP, which includes a company's relations with its employees, civil society institutions, public authorities, local communities and the environment
Stakeholder	individuals and legal entities interested in the Corporation's activities and capable of influencing such activities
Sustainable development	development (of a society, a business) during which the living conditions improve, the impact on the environment remains within the biosphere's capacity, and current needs are met without incurring damage on future generations
Ticker	a shortened company name used in stock exchange quotation instruments (stocks, shares, indices)
UN Global Compact	the United Nations' biggest initiative in the area of corporate social responsibility and sustainable development, bringing together 13,000 companies and organizations from 170 countries and 88 national networks that share and put into practice the 10 principles of human rights, labour practices, environment and anti-corruption for the purpose of sustainable and fair socio-economic development
Inclusive environment	an environment that allows fully integrating people with disabilities into society

LIST OF ABBREVIATIONS

ACMR	Russian Association of Communication Directors and Corporate Media
ASI	Agency for Strategic Initiatives
BPF	Big Pension Fund
CC	Corporate Centre
CF	Charitable Foundation
CSR	Corporate Social Responsibility
DLS	distance learning system
EBITDA	Earnings before interest, taxes, depreciation and amortisation
ECSS	European Cooperation for Space Standardisation
ERM	Enterprise Risk Management
ETP	Electronic Trading Platform
ESG risks	Environmental, Social and Corporate governance risks
FSC	Forest Stewardship Council, international non-profit non-governmental organization, which promotes responsible forest management worldwide
GDP	Gross Domestic Product
GDR	Global Depositary Receipt
GPON	Gigabit-capable Passive Optical Network
GR	Government Relations
GRI	Global Reporting Initiative, an organisation developoing and promoting non-financial reporting standards
HR	Human Resources
HSMI	High School of Management and Innovation
IFRS	International Financial Reporting Standard
ISO 26000:2010	Guidance on Social Responsibility international standard
IT	Information Technologies
KPI	Key Performance Indicators
M&A	Mergers and Acquisitions
MBA	Master of business administration
MLW	Minimum legal wage
NEC	Northern Environmental Coalition
NGPP	Non-Government Pension Plans
NGPF	Non-Government Pension Fund
NPO	Non-Profit Organisation
NPP	Non-Profit Partnership
NRU	National Research University
NTC	National Timber Company
OIBDA	Operating Income Before Depreciation And Amortisation

PJSFC	Public Joint Stock Financial Corporation
PPM	Pulp and Paper Mill
R&D	Research and Development
RAS	Russian Academy of Sciences
RFID	Radio Frequency Identification, a method for automatically identifying objects where the data stored in transponders or RFID tags is read and recorded by means of radio frequency signals
RGS	Russian Geographical Society
RVC	Russian Venture Company
S/As	Subsidiaries and Associates
TDI	top-down indicators (input parameters to define the objectives and budgeting at Sistema), developed to meet shareholders' expectations, portfolio strategies, etc.
UHL	Universal Hotline
WWF	World Wide Fund for Nature
WWP	Woodworking Plant
4G (fourth generation)	the fourth generation of mobile communication

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Global Compact
Network Russia

Sistema is a participant of the UN Global Compact in Russia.