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As a large investment company with a number of assets of principal importance for Russian economy in several industries Sistema is able to impact on millions of people.

Acting as a responsible investor, the Corporation takes into account various ecological and social aspects of its activity and fully takes responsibility towards different stakeholders.

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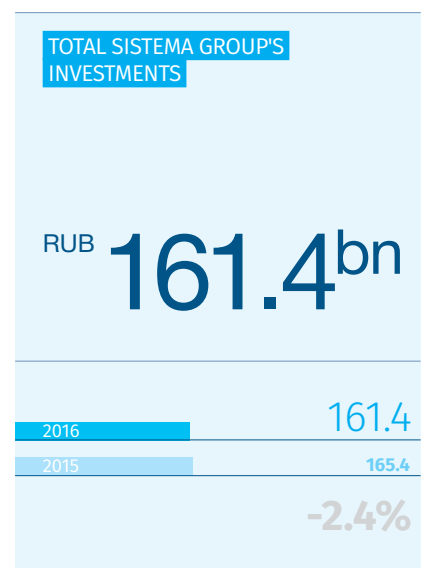
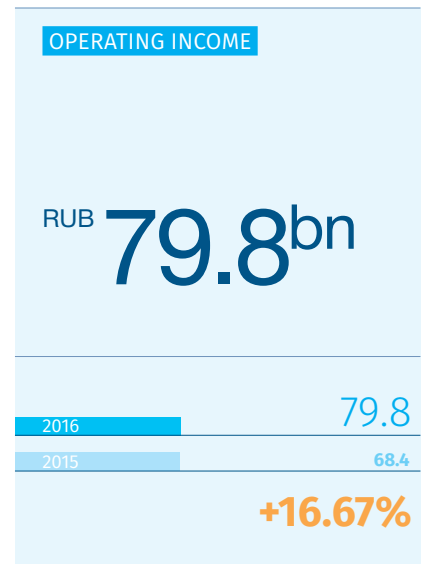
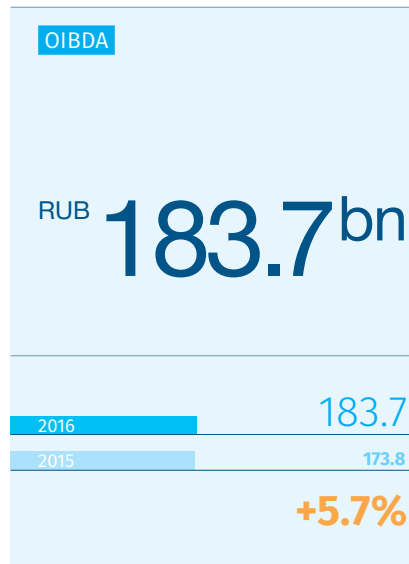
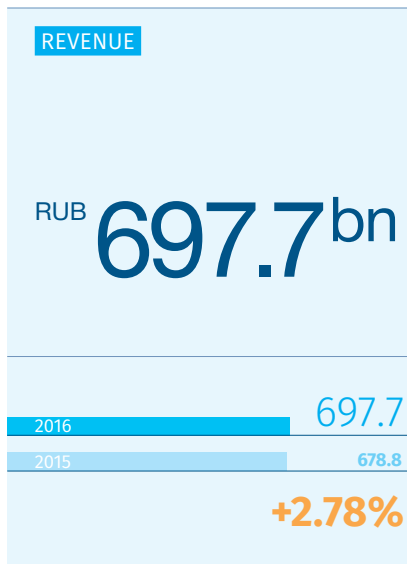


For more details, see:

<http://www.sistema.ru/ustoichivoe-razvitiye/>



Key indicators

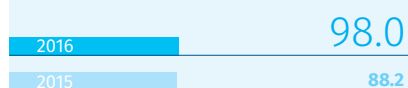


¹⁾ Excluding MTS

²⁾ Comparable data without Targin and SG-trans, which were divested by Sistema Group in 2016

TAX PAYMENTS TO THE FEDERAL AND REGIONAL BUDGETS

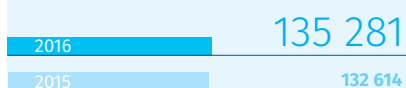
RUB **98.0^{bn}**



+11.11%

HEADCOUNT OF THE SISTEMA GROUP, PEOPLE²

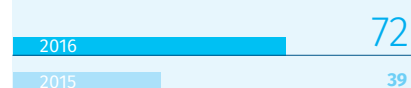
135,281
people



+2.01%

THE CORPORATION'S REPRESENTATIVES IN THE LIST OF TOP 1,000 RUSSIAN MANAGERS

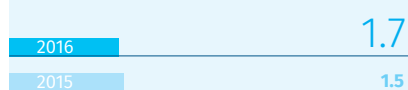
72
people



+33 managers

SPENDING ON CHARITY AND SOCIAL PROGRAMMES

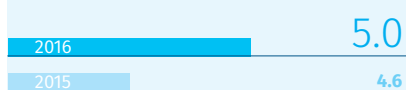
RUB **1.7^{bn}**



+13.33%

AVERAGE LABOUR PRODUCTIVITY IN SISTEMA GROUP

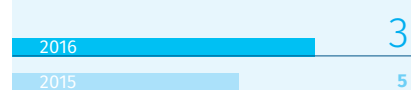
RUB **5.0^m**
per person



+8.7%

RANKING IN THE LIST OF RUSSIA'S LEADERS OF CORPORATE CHARITY

Third



+2 position

Chairman's statement

G4-1



Dear readers!

We believe that transparency and openness to investors, partners and all stakeholders is one of the main priorities of our work, and social responsibility is a guarantee of long-term and sustainable development of our business, society and the markets in which we operate.

For more than 20 years, Sistema has been investing in the Russian economy, developing entire industries, creating new jobs, production facilities, products and technologies, and improving the quality of management and capitalisation of companies, as well as the productivity of enterprises and living standards of population. Sistema's companies contribute to the achievement of Russia's strategic targets, such as improving the telecommunications, power-grid and tourism infrastructure and the urban environment, enhancing the country's competitiveness and technology, food and drug safety and security, and improving the nation's health. Our activities are also consistent with the UN sustainable development goals, which determine the global agenda for the next 15 years.

Despite the difficult macroeconomic conditions, in 2016 we continued rapid development in all key areas, not only achieving good financial results but also increasing tax payments to the national budget and social, pension and health insurance funds by more than 10%.

Our investments in fixed assets over the past three years accounted for about 1.6% of all private capital investments in the Russian Federation, and in some industries the Corporation's contribution is much higher. The Group's companies accounted for 26% of total investment in telecommunications and for 20% of investment in manufacturing of electronic components and radio systems. To date, LTE networks have been deployed practically all over Russia, and together with the world's leading manufacturers MTS has started testing solutions for next-generation communication

networks (5G). Mikron, a subsidiary of Sistema's RTI Group, has Russia's only microelectronic production based on 180-90-65 nm technology and is conducting research into 45 nm technology. The plant in Zelenograd produces over 400m RFID tags, 50m bank microchips, 30m bank cards and over 5m chips for biometric passports and electronic documents annually. The company exports over 500m microchips used in the manufacturing of electronic devices to Europe and Southeast Asia.

Our capital investments in the forestry and pulp & paper industry grew by 108% in 2015-2016 – i.e. four times faster than overall in the country – and exceeded 14% of the total investment in the industry aimed at construction, reconstruction and expansion of production facilities, and acquisition of new machinery and equipment. We launched a large-scale modernisation programme at Segezha Group with an investment of about RUB 40bn until 2021. A substantial part of these funds has already been invested, including about RUB 2.6bn for modernisation of the logging fleet. We are investing even more in construction of new facilities, including profound modernisation of the Segezha Pulp and Paper Mill located in Karelia. We plan to spend up to RUB 14bn on the development of this major enterprise, of which about RUB 5bn have already been invested. The unique project for the installation of a modern paper-making machine, the cost of which is comparable to the annual budget of Petrozavodsk, is the first investment project of this scale in the sector in the last 25 years. As a result, we will not only increase the output of sack paper for eco-friendly

packaging, the demand for which is steadily growing, but also decrease the energy intensity of production and create 140 new high-tech jobs for the residents of the city of Segezha, for which purpose Segezha Group already prepares young specialists jointly with local education and employment authorities.

We have invested a total of about RUB 20bn in the agricultural sector in recent years, including acquisition of agricultural assets and land, which enabled Sistema to become one of the ten largest land owners in Russia in early 2017. Rational use of these resources without damage to the environment will enable us to effectively solve the import substitution issues by increasing the production of high-quality organic domestic products in the segments with the highest demand. In 1990, milk consumption in Russia reached 390 kg per capita, whereas today this figure has dropped to 235 kg and even to 80-170 kg according to some estimates, although it should be 300-330 kg per person according to the recommendations of the WHO and Russian authorities. According to official data, domestic production covers less than 80% of the country's needs for milk and dairy products, and only 30% of the needs for greenhouse vegetables and fruit.

Steppe AgroHolding is the industry leader by milk yield, demonstrating results on a par with the best global practices – more than 10 tonnes a year per one cow, while the average yield in Russia is 3.9 tonnes a year. I would like to note also that last year Steppe AgroHolding received confirmation of compliance with European standards, which guarantees high quality and makes it possible to supply our milk to the EU countries.



+ 11%

TAX PAYMENTS TO RUSSIA'S BUDGET SYSTEM, INCLUDING PENSION, MEDICAL AND SOCIAL SECURITY FUNDS.



1.6%

OF ALL PRIVATE CAPITAL INVESTMENTS IN THE RUSSIAN FEDERATION.



26%

OF TOTAL INVESTMENT IN TELECOMMUNICATIONS.



20%

OF TOTAL INVESTMENT IN MANUFACTURING OF ELECTRONIC COMPONENTS AND RADIO SYSTEMS.

In the Krasnodar region, we are laying out intensive orchards and we are already among the top 5 apple producers in Russia. Crop yields at Steppe AgroHolding enterprises exceed the average Russian levels, but we have room for improvement. Sistema's investments in sustainable development of agriculture are aimed at replacing obsolete equipment, introducing advanced agricultural technology, using progressive management systems and upgrading enterprises, primarily the Yuzhny Agricultural Complex in the Karachay-Cherkess Republic acquired by Sistema at the end of 2015. This is the largest greenhouse complex in Europe and one of Russia's leading producers of protected-ground vegetables and suppliers of tomatoes and cucumbers for such well-known retail chains as Auchan, Metro Cash & Carry, Perekrestok, Hyperglobus, etc.; it meets 30% of the Moscow consumers' demand for fresh out-of-season vegetables. Over the past year, we increased production by 25% and began its gradual modernisation designed to take five years. Modernisation will allow creating a high-tech greenhouse farm on the basis of Yuzhny Agricultural Complex, with a gross yield of over 100,000 t per year.

We are actively investing in the healthcare sector, which was historically financed by the state, because we are convinced that it is possible to create in Russia a world-class private clinic chain where people can obtain affordable specialised and high-tech medical aid, including within the framework of OMI. While the share of capital investments in healthcare and social services in Russia averaged 1.3% of all investments in fixed assets in the last three years, we spent 2.2% of the total capital expenditures of Sistema Group on the development of medical business.

These funds were spent on new construction, renovation, provision of the most modern equipment, and creation of a comfortable environment for patients. We pay equal attention to attracting the best medical specialists, training doctors, and introducing new effective methods of diagnosis and treatment of the most common diseases. In 2016, Medsi Group joined the programme of government guarantees of free medical care to Russian citizens in the Moscow region, which significantly increased the patient flow (by 11% year-on-year). In 2017, we see considerable potential in the development of telemedicine in cooperation with MTS, as well as the expansion of Binnopharm's pharmaceutical production on the basis of own innovations.

Another promising socially significant area for Medsi is medical rehabilitation. More than 700 veterans of the Great Patriotic War have received free rehabilitation treatment at Medsi Otradnoye Sanatorium since 2015 within the framework of the joint programme of Sistema, the Government of Moscow and the Moscow City Council of Veterans.

Sistema Charitable Foundation (SCF) spent a total of about RUB 80m last year on taking care of veterans. Overall, our direct social investments in the reporting period amounted to roughly RUB 1.7bn and over the past three years exceeded RUB 4bn, which was invested in the development of education, culture and support for the underprivileged in the key regions where the Corporation operates. Sistema acts as one of the anchor investors in the social and economic sphere in a number of regions of the Russian Federation – from Moscow to Arkhangelsk, Vologda, Kirov, Rostov, Krasnodar, Krasnoyarsk,

Stavropol and other regions.

For instance, within the framework of the social partnership agreement with the Republic of Altay signed in 2016, we held the first charity festival Solony for more than five thousand young people of the region who participated in educational and cultural events organised by SCF with the assistance of Sistema Group companies.

In the modern "smart" economy driven by knowledge and technology, the quality of human capital – highly qualified managers and engineers prepared to work in new markets – is essential. Therefore, we not only seek to attract the best experts to our team, but also consistently invest in education, taking into account the trends that determine the near future of many spheres of life. So far, only 20% of college graduates in Russia major in engineering and science, which is significantly less than what the market demands. To overcome this gap, the country needs early career guidance, introduction of a project approach at all levels of the education system and close integration between customers and creators of human capital: companies, universities and schools. The answer to this challenge is our flagship CSR programme "Lift to the future" aimed at forming a system of advanced training of young professionals for the innovative segment of the Russian economy. Thousands of talented school and university students, as well as hundreds of teachers, have already participated in educational events. This is not only our social responsibility but also the formation of a succession pool, including in those industries where our portfolio companies operate. In 2016, we held a first competition among post-graduate students and young scientists to solve some real-life technology-related tasks of the Corporation. The winners received grants totalling RUB 8m to finalise

and implement their projects. We also have targeted grants to support centres for career development and employment of graduates of engineering and technology universities, as well as science/engineering clubs in schools. Sistema and SCF spent a total of over RUB 0.5bn on the development of education in 2016, not including own projects of our subsidiaries.

Sistema Group companies employ roughly 140,000 people. Together with family members it makes at least half a million people, whose well-being largely depends on the stable activity of the Corporation, and that's not taking into account the numerous participants and beneficiaries of our social programmes whose number increases each year. All this imposes on us a special

responsibility at all stages of the investment process and requires strict observance of human rights and business ethics, as well as prevention of any types of corruption in relations with counterparties and suppliers from whom we expect compliance with our corporate standards and, in turn, we seek to meet the expectations of investors who have growing requirements for management of non-financial risks.

We have always worked and will work in the interests of our shareholders, the state, employees, millions of customers and residents of the regions where Sistema Group operates. The purpose of this report is to comprehensively present the strategy, key business areas, results and plans for the sustainable development of the Corporation, and to invite all stakeholders to join in.



Vladimir Evtushenkov

Chairman of the Board of Directors
of Sistema



14%

**OF TOTAL INVESTMENT
IN THE PULP AND PAPER
INDUSTRY.**



> RUB 4^{bn}

**DIRECT SOCIAL INVESTMENT
OF THE CORPORATION
IN 2014-2016.**



> RUB 0.5^{bn}

**SPENT ON THE DEVELOPMENT
OF EDUCATION IN 2016.**



Events calendar

January

HELPING TO CHOOSE A PROFESSION



Europe's largest occupational learning park for children KidZania was launched in Moscow, and MTS, Medsi, Detsky Mir and Kronstadt Group became its partners. Sistema Group companies organised interactive educational spaces where children can learn skills required for real-life professions.

February

FESTIVE RECEPTION FOR VETERANS

In the run-up to the Fatherland Defender Day, a festive reception for Moscow war veteran support organisations was held with the participation of executives from Sistema and its charitable foundation, as well as representatives from Medsi. Participants of the meeting agreed to expand the veterans support programme implemented by the Corporation.

SCHOOL UNIFORM EXHIBITION

Detsky Mir hosted an exhibition of school uniforms at its flagship store. It was organised by the Russian Ministry of Industry and Trade together with the Education Department of Moscow in order to promote domestically produced apparel.



March

CONSECRATION OF A CHURCH

His Holiness Patriarch Kirill of Moscow and All Russia performed the dedication ceremony at the St Hermogenes Church in Krylatskoe, the construction of which was sponsored by SCF and private donations as part of the 200 Churches programme with the participation of the Moscow Government.

INTERNATIONAL DAY OF FORESTS

The Corporation took part in an environment protection campaign organised by Forest Stewardship Council Russia to mark the International Day of Forests. Five companies of Sistema Group together collected over 2.4 tonnes of waste paper for recycling.

April



LIFT TO THE FUTURE SCHOOL

Sistema Charitable Foundation and the Moscow State University of Mechanical Engineering held an engineering and design school at the Orlyonok Children's Centre on the Black Sea themed on the markets covered by National Technical Initiative, a governmental programme designed to create conditions for Russia's leading position in technology by 2035.

VENTURE CAPITAL INVESTMENT



Sistema Venture Capital, a venture capital fund of Sistema, was launched to invest in high-tech startups, including growing projects in the field of Internet of things, virtual and augmented reality, cognitive technology, advertising technology and fintech. Target size of the fund is RUB 10bn.

SUPPORT FOR VETERANS

The Scientists' Palace at Prechistenka St accommodated a festive reception for 120 Great Patriotic War veterans and home front workers who had been previously employed at the Corporation's companies.

The Medsi clinicodiagnostic centre at Krasnaya Presnya and Sistema Charitable Foundation launched a pilot project of free comprehensive cardiological check-ups for World War II veterans.

SCF and Medsi organised a charitable theatre performance based on Cinderella fairy tale at the Moscow International House of Music. The audience consisted of war veterans and more than 300 children supported by the charitable foundations Galchonok and Downside Up, Martha and Mary Convent and Vdokhnovenie Children's Rehabilitation Centre. As part of this event, Rusfond foundation raised RUB 560,000 to help critically ill children.



May

VICTORY DAY

A multimedia light show devoted to the Victory Day was projected on Sistema's building at 13

Mokhovaya St. In addition, one of Moscow's media façades was showing video greeting cards made by the winners of a children's drawing competition titled The Meaning of Victory.

Sistema Charitable Foundation organised 15 volunteer-supported clean-ups and five concerts at hospitals and nursing homes for veterans as part of its Victory Garden campaign.

NEXT-GENERATION TELECOM NETWORKS

MTS and Nokia signed an agreement on cooperation in the development of 5G technologies and the Internet of things in Russia.

STUDENT CLUBS CONTEST

MTS was a telco partner for Big Tournament 2016, the 9th annual national contest for student clubs, which was held in the Rostov region as part of the programme of the Federal Agency for Youth Affairs with the support of the council of vice-rectors for the educational work of Russia's higher education institutions.

GRANT CONTEST FOR UNIVERSITIES

Sistema Charitable Foundation, as part of its programme Lift to the Future, organised a grant contest for university departments dealing with employment of graduates with engineering and science degrees. Five winners of the contest were awarded grants of up to RUB 900,000.



June

INVESTMENT IN ARCTIC INFRASTRUCTURE

MTS signed an agreement on the development of telecom infrastructure with the government of the Yamal-Nenets region. The parties will cooperate in introducing innovations, developing telecom infrastructure and implementing social projects. MTS plans to invest roughly RUB 600m by the end of 2018 in the development of infrastructure in the region.



INTERNATIONAL BUSINESS DISCUSSION

Sistema and RTI held the international conference "High-Tech Cooperation of Russian Companies and Russian-Speaking Scientists" under the auspices of the government's Commission for UNESCO.



ST PETERSBURG INTERNATIONAL ECONOMIC FORUM



Sistema's President Mikhail Shamolin participated in the plenary session "Charity and philanthropy: responding to the challenges of economy of the future" devoted to the potential of financing and introduction of new educational and cultural models to improve the quality of life of people.

Sistema signed a cooperation agreement with Vnesheconombank to implement investment projects of the Corporation in the field of manufacturing and export of hightech products, as well as to finance projects to develop innovative technologies and projects in the defence industry and import substitution.

Sistema Charitable Foundation and the Republic of Altay government signed a social partnership agreement. The parties intend to jointly implement projects in the field of culture, education and social support for the population of the region.

Segezha Group signed partnership agreements with the administrations of the Rostov region and Karelia, as well as an additional agreement with the government of the Kirov region on the implementation of investment projects.

CHILDREN'S FESTIVAL "REDHEAD"

The 3rd Children's Festival "Redhead", which promotes inclusion and disability rights, was held in the Bauman Garden in Moscow with the support of SCF and the Group's volunteers.

IMPERIAL GARDENS OF RUSSIA

The 8th international festival of garden art Imperial Gardens of Russia was held in St Petersburg's Mikhailovsky Garden with the support of Sistema Charitable Foundation.



July

IMPROVING URBAN ENVIRONMENT

Leader Invest supported the study “Modern architectural policy as a driver of Moscow’s development” carried out by Strelka consulting agency. The Book on Useful and Beautiful Architecture published as a result of the study and recommendations for improving the quality of architecture of a metropolis were presented at the Moscow Urban Forum in the format of a round-table discussion.



DEVELOPING VOLUNTEERING AND SOCIAL SPHERE

Sistema Charitable Foundation became a member of the Association of Volunteer Centres of Russia. This will allow the foundation to receive organisational, methodological and information support, participate in national projects and share experience.

August



SOLONY FESTIVAL

Sistema Charitable Foundation, with the support of the government of the Republic of Altay, organised a festival for children dubbed Solony (the Altay word for “rainbow”). The festival consisted of charitable, social and educational programmes of the Group’s companies for children from large and low-income families. Over 5,000 children participated in the festival. More than 300 underprivileged families of the republic received humanitarian aid.

MULTIMEDIA EXPOSITION AT THE CRUISER AURORA

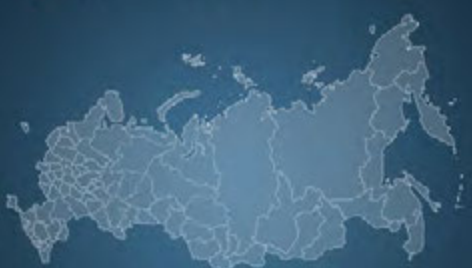
As part of the completed reconstruction of the cruiser Aurora, Kronstadt Group created a multimedia museum exposition and financed the installation of an automated ticket system with video surveillance.



LIFT TO THE FUTURE REGIONAL SCHOOL

75 high school students from virtually all districts of the Republic of Altay took part in the first regional engineering school Lift to the Future at Plakas School in Gorno-Altaysk with five project areas: 3D modelling and rapid prototyping, aerodynamics and aircraft, robotics, biomedicine, and new technologies and materials.

Ассоциация
Волонтерских
Центров





September

INVESTMENT IN NEW TECHNOLOGIES



Sistema and the state-owned corporation Rusnano established a joint private equity fund Sistema Rusnano Capital with a size of USD 100m to invest in high-tech projects in such sectors as microelectronics, energy efficiency, robotics, IT and communication technology.

CONTEST FOR SUBSIDIES FOR NON-PROFITS

Medsi Group supported the annual contest for subsidies to be allocated to Moscow's social non-profits out of the city's budget with the purpose of identifying the best projects for the city's social development and improvement of its residents' lives.

SAFE CHILDHOOD

BPGC and Bashkiria's Education Ministry entered into a new agreement to cooperate in prevention of children's electrical injuries in the academic year 2016-2017.



SUMMER GAMES

Sistema's 14th Summer Games were held at the Yantar stadium in Moscow and gathered about 4,000 participants and supporters from all of the Corporation's companies.

DAY OF THE ELDERLY

Sistema Charitable Foundation and the Moscow City Council of Veterans carried out a festive reception for veterans of the Great Patriotic War, home front workers and senior citizens to commemorate the Day of the Elderly. More than 800 guests at the House of Cinema received gifts and watched a photo exhibition featuring veterans and volunteers of the Corporation.

CONGRESS OF YOUNG POWER ENGINEERS

Bashkir Power Grid Company organised the 7th congress of young power engineers, where the participants presented their innovative projects and ideas that may be later put into practice. The forum is held every two years and is meant to engage young specialists in solving production, technical and organisational problems, as well as to create a succession pool for the company. About 150 participants took part in it.



October

AGREEMENT WITH THE SKOLKOVO FOUNDATION

The Skolkovo Foundation and Detsky Mir signed a strategic partnership agreement for finding new technology ideas and service solutions to be implemented in the retail chain's new-format outlets.

WOMEN'S HEALTH



Medsì joined the charitable programme Women's Health designed to fight breast cancer. Medsì clinics held special events promoting early diagnosis of breast cancer and providing help to women with breast cancer.

DAY OF OLDER PERSONS

Medsì Group held a first joint initiative with the charitable foundation Ageing Gracefully during which volunteers collected and transferred 50 kg of useful items to an assisted living facility for the elderly and disabled in Vyazma, a town in the Smolensk region.

MOBILE ACADEMIES FOR RETIREES

MTS and the Russian Retiree Union launched a federal project designed to teach retirees how to use mobile devices. MTS launched special mobile internet classes for the elderly in 10 regions of Russia.

GIVE THANKS TO YOUR TEACHER

As part of its "Lift to the Future" programme, Sistema Charitable Foundation organised a country-wide campaign "Give thanks to your teacher" to promote the teacher profession. In anticipation of the Teachers' Day, photo exhibitions devoted to education were opened in Moscow, St Petersburg, Yekaterinburg, Nizhny Novgorod, Krasnodar and Ufa.

LIFT TO THE FUTURE AUTUMN SCHOOL



Orlyonok Children's Centre on the Black Sea hosted an engineering and design school "Lift to the Future", in which 152 school students from 46 regions of Russia took part. The school had three sections: Space Exploration, IT & Telecoms and Energy. The winners of the school received additional points for their Unified State Exam scores for admission to the top eight universities in Russia.





November

20 YEARS IN THE HEALTHCARE MARKET

Medsì Group, with the support of the Moscow Regional Blood Transfusion Station, conducted a volunteer donation campaign dedicated to the 20th anniversary of the largest federal private chain of clinics. The company's anniversary coincided with the 25th anniversary of the foundation of private medicine in modern Russia, and Medsì's history is closely connected with the main stages of its development.

ENVIRONMENTAL INITIATIVES

Segezha Group and WWF Russia signed an agreement for preservation of virgin forests around the national park Onezhskoye Pomorye in the Arkhangelsk region.



Segezha Group joined the Boreal Forest Platform designed to promote the principles of intensive forest use.

CORPORATE GOVERNANCE FORUM

Sistema supported the 6th National Forum on Corporate Governance, which was held in Moscow on 29 November 2016.

WORLD CHARITY DAY

SCF became one of the key partners of #GivingTuesday initiative, which was organised in Russia for the first time by Charities Aid Foundation (CAF) as part of the World Charity Day. More than ten subsidiaries of Sistema took part in this initiative and organised a number of social projects and events.

PEOPLEINVESTOR
КОМПАНИИ, ИНВЕСТИРУЮЩИЕ В ЛЮДЕЙ



INVESTMENTS IN HUMAN CAPITAL

Sistema became an official partner of the HR Management section at the business forum PEOPLE INVESTOR 2016 organised by the Managers' Association. The forum helps to identify and replicate advanced and innovative practices of social responsibility of businesses in order to improve the transparency and competitiveness of Russian companies.

CHILDREN'S TECHNOPARKS

Lift to the Future and State Republican Centre of Multicomponent Computer Environments – the operator of children's technoparks Quantorium – signed a cooperation agreement. It is meant to create an environment for accelerated development of the youth in the field of science and technology, integrate the young generation in innovations and train new engineers for Russia's tech companies.



#ЩЕДРАЯКОРПОРАЦИЯ

#ЩЕДРЫЙВТОРНИК

29 НОЯБРЯ



December

PARTNERSHIPS WITH REGIONS

During the working visit of Vladimir Evtushenkov, the Chairman of the Board of Directors of Sistema, to the Kirov region, an agreement was signed with the region for cooperation in such sectors as forest industry, information technology, telecommunications, security systems, data processing and healthcare.



WISHING TREE

Sistema Group companies participated in the annual Wishing Tree campaign intended to raise money for social institutions. The Corporation's employees raised a total of over RUB 11m that will be used to provide assistance and medical treatment to orphans, disabled and seriously ill children.

SUPPORT OF CULTURE

Sistema Charitable Foundation supported the Russian Museum's exhibition to celebrate Ivan Aivazovsky's 200th anniversary. It was attended by 280,000 people.

During the 5th St Petersburg International Cultural Forum, the Russian Museum officially launched its multimedia information centre – a new modern facility for interactive exhibitions, which was built with support of Sistema.

10 YEARS OF MSU'S HIGHER SCHOOL OF MANAGEMENT AND INNOVATION

The MSU's Higher School of Management and Innovation – a joint department of the University and Sistema – celebrated its 10th anniversary with a first conference Innovative Economy and Management.



Strategic overview

>> 1.1. The Corporation profile

>> 1.2. Responsible investment

20
30

Mikhail Shamolin
President of Sistema



We consistently implement the strategy of creating 'national champions' in Russia and do this in two ways. We mainly buy distressed assets whose management and business processes are in need of improvement. We use our expertise to turn them into effective companies. Another option for implementing the strategy is to purchase individual assets and merge them into large industry-specific business entities. We use this model, for example, for our investments in the agricultural and timber sectors.



30

More details
in section

[*Responsible investment*](#)

G4-9



SISTEMA'S TOTAL ASSETS AS
OF 31 DECEMBER 2016 AMOUNTED TO

RUB 1,1^{tn}



1.1. The Corporation profile

G4-3 Sistema Public Joint Stock Financial Corporation ("Sistema" or the "Corporation") is a Russian diversified holding company and one of the largest private investment companies in the world.

G4-8 Sistema's primary region for investment is Russia and CIS countries. The Corporation is one of the top 15 Russian companies in terms of sales¹ and one of Russia's¹ 197 systemically important companies².

G4-4 The Corporation has assets in more than ten sectors of the economy, including telecommunications and high tech, agriculture, logging and wood processing, electric power, retail, healthcare and pharmaceuticals, finance and real estate development.

G4-6 Sistema's subsidiaries operate in dozens of countries around the world and in most regions of the Russian Federation, which is the key market for the Corporation: telecommunications in 83 regions, retail in 71 regions, banking in 39 regions, hospitality industry in 12 regions, healthcare in 10 regions, timber and pulp&paper industry in 6 regions, and agriculture in 4 regions.

G4-9

SISTEMA'S REVENUE IN 2016 AMOUNTED TO

≈ RUB 700^{bn}



In 2016, Sistema, as one of Russia's 25 biggest public companies, was included in the Forbes Global 2000 list³. The Corporation and its telecom assets (MTS and MGTS) were also included in the list of Russia's 100 biggest public companies in terms of market capitalisation and revenue⁴.

Sistema's assets (MTS, RTI and Detsky Mir) are among Russia's 200 largest public companies according to Forbes⁵ magazine⁵ and among 500 leaders of the Russian market by revenue according to RBC (MTS, RTI, Detsky Mir, Segezha Group and MTS Bank⁶).

SHARE CAPITAL AND ITS STRUCTURE

The principal shareholder of Sistema is the Chairman of its Board of Directors Vladimir Evtushenkov (64.2% of shares). Sistema's shares are traded on the Moscow Exchange under the ticker symbol "AFKS" (15.3%) and on the London Stock Exchange (LSE) in the form of global depositary receipts (roughly 17.6%).

Sistema's shares are included in calculations of the key indices of the Moscow Exchange (MICEX and RTS), while the Corporation's GDRs, along with securities of MTS and other 20 largest Russian companies, are included in the MSCI Russia Index (Morgan Stanley Capital International), which serves as a benchmark for many international investors investing in Russian assets.



NUMBER OF OUTSTANDING ORDINARY SHARES:

9.65^{bn}



SHARE CAPITAL:

RUB 868.5^{m7}



TOTAL NUMBER OF SHAREHOLDERS:

over 20th.



⁽¹⁾ According to RAEX 600 and Expert 400 rankings published in 2016.

⁽²⁾ According to the Russian Ministry of Economic Development: <http://economy.gov.ru/minec/about/structure/depsectoreconom/2015020801>

⁽³⁾ <https://www.forbes.com/global2000/>

⁽⁴⁾ According to RIA Rating agency: <http://riarating.ru/infografika/20170131/630054676.html> и <http://riarating.ru/infografika/20170621/630066135.html>

⁽⁵⁾ <http://www.forbes.ru/rating/200-krupneishikh-chastnykh-kompanii-rossii-2016/2016#top10>

⁽⁶⁾ RBC 500 list: <http://www.rbc.ru/rbc500/>

⁽⁷⁾ As of 31 December 2016.



G4-15

MISSION

Our mission is the long-term growth of shareholder value through efficient management of the asset portfolio and achievement of high returns on investment.

In most of its businesses, Sistema acts as a controlling shareholder and strives to create industry leaders through restructuring assets and attracting industrial partners, strengthening expertise, improving corporate governance and reducing financial and non-financial risks.

VALUES

In 2002, Sistema became one of the first Russian companies to join the United Nations Global Compact. The Corporation abides by the ten principles of sustainable development enshrined therein.

The Corporation also fully embraces the social responsibility concept outlined by the Russian Union of Industrialists and Entrepreneurs in the Social Charter of Russian Business, as well as the international standard ISO 26000:2010 (Guidance on Social Responsibility).

CONTRIBUTION TO ACHIEVING THE UN SUSTAINABLE DEVELOPMENT GOALS

The main areas of investment and social initiatives of the Corporation are in line with the Sustainable Development Goals (SDGs) of the 2030 Agenda for Sustainable Development adopted by the UN in September 2015, which can only be achieved through productive cooperation between businesses and stakeholders on the basis of partnership, transparency, trust and mutual benefit. Guided by these principles, Sistema and its subsidiaries contribute directly and indirectly to the achievement of most SDGs.

CORPORATE VALUES



OUR TEAM:

we create value using high competences



OUR PRINCIPLES OF OPERATION:

effective structure and clear objectives



OUR STRATEGY:

we are focused on achieving results



OUR REMUNERATION

depends on the company's real income








OUR RESPONSIBILITY:

we develop the economy and create value for society



G4-17

Sistema Group's assets and UN sustainable development goals

		SUSTAINABLE DEVELOPMENT GOALS				
		1 NO POVERTY 	2 ZERO HUNGER 	3 GOOD HEALTH AND WELL-BEING 	4 QUALITY EDUCATION 	7 AFFORDABLE AND CLEAN ENERGY 
ECONOMY SECTOR						
1	Telecommunications					
2	High technology					
3	Forest industry					
4	Healthcare and pharmaceuticals					
5	Consumer sector					
6	Agriculture					
7	Real estate					
8	Electric power					
9	Hospitality business					
10	Finance					
11	Fuel trading					
12	Non-profit sector					



Support for the underprivileged, incl. children, the elderly and people with special needs



Development of supplementary education programmes; occupational guidance for schoolchildren; cooperation with universities



Development of agriculture: introduction of modern technologies and growth of crop yields and livestock productivity



Improving the infrastructure of electricity transmission networks; increasing energy efficiency of production; alternative energy sources



Development of the healthcare system; introduction of advanced technologies in medicine and pharmaceuticals; promotion of healthy lifestyles



Timely payment of taxes, creation of jobs in the regions of operations, motivation and development of employees

[illegible]

Creating modern communications
infrastructure, electric power industry
and innovative solutions for cities



Reduction of greenhouse gas emissions;
preservation and restoration of forests



Comprehensive real estate development,
innovative solutions for smart and safe
cities, and redevelopment of the urban
environment



Responsible forest management
and sustainable agriculture



Improving production efficiency
and promoting the culture of responsible
consumption among customers



Signing and implementation
of cooperation agreements with regions;
partnership with the state, non-profits
and environmental organisations



1 Telecommunications



MTS

A leading telecom operator in Russia and the CIS

≈110m mobile subscribers, incl. ≈80m in Russia (No 1)

One of Europe's largest fixed communications networks (MGTS)

69,172 employees (including the retail chain)

Sistema Shyam TeleServices Ltd.

Mobile operator offering services in India under the MTS brand

**9 regions of operations in India
≈10m subscribers**

2 High technology



RTI

A large Russian producer and developer of high-tech products and infrastructure solutions using its own microelectronic technologies. Russia's largest manufacturer of RFID tags

15,658 employees



Sistema Venture Capital

Sistema's venture capital fund specialising on investment in Internet companies at the growth stage

16 employees



Kronstadt Group

Kronstadt Group is a Russian high-tech company that engineers and manufactures knowledge-intensive products for the production, deployment and safe use of sophisticated air-, sea-, and land-based systems

1,312 employees



Sarov Technopark

Centre for development and implementation of innovative projects

**60 resident companies
671 employees**

3 Forest industry



Segezha Group

Russia's largest timber holding

Total area of woodland: 6.8m ha
≈1.3bn paper sacks produced in 2016
8,800 employees

4 Healthcare and pharmaceuticals



Medsia Group

The leader of private healthcare in Russia; the largest federal privately owned chain of clinics

>7 million visitors a year
6,449 employees



Binnopharm

An innovative biopharmaceutical company with full-cycle production in line with the international quality standards.
 Products are available in every fourth pharmacy in Russia

412 employees

5 Consumer sector



Detsky Mir Group

No 1 in the Russian children's goods market

525 stores
596,000 sq m of selling space
10,364 employees



Concept Group

A fast-growing producer and retailer with leading positions in Russia's women's and children's clothes market

432 stores in 120 Russian cities
2,361 employees



OZON Group

Russia's leading e-commerce platform with its own logistics service

2.5m customers per year
>4.2m SKUs



6 Agriculture



Land assets totalled 315,000 ha as of the end of 2016

Total headcount: 5,456 people

RZ Agro Holding

A major producer of grain and oil crops in southern Russia

6 farms in the Rostov and Stavropol regions



Steppe AgroHolding

Highly efficient agricultural enterprises operating in crop farming, dairy farming, fruit growing and vegetable growing segments

1.04m tonnes of grain in 2016
36,200 tonnes of milk per year
45,800 tonnes of vegetables

7 Real estate

527 employees

Leader Invest

≈ 3 million sq m in Leader Invest's 45 projects of residential and commercial real estate in Moscow

Business Nedvizhimost

440,000 sq m under the management

Mosdachtrest

112 ha of land managed

8 Electric power



BPGC

One of the most efficient electric grid operators in Russia

>80,000 km of transmission and distribution grids in Bashkortostan
7,557 employees

9 Hospitality business



Hotel Management Company "Cosmos Group"

One of the largest hotel chains in Russia with 3,771 rooms

17 hotels in 4 countries

A chain of new hotels under international brands in Moscow and 8 regions of Russia

1,881 employees

10 Finance



MTS Bank

A systemically important operator in the market of payments, loans and savings. Among Russia's top 50 banks by total assets

>2m of issued cards
2,314 employees

11 Fuel trading



SG-trading

An independent distributor of LPG

**11 LPG storage terminals
in 5 federal districts**

53 LPG filling stations

764 employees

12 Non-profit sector



Sistema Charitable Foundation

The operator of charitable activities
of Sistema Group companies

**>RUB 550m of financing for
programmes in 2016**

**In addition, the Corporation takes into account the top-priority
objectives of national development in its activities:**

National development priorities

Sistema's contribution into national goals achievement

Development
of innovative technologies



Strengthening
of national security



Modern infrastructure



Import substitution,
development of production
and export of finished products



Food security



Health of the nation





G4-13

Key M&A transactions in 2016

I квартал

Sale of **23.1% of Detsky Mir shares** to the Russia-China Investment Fund

Acquisition by Segezha Group of Lesosibirsk Woodworking Plant No.1 (Krasnoyarsk region), one of Russia's largest vertically integrated woodworking enterprises

II квартал

Acquisition of **110,000 ha** of land in the Stavropol and Rostov regions

Agreement with the Russian Federation on acquisition from the Federal Agency for State Property Management of **17.14% of SSTL shares** with payment in instalments over a period of five years

III квартал

Sale of a 50 % stake in SG-trans

IV квартал

Acquisition of **100% of shares/ stakes** in nine hotels of the Regional Hotel Chain

Sale of a 100% stake in Targin

Acquisition by Steppe AgroHolding of assets with total land holdings of **66,000 ha**

Acquisition of **Alpharm**, a manufacturer of two medications of the pharmacy segment.



G4-26

INTERNATIONAL COOPERATION

In February 2016, Vladimir Evtushenkov, Sistema's Chairman of the Board of Directors, met with the government delegation of the Kingdom of Thailand headed by Deputy Prime Minister Somkid Jatusripitak and with leading representatives of the business community.

The delegation of the Corporation also participated in the business mission of the Ministry of Industry and Trade of the Russian Federation to India. During the meetings with the leaders of states and the business community, the Corporation presented its capabilities and activities in the Indian market.

In March 2016, representatives of Sistema headed by its President made a trip to Tokyo, where they met with major Japanese corporations and agreed on the further development of contacts, including during the visit of the Japanese Prime Minister Shinzo Abe to Russia in 2017.

In 2016, Sistema representatives made two working visits to Iran and discussed the possibilities of cooperation in the field of woodworking, production of paper bags, telecommunications and agriculture. In October 2016, Iran's ambassador to Moscow met with Sistema's President Mikhail Shamolin. The parties discussed the opportunities for the Corporation's business development in the country.

Representatives of Sistema took part in a number of intergovernmental commissions:

- The Mixed Commission for Economic Cooperation Between the Russian Federation and the Belgium-Luxembourg Economic Union;
- The Russian-Jordanian Intergovernmental Commission for Trade and Economic, Scientific and Technological Cooperation Development and the Russian-Jordanian Business Forum in Amman;
- The Russian-Indian Intergovernmental Commission on Trade, Economic, Scientific, Technical and Cultural Cooperation.

Priority areas of international cooperation for Sistema in 2017:

- Europe (Luxembourg and Germany);
- Southeast Asia (India, Japan and China);
- Middle East (Saudi Arabia, UAE and Iran);
- North Africa (Egypt).

G4-16

Participation of Sistema and its representatives in non-governmental organisations

Russian organisations and associations:

- Russian Union of Industrialists and Entrepreneurs (RUIE);
- Chamber of Commerce and Industry of the Russian Federation;
- Russian Institute of Directors;
- Russian Managers Association;
- Russian Risk Management Society.

International organisations and associations:

- EU-Russia Industrialists' Roundtable;
- Business Council for Cooperation with India;
- Russian-Chinese Business Council;
- Russian-Arab Business Council;
- Russo-British Chamber of Commerce;
- Belgian-Luxembourg Chamber of Commerce in Russia;
- World Economic Forum.

Sistema's Board Chairman Vladimir Evtushenkov is a member of:

- Management Bureau of the Russian Union of Industrialists and Entrepreneurs (head of the Committee for Industrial Policy);
- Council of the Russian Chamber of Commerce and Industry (chairman of the Committee on Scientific and Technical Innovations and High Technology);
- Russian-Arab Business Council (chairman) and Russian-Saudi Business Council;
- National Council on Corporate Governance;
- Board of the Moscow Confederation of Industrialists and Entrepreneurs (Employers);
- Boards of Trustees:
 - Fund for Development of the State Russian Museum "Friends of the Russian Museum" (Chairman);
 - Moscow State University and its Institute of Russian Language and Culture;
 - Higher School of Management of St Petersburg State University;
 - Russian Geographical Society;
 - Russian Olympians Foundation;

- So-Yedineniye Foundation for the Support of the Deaf-Blind;
- Handball Federation of Russia;
- M-ART Foundation for Support and Development of Art, Culture, Environmental Projects, Science and Sport;
- Patriarchal Council for the Restoration of the Valaam Monastery of the Transfiguration of the Saviour.

Representatives of Sistema take part in the work of specialised advisory bodies of industry associations and public organisations, including those related to CSR:

- Committee for Corporate Social Responsibility and Demographic Policy of the Russian Union of Industrialists and Entrepreneurs;
- Committee for Corporate Social Responsibility of the Russian Managers Association;
- Sistema Charitable Foundation is a member of the Donors Forum, National Council on Corporate Volunteering and Association of Volunteer Centres of Russia (since 2016). The president of Sistema Charitable Foundation also became a member of the Russian Government's Social Protection Council.



1.2. Responsible investment

STRATEGY

The strategy of Sistema is aimed at increasing the shareholder value of the Corporation through monetisation of its investment portfolio.

Sistema acquires companies with high growth potential, restructures them and introduces the best corporate governance practices. Thus, the Corporation enhances the operational efficiency of assets and creates market leaders in promising sectors, such as high technology, agriculture, private healthcare, timber industry, etc.

By investing in systemically and socially important spheres of the economy, Sistema makes sure that its business goals are consistent with public interest and the priorities of global, national, regional and sectoral development, and takes into account the expectations of the key stakeholders, both internal (shareholders and employees) and

external (investors, the state, local and business communities, NGOs and the media).

The Corporation's investment activity is accompanied by large-scale infrastructure projects and social investments that create a favourable environment for the development of territories and local communities, people's lives and working conditions, commercial and non-profit organisations.

In the process of selecting promising areas for investment and evaluating potential assets for acquisition, as well as when launching large investment projects, Sistema makes sure that its business goals are consistent with public interest.

The Corporation takes into account environmental, social and corporate governance (ESG) factors that affect the sustainable development of relevant markets and regions.



Sistema's principles in the investment process:



consideration of environmental, social and corporate governance factors – risks and opportunities



compliance with the priorities of social and economic development of countries and regions of operations



introduction of uniform corporate governance standards and principles of sustainable development in portfolio companies



formation of an open and transparent business practice based on ethical values, respect for employees, shareholders and consumers, and care for people and the environment



In its activities, Sistema is guided by the Principles for Responsible Investment adopted at the international level and reflecting the relationship between environmental and social issues, corporate governance and investment practices.

The main objective of Sistema as a responsible investor is to increase transparency and implement the high standards of corporate governance and unified approaches to management of CSR and portfolio companies' impact on the environment in order to reduce potential social and environmental risks and to increase the attractiveness of its assets for investors and partners.

Artyom Zasursky

Vice President
and Head of the
Strategy Function
of Sistema



Today, corporate strategies must take into account the applicable laws, principles of corporate governance, analyse the impact on the economy, ecology and social environment in the regions of operations, and much more. In the process of strategic and investment planning, we constantly assess the compliance of Sistema's plans with the best practices in these areas. We also monitor the latest technological, macroeconomic and social trends in order to better prepare the Corporation and its subsidiaries for the challenges that we will face in the near future.



BUSINESS MODEL AND SUSTAINABLE DEVELOPMENT

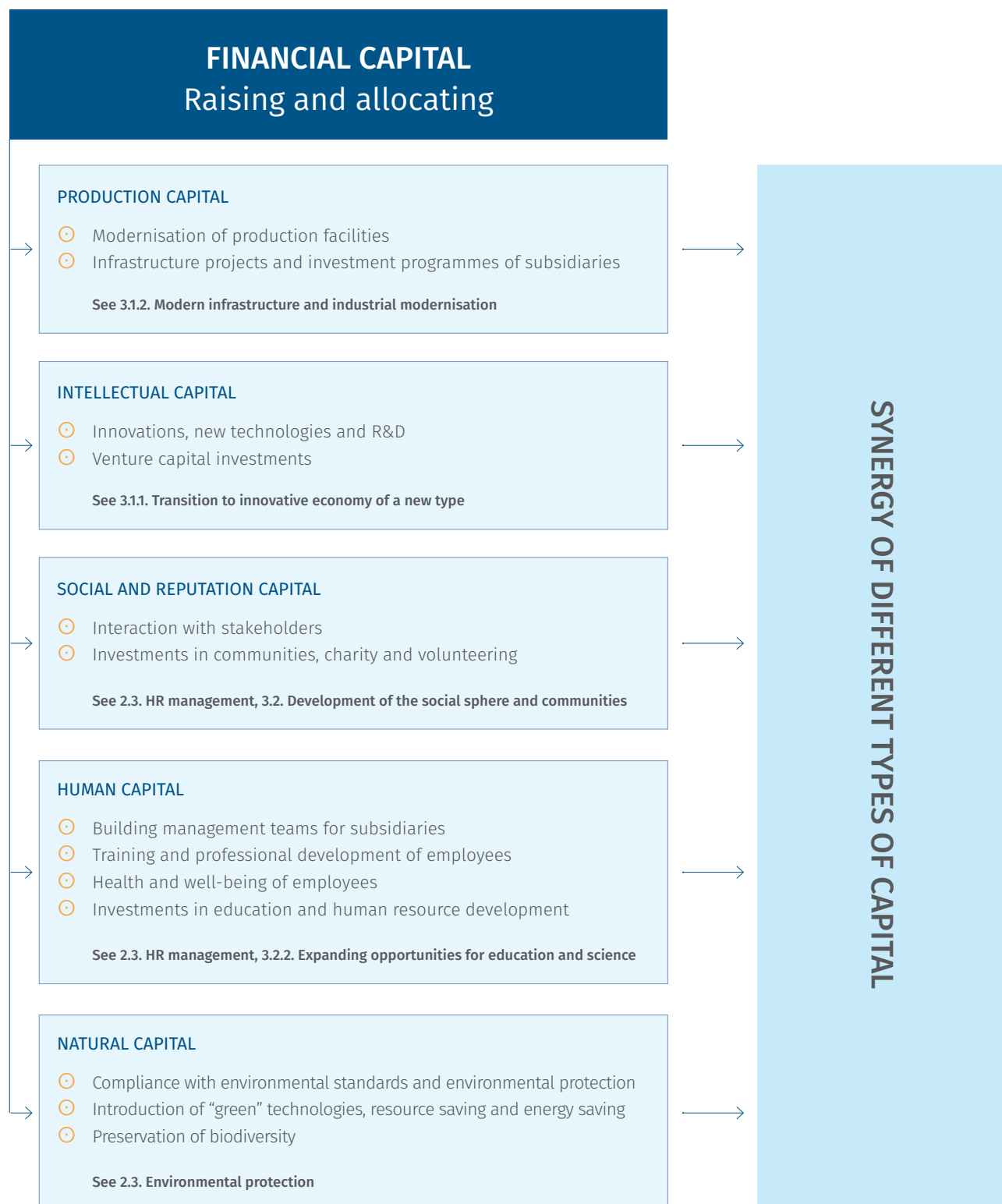
Based on a clear strategic vision, strong expertise and more than 20 years of experience in various industries, Sistema accumulates and distributes financial resources in such a way as to ensure high returns on investment through the preservation and augmentation of the productive, intellectual, human, reputational and natural capital to ensure sustainable development of the business and society in the long term.

Sistema's main competences and areas of responsibility are the management of financial capital and human resources, primarily at the executive level.

Sistema receives income from dividends, sale of stakes/assets or IPOs of assets. The funds received from the monetisation of the portfolio are allocated in the following ways:

- Investing in new promising projects (the Corporation mainly invests in industries that are complementary to existing assets. This allows us to use accumulated experience and ensure the synergy of different businesses. Sistema invests in new sectors if it has expertise and/or an industrial partner).
- Development of current portfolio assets to increase their value both through organic growth (investment in production) and M&A transactions (acquisition of new enterprises).
- Distribution of profit among the shareholders through dividends.

Synergy of different types of capital at Sistema is a platform for the sustainable development of business





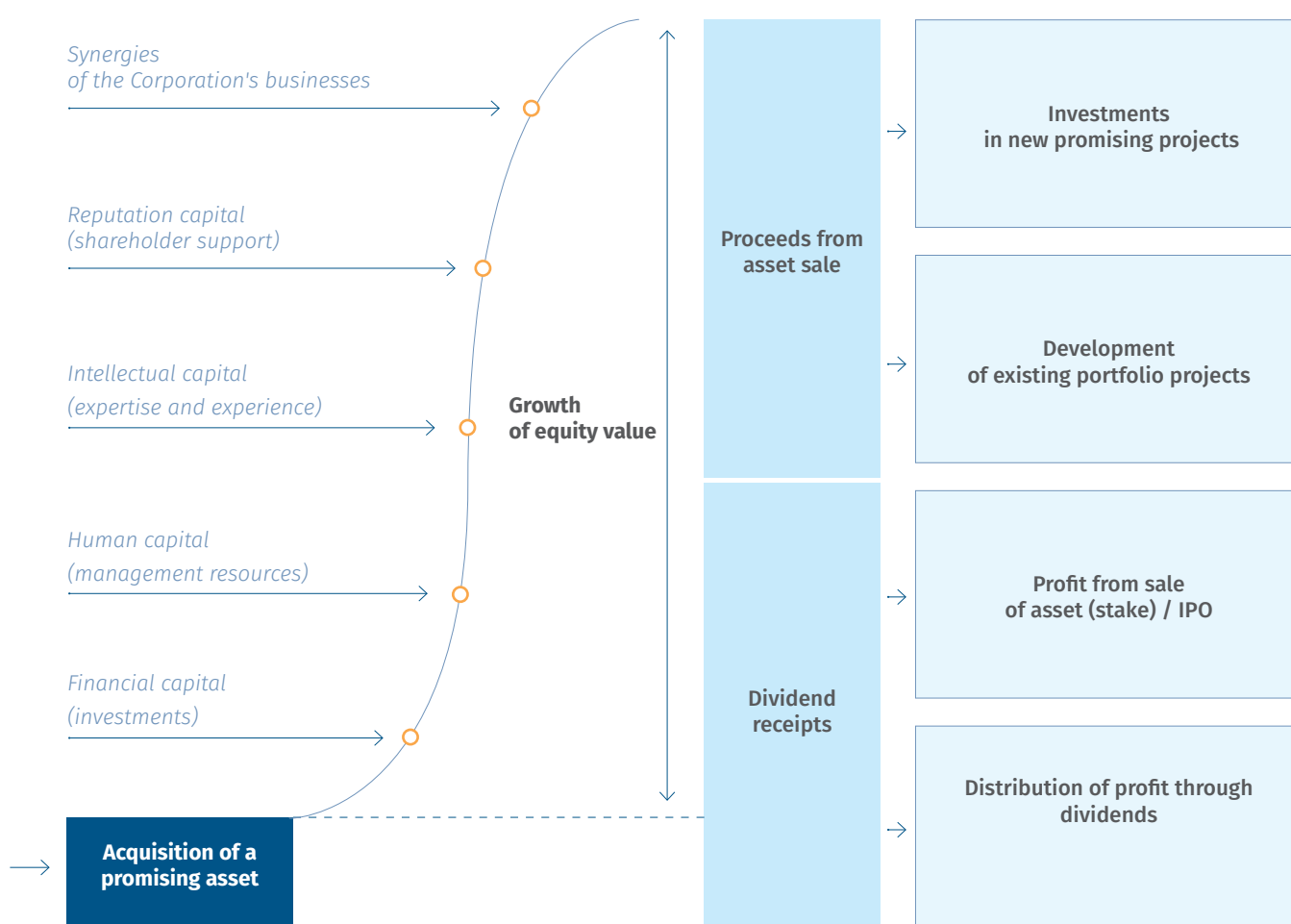
The function of Sistema is to invest shareholders' money in investment-attractive assets, create their value, exit those assets, monetise them, pay back to its shareholders and move on.

In 2016, we exited the commodity and transport sectors, having monetised our investments in the oilfield services and rail transportation of LPG, and focused on new strategic areas such as agriculture, timber processing, development of tourism infrastructure and real estate; we also created a number of venture capital funds for investments in promising high-tech startups targeting both private consumers and the corporate market.

Mikhail Shamolin
President of Sistema



Value creation model





G4-26

INTERACTION WITH INVESTMENT AND BUSINESS COMMUNITIES

The success of Sistema's business depends on the stability of relations with investors, financial institutions and industry partners. Therefore, the Corporation maintains a constant dialogue with these stakeholders by participating in global and Russian economic forums and conducting road shows, presentations, conference calls and personal meetings with the participation of Sistema's executives.

The key events in 2016:

- Participation in eight investment conferences organised by the Moscow Exchange and major international banks.
- Participation in three major international economic forums: World Economic Forum in Davos, Russian Investment Forum in Sochi and St Petersburg International Economic Forum.

- Presentation of Steppe AgroHolding to the investment community as part of an effort to raise awareness about the new areas of Sistema's investment and enhance the transparency of its non-public assets. The company's senior executives presented the key business areas and showed investors the fields, crop farming infrastructure, the company's modern dairy farm and orchards.

- Presentation of Segezha Group to key analysts and investors, who, during the visit to Segezha PPM, saw the full cycle of paper packaging production and learned about Segezha Group's strategy. Following the visit, Credit Suisse raised the projected price of Sistema's global depositary receipts by 2% (with a "buy" recommendation) and upgraded its outlook for Segezha Group's 2016 EBITDA and valuation by about 10%.

- Meetings of Sistema's senior executives with the key investors of the Corporation during two road shows in the UK and the US.
- Holding an Investor & Analyst Day for Detsky Mir.
- Conducting four conference calls to disclose the Corporation's consolidated financial results.
- Preparation and publication of Sistema's annual report for 2015.

In 2017, Sistema plans to expand the range of activities aimed at presenting the Corporation's non-public assets to investors and analysts, including real estate assets.

The Corporation usually acquires large equity stakes in companies in order to be able to implement turn-around initiatives.

In accordance with Sistema's corporate procedures, all investment transactions undergo a multi-level process of assessment against specific criteria and are considered collectively. Since 2015, the Corporation has an Expert Council for Investment reporting to the President of Sistema. The Council

prepares recommendations and draft resolutions on issues related to the management of investment ideas.

To regulate this process, the Corporation adopted the Investments and Projects Code.



For more details on [Sistema's portfolio strategy, see the Annual report of Sistema for 2016](#).



G4-26

STRATEGY SESSIONS AND INNOVATION DAYS

The Corporation shares its strategic vision with portfolio companies, sets development objectives in line with the market forecasts and regularly discusses the tools for achieving the goals and results. For this purpose, every summer subsidiaries hold strategy sessions with the participation of the top management and the Corporate Centre's representatives. During 3-5 days, they develop and approve the goals and plans of the companies for the next year and set the KPIs. The results of achieving the goals are discussed at least once

a quarter. In 2016, twenty such strategy sessions were held.

In autumn, we hold the annual strategy session for the senior executives of Sistema and its subsidiaries in order to determine the development trajectories of the Corporation taking into account the current trends in the market. We invite world-class speakers to these sessions: futurists, economists and management experts.

A new format of Sistema's strategic development is Innovation Days, during which Sistema's senior executives and Board members meet to discuss the key external challenges and opportunities. Two such events took place in 2016.



IN 2016, **20**
STRATEGY SESSIONS
WERE HELD



Economic performance results in 2016

The Corporation's performance results have a significant impact on the development of many industries, the economic and social spheres of the regions of operations and the country as a whole. Sistema creates value not only for itself and its shareholders, but also for a wide range of stakeholders: it pays taxes to the federal, regional and local budgets, invests in communities and the social sphere, and ensures a competitive level of remuneration and adequate standards of living for its employees.

≈ 7%



**SISTEMA'S REVENUE CAGR IN RUSSIA
OVER THE PAST FIVE YEARS**

In 2016, Sistema's consolidated revenue increased by 2.8% due to the impressive growth of Detsky Mir, Segezha Group and agricultural assets, and amounted to almost RUB 700bn.

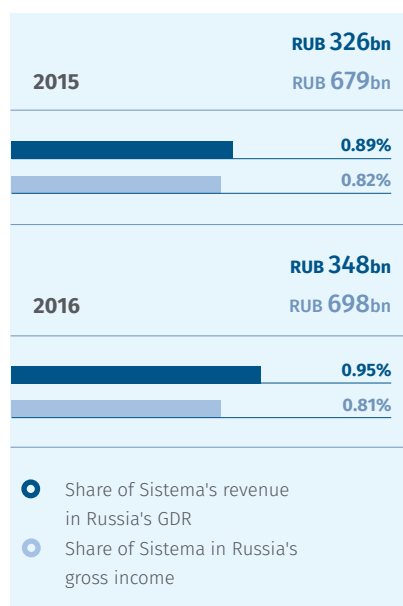
The share of Sistema's consolidated revenues in Russia's GDP was 0.81%, and its contribution to the gross income of the Russian economy was approximately 0.95%.

The contribution of high-tech and knowledge-intensive assets to the total revenue of Sistema was about 10% in 2016 (with telecommunications this indicator exceeds 70%)¹.

G4-EC4

In 2016, Sistema did not receive any financial assistance from the government.

Sistema's contribution to the gross domestic product and gross income of the Russian Federation



≈ 1%



**THE GROUP'S CONTRIBUTION
TO RUSSIA'S GDP**



For more details on the company's financial performance, see [the Annual Report of Sistema for 2016, pages 19-22](#).

G4-EC1

Generated and distributed economic value, RUB bn.²

Indicator	2015	2016
Value created	699.4	714.7
Revenue	679.0	698.0
Financial and other revenues	20.4	16.7
Distributed value	655.6	687.7
Operating expenses, including:	504.9	512.4
Payroll and other payments and benefits for employees ³	139.3	144.6
Tax payments ⁴	67.0	74.1
Investments in communities (charity)	1.5	1.7
Financial expenses	54.5	62.0
Dividend payouts	27.5	37.7
Retained value	44.0	26.8

⁽¹⁾ According to the Federal State Statistics Service, the share of high-tech and knowledge-intensive sectors in the Russian GDP was 22.4% in 2016.

⁽²⁾ Consolidated financial indicators of Sistema Group are given without Targin and SG-trans, which were excluded from the consolidation perimeter in 2016, for the purpose of comparability.

⁽³⁾ Includes salaries, bonuses, social security contributions and employee benefits in kind.

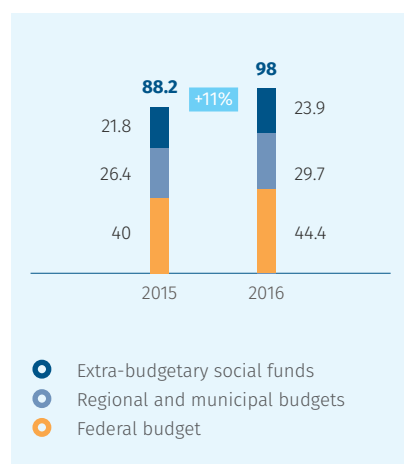
⁽⁴⁾ Does not include payments to pension, medical and social security funds, which are included in "Payroll and other payments and benefits for employees".

Tax payments

The Corporation is one of the biggest taxpayers in Russia, making regular payments to the budgets of all levels. The Corporation's tax payments over the past five years were ten times the amount of net profit attributable to the shareholders.

In 2016, the Corporation paid a total of about RUB 98bn in taxes, of which about 70% went to the federal budget. Among the federal entities of Russia, the key recipients of payments are Moscow (50%), the Moscow region (6%), the Republic of Bashkortostan (5%), the Krasnodar region (3%), the Republic of Karelia (3%) and St Petersburg (2%).

Sistema Group's payments to Russia's budget system in 2014-2016, RUB bn



THE CORPORATION PAID

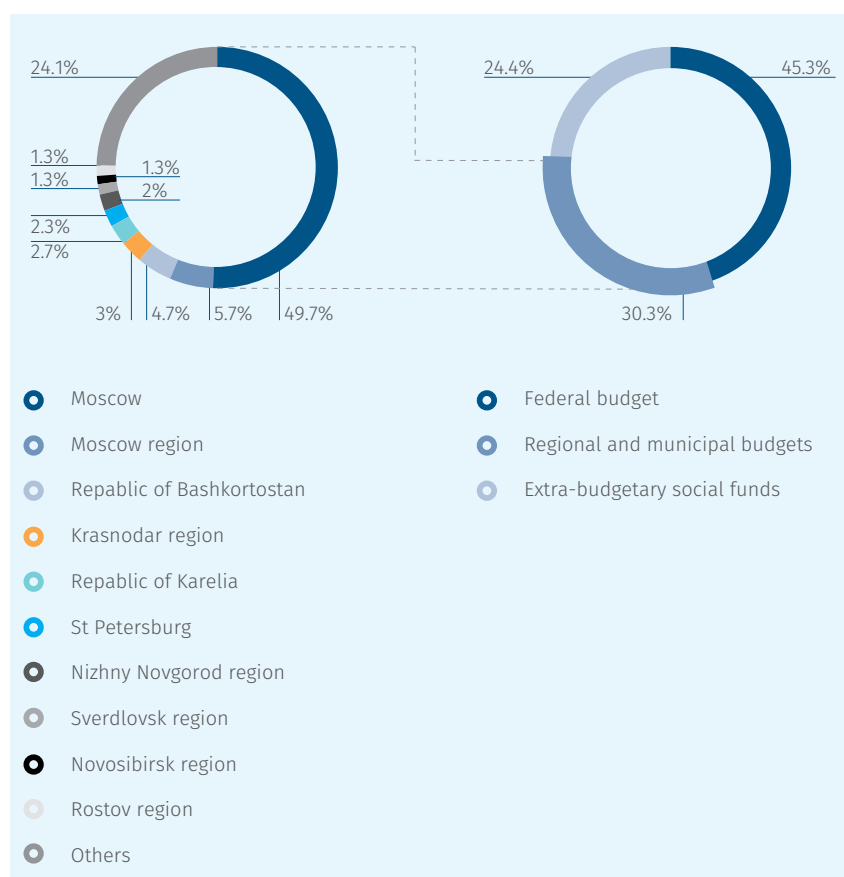
≈ RUB **290^{bn}**

TO RUSSIA'S CONSOLIDATED BUDGET IN 2014-2016, INCLUDING OVER

60^{bn}

TO PENSION, MEDICAL AND SOCIAL SECURITY FUNDS

Breakdown of Sistema Group's tax payments in 2016, %.



≈ RUB **100^{bn}**

WAS PAID TO THE BUDGET OF RUSSIA IN 2016, OF WHICH 30% WENT TO REGIONAL AND LOCAL BUDGETS



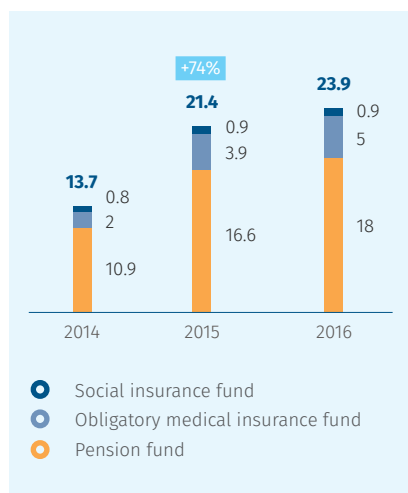
OUT OF THE TOTAL AMOUNT OF PAYMENTS MADE IN 2016, ALMOST

≈ RUB **24^{bn}**

WAS PAID TO PENSION, MEDICAL AND SOCIAL SECURITY FUNDS (about a quarter of all payments to the state)

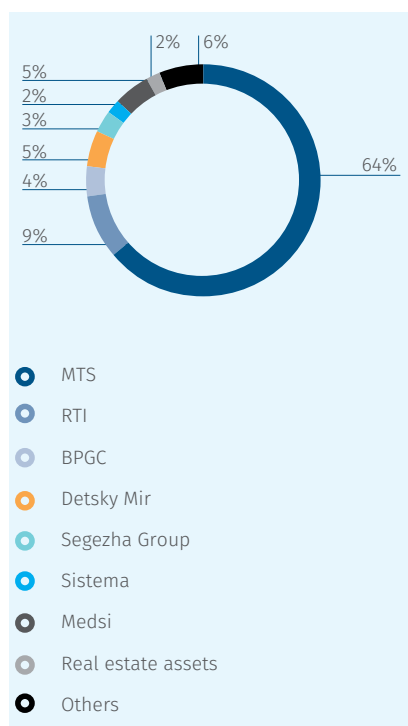
Implementation of investment programmes

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



The largest taxpayers among the Group's companies are MTS, RTI, Medsi, Detsky Mir and BPGC.

Breakdown of Sistema Group's tax payments in 2016 by companies, %

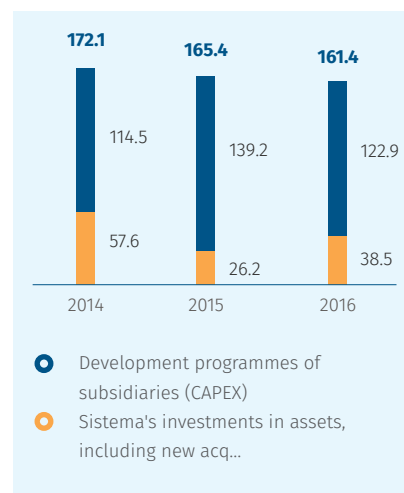


The amount of the Group's annual payments to the budget and extra-budgetary funds of the Russian Federation is comparable to the Group's CAPEX. Over the past few years, the Corporation has invested more than RUB 100bn in the Russian economy. Sistema Group provides about 1% of the total Russian investment.

The main areas of the Corporation's investments are CAPEX for the development of subsidiaries and acquisition of new assets.

In 2016, the Group's total capital expenditures decreased by 11.7% mainly due to the completion of the large-scale modernisation programme for the MTS network, which accounts for 70% of the total volume. At the same time, Segezha Group's investment programme doubled compared to 2015 due to rapid modernisation of production facilities.

Sistema Group's investmentse, RUB bn



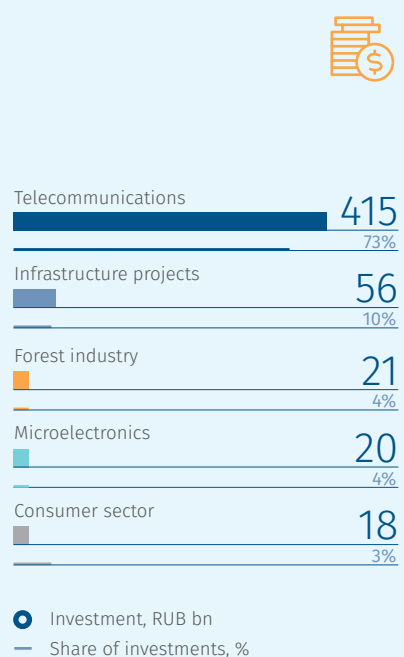
IN 2016, THE GROUP'S TOTAL INVESTMENT EXCEEDED

> RUB 161^{bn}
OF WHICH ABOUT 90% WAS CAPEX

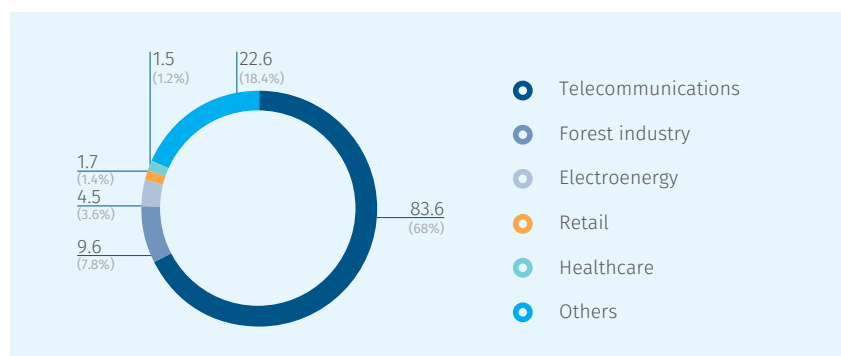
OVER THE COURSE OF FIVE YEARS, SISTEMA GROUP INVESTED APPROXIMATELY

≈ RUB 570^{bn}

IN VARIOUS STRATEGICALLY IMPORTANT SECTORS OF THE RUSSIAN ECONOMY, INCLUDING:



Sistema's CAPEX in 2016 broken down by sectors, RUB bn



OUT OF THE RECORD-HIGH
AMOUNT OF

RUB **24^{bn}**

INVESTED BY PRIVATE INVESTORS
IN THE RUSSIAN HEALTHCARE
SYSTEM IN 2016, ALMOST

6%

WAS INVESTED BY SISTEMA

At the end of 2016, **MTS** completed the programme for fibre optic network development and launched 4G networks in all regions of its operations in Russia, building additionally 6,200 LTE base stations to expand the high-quality mobile network for customers.

In Moscow, the company deployed the largest fibre-optic network GPON, which includes more than 45,000 km of trunk sections and 11,000 km of in-house communication lines, and to which more than 95% are connected. The number of GPON-based service users increased by 10% and exceeded 1.6m in 2016.

In 2016, **Meds** continued the development of the new clinicodiagnostic centre at Krasnaya Presnya, and also implemented an investment project in the clinical hospital in Otradnoye (the Moscow region), investing about RUB 1bn in modernisation of the surgical unit and creation of a radiology unit and a centre for sterilisation of medical equipment.

In 2016, **Detsky Mir** Group continued to invest in the regional development of the retail chain and opened 100 new stores.

BPGC's investment programme increased by 24% in 2016 year-on-year.

CAPEX were aimed at creating an efficient and well-balanced power grid infrastructure to ensure social and economic development of the Republic of Bashkortostan and at improving the reliability and quality of electricity supply, including:

- comprehensive renovation of distribution grids in Ufa; the company renovated its distribution facilities (3 units) and transformer substations (79 units), laid cable lines (20 km) and installed metering units at apartment blocks and at the main substations;
- power connections for new consumers;
- introduction of energy-saving and energy-efficient technologies;
- construction of new energy facilities.

Segezha Group started a large-scale investment programme in 2016, which includes:

- modernisation of the logging fleet;
- overhaul of the Segezha Pulp and Paper Mill in Karelia: launch of an additional line for the production of paper packaging, modernisation of the pulp mill's fibre line and installation of a new paper-making machine;
- construction of a new plywood mill in the Kirov region and expansion of the capacity of the Vyatka Plywood Mill;
- launch of the paper sack production line in Salsk, the Rostov region.

Other major investment projects in 2016 include the beginning of modernisation of the greenhouse complex, the construction of a dairy farm for up to 1,900 head of cattle and the expansion of the area of **Steppe AgroHolding's** orchards by 24% to 780 ha.



Management system

>> 2.1. Corporate governance

>> 2.2. Social responsibility management

>> 2.3. HR management

>> 2.4. Business ethics and anti-corruption efforts

>> 2.5. Risk management

>> 2.6. Procurement

42

49

57

82

88

94

Alexey Guryev

Vice President
and Head of
HR Department
of Sistema



An investment business is a business that is to a large extent based on competences. That's why we are recruiting to Sistema and its portfolio companies the best professionals that can be found on the market. The Corporation has created unique conditions to ensure career growth in various industries, both at Sistema and its subsidiaries. Our current incentive system in accordance with international best practices aligns the interests of the shareholders and the management, encouraging the managers to increase returns on investment in the long term. The Corporation is an employer for over 130,000 people in almost all regions of Russia, offering its employees competitive salaries, social benefits and opportunities for development.



57

More details
in section

[HR management](#)



≈135^{th.} people

THE TOTAL HEADCOUNT
OF SISTEMA GROUP IN 2016



2.1. Corporate governance

In developing its corporate governance system Sistema is guided by the best Russian and global practices, and forms an exemplary model to be implemented in all subsidiaries. The current system ensures effective adoption and implementation of resolutions while protecting the shareholders' rights and ensuring the Corporation's transparency and accountability. The high quality of corporate governance and information disclosure is also an important tool for managing the Group's ESG risks.

Transparency
and clarity
of processes
for investors
and partners

Transparent
dividend policy

Corporate governance principles

Activeness and
professionalism of
the Board
of Directors

Investment decisions
in accordance with
prescribed procedures

Attention of the
Board of Directors
to all transactions
with related parties

Active role
of the Board
of Directors
in strategic planning

Development
of corporate
governance
in subsidiaries

KEY CHARACTERISTICS OF SISTEMA'S CORPORATE GOVERNANCE SYSTEM:

Shareholders' rights

Positive dividend history: In 2016, the Corporation started paying interim dividends.

Selection of external auditors following an open tender, regular rotation of partners of the external auditor of the Corporation.

Engagement of independent appraisers in cases other than those provided for by law.

The deadline for submission of shareholders' proposals for the AGM's agenda is 100 days after the end of the reporting year. The information for the meeting of shareholders is posted on the corporate website.

The Corporation ensures that the General Meetings of shareholders are attended by the members of the Board of Directors, executive bodies and the Audit Review Commission as well as representatives of the external auditor, and that there is a constructive dialogue between the shareholders and the members of the governance and control bodies.

The powers of the Board of Directors have been expanded regarding the resolutions on material transactions.

The Board of Directors annually reviews the report on assessment of corporate governance.

Activities of the governance and control bodies

The Board of Directors actively performs the function of strategic management of the Corporation and approves the election of executive bodies and the terms of contracts concluded with them.

Independent directors constitute at least half of the Board of Directors and chair the Audit, Finance and

Risk Committee, the Nomination, Remuneration and Corporate Governance Committee as well as the Investor Relations and Dividend Policy Committee.

The fact that a lot of the meetings of the Board of Directors are held in person provides an opportunity for collective and comprehensive discussion of agenda items.

The composition and functions of the committees of the Board of Directors comply with the requirements for the first level of listing at the Moscow Exchange and the recommendations of the Corporate Governance Code.

There is an annual self-appraisal of the Board of Directors and its members.

There is a comprehensive regulation on conflicts of interest of the members of the Board of Directors and executive bodies.

The remuneration of executives includes short-term and long-term components.

The Corporation has a **succession pool** of candidates for senior executive positions.

The Corporation has a structural unit that performs the functions of internal audit and reports to the Board of Directors.

The Board of Directors annually **assesses the effectiveness of the risk management system.**

Information disclosure

Transparent structure of the share capital.

Regular meetings and presentations for shareholders and investors with the participation of members of governance bodies.

The Regulation on the Information Policy is consistent with the recommendations of the Corporate Governance Code.

Prompt disclosure of financial statements under Russian and international standards, including interim reports under IFRS with explanations of the Corporation's executives.

A lot of information for shareholders and investors is disclosed on the corporate website in Russian and in English, including **full disclosure of information on financial and operating results, controlled entities,** amount of remuneration paid to the external auditor, etc.

Social responsibility

Sistema implements **CSR projects** for all groups of stakeholders.

The **CSR strategy** was approved by the Board of Directors.

Centralised management of the portfolio of social investments through a corporate charitable foundation with the Board of Trustees including independent directors of Sistema.

The Corporation has the Code of Ethics and the Anticorruption Policy approved by the Board of Directors.

The Corporate Governance Code establishes principles for resolving corporate conflicts.

Non-financial reporting is published in accordance with the GRI Guidelines.

HIGH LEVEL OF CORPORATE GOVERNANCE

At the end of 2016, the Russian Institute of Directors (RID) once again confirmed Sistema's corporate governance score at the level of "Advanced corporate governance practice".

In accordance with the scale of the National Corporate Governance Rating, the highest score, which was assigned to only three organisations including Sistema, means that the Corporation complies with the requirements of Russian law, follows a significant number of recommendations of the Russian Corporate Governance Code and is characterized by fairly low risks associated with the quality of corporate governance.

Moreover, in 2016 Sistema became one of the top 10 companies with the best corporate governance practices out of the 100 largest publicly traded Russian companies listed on the Moscow Exchange, according to the National Corporate Governance Index compiled by the National Association of Corporate Directors with the support of the MOEX and the Russian Union of Industrialists and Entrepreneurs.



The uniform corporate governance principles are applied in all areas of Sistema's activities, including strategic and financial management, preparation of reports, risk management, internal control and audit, and enhance the investment appeal of the Corporation.

The principles and procedures of Sistema's corporate governance are enshrined in the Charter and a number of publicly available internal documents¹, in particular the Corporate Governance Code and in the Code of Ethics, which set out additional obligations of the Corporation, its senior executives and employees in the field of social responsibility, transparency and integrity of doing business.

As far as corporate governance practices are concerned, Sistema seeks to comply with the requirements of stock exchanges where the Corporation's shares are listed: the Corporate Governance Code recommended by letter of the Bank of Russia² the UK Corporate Governance Code³ and the Listing Rules of the Moscow Exchange.

Igor Petrov
Corporate Secretary
of Sistema



Sistema's corporate governance standards are among the highest in Russia and may serve as an example to many Russian and international companies. This is confirmed by various ratings and the results of independent assessments of our corporate governance system. Sistema has always aspired to implement the same high standards in all its portfolio companies in order to ensure full transparency of all key decisions and transactions in strict compliance with the provisions of Russian law on joint-stock companies, the requirements of stock exchanges and the recommendations of market regulators.



¹ Corporate documents of Sistema: <http://www.sistema.ru/o-kompanii/korporativnoe-upravlenie/korporativnye-dokumenty>

² http://www.cbr.ru/sbrfr_new/files/legislation/letters/2_014/Inf_apr_1014.pdf

³ <https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf>

Corporate governance structure

G4-34

Sistema's key governance bodies are the General Meeting of shareholders, the Board of Directors, the President and the Management Board. The Board of Directors and the President have committees that conduct a more in-depth analysis of the proposed resolutions falling within their respective remits and develop recommendations for the governance bodies of Sistema regarding the adoption of resolutions in relevant areas.

GENERAL MEETING OF SHAREHOLDERS

The supreme governance body of Sistema is the General Meeting of shareholders. Its activities and powers are governed by the laws of the Russian Federation on joint-stock companies, as well as by the provisions of the Corporation's Charter and bylaws, first and foremost, by the Terms of Reference of the General Meeting of Shareholders of Sistema PJSC. The General Meeting procedure aims to make sure that the rights of the shareholders are respected and all applicable legal requirements, as well as best practices in corporate governance, are observed.

In 2016, the Annual General Meeting of shareholders was held on 25 June. It was attended by the shareholders holding together 79% of votes, including GDR holders with 9.47% of votes.

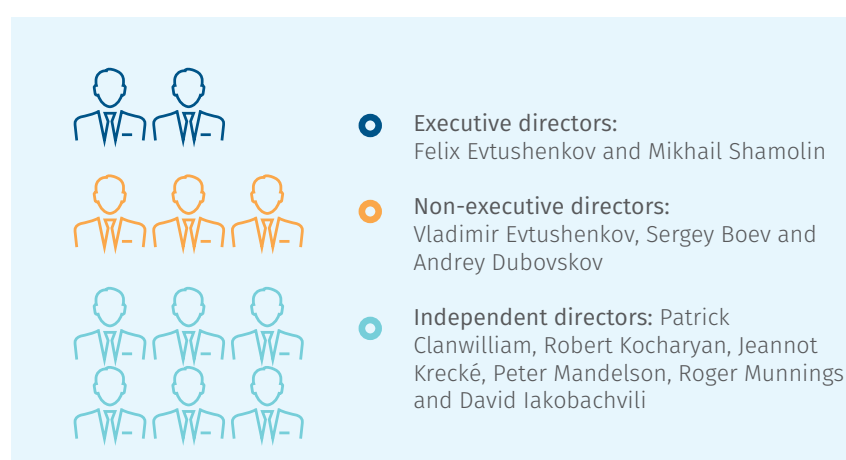
BOARD OF DIRECTORS OF SISTEMA

The Board of Directors of Sistema is subordinate to the General Meeting of shareholders and is responsible for the strategic management of the Corporation. The scope of authority of the Board of Directors is set out in the Charter of Sistema. The Board of Directors of Sistema effective as of 31 December 2016 was elected at the Annual General Meeting of shareholders held on 25 June 2016.

Corporate governance system



Members of the Board of Directors elected in 2016



Development of the corporate governance system in 2016

The meetings of Sistema's Board of Directors are held regularly in compliance with the approved work plan for the year. Thirteen meetings of the Board of Directors were held in 2016: eight scheduled in-person meetings and five unscheduled meetings in the form of a letter ballot (an absentee vote). In 2016, the Company's Board of Directors considered 101 agenda items, an 11% increase from the previous year.

The Board of Directors of Sistema has five committees, the main role of which is to assist the Board of Directors in preparing and adopting resolutions in the relevant functional areas, and to study in greater detail the matters submitted to the Board of Directors for review.

PRESIDENT AND THE MANAGEMENT BOARD

Sistema's Management Board chaired by the Corporation's President determines methods for implementation of the Corporation's development strategy, formulates development plans, determines and monitors investment processes, conducts assessment of personnel performance, and reviews most of the matters that are subsequently submitted to the Corporation's Board of Directors.

In 2016, the Management Board held 30 meetings and reviewed 82 agenda items (a 14% increase compared to 2015).

PRESIDENT'S COMMITTEES

In order to improve the process of managerial decision-making, Sistema has six Committees reporting to the President: permanent consultative collective bodies assisting the President and the Management Board in taking decisions.

- 1 Eleven members were elected to Sistema's Board of Directors, six of which qualify as independent directors according to the rules of Moscow Exchange and the Russian Corporate Governance Code.
- 2 A new dividend policy was approved. The total amount of dividends for the reporting year now corresponds to the dividend yield on shares of at least 4% and at the same time it cannot be less than RUB 0.67 per share. Sistema aims to distribute dividends twice a year. The amount of dividends paid to the shareholders for the six months of the reporting year shall be taken into account by the Board of Directors when calculating the recommended amount of final dividends for the same reporting year. In accordance with the updated dividend policy, the Corporation paid dividends in the amount of RUB 6,465.5m.
- 3 A programme for senior executives' co-investment in subsidiaries and/or Sistema was adopted (see 2.3. HR management).
- 4 New versions of the Charter and the Terms of Reference of the Board of Directors were approved.
- 5 Amendments were made to the Terms of Reference of the Nomination, Remuneration and Corporate Governance Committee.
- 5 The corporate governance system was adjusted to the requirements of the Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 (Market Abuse Regulation).



For more details on the corporate governance, see [Sistema's Annual Report for 2016, pages 72-88](#).

PLANS FOR DEVELOPMENT OF THE CORPORATE GOVERNANCE SYSTEM

In 2017, it is planned to increase the participation of independent professional directors in the analysis of investment projects considered at the meetings of the Board of Directors.

¹⁰ According to the classification developed by McKinsey, there are four main types of corporate centres of diversified companies: Financial Holding Company, Strategic Architect, Strategic Controller and Operator. They differ in tasks, functions and level of involvement in management, and depend on the characteristics of a corporation: integration of business segments and intensity of interaction between them (The McKinsey Staff Paper No 48, 1990).

SISTEMA'S ASSET MANAGEMENT MODEL

Relying on the best international practices of the investment business, Sistema performs the functions of a financial holding company and strategic architect in relation to its portfolio companies¹. This means that the Corporation refrains from direct intervention in the operations of its subsidiaries. The degree of its influence on their development depends on the level of organisational maturity of assets, which is determined by auditing key business processes and their results in the following management categories:

- strategy quality;
- level of development of operational expertise;
- financial stability;
- quality of planning system;
- effectiveness of HR policy;
- effectiveness of governance processes;
- effectiveness of internal control and audit tools;
- effectiveness of communications.

In accordance with Sistema's Corporate Governance and Planning Code, all assets of the Corporation are classified by the level of organisational maturity into effective companies (able to independently manage business processes in a way that most effectively ensures the achievement of strategic goals) and developing companies (which need monitoring

and control of key business processes by the Corporation). The Corporation achieves high results if the majority of the assets in the Corporation's portfolio are effective ones.

With regard to its portfolio companies, Sistema plays a dominant role in terms of:

- strategic priorities;
- target returns;
- strategic and financial planning cycle;
- appointments of and incentive system for executives;
- architecture of corporate governance system;
- principles and tools for monitoring and control of subsidiaries;
- compliance with property rights of shareholders.



Mikhail Shamolin
President of Sistema

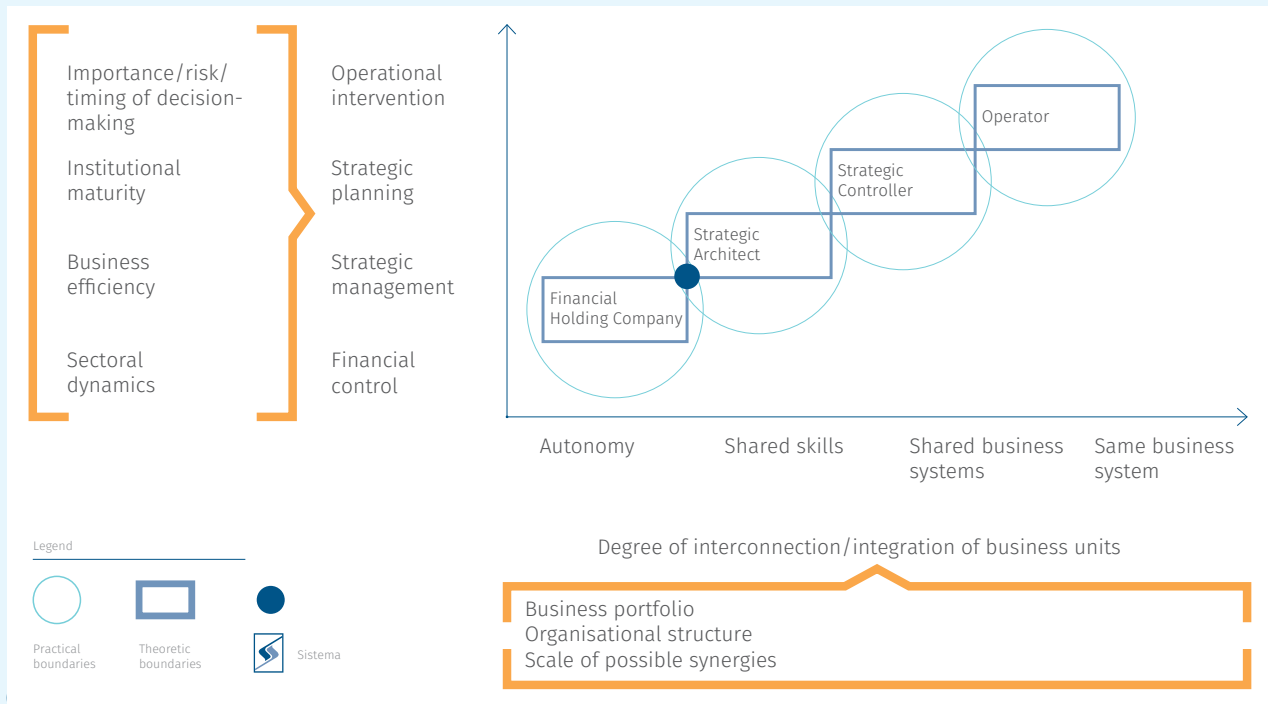


Over the past five years, Sistema has been steadily transforming itself from an operational holding into an investment company whose primary responsibility is to invest money and to appoint people to manage those assets in which it has invested. Assets with qualified and professional executives do not require additional operational management from outside; these are institutions that can exist independently and have their own business models. This is why, while working together with executives of subsidiaries on generation and implementation of our portfolio strategy, we are constantly improving the process of recruitment, training and appointment of personnel – mainly at the level of CEOs.



THE ROLE OF SISTEMA'S CORPORATE CENTRE IN ASSET MANAGEMENT

Natural boundaries for the intervention of the centre in the work of units



FEATURES OF THE MODEL OF SISTEMA'S CORPORATE CENTRE

	FINANCIAL HOLDING COMPANY	STRATEGIC ARCHITECT
KEY CHARACTERISTICS OF THE GOVERNANCE MODEL	<ul style="list-style-type: none"> Acquisition of undervalued companies and their restructuring Intervention in the activities of portfolio companies only by exception – to ensure targets are met Sale of acquired assets after achieving optimum price/quality ratio 	<ul style="list-style-type: none"> Development and refinement of the strategic framework within which business units develop their own initiatives Intervention in the activities of assets to check business logic and suggest further initiatives
IMPLEMENTATION AT SISTEMA	<ul style="list-style-type: none"> Operational management is carried out directly by subsidiaries. The Corporate Centre cannot directly interfere with their core business (including sustainable development) 	<ul style="list-style-type: none"> Sistema participates in the preparation of development strategies for its portfolio companies and controls the implementation through the participation in the work of the governance bodies of subsidiaries and by appointing industrial industry's professionals into the boards of directors

2.2 Social responsibility management

APPROACH TO CSR AND SUSTAINABLE DEVELOPMENT

Sistema believes that corporate social responsibility (CSR) is an imperative of modern business; it is a set of business practices, voluntary commitments and company projects aimed at harmonising sustainable development goals of the business, economy, ecology and social environment. The Corporation understands sustainable development as ensuring the long-term growth of all these areas while preserving and increasing the necessary resources for future generations. At the same time, the Corporation takes into account the interests of society and the needs of various stakeholders,

as defined at the national and international levels, including by the expert community and non-governmental organisations (such as the UN).

The Corporation implements CSR not only through compliance with the laws and ethical business conduct, but also by investing in the development of human resources and the economy of the country and its regions, tackling local social issues, supporting communities and protecting the environment.

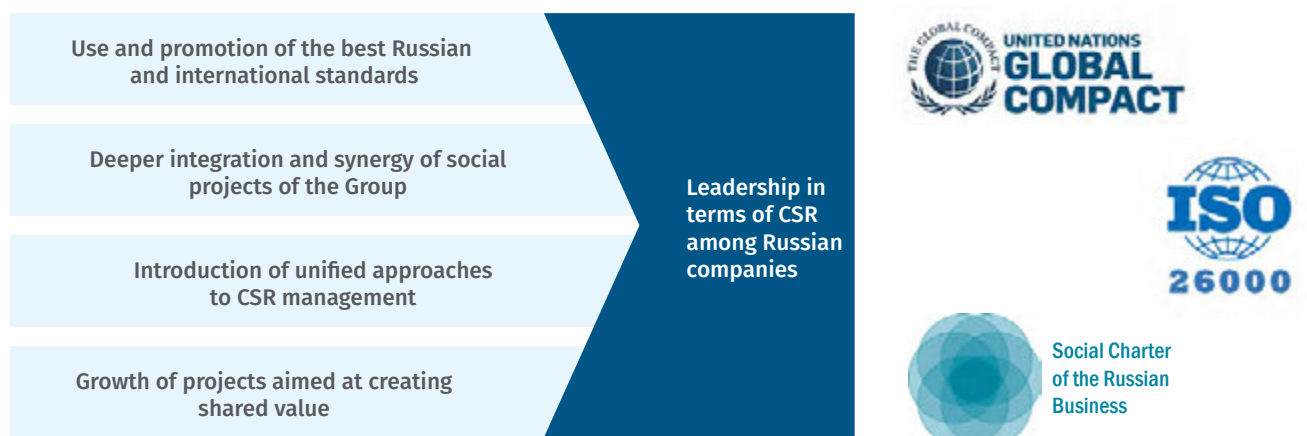
CSR initiatives of Sistema and its portfolio companies contribute to the achievement of our country's important objectives: they increase

Sustainable development is a global agenda for business, which helps companies understand their responsibility to stakeholders and implement it in the form of various CSR practices.

labour productivity, facilitate import substitution and introduction of innovative technologies, develop infrastructure, education and healthcare systems, and improve the quality of life in general.

Sistema seeks to be one of the leaders of CSR, promoting the ideology of responsible business conduct both among its subsidiaries and in the market.

Sistema's strategic goals and objectives in the field of CSR



Sistema's principles for CSR and sustainable development:

- Strict compliance with the laws and business ethics norms;
- Zero tolerance and prevention of corruption in all its forms;
- Long-term contribution to the development of regions and support of local communities;
- Investment in human capital and stimulation of innovation;
- Creation of favourable working conditions and equal opportunities;
- Observance of human rights and non-discrimination;
- Minimisation of negative impact on the environment;
- Balance of stakeholder interests, openness and transparency

Key documents regulating activities in the field of CSR and sustainable development



- Corporate Social Responsibility Policy
- Charity Policy
- Code of Ethics
- HR Management Code
- Policy on Remuneration Payable to Sistema Employees
- Anti-Corruption Policy
- Corruption Prevention Concept
- Policy on the Hotline
- Policy on Processing and Protection of Personal Data



- Charter of SCF
- Charitable Programme of SCF
- Anti-Corruption Policy



PORTFOLIO COMPANIES

- CSR & charity strategies and policies
- Codes of ethics
- Anti-corruption policies
- Hotline policies
- HR management policies
- Procurement management policies

Basic set of regulatory documents

Policies/regulations for:

- environmental protection
- occupational health and safety
- quality control for products and services

Depends on the company's sector

CSR PLANNING AND KPIS

Corporate social responsibility matters are reviewed annually by Sistema's Board of Directors and are included in the remit of the Investor Relations and Dividend Policy Committee. They assess the results of CSR and charity activities, and determine strategic objectives, priority areas and key performance indicators. During the reporting period, items related to CSR and charity were reviewed at the meetings of Sistema's Board of Directors twice (in February and June).

The Board of Directors approved the action plan and KPIs of the Corporation in the area of CSR for 2016 and instructed Investment Portfolio managers and Sistema's representatives in the governance bodies of its subsidiaries to ensure approval of their respective strategies and KPIs in the area of CSR and environmental responsibility taking into account potential synergies with the Group's companies and the corporate projects of SCF. As a result, social responsibility was included on the agendas of the

boards of directors of the Group's key companies. Many of Sistema's subsidiaries have for the first time developed their own CSR strategies containing information on the responsibility of companies to key stakeholders, action plans and a list of key performance indicators.

In 2016, **17 subsidiaries** of Sistema approved CSR strategies in line with Sistema's corporate priorities and business specifics of individual companies.

17 SUBSIDIARIES APPROVED CSR STRATEGIES



CSR goals	KPI Corporate/specific for the subsidiary	Activities Corporate specific for the subsidiary
<p>AMONG MAIN CSR GOALS ARE THE FOLLOWING:</p> <ul style="list-style-type: none"> increasing cooperation with local communities increasing brand awareness and reputation capital Increasing trust of stakeholders strengthening corporate culture and increasing employee loyalty minimizing non-financial risks improving managerial effectiveness attraction of investments and increase of investment attractiveness 	<p>1. The level of corporate volunteering Share of the total number of Sistema volunteers involved in corporate-wide programs</p> <p>2. Formation of youth personnel pool The number of active participants of the 'Lift to the Future' program</p>	<p>3. Engagement in joint CSR initiatives The weighted average (considering the scale of activities) participation rate of the Group's companies in integrated programs and projects</p> <p>4. CSR regulation The number of Group companies that have social/environmental policy</p> <p>5. Social reporting The number of Group companies that have non-financial reporting according to GRI standards</p> <p>6. CSR streaming in the media and social media The share of CSR projects-mentioning publications in the total number of publications in mass media, social networks and the blogosphere</p>
<p>CORPORATE KPIS:</p>	<p>EXAMPLES OF SUBSIDIARIES' KPI:</p> <ul style="list-style-type: none"> share of net profit or EBITDA allocated on charity realization of specific CSR programs number of Shared Value projects 	

The set of general corporate KPIs was updated in 2016. Among the new indicators are the CSR regulation in Sistema Group, the level of involvement of subsidiaries in joint socially oriented projects and the formation of a young talents pool for the Corporation from among the participants of "Lift to the Future" programme. The changes are related to the key strategic goal in the field of corporate social responsibility, i.e. the strengthening of synergies between subsidiaries in various social programmes and the flagship programme "Lift to the Future".

Separate performance indicators are set for each social and charitable programme. The specific list of indicators depends on the goals, objectives and unique features of a project.

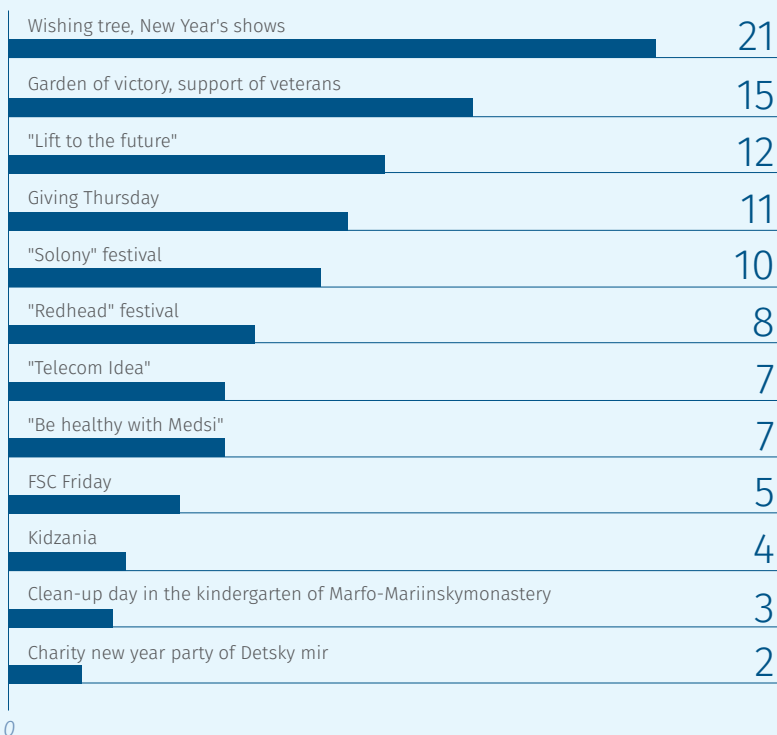
CSR MANAGEMENT SYSTEM AT SISTEMA GROUP

The structure of CSR management reflects the investment structure of Sistema. The tasks of Sistema: introduction of uniform standards of corporate governance and business ethics, coordination of projects, promotion of CSR activities and public non-financial reporting. The tasks of SCF and subsidiaries: organisation of high-profile projects creating additional reputational value for the Corporation and social value for the society.

SYNERGIES OF CSR IN SISTEMA GROUP

The corporate social responsibility strategy of Sistema is aimed at creating synergies among subsidiaries. In 2016, **12 joint socially oriented programmes were implemented**, and the involvement ratio of subsidiaries increased from 59% to 63%¹.

Key joint programmes of Sistema, SCF and subsidiaries

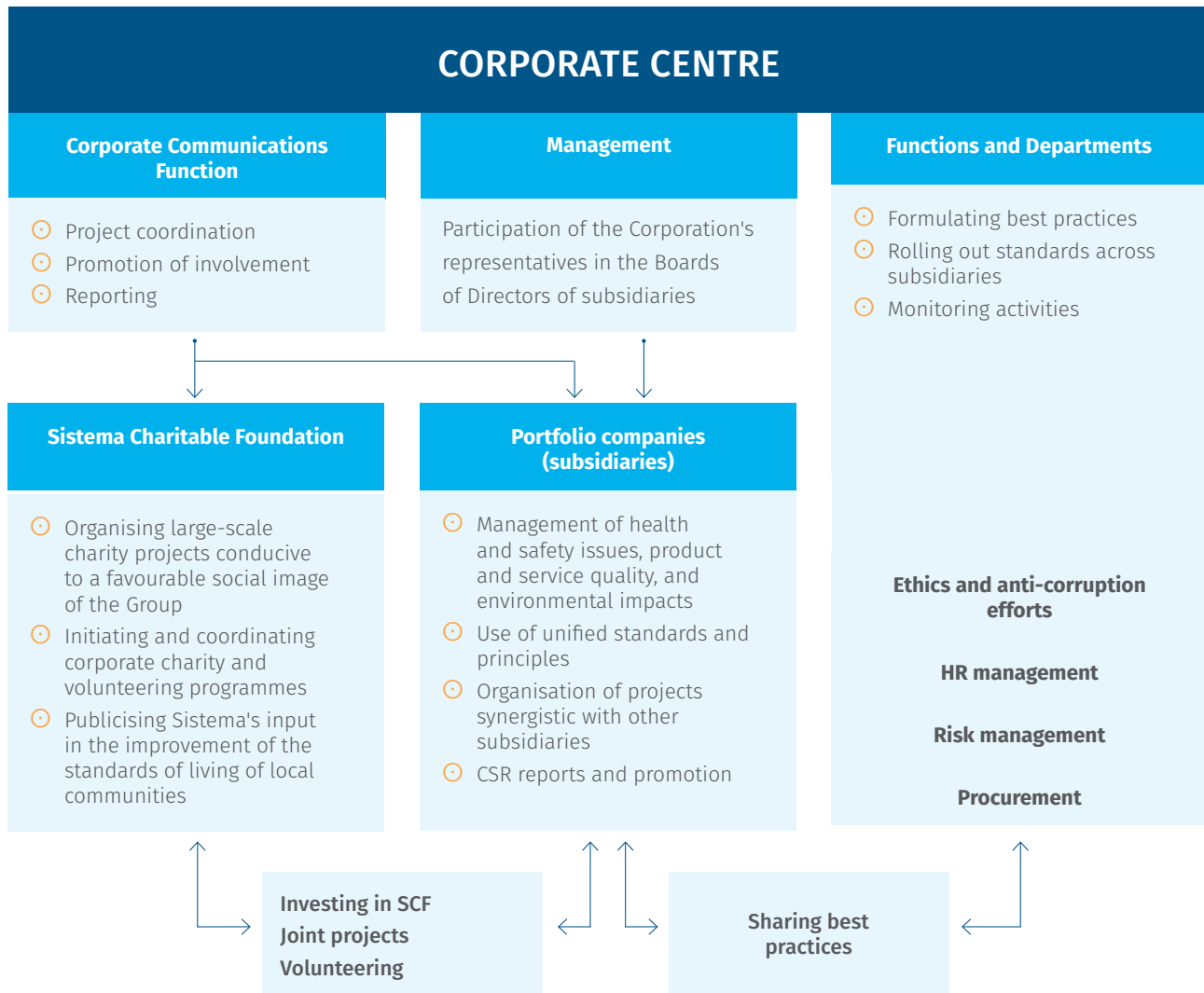


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¹⁾ When calculating the indicator, the scale of the project and the number of companies involved in it are taken into account.

CSR & charity management structure



In the Corporate Centre, the issues of CSR, charity and non-financial reporting are the responsibility of the Corporate Communications Function, which defines and implements the overall strategy, coordinates the activities of subsidiaries in the area of CSR, and provides information and methodological support to social projects.

Sistema introduces modern standards and uniform approaches for managing HR, risks, procurement, anti-corruption, social and charity activities in its portfolio companies. Representatives of Sistema take part in the activities of the boards

of directors of its subsidiaries, including review of CSR matters. By monitoring the impact of subsidiaries on the economy, society and environment, Sistema is able to reduce potential social and environmental risks of the Corporation, thereby increasing the appeal of the assets for its investors and partners.

CONSOLIDATED MANAGEMENT OF THE SOCIAL INVESTMENT PORTFOLIO

The main centre of expertise and the instrument for implementing the Corporation's social activities

is Sistema Charitable Foundation (SCF), which has been operating since 2003 and is financed from the profits of Sistema and its subsidiaries.

Carrying out social programmes through own charitable foundation is in line with the best global practices of corporate charity and helps increase transparency. A number of subsidiaries also have their own charitable foundations: Detsky Mir, Mikron (Miloserdiye Foundation), and Segezha Group (Veterans Support Foundation of Segezhsky pulp and paper mill).

The activities of SCF are governed by the following principles:

- ☉ conformity with Sistema's social mission;
- ☉ compliance with the state's priorities for the development of the social sphere in Russia;
- ☉ long-term and systemic nature of the expected effects.

The highest governance body of the Foundation is the Board of Trustees, which determines the development strategy, focus areas, and procedures and principles for financing charitable programmes and projects. The Board of Trustees forms the structure of executive bodies by appointing the president and electing the members of the Foundation's Management Board.

In 2016, the Board of Trustees was headed by Sergey Boev, the Deputy Chairman of the Board of Directors and the Chairman of the Ethics and Control Committee of Sistema. The Board of Trustees included independent directors of the Corporation, while the Management Board of the Foundation included senior executives of key donor companies and partners, which increased the level of decision-making due to the participation of top executives in the governance bodies of the foundation.

Sistema's charitable activities combine the interests of its shareholders and the objectives of sustainable development of the Corporation and society.

Key focus areas of Sistema Charitable Foundation

“Lift to the Future: new talents for	
Objectives <ul style="list-style-type: none"> ☉ support, education and career guidance for the talented youth in science and technology ☉ building a pool of young talents for high-potential and knowledge-intensive industries and high-tech companies 	Flagship programme <p>11,000 participants in 2016</p> <p>5 universities received grants of up to RUB 900,000</p> <p>Partnership agreements with 22 Russian universities</p> <p>RUB 27m of the state's co-financing</p>
“Social projects and volunteering”	
Objectives <ul style="list-style-type: none"> ☉ social support of war veterans and similar categories of citizens ☉ development of volunteer centre and consolidation of the best practices in volunteering 	Key projects <p>“Victory in our hearts” – 450 veterans received free treatment at Medsi Otradnoye Sanatorium</p> <p>“Wishing Tree” – over RUB 11m was donated by the Corporation's employees for social institutions</p> <p>Children's Festival “Redhead” promoting inclusion – more than 20 partner non-profits and beneficiaries</p> <p>Children's charity festival in the Republic of Altay Solony – over 5,000 participants</p> <p>“Giving Tuesday” – more than 10 participants among the Group's companies</p>
“Culture and arts: new technologies for education”	
Objective <ul style="list-style-type: none"> ☉ support to best programmes in culture, arts, and education with a focus on new models and state-of-the-art tech solutions. 	Key projects: <p>The programme of support for the State Russian Museum – 179 virtual branches in Russia, abroad and in Antarctica; RUB 30m of financing per year</p> <p>The Imperial Gardens of Russia festival – over 100,000 visitors</p> <p>Support to projects of the Russian Geographic Society – RUB 15m</p>

The Foundation is focused on systemic projects of strategic and long-term nature. The main areas of activity: educational programmes, social projects, volunteering and support of culture and arts.

Subsidiaries are directly responsible for the issues of environmental impact, labour protection, well-being and safety of employees and customers, product quality and reliability of services. Implementation of social projects at the level of subsidiaries is carried out by special units or employees. They also interact with the Corporation and SCF regarding general corporate programmes.

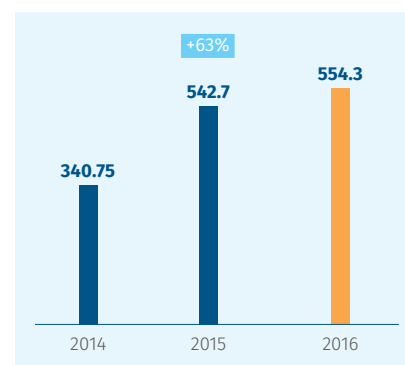
FINANCING OF CHARITABLE AND SOCIAL PROGRAMMES

By flexibly combining financial (donations, targeted grants and

fund-raisers involving employees and customers) and non-financial instruments (volunteering and pro-bono services), and by pooling the resources of its subsidiaries, Sistema achieves an optimal balance of business performance and costs on social programmes. In 2016, executives and employees of Sistema and its subsidiaries began to systematically support specific projects with personal donations as part of the initiative “charity instead of gifts”.

Over the past three years, the Corporation's charitable expenses have been in the range of approximately 0.2% of consolidated revenue and 2% of operating profit. During this period, financing of projects through SCF, which accounts for an average of about 30% of the total amount, increased 1.6 times.

Financing of SCF's projects, RUB m



THE TOTAL VOLUME OF SOCIAL INVESTMENTS OF SISTEMA GROUP IN 2016 AMOUNTED TO ABOUT

RUB 1.7^{bn}

OF WHICH ABOUT

≈ 1/3

WAS ALLOCATED FOR THE FINANCING OF PROJECTS IN EDUCATION, INCLUDING THE FLAGSHIP SOCIAL PROGRAMME “LIFT TO THE FUTURE”

The Corporation's social investment in 2014-2016, RUB m

	2014	2015	2016
Sistema Group ¹	644.1	978.3	1,141.5
SCF	340.7	542.7	554.3
Total	984.8	1,521.0	1,695.8



DURING THREE YEARS, THE GROUP'S SOCIAL INVESTMENT INCREASED BY MORE THAN

70%

TO RUB 1.7BN



INCREASE IN SOCIAL INVESTMENT MADE YEAR TO YEAR

10%



IN 2014-2016 THE CORPORATION INVESTED MORE THAN

RUB 4.2^{bn}

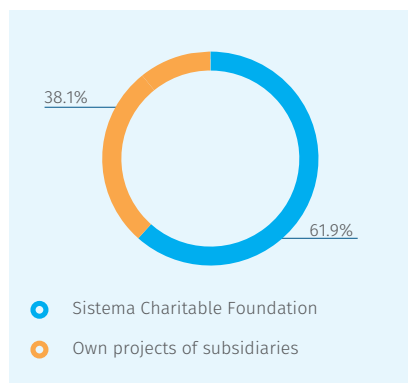
IN THE SOCIAL SPHERE



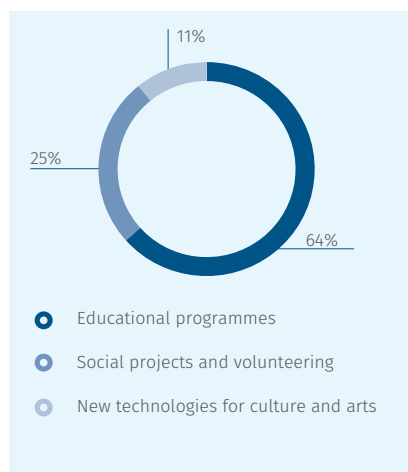
For more details on SCF's governance system and activities, see [the Annual Report of the Foundation for 2016, pages 7-9.](#)

⁽¹⁾ Without the contributions of Sistema and its subsidiaries to SCF

Financing of charitable activities in 2016, %

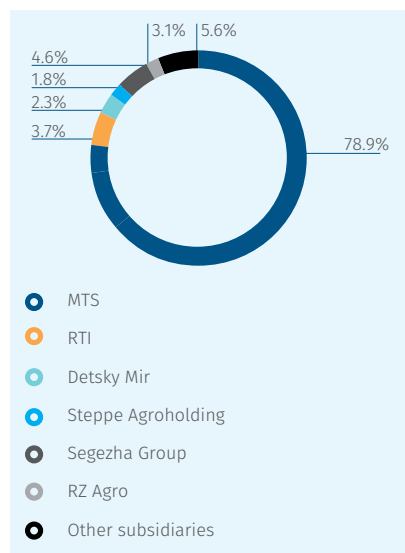


Sistema Charitable Foundation's key areas of financing, %



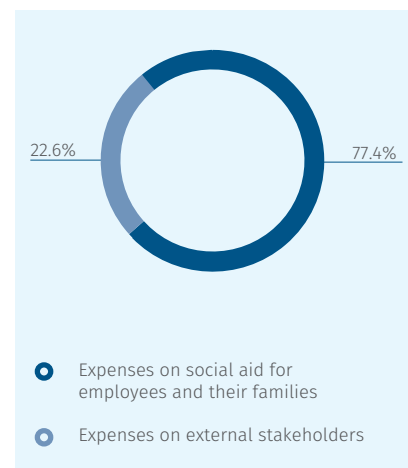
Among the companies of Sistema Group, MTS has the highest share of spending on charity. Segezha Group, RTI, RZ Agro and Detsky Mir also spend substantial money on social projects. The latter actively engages partners in the sector and customers to co-finance charitable projects.

Financing of charitable activities broken down by subsidiaries, %



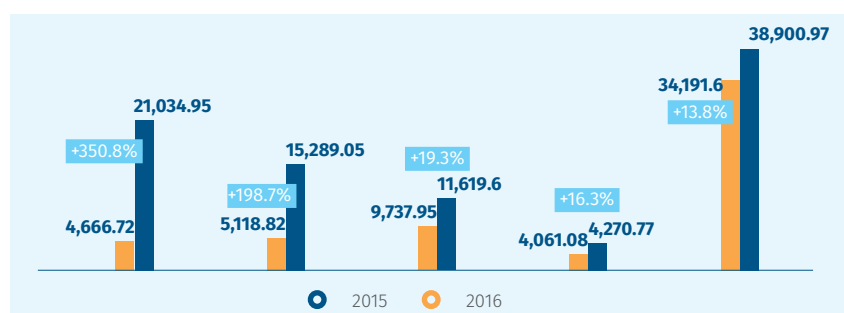
Approximately three quarters of the funds go to programmes for external stakeholders, and the remaining part gets spent on social aid for employees and their families.

Structure of spending on charitable and social programmes at subsidiaries in 2016, %¹



In 2016, the most active donors among the companies of Sistema Group were agricultural assets, whose total social investments more than doubled year-on-year, and Detsky Mir, which almost tripled its budget for charity. Kronstadt Group and Segezha Group also showed noticeable growth.

Top 5 Sistema Group companies by growth of spending on charity in 2015-2016, RUB m²



PLANS FOR DEVELOPMENT OF CSR MANAGEMENT SYSTEM IN 2017

1. Increasing the synergies between Sistema Charitable Foundation and Sistema's subsidiaries in the implementation of complex social projects.
2. The maximum involvement of the Corporation's companies, corporate volunteers and external social partners into large joint initiatives at national and regional levels.
3. Promoting the principles and best CSR practices of the Corporation in its subsidiaries and in the market with the involvement of stakeholders.
4. Methodological support for subsidiaries regarding CSR.

⁽¹⁾ Without contributions to SCF

⁽²⁾ Including contributions to SCF

2.3. HR management

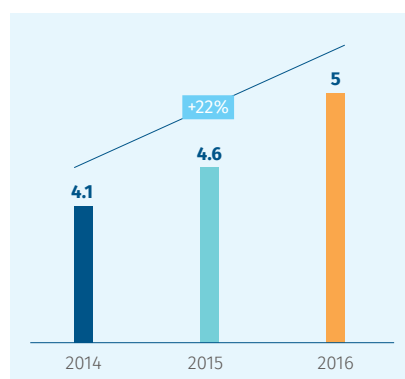
The human capital, highly qualified and motivated employees, is a key resource of the Corporation, and its effective management is a competitive advantage contributing to the growth of Sistema's value due to higher personnel engagement and labour productivity.



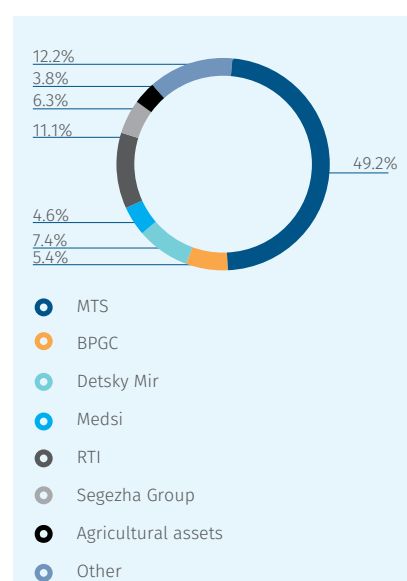
G4-9

In 2016, the Group's companies employed 134,792¹ persons, of which 0.2% were employed by Sistema.

Average labour productivity at Sistema Group, RUB m per person ²



Breakdown of Sistema Group's headcount by companies, %



¹⁾ Excluding Targin and SG-trans.

²⁾ The ratio of consolidated revenues of the Corporation under IFRS to the average headcount at Sistema Group.



The HR Department of Sistema is responsible for implementation of common HR approaches and corporate standards, as well as corporate HR projects. It cooperates with the relevant units of subsidiaries in the area of recruitment of key executives, programmes of motivation, training, development and evaluation of employees, and formation of a shared corporate culture.

In 2016, the Corporation continued the process of forming an internal professional community and a succession pool of employees responsible for HR management.

The key HR matters in Sistema are governed by the following internal regulations:

Title	Purpose
HR Management Code	Regulation of all key HR processes
Internal rules of conduct and labour discipline	Work schedule, procedures for employing and dismissing employees, and responsibilities of employees and employer
Policy on remuneration payable to Sistema employees for project execution and generation of cash income	Mid-term incentive programme for employees (year-end bonuses)
Policy on the Long-Term Incentive Programme for the Employees of Sistema PJSC	LTI programme under which employees receive Sistema's shares

Achievement of the Corporation's HR targets in 2016

Target	Improve the efficiency of senior executives	Create a system of continuity and succession planning	Retain and develop best employees
TARGET ACHIEVEMENT MECHANISMS	<ul style="list-style-type: none"> it is now mandatory for managers to invest in the shares of the Corporation (see 1.2 Responsible investment); senior executives participated in the HOGAN assessment; Standards and requirements for recruitment of senior executives have been raised 	<ul style="list-style-type: none"> a systematic analysis of the personnel of Sistema and subsidiaries in the field of HR, finance, internal audit and control; a matrix of professional development and career advancements of key managers in the field of HR and finance. 	<ul style="list-style-type: none"> development of Sistema Academy continues; professional clubs were launched; employees are offered various benefits and social guarantees.

Plans for development of HR management system in 2017:

- updating the key employee profile and improving the evaluation mechanisms – creating an effective succession pool, a system of continuity and rotation of staff;
- increasing the personnel's engagement and involvement (higher efficiency and loyalty);
- organising high-quality and timely training for all levels of management at Sistema and for senior executives at subsidiaries (creating an environment unlocking the employees' intellectual potential);
- an in-depth understanding of the labour market in industries where the Corporation operates (a unique pool of candidates with a high potential and learning ability, who share the Corporation's cultural code).

Key indicators

Segezha Group: HR management in regions

In order to integrate regional assets in 2016, Segezha Group's senior executives held a series of meetings with employees of its enterprises in five regions of Russia: Vologda, Arkhangelsk, Kirov and Krasnoyarsk regions and the Republic of Karelia. During these events, employees received up-to-date information on past year's results and plans for the group's development, and could ask questions on indexation of wages, improvement of working and recreational conditions, etc. The best employees were awarded with prizes and letters of commendation. Such meetings have become an effective way for the company's executives to talk directly to its employees and increase the employee engagement in a company with a geographically distributed structure.



1,200

**EMPLOYEES OF THE GROUP'S
14 ENTERPRISES PARTICIPATED
IN THE MEETINGS WITH SEGEZHA
GROUP'S EXECUTIVES**



SISTEMA PJSC

Over the past three years, Sistema's headcount was roughly at the same level, with 321 people as of 31 December 2016.

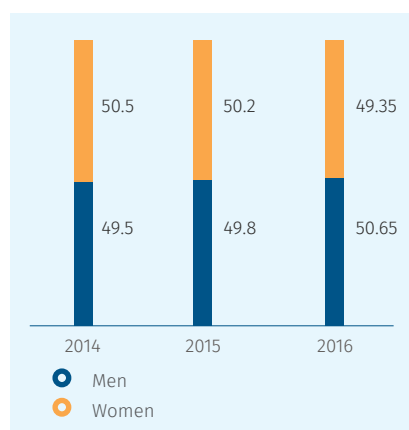
The vast majority of employees have a permanent contract. There are no employees who are legally recognised as self-employed.

In 2016, Sistema hired 75 persons (37 men and 38 women), of whom 70% were in the age group of 25-44 years.

The rate of employee turnover decreased 1.7-fold during the reporting period and stood at 7%. This indicator in the primary age group (25-44 years) was 6%, which is within normal limits. In 2016, the rate of employee turnover decreased in the age groups of <25 years and 45-54 years.

G4-LA1

Breakdown of Sistema's workforce by gender, %



Breakdown of Sistema's workforce by employment contract and gender

Year	Permanent contract		Fixed-term contract	
	Men	Women	Men	Women
2014	50.4%	49.3%	0.3%	0%
2015	48.6%	48.2%	1.3%	1.9%
2016	48.7%	48.4%	0.9%	2.1%

Breakdown of Sistema's workforce by age

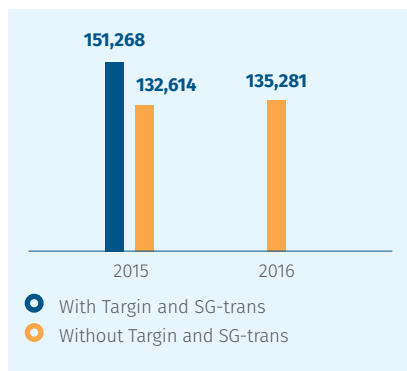
Year	<25 years	25-34 years	35-44 years	45-54 years	> 55 years
2014	3.2%	42.2%	27.9%	18.2%	8.4%
2015	2.9%	40.3%	27.6%	17.5%	11.7%
2016	3.6%	36.1%	31%	16.7%	12.5%

Proportion of Sistema's senior management hired from the local community (Moscow and the Moscow region), %

Year	Number of executives	Share of the total number of executives, %
2015	15	88
2016	17	89

G4-EC6

G4-LA1 SISTEMA GROUP

Average headcount at Sistema Group, persons

Changes in the total number of Sistema Group's employees in 2016 are mainly related to the sale of SG-trans and Targin, without which the number of employees at the Group's enterprises has remained virtually unchanged.

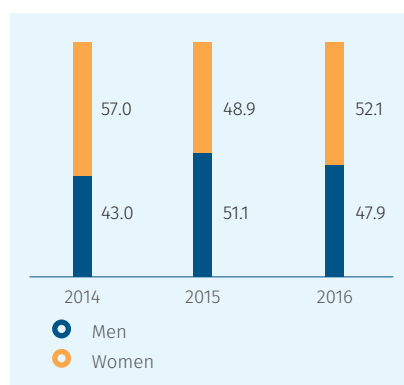
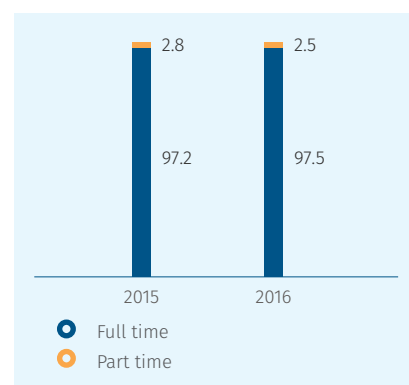
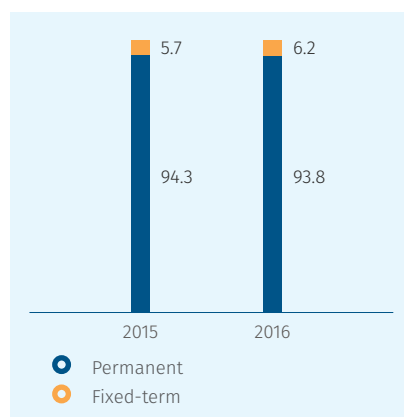
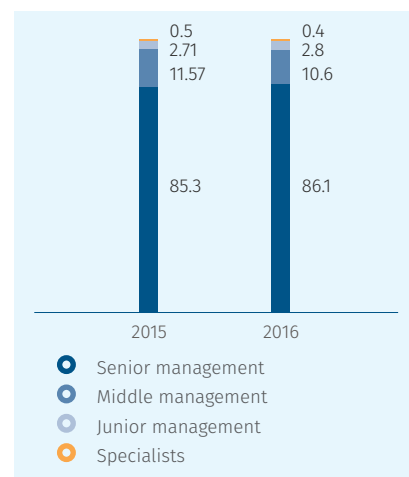
At the same time, the number of employees hired by the Corporation in 2016 increased by more than 2.5 times year-on-year, mainly thanks to timber and agricultural assets, and exceeded 50,000 people. Almost 80% of all new employees are under the age of 35.

The total number of new employee hires at Sistema by age group, persons

Age group	2015	2016
<25 years	5,219	21,839
25-34 years	8,726	19,498
35-44 years	3,244	6,159
45-54 years	1,310	2,890
>55 years	514	1,566
TOTAL	19,013	51,952

Employment structure at Sistema Group by employment type and gender

Year	Staff employees		Non-staff employee	
	Men	Women	Men	Women
2014	47.3%	48.1%	2.2%	2.4%
2015	46.9%	49.5%	1.8%	1.8%
2016	47.3%	49.6%	1.6%	1.5%

The Corporation's workforce by gender, %**Distribution of Sistema Group's staff employees by employment type, %****Structure of Sistema Group's workforce by employment contract, %****Structure of Sistema Group's workforce by employee category, %**

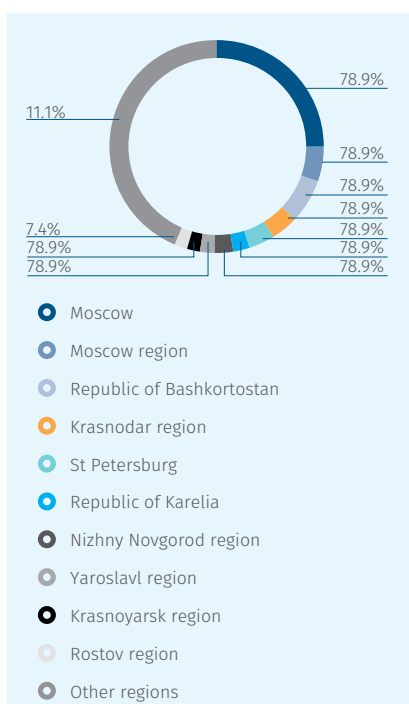
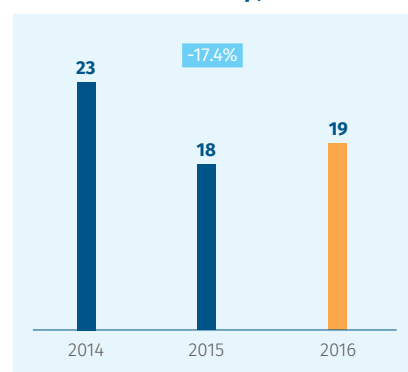
G4-10

The Corporation ensures a gender balance – equal employment opportunities for men and women. The majority of employees in the companies of Sistema Group work on a full-time basis with a permanent contract. The employment structure in individual subsidiaries depends on the nature of the relevant industries. In particular, in logging and agriculture, there is a practice of recruiting staff on a temporary basis to perform seasonal work. The vast majority of employees work full-time.

G4-LA12

Breakdown of Sistema Group's workforce by age, %

Year	<25 years	25-34 years	35-44 years	45-54 years	>55 years
2015	16.8%	37.9%	20.7%	14.9%	9.7%
2016	16.3%	38%	21.1%	15%	9.6%
2016	3.6 %	36.1 %	31 %	16.7 %	12.5 %

Breakdown of Sistema Group's workforce by regions, %**EMPLOYEES AGED UNDER 35 MAKE****> 50%****OF THE CORPORATION'S WORKFORCE****Average employee turnover in the assets of Sistema Group, %¹**

In 2016, the age structure of the Corporation's workforce did not have any material changes. The companies of Sistema Group are attractive employers for representatives of different age groups, including young specialists and people at the peak of their careers. The core of the Corporation's workforce (about 70%) are employees aged 25 to 54 years.

The average level of personnel turnover in the companies of Sistema Group in 2016 did not change significantly and stood at about 19% excluding the retail sector where this indicator is traditionally the highest in the market. The Group's total employee turnover is below the national average, which in 2016 exceeded 28.4%. The employee turnover in the Corporation's retail assets was 67.3%, which is lower than the average market level in Russia.

Average employee turnover in the assets of Sistema Group in comparison with the market level in Russia**19%****AVERAGE EMPLOYEE TURNOVER IN SISTEMA GROUP COMPANIES (EXCLUDING THE RETAIL SECTOR)****28.4%****AVERAGE EMPLOYEE TURNOVER IN THE MARKET²****67%****AVERAGE EMPLOYEE TURNOVER IN SISTEMA'S RETAIL ASSETS****75%****AVERAGE EMPLOYEE TURNOVER IN THE RETAIL SECTOR³**

⁽¹⁾ Excluding the retail sector

⁽²⁾ According to the Federal State Statistics Service http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/wages/labour_force/#

⁽³⁾ According to a survey of 171 Russian and international companies from 16 sectors of the economy conducted in March 2017 by the recruitment agency Antal Russia: <https://antalrussia.ru/news/tekuchest-personala-v-kompaniyakh-snizilas/>

Incentives and remuneration

One of the key objectives of Sistema's HR strategy is creating a competitive remuneration system for the management and helping to build success stories among the heads of subsidiaries. The Corporation's incentive system is linked with its investment strategy and continuously improved based on the current business objectives.

FINANCIAL INCENTIVES

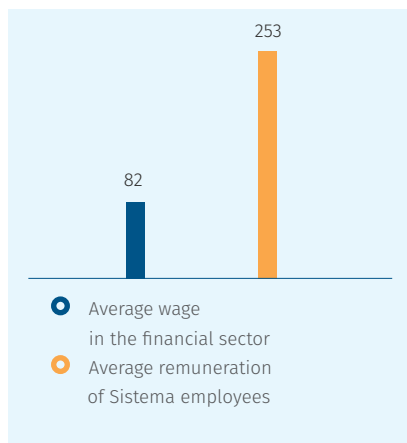
The remuneration system of Sistema and most of its subsidiaries is based on grades (job levels). The remuneration

principles, procedure and calculation methodology are outlined in the relevant internal regulations of the Corporation.

Sistema is one of the most attractive employers in its segment.

Starting from 2016, the long-term incentive system for the management includes a co-investment mechanism for portfolio managers and heads of functions and departments, as well an incentive programme for employees of the Corporation's investment funds based on the best foreign practices successfully applied in the investment sector.

Remuneration of Sistema's employees vs remuneration in the finance and investment sector, RUB K¹



**IN 2016, SISTEMA GROUP
ALLOCATED ABOUT RUB 145BN FOR
PAYMENT OF WAGES AND OTHER
TYPES OF REMUNERATION TO ITS
EMPLOYEES, I.E.**

≈ 4%

**OF THE TOTAL AMOUNT
OF WAGES PAID TO HIRED
EMPLOYEES IN RUSSIA²**

PROGRAMME OF INVESTMENT IN THE CORPORATION'S SHARES FOR TOP MANAGERS

In May 2016, Sistema's Board of Directors approved a new programme for the top management's shareholding in the Corporation, under which the heads of Investment Portfolios in charge of finding and implementing investment projects must invest a certain portion of their total annual income, including the fixed and variable parts (wages and bonus), in the shares of the portfolio companies. The heads of functions and departments who are in charge of management of the Corporation and directly involved in the investment decision-making, in their turn, must purchase the shares of Sistema. Under the programme, top managers also receive options that provide them with additional opportunities to participate in the growth of the companies' values



THE RESULTS OF THE CO-INVESTMENT PROGRAMME IMPLEMENTATION IN 2016:

- **NUMBER OF PARTICIPANTS – 16.**
- **TOTAL VOLUME
OF CO-INVESTMENT:**
 - **25,526,270 SHARES OF SISTEMA
WORTH OVER RUB 544M
PURCHASED IN TOTAL,**
 - **OVER RUB 143M INVESTED
IN THE CORPORATION'S ASSETS**

G4-EC5

Standard entry-level wage of Sistema's employees vs the minimum wage established for Moscow and the Moscow region

Year	Minimum wage of a junior employee, RUB	Minimum wage in the region, RUB	Minimum wage in Sistema vs minimum wage in the region, %
2014	45,000	14,000	321
2015	32,000	17,300	185
2016	50,000	17,561	285

¹⁾ Excluding the retail sector

²⁾ According to the Federal State Statistics Service: <http://www.gks.ru>

The co-investment process consists of an uninterrupted cycle of programmes for each calendar year that are launched and implemented in parallel.

In the reporting period, the purchase of Sistema shares by the Corporation's top managers ended in September 2016. To determine the prices at which the heads of the Investment Portfolios were to purchase the shares under the programme, the key assets managed by them were valued independently. After the Board of Directors approved the changes in Sistema's shareholding in these assets in Q4 2016-Q1 2017, the heads of the Investment Portfolios purchased the first shares in them.



For more details on the co-investment programme, see [Sistema's Annual Report for 2016, pages 11, 16, 92 and 95](#).

Mikhail Shamolin
President of Sistema



The approved co-investment programme is another step taking Sistema closer to the best practices of the world's leading investment companies. The ideology behind it is that when Sistema invests in an asset suggested by a portfolio manager, this portfolio manager must also invest some of his/her personal funds in this asset to share the risks with the Corporation. This creates the same incentives to increase the capitalisation of the business for the shareholders and the managers, while at the same time increasing the managers' responsibility for the investment decisions that they make.



Short- and long-term incentive programmes for the management of subsidiaries are being implemented in line with portfolio strategies. LTI programmes include both

traditional bonus payments for achievement of the established business targets and indicators and bonus payment for liquidity events, e.g. an IPO, a sale of the stake, etc.

Long-term incentive system for the management of subsidiaries

CONVENTIONAL INCENTIVE PROGRAMMES

(aiming to increase the company's value)



Long-term
incentive
programmes for
the management

INCENTIVES FOR IMPLEMENTATION OF INVESTMENT PROJECTS

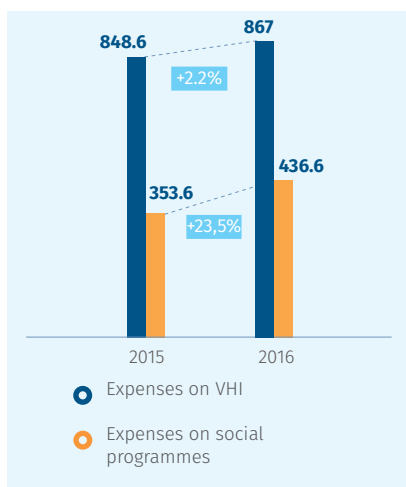
(applied in fast-growing businesses whose strategies involve implementation of investment projects/ monetisation of the asset)



NON-FINANCIAL INCENTIVES FOR EMPLOYEES

Apart from the mandatory benefits stipulated by the Russian law, the Corporation provides its employees with an extended social security package, including voluntary health insurance, sick leave payments above the minimum established by the Government, financial aid in case of difficult circumstances and – in some of the Group companies – life insurance, health resort treatment at reduced prices, free meals, partial compensation of rent payments for employees from other cities, etc. The exact set of additional benefits depends on the work specifics and the needs of the employees at different subsidiaries. In a number of cases, it is included in collective agreements¹. In addition to that, the Corporation's employees have an opportunity to use the services offered by the Group companies on special terms.

Subsidiaries' expenses on voluntary health insurance and social security programmes in 2015-2016, RUB m



All of the employees of Sistema Group companies can become participants of the retirement insurance **programme by selecting** one of the options:

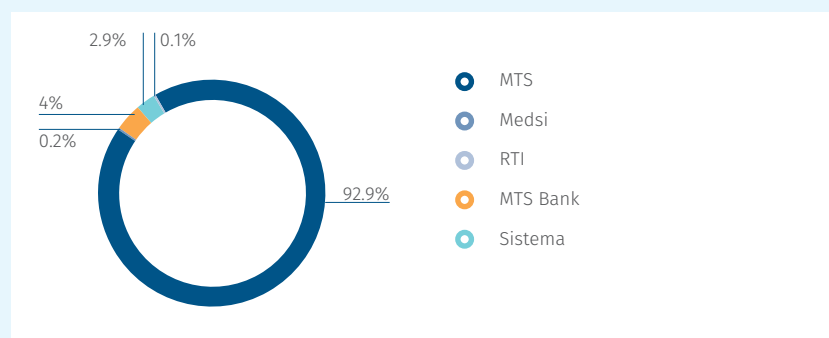
- compulsory retirement insurance;
- state retirement co-financing programme;
- non-state pension schemes.

Sistema's retirement programmes are developed on the basis of private organisation Bolshoy

Pension Fund, one of the leaders in terms of cumulative yield, 9.6% in 2016. The fund is a participant of the state pension security system and has been assigned the maximum A++ reliability rating by Expert RA.

The total amount of pension reserves in Bolshoy Pension Fund accumulated through Sistema Group companies' contributions is about RUB 667m. These reserves guarantee payments to future retirees. The total number of participants of the non-state pension programme is about 12,000 people, including 5,800 already receiving pension payments.

Reserves in Bolshoy Pension Fund by Sistema's assets



THE TOTAL NUMBER OF PERSONS INSURED AS PART OF THE CONSOLIDATED PURCHASE OF VOLUNTARY HEALTH INSURANCE SERVICES IS

1,628 people



ABOUT

1,300

OF WHICH ARE EMPLOYEES OF SUBSIDIARIES INCLUDED IN SISTEMA'S VOLUNTARY HEALTH INSURANCE PROGRAMMES ON THE BASIS OF THE MEDSI CLINICS UNDER THE UNIFORM CORPORATE TERMS

⁽¹⁾ For more detail on additional social security features for the Corporation's employees see Sistema's Sustainability Report for 2015, page 70



G4-LA2

Examples of subsidiaries' special offers for the Corporation's employees

Subsidiary	Description	Valid for subsidiaries	Valid for Sistema
Detsky Mir	Special offers and discounts, invitations to events	✓	✓
MTS Bank	Special offers, new banking services, including benefits for payroll customers.	✓	✓
	Personal service programme "Bank Delivered to Your Office"	✗	✓
MGTS	Special and new offers for communication services in Moscow, invitations to events and visits to the Iskra resort in the Moscow region.	✓	✓
Medsi	Special offers for medical, sanatorium and resort services, invitations to events and charitable campaigns.	✓	✓
	Corporate discounts on medical services out of the scope of the voluntary health insurance programme.	✓	✓
Leader Invest	Special offers and discounts on purchase of real estate	✓	✓
Wellness club Serebryany Bor	Special offers, invitations	✓	✓
Hotels under management	Special offers, invitations and discounts on accommodation	✓	✓

G4-LA3

Maternity and paternity leaves for the employees of Sistema

Показатель	2014	2015	2016
Number of employees that had the right to take a leave	22	20	19
Number of employees that took leaves	22	20	19
Number of employees that resumed work after the leave	3	2	9
Share of employees that resumed work, %	50	28.5	150

COLLECTIVE AGREEMENTS

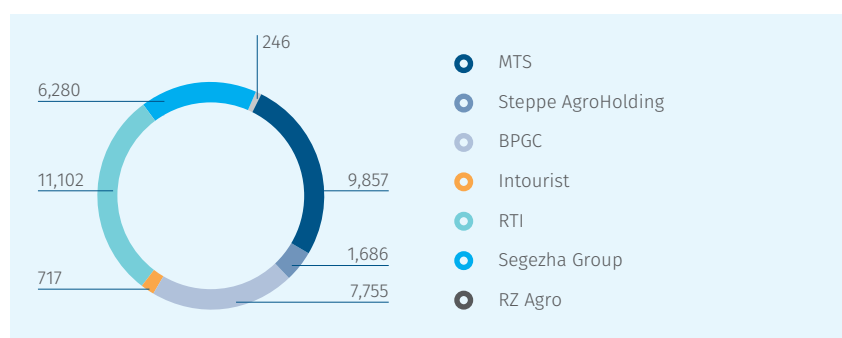
All material HR issues (benefits, payments, health insurance, pension security, etc.) in Sistema are regulated by the HR policy. Seven subsidiaries of the Corporation have collective agreements.



> 25%

**OF THE TOTAL NUMBER
OF THE EMPLOYEES, ARE COVERED
BY COLLECTIVE AGREEMENTS
IN SISTEMA GROUP COMPANIES**

Number of the Corporation's employees covered by collective agreements in 2016



A slight decrease compared to 2015 is due to the divestment of Targin that had all of its employees covered by a collective agreement.

BPGC: signing a collective agreement in Bashkortostan

G4-LA8

In February 2016, BPGC and the regional office of non-profit association Russian Union of Employees of Power Companies signed a collective agreement and an industry tariff agreement for 2016-2018. The documents regulate the social and employment relations and mutual undertakings between the employer

and the employees and were developed to replace the previous collective agreements that had expired.

The new collective agreement and tariff agreement include a number of changes and additions. Their primary purpose is to protect the employees' interests and improve their work and

rest conditions. They stipulate an entire range of benefits, guarantees and types of compensation, e.g.: voluntary health insurance, vouchers for sanatoriums and other treatment facilities for lower-income and retired employees of the company, compensation of the cost of stay at recreation centres for the employees and their family members, etc.



Building a management team

Sistema's performance as an investment company largely depends on the qualifications of its management team, which is why the Corporation continuously improves its procedures for selection, professional development and appointment of senior executives¹.

The key objective of the personnel selection process is to build efficient management teams for the Corporation by hiring highly professional top managers.

In 2015, Sistema started using a comprehensive procedure for selection and employment of candidates for senior positions and an efficient competence model for senior executives of portfolio companies². The candidates for senior executive positions are mainly selected using Sistema's own resources.

Internal human resources are seen as very important. Sistema appoints managerial staff from its own succession pool to the positions in most industries where it already has the relevant internal expertise and to the positions in subsidiaries that require a high level of control over finances, security, etc. In new industries where specialised knowledge is needed, Sistema attracts promising external candidates with successful track records. For that purpose, it continuously monitors the target employee market.

PERSONNEL ASSESSMENT AND SUCCESSION POOL

The main focus of Sistema's HR strategy is development of the company's succession pool. Each employee who is driven by results, meets the established successful manager criteria and shares the Corporation's values has career development opportunities.

Sistema seeks to increase the share of internal appointments to the key positions from its succession pool. A project for integral assessment of professional and personal competences for the Corporation's main supporting functions was launched within Sistema Group in 2016 to identify candidates for further development and promotion. The heads of the Human Resources, the Finance and Investment and the Internal Control and Audit Departments were the first to participate in the assessment.

The comprehensive survey took into account both the professional skills directly related to performance of job duties and achievement of targets



ON AVERAGE

≈ 50%

OF APPOINTMENTS WITHIN SISTEMA GROUP ARE INTERNAL



56 top managers

OF SISTEMA GROUP PARTICIPATED IN THE INTEGRAL COMPETENCES ASSESSMENT IN 2016.



IN 2016, SISTEMA'S INTERNAL RECRUITMENT TEAM MANAGED TO FILL 90 % OF VACANCIES ACROSS THE CORPORATION, 30% OF WHICH WERE SENIOR MANAGEMENT POSITIONS. THIS RESULTED IN ABOUT

RUB 63 m

(hard skills) and the personal qualities of employees, including social skills contributing to success regardless of the type of activity (soft skills), assessing them according to the 360 degrees system⁴. The assessment was conducted by means of an online questionnaire on the following competences: business erudition, focus on result, being in demand, ethical principles, leadership, building an efficient team, efficient resolution of complex tasks, creating and managing innovations.

After the assessment, the employees received detailed feedback on their competence levels and were divided into three categories. Further career development measures are planned for each of these categories, including training courses and webinars, access to the online corporate library, etc.

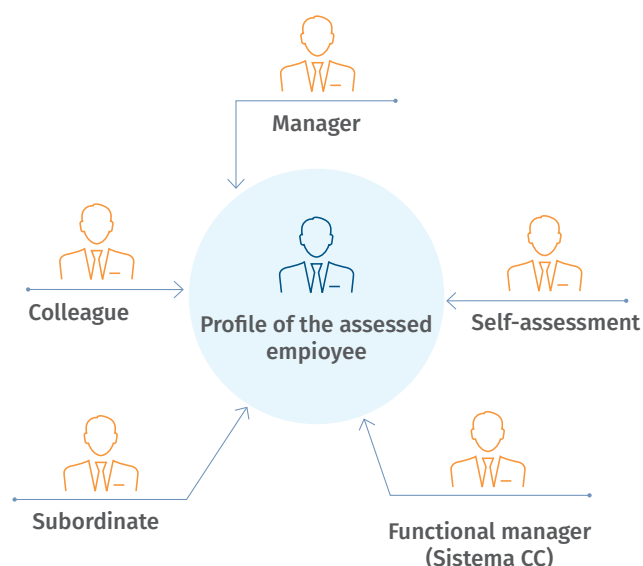
⁽¹⁾ Senior executives in Sistema – positions starting from the level of Investment Directors of the Investment Portfolios and Executive Vice Presidents; in S/As – employees reporting directly to the CEO/President.

⁽²⁾ For more detail see the Sustainability Report for 2015, pages 73-74.

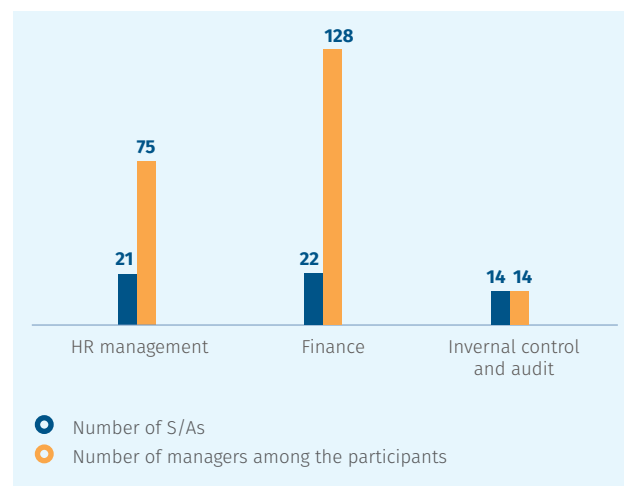
⁽³⁾ Based on the market average cost of staffing through recruitment agencies.

⁽⁴⁾ Survey of the employee and his/her direct supervisor, colleagues and subordinates.

Integral competences assessment



Number of subsidiaries and managers that participated in the assessment, by departments

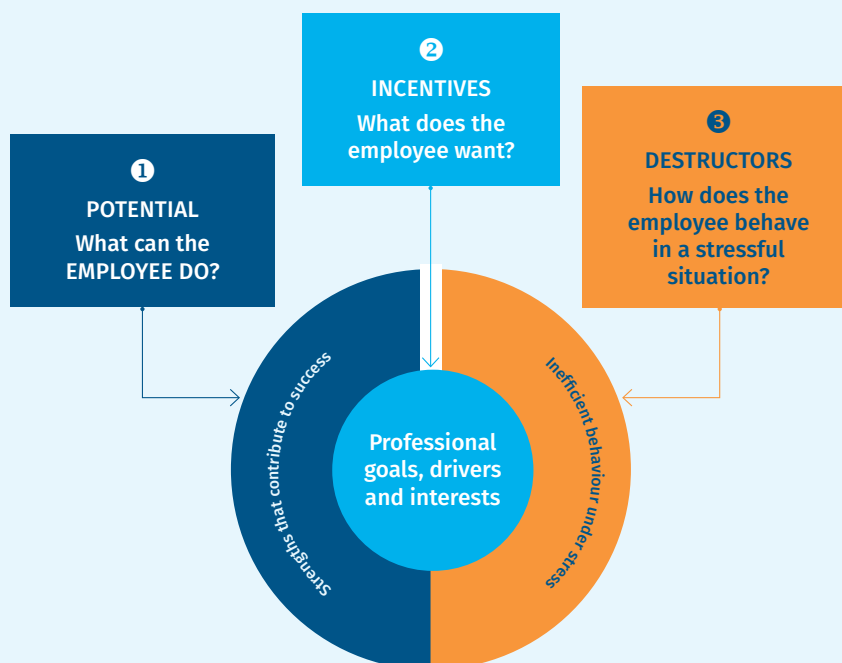


Assessment of Sistema's top managers

In 2016, 26 managers of Sistema, including the Corporation's President, participated in the HOGAN assessment of individual values in the format of a questionnaire and a structured interview.

The project identified the common principles, the strengths and the development potential of Sistema's top management team. The results of the assessment will be used for building key employee profiles and developing a model of corporate values.

What hogan EXPLAINS



IN 2016, THE FOLLOWING EMPLOYEES PARTICIPATED IN THE HOGAN ASSESSMENT::

- MANAGEMENT BOARD MEMBERS, VICE PRESIDENTS,
- EXECUTIVE VICE PRESIDENTS,
- MANAGING DIRECTORS, INVESTMENT DIRECTORS.

G4-LA11

Sistema's employees that participated in the assessment, by categories

	2016	
	Number of employees	Percent of the total number of employees in the category, %
Senior management	20	33.3
Middle management	40	66.7
TOTAL	60	100

Sistema's employees that participated in the assessment, by genders

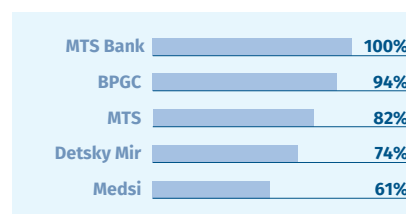
	2016	
	Number of employees	Percent of the total number of employees, %
Men	49	82
Women	11	18
TOTAL	60	100

G4-LA11

Employees of subsidiaries that participated in the assessment, by categories

	2016	
	Number of employees	Percent of the total number of employees in the category, %
Senior management	75	11.05
Middle management	1,801	48.83
Junior management	6,085	42.91
Specialists	53,342	46.42
TOTAL	61,903	

G4-LA11

Leading companies in terms of employee assessment¹

The assessment allowed to find a more reasonable approach to creating the succession pool and identifying the areas for its development and helped the managers to build dialogues with their employees more easily and formulate targets and expected results more clearly.



IN 2016, THE SHARE OF SISTEMA'S EMPLOYEES COVERED BY ASSESSMENT ACTIVITIES WAS

≈ 20%

OF THE TOTAL NUMBER OF PERSONNEL;

46%

IN SUBSIDIARIES

Potential areas for employee development**AT WORKPLACE**

- cross-functional
- projects
- business internships tasks that contribute to development

ASSISTANCE FROM OTHERS

- mentorship
- coaching

AT SPECIALISED SITES

- corporate university
- specialised programmes for top managers
- online trainings with final exams and certificates

⁽¹⁾ The percent of employees covered by assessment activities is calculated as the ratio of the average employee headcount to the number of assessed employees. Some of the assessed employees might have terminated their employment in the year of assessment, which is why the percent of assessed employees in MTS Bank is above 100%.

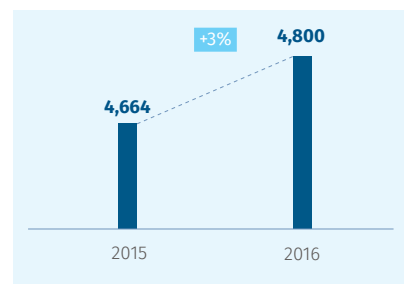
The internal succession pool of Sistema Group companies includes 4,800 employees (twice more than in the previous year). Over 700 of them (15 %) were promoted in 2016.

Apart from that, a large-scale analysis of the high-tech labour market was conducted in 2016 to

build an external succession pool for Sistema's high-tech assets (RTI and Kronstadt Group).

A strategic partnership project for executive search is to be launched in 2017 to build a unique external succession pool for the Corporation.

Internal succession pool of Sistema Group companies, number of employees



Kronstadt Group: programme for personnel recruitment and retention

In 2016, Kronstadt Group, about 65% of whose employees are developers, software specialists and design engineers, implemented an action plan titled "Code Kronstadt" to retain experts in the atmosphere of severe competition in the market and attract new software developers.

The project included training of the employees at the company's expense and participation in professional and industry events. In December 2016, over 100 software engineers received software development awards from the company. 170 people participated in the motivational corporate event celebrating the Programmer's Day.

A separate area of the company's HR policy for attraction of promising young specialists is cooperation with universities. Kronstadt Group invites students for paid internships and possible subsequent employment, offers great opportunities for professional and career development and can provide the rigs, test labs and specialised software required for work and creativity.

The first event in the series of meetings with young specialists at Kronstadt Group was the open day held in November 2016 with support from the Lift to the Future programme. The event was attended by over 80 programming students from five leading tech universities of St. Petersburg.

The key results of the Code Kronstadt programme:

- over 70 new software experts were hired, taking their total percentage to 45% of the personnel;
- personnel turnover in this category is down by 17%;
- over 45% of employees were promoted;
- 14 programming students from ITMO will do their internships with the company.

In 2017, we plan to introduce a system of bonuses for creation of various types of intellectual property, launch non-financial incentive programme "Best Employee" and give lectures on relevant topics for the personnel.

AT THE END OF 2016,

30%

OF THE EMPLOYEES COMPLETED TRAINING COURSES, ATTENDED CONFERENCES AND RECEIVED ADVANCED TRAINING CERTIFICATES

Irina Kazantseva
Deputy CEO for
Human Resources
of Kronstadt Group



St. Petersburg's market of software engineers is highly competitive, and success here not only depends on the above average salary. A young hi-tech team must offer the advantages of interesting and ambitious projects, non-monetary incentives and special approaches to this category of employees that is one of the most important for the business. Coming to us, students and graduates get an opportunity to be involved in creation of innovative products for both civil and military use. We plan to strengthen the company's image of an attractive employer and motivate strong software developers to stay in Russia and work for the benefit of our country.



Training and professional development of employees

G4-LA10

To efficiently resolve the tasks faced by the Corporation, the employees must have the necessary knowledge and skills, which is why one of the main focus areas of HR development in Sistema and its subsidiaries are education programmes, usually implemented on the basis of the Corporation's own universities and training centres.



**IN 2016, SISTEMA'S
SUBSIDIARIES ALLOCATED**

≈ RUB **260^m**

FOR PERSONNEL TRAINING



**The expenses of Sistema's
subsidiaries on personnel training,
RUB m**

+35%

2016 259.6
2015 191.7

«Академия Системы»

Sistema Academy is a corporate education project launched in 2014 that has the best coaches from the Group companies train senior and junior managers from subsidiaries. The project's purpose is not only personal and professional development of employees, but also resolution of daily business issues and creation of additional incentives for the personnel. Extensive use of corporate capabilities and internal expertise ensure a high quality of education and at the same time significantly reduce expenses – up to 70% compared to the market price of business education services.

The key subjects covered by the courses of Sistema Academy include management, negotiations and presentation development, communications and finance.

Key results of 2016:

- expansion of the coaching staff, including through engaging additional internal coaches from subsidiaries;
- "coaching for coaches" to improve the coaching skills of the Corporation's employees;
- distance learning in the form of webinars; six webinars were held, and the total number of their participants reached 772 people;
- 25 onsite events attended by 329 employees of the Corporation;
- English Club (four groups, 19 people in total, completed the course).



OVER

>1,400

**EMPLOYEES OF THE CORPORATION
PARTICIPATED IN THE EDUCATION
AND DEVELOPMENT INITIATIVES
OF SISTEMA ACADEMY IN 2016**

**Number of participants
of Sistema Academy**

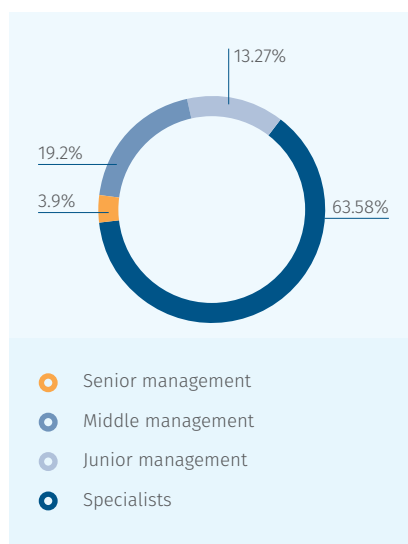
+75%

2016 1,400
2015 800



In 2016, the number of Sistema's employees that completed their training courses exceeded 100. At the same time, the average number of training hours per one employee increased from 4.7 to 10.7.

Expenses on corporate education of Sistema Group employees, by personnel categories, %



Yearly average number of training hours per one employee of Sistema in 2016, by personnel categories

Employee category	Training hours	Number of employees that completed the training	Average number of training hours, h/person
Senior management	12	3	4
Middle management	156	15	10.4
Junior management	748	63	11.8
Specialists	236	26	9.1
TOTAL	1,152	107	10.7

G4-LA9

Yearly average number of training hours per one employee of subsidiaries in 2016, by personnel categories¹

Employee category	Training hours	Number of employees that completed the training	Average number of training hours, h/person
Senior management	6,001	396	32.2
Middle management	99,345	3,635	43.1
Junior management	412,416	16,144	21.8
Specialists	1,584,381	97,120	28.1

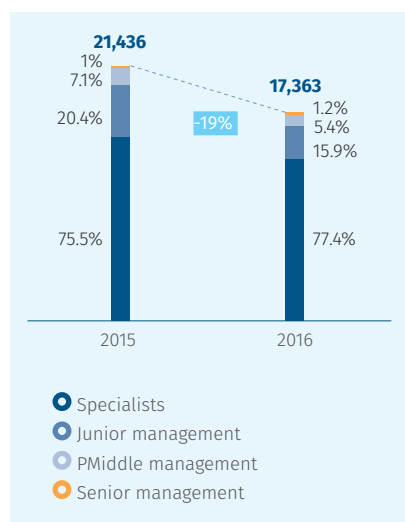
G4-LA9

ONSITE TRAINING

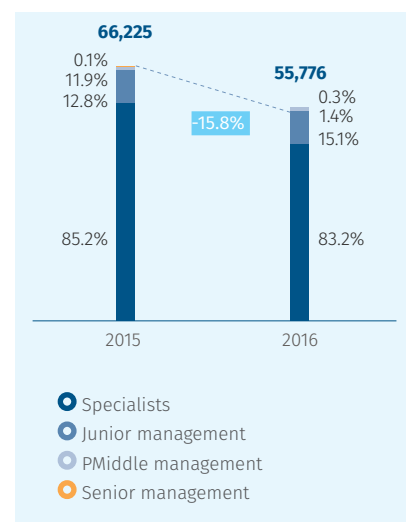
Onsite training in Sistema covers all categories of employees and includes various formats:

- practical workshops;
- training courses in Sistema Academy;
- conferences;
- discussion club;
- programmes for advanced training, professional training and re-training organised by the MSU Higher School of Management and Innovation.

Number of subsidiaries' employees that completed external onsite training, by personnel categories



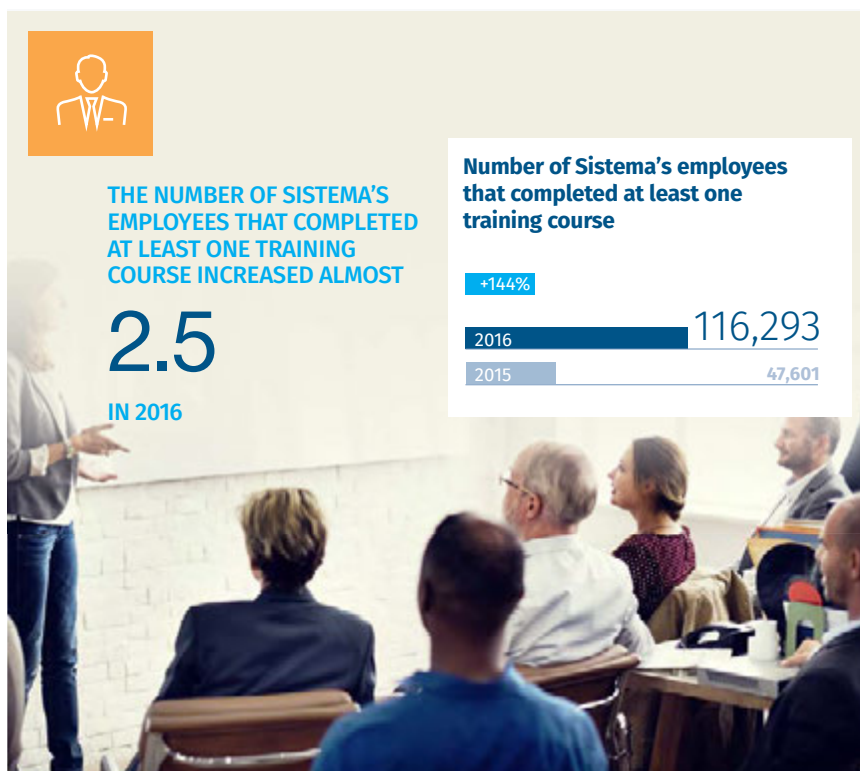
Number of subsidiaries' employees that completed internal onsite training, by personnel categories



¹⁾ Not including MTS retail chain

In April 2016, 25 senior executives from the Corporation's companies participated in the first development programme for top managers. The programme was based on the cases of the Harvard Business School with the help from Professor Anthony P.Hourihan who created his own successful programme "Mini-MBA for Managers". In the four days of training, the participants worked on the issues of strategic management, change management and leadership in the industry, analysed success stories of global companies, learned some interesting practices and generated new ideas for business development.

On 22-30 September 2016, Sistema held its second annual Knowledge Week. Over 400 employees of the Corporation participated in 14 master classes, trainings and interactive lectures given by leading Russian business coaches and experts and had a chance to develop their skills and acquire some new knowledge in decision-making, leadership, partnership, visual thinking, memory improvement, strategic networking, speed reading, presentations and public speaking, emotional intelligence, coaching-style management, etc. The Knowledge Week is traditionally conducted in the convenient format of small-time events taking from one and a half to three hours each at the start or at the end of a working day. After the Knowledge Week, the participants got free access to the books recommended by the lecturers through corporate e-library Mybook.



PROFESSIONAL DISCUSSION CLUBS

In May 2016, Sistema launched a new initiative on the basis of its Corporate University – professional Discussion Clubs that brought together managers and experts from the Group companies operating in different industries.

The club meetings are held in the form of specialised workshops for small groups of professionals. Such format provides various opportunities for professional development, informal discussion and business interaction within the Corporation and encourages sharing of practical experience and searching for new projects.

The first meeting of the Discussion Club on digital marketing was held in May at partner site provided by EY. An event for HR managers titled "Financial and non-financial incentives at the time of crisis"

was organised in June. In July, a discussion on sales and marketing in healthcare and pharmaceuticals was held in Medsi's ultramodern CDC at Krasnaya Presnya. The pressing issues of the real estate market, retail, changes in the tax law, new channels of communication with consumers, etc. were also among the topics discussed.

In the future, the Corporation expects to regularly hold such events on various topics.



IN 2016, SISTEMA GROUP HELD NINE PROFESSIONAL CLUB MEETINGS IN TOTAL ATTENDED BY

> 280 people

Ten-year anniversary of cooperation with MSU in manager training

In 2016, we celebrated the ten-year anniversary of the Higher School of Management and Innovation created jointly by Moscow State University (MSU) and Sistema. **Over the period of its existence more than 300 students graduated from the school with Master's degrees in strategic management and innovations.**

Today, they successfully work at top management positions. The school has become a platform for training of highly-qualified managers both for the Corporation and other Russian and foreign companies, as well as for promoting advanced business education methodologies in Russia.

The school offers Master's programme "Strategic Management and Innovations" and advanced training courses. In 2016, first students started their education under the new integrated Bachelor-Master's programme "Innovatics" (management in engineering systems). This programme is implemented in partnership with five MSU departments: the Institute of Mechanics and the Departments of Physics, Chemistry, Biology and Computational Mathematics & Cybernetics. The school has also launched international projects together with the University of Milan – Bicocca (Italy), Qinghua University, Technopark and the Beijing Open University (China).

The first international conference called "Innovative Economy and Management: Methods and Technologies" was held in December to celebrate the school's anniversary. More than 80 delegates from China, Italy, South Africa and over ten Russian cities came to take part in the event. Managers of Sistema and its subsidiaries (Intourist, MGTS, RTI) participated in the round table titled "A model manager for an innovative economy" along with the researchers.

The school is planning to:

- cooperate with the MSU Psychology Department under the Innovatics programme to help the students in developing the soft skills of negotiation, team building and joint work;
- launch the new MBA programme "Innovative Management", including a course on evaluation of investment projects in the innovative environment;
- expand the range of disciplines for manager training by adding courses on corporate social responsibility, social entrepreneurship and social innovations.



Binnopharm: training of medical representatives

At the beginning of 2016, to train the regional team of the sales department created when the company entered the retail segment of the pharmaceutical market, **Binnopharm held its first Cycle Conference** that brought together in Kazan **over 100 employees from 33 Russian cities**. For six days, the medical representatives participated in trainings and workshops held by invited experts, studied the properties and advantages of the medicines produced

by Binnopharm and improved the skills of product promotion and efficient communication with medical specialists. One day after passing the final exam the medical representatives already started performing their duties: every day each of them makes over ten visits to healthcare facilities and pharmacies, talks to doctors and pharmacists, fulfilling an important task of improving the standards of living for patients in our country.

To further develop the competences of its employees, the company also launched educational online project Business Academy for Medical Representatives. The first webinar held in September 2016 was dedicated to the opening of the headache relief room and the room of learning the skills required for negotiations with chief doctors.

Medsi Group: training centre and succession pool

From 2014, Medsi Group has been operating a training centre educating the employees in accordance with the company's strategic development goals.

In 2016, the centre was mainly focused on:

- strengthening the patient-specific approach among the personnel;
- trainings on sales at reception desks;
- development of the management team (training on management during changes, training on the key skills for heads of clinics);
- development of the succession pool.

To resolve the problem of insufficient candidates for nurse positions, the company is implementing a succession pool programme and cooperates with medical colleges.

In 2016, this work focused on:

- Interactive workshops offered by Medsi's business coaches. In 2016, the training centre held two workshops on client-oriented approaches to patients attended by 50 people.

- Accepting students for internship at Medsi's best facilities and subsequent job offers. In 2016, nine students interned at Medsi clinical hospital in Otradnoye, and five of them were offered jobs with the company.
- Participation of Medsi representatives in round tables on employment of medical college students.

In 2017, Medsi plans to expand the list of partner medical colleges, including through cooperation with the branches of Moscow Medical College No 7.



IN TOTAL, 11 NEW PROGRAMMES WERE DEVELOPED AND IMPLEMENTED AND 113 TRAINING COURSES ATTENDED BY

1,613 people

WERE HELD IN 2016



Leader Invest: innovative education programme

In August 2016, Leader Invest held the final stage of its two-year innovative programme for training of the company's managers.

The programme was implemented by Sistema Corporate University, the MSU Higher School of Management and Innovation, audit company PricewaterhouseCoopers (PwC) and Skolkovo Business School.

The programme participants:

- learned about the best developer projects from all over the world and did a practical exercise on implementation of the Smart City concept and solutions in flagship developer projects;
- went on an educational tour to China and visited some key

facilities in Beijing, Shanghai, Hong Kong and Shenzhen;

- analysed the global experience in attracting investors to development of new territories;
- studied negotiation scenarios and coalition building logic and participated in business simulations to train practical skills.

DISTANCE LEARNING

Sistema has a distance learning portal that allows more employees, including those in subsidiaries, to access training programmes.

The portal offers several training courses that are mandatory for all employees of the Corporation: the courses on the anti-corruption laws of Russia and the UK, compliance with the anti-corruption requirements and procedures of the Corporation, minimisation of the risks of fraud, rules for work with insider information and commercial secret regime. After studying the materials, the employees have to pass the final test.

The portal also offers about 28 distance courses on various topics: personal growth, marketing, management, finance, sales, HR management, etc.

In 2015, a corporate e-library was opened at the portal. It includes over 5,000 books on business issues and related topics, also available on mobile devices. In 2016, 4,300 employees of the Corporation were connected to it and given free access to over 3,000 business books of leading Russian publishing houses through the mobile application..



**IN 2016, 8,074 MAN-COURSES
WERE COMPLETED AT THE DISTANCE
LEARNING PORTAL; THE TOTAL
NUMBER OF USERS WAS**

6,291

MTS: Virtual Academy

At the beginning of 2016, MTS launched a new electronic platform for internal corporate training in all formats: onsite, distance and external. The employees can find ready-made training programmes for their professional and personal development, register for interesting events in one click or recommend courses they liked to their colleagues.

Programme participants have access to a big library of video courses grouped by topics: marketing, communications, leadership, IT, healthy lifestyle and stress management. All of the programmes offered for online training were designed to meet specific business targets of the company.

The Virtual Academy enables the participants to plan the development of their professional and personal skills on their own. The system monitors individual

training results and predicts the need for further professional development. Managers also can build individual development plans for their employees, offer training programmes for their teams and monitor their learning successes.

The system also has its own social network where anyone can share professional knowledge or useful information.

A number of projects were implemented on the basis of the Virtual Academy in 2016, including:

- MTS Global Dictation (3,600 participants);
- webinar marathons – series of online events on the same topic;
- popular science webinars;
- webinars on specialised topics offered by employees.

26,890

people

(≈ 93% OF THE MTS EMPLOYEES)
COMPLETED TRAINING COURSES
IN THE VIRTUAL ACADEMY IN 2016.

> 1,100

video courses

WERE ADDED TO THE PORTAL



EMPLOYEE HEALTH AND SAFETY

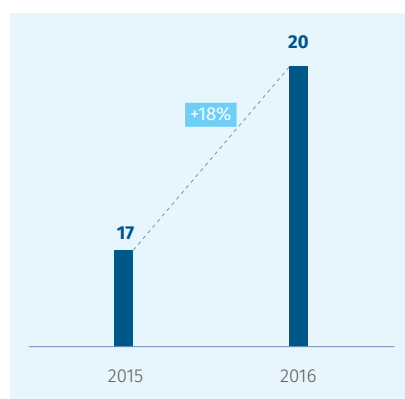
Sistema and its subsidiaries view human life as the highest value and do not compromise between the health and safety of its employees and profit. The Corporation helps to ensure comfortable and safe working conditions for all employees. The special assessment of working conditions conducted by Sistema in 2016 showed that no action to improve occupational safety was needed.

Compliance with workplace safety rules in the Group companies is regulated by internal documents that vary depending on the production specifics of subsidiaries. Some of the companies have joint committees on health and safety that include both managers and employees.

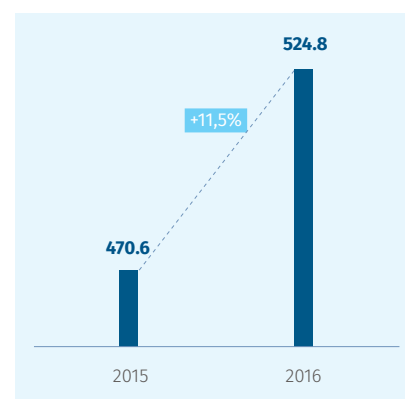
In 2016, there were no cases of professional diseases among employees or accidents at work in Sistema. 87 workplace accidents were registered in the Group companies, most of them in Segezha Group, which is due to the industry specifics. At the same time, the industrial accident frequency rate at the forest holding's enterprises went down almost by 18% in the reporting period: to 42 vs 51 in the previous year¹.

Most of the accidents did not entail any serious consequences. Three accidents were fatal, including two (in LLC Bashkirenergo and Segezha

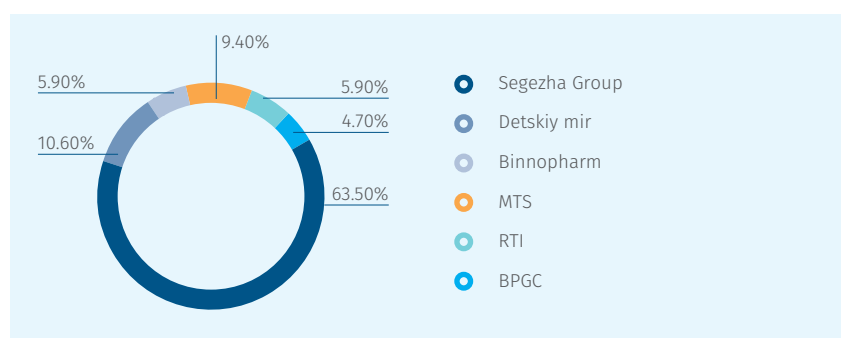
Number of occupational health committees, pcs



Sistema Group companies' expenses on occupational health, RUB m



Number of accidents by subsidiary, %



Group) traffic accidents. The third, in SG-trading, was due to a technical malfunction of a vehicle.

To avoid such situations occurring in the future, all the cases were thoroughly investigated, the causes and the persons liable were identified

and action plans to prevent accidents were developed. For example, Segezha Group plans to introduce occupational health and safety standards (OHSAS 18000) at its enterprises. SG-trading underwent a full occupational health audit and held job safety briefings for all of its employees.



IN 2016, SISTEMA GROUP COMPANIES SPENT

> RUB 0.5^{bn}

ON OCCUPATIONAL HEALTH MEASURES

Leader Invest supports non-smoking

To support healthy lifestyle among its personnel, Leader Invest implemented a special initiative motivating the employees to quit smoking. The company raffled off a certificate for RUB 50,000 among those employees who abstained from smoking in the period of the campaign (October to December 2016). This certificate could be

used to purchase active lifestyle items, for example, gym membership. Non-winners got an extra day off as a consolation prize.

23 out of 51 smokers working for the company took part in the campaign, which shows that the employees really want to get rid of this unhealthy habit.

⁽¹⁾ Accident frequency rate (AFR) is calculated as: $AFR = N * 1000 / E$, where N is the number of registered accidents resulting in loss of labour capacity for more than one working day; E is the average number of employees in the reporting period

Corporate culture and volunteer work

CORPORATE CULTURE

Corporate culture is a set of values, beliefs, standards and models of behaviour shared by the employees that bring the Corporation together. Corporate culture supports Sistema's business strategy and covers all HR management processes.

In 2016, the key areas of corporate culture development were improvement of the employee engagement, including engagement in volunteer and charitable activities, development of corporate sports and promotion of healthy lifestyle.

The tradition of corporate eco clean-up days that combine useful work and team building was continued in 2016. About 3,000 employees participated in the clean-up days organised by MTS, MTS Bank, MGTS, Stream, Medsi, Detsky Mir, Segezha Group and Cosmos Hotel. Sistema Charitable Foundation held volunteer clean-up days in P. Tchaikovsky's museum in Klin (the Moscow region) and the memorial estate in Yasnaya Polyana (the Tula region).



**IN 2016, THE CORPORATION'S
VOLUNTEERS HELD**

11 clean-ups

**AT ORPHANAGES
AND CARE HOMES
FOR VETERANS (SEVEN MORE
THAN IN 2015) AS PART OF THE
VICTORY GARDEN CAMPAIGN**

Sistema's Summer Games

Sistema held its 14th annual summer games in September 2016 in Moscow. The event was attended by over 3,500 employees of the Group companies and their family members. 19 teams competed in over 15 disciplines (including football, volleyball, streetball, sprint, table tennis, golf, chess, family relay and the Big Race).

In 2016, involvement in charitable activities for the first time was added as an additional incentive for participants of the Games. The

winners received certificates for RUB 150,000 from Sistema Charitable Foundation. This money was donated to charitable projects of the team members' choice: Targin purchased tennis wheelchairs for special boarding school No 13 in Ufa and Leader Invest donated their prize to non-profit organisation Hospital Clowns for arrangement of New Year's celebrations for children on long-term treatment at hospitals. The opportunity to select the charity project for the donation will involve more concerned employees in charitable work.



Corporate culture development plans for 2017:

- introduction of recognition programmes for the Corporation's employees;
- contest of innovative ideas and business process improvements;
- development of a loyalty programme for Sistema's employees;
- update and new functionality of the corporate portal;
- winter sports competitions for the Corporation's employees.

MGTS: Promotion of healthy lifestyle among employees

MGTS has a corporate programme called "Health" that aims to promote active lifestyle, improve the employees' physical and psychological state and strengthen the company's internal values. The company allocates 0.3% of the payroll to implementation of measures in these areas.

The key event of the corporate health promotion programme are MGTS's annual games. In 2016, over 600 athletes participated in this competition. MGTS has its own sports teams that go to competitions of various levels, including city and industry cups and championships. Apart from that, the company offers to its employees an opportunity to train in seven gyms in different districts of Moscow. The employees and their family members can also purchase memberships in a number of fitness centres at a corporate discount.

In 2016, the programme helped achieve the following results vs 2015:

- sickness rate among employees went down by 3%;
- loss of work time per one employee decreased by 4.5%;
- productivity grew by 3%.

**IN 2016, THE NUMBER
OF EMPLOYEES PARTICIPATING
IN CORPORATE SPORTS EVENTS
AND GOING TO SPORTS CLUBS**

INCREASED BY

12%

Andrey Ershov
CEO of MGTS



The comprehensive corporate programme for strengthening of health and active lifestyle among our employees helps reduce sickness rates, improve employee engagement and build and support the company's traditions. Sport helps MGTS to pass the leadership spirit from generation to generation and to motivate employees for continuous success.



CORPORATE VOLUNTEER WORK

The employees' volunteer work that has become an important part of the corporate culture of Sistema and its subsidiaries increases the level of engagement, motivation and loyalty among the personnel, helps to build relations with local communities and the non-commercial segment and serves as an efficient tool for implementation of social and charitable projects.

Such projects are coordinated by the Volunteer Centre of Sistema Charitable Foundation that consolidates the best volunteer practices and brings together volunteers from over 20 companies of the Group.

In 2016, the corporate volunteer movement demonstrated growth of the key indicators and rose to the federal level. The number of subsidiaries involved in volunteer work increased almost by half; for example, such companies as Concept Group and Sistema Venture Capital participated in these activities for the first time this year.

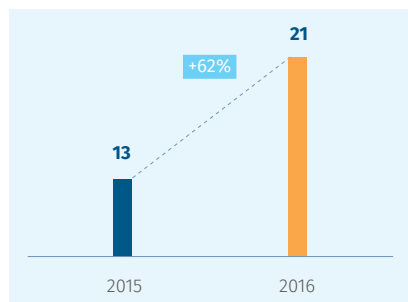
Sistema Charitable Foundation organised or supported events in eight regions: Moscow and the Moscow region, St. Petersburg, the Tula region, the Kirov region and the Republics of Karelia, Altay and Bashkortostan.

On average, **nine companies** regularly took part in the social projects initiated by the Volunteer Centre of Sistema Charitable Foundation in 2016. The percentage of volunteers in the total number of subsidiaries' employees involved in general corporate programmes was **about 6.5%**.

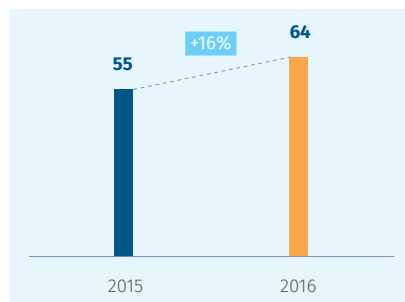


Key performance results of the Volunteer Centre of Sistema Charitable Foundation

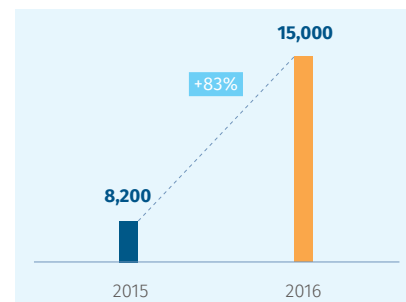
Number of involved S/As



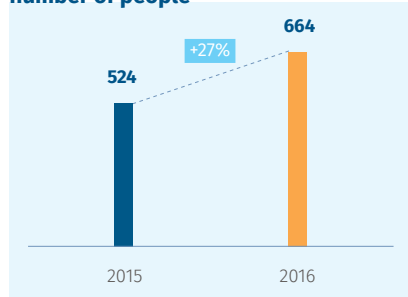
Number of events, pcs



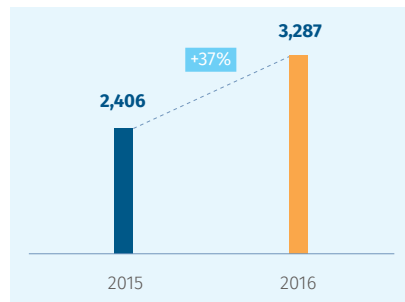
Number of beneficiaries



Core group of the volunteer centre, number of people



Hours worked by volunteers



For more detail on the Corporation's volunteer projects see [3.2. Support of social initiatives and communities, and the Annual Report of Sistema Charitable Foundation](#).

Sistema's charitable work in anticipation of the New Year

In anticipation of the 2017 New Year's celebrations, in 30 offices of the Group companies boxes to collect donations for orphanages and live Wishing Trees provided by Segezha Group were installed. The trees were decorated with wooden toys painted by the Corporation's volunteers at creative master classes. During December, employees could donate money in exchange for a toy.

The Corporation's subsidiaries and volunteers with support from Sistema Charitable Foundation held performances [for over 4,000](#) orphaned children and children from large and low-income families [in six Russian cities](#).

This series of the New Year events culminated in the first ever benefit auction among the top managers and employees of the Corporation.

The total amount of donations exceeded RUB 11m. The money went to social support and treatment of orphans, disabled and seriously ill children. One of the key projects was the construction of a specially equipped playground at the Pavlovsk orphanage (St. Petersburg). Sistema Charitable Foundation also provided medical equipment for the children's department of the Volgograd hospice.

> RUB 11 m

THE TOTAL AMOUNT
OF DONATIONS

Irina Berezhnova

Head of the
Volunteer Centre
of Sistema
Charitable
Foundation



« The Volunteer Centre has assumed the unique role of coordinator of the Corporation's volunteer initiatives. The purpose of all our actions is to improve the standard of living and increase the levels of social involvement and optimism among the citizens, which is important for social development. The work of the centre gave hundreds of our volunteers new knowledge and invaluable practical experience.



Meds Group: volunteer movement From Heart to Heart

Meds is actively developing the practice of competence-based volunteering providing medical support and professional help to non-profit organisations free of charge.

The members of volunteer movement From Heart to Heart that today includes **over 300 people** regularly offer consultations under social and charitable projects. For example, in 2016, the doctors of Medsi read a series of lectures for the employees and volunteers of the Downside Up fund that provides psychological and social help to children with Down syndrome and their families.

The company also ensures medical support for participants of charitable sports events that in 2016 included:

- **Sport Vo Blago** (Sports for Good)– ski race, running, futsal tournament and the Moscow stage of the **Velofest** biking marathon organised by the Downside Up fund to support children with Down syndrome;
- annual charity race **Patriki Running** organised by charity foundation Galchonok to support children suffering from pathologies of the central nervous system;

- charity race **“Run live. Run with SAP”** organised by SAP and the Arithmetic of Goodness Foundation that supports adoption, socialisation and family adaptation of children from orphanages;

- charitable festival **Tramplin Dobra** (Trampoline of Goodness) held to raise money for provision of targeted aid, improvement of living conditions and rehabilitation for children in boarding house Vera. Nadezhda. Lyubov;

- children's charitable ballet **festival Svetlana**;

- spring race **Lady, Run!** held to celebrate the International Women's Day as part of the Everyone On the Run project that brings together running enthusiasts and supporters of healthy lifestyle;

- Cross Pobery (**Victory Cross Country**) Race in Krasnogorsk organised to celebrate the 71st anniversary of the Great Patriotic War victory.

Meds's volunteers actively participate in the projects aimed at integration of children with special needs into social life.

One of the key annual events is inclusive children's festival **Galafest** organised by charitable foundation Galchonok. In 2016, Medsi, besides provision of medical support to the participants of the festival, organised its own platform called “Cabin of Health” where the best doctors gave consultations to visitors on various health issues. Medsi's volunteers and teachers from the Olympic Star children's development centre held creative master classes. Visitors of the festival could also get a medical check-up and win special prizes. In total, over 1,000 people attended the Cabin of Health.

Elena Brusilova
President
of Medsi Group



« We want the concepts of inclusion and socialisation for those who need it to become a standard in our society. The arithmetic of goodness is simple: together we can do more than each one of us can do on his or her own. This is why Medsi helps promote the global idea of charity and support for special needs children.



The plans for further development of volunteering in Sistema include upscaling of the Corporation's best practices by involving corporate volunteers and external partners in large joint campaigns at the national and regional levels.

2.4. Business ethics and anti-corruption efforts

Responsible business practices are the foundation for sustainable and trust-based cooperation between Sistema and all stakeholders. Ethical conduct of business, prevention of corruption and unlawful disclosure or use of insider information, and observance of human rights are the most important elements of reputational risks management.



IN 2015-2016, THE CODES OF ETHICS WERE UPDATED IN ALL THE KEY COMPANIES OF SISTEMA GROUP.

At the end of 2015, Sistema adopted the new improved and extended Code of Ethics that defines the principles of ethical conduct under the key business processes in a clearer manner and describes the most typical conflict of interest situations and the procedure for their detection and mitigation.

All employees of the Corporation must comply with the Code, which is stipulated in their employment agreements and job descriptions, as well as in the Code itself. A number of ethical conduct rules and regulations are also outlined in the Internal Rules and Regulations, the HR Management Code and the Administrative Support Code.

The issues of business ethics and responsible conduct are regulated by the Ethics and Control **Committee of Sistema Board of Directors** and the Discipline Committee of Sistema.

The Ethics and Control Committee regulates the following issues:

- 1 organisation and monitoring of activities of the internal control and audit function (jointly with the Audit, Finance and Risk Committee of Sistema Board of Directors);
- 2 assessment of the efficiency of the internal control and corporate governance systems;
- 3 corporate security;
- 4 monitoring of compliance with the Code of Ethics of Sistema;
- 5 control of the efficiency and functioning of the whistleblowing system – Hotline;
- 6 creation and operation of corruption prevention systems at the companies of Sistema Group.

The President's Discipline Committee **controls** the employees' compliance with the labour laws, the internal regulations and the resolutions of Sistema's governance bodies. It develops recommendations on whether there are reasons for imposing disciplinary penalties on employees.

Sistema promotes implementation of the corporate principles of responsible business conduct in its portfolio companies.

No violations of the Code of Ethics were identified in Sistema in the reporting period. Several non-material cases of non-compliance with the Codes of Ethics were detected in the subsidiaries of Sistema Group. All of these cases were timely investigated by the Discipline Committees of the corresponding subsidiaries. Disciplinary penalties were imposed on the persons who did not comply with the Codes of Ethics in accordance with the applicable law.

In 2016, the Ethics and Control Committee of Sistema Board of Directors met **seven times**. The results of the ethics assessment of the Corporation and subsidiaries were reviewed at two of these meetings. Apart from that, the anti-corruption compliance audit was held in Sistema Group in December 2016. The results of this audit were also reviewed by the Committee: no material violations were identified.

The President's Discipline Committee met **six times** in 2016 to review the violations of the Code of Ethics by subsidiaries. Disciplinary penalties were imposed on four employees

G4-56

In 2016, Sistema and its subsidiaries held the first **ethics assessment** of the top and middle management. The participants of the assessment filled out the Ethics and Conflict of Interest Declarations.

Regular ethics assessment makes it possible to timely detect and manage conflicts of interest. The results of the assessment were reviewed at the meeting of the Ethics and Control Committee of Sistema's Board of Directors. Settlement measures were proposed for several of the identified potential conflicts.

INFORMING EMPLOYEES ABOUT THE PRINCIPLES AND PROCEDURES OF ETHICAL CONDUCT

In 2016, the Corporate Centre and the main companies of Sistema Group held online trainings to inform the employees about the key changes in the Codes of Ethics. All employees of Sistema completed these training courses. This allowed ensuring uniform ethical standards and creating all reasonable and necessary conditions for timely identification and settlement of conflicts of interest.

PREVENTION OF DISCLOSURE OF INSIDER INFORMATION

As a public company, Sistema pays special attention to compliance with the laws and regulations governing the use of insider information.

The Corporation tries to provide its employees with the maximum amount of information on the key requirements of the applicable laws and stock market regulators of Russia and the UK (Compliance)¹ and the procedures for work with insider information.

For example, Sistema keeps and regularly updates the list of persons with access to insider information and imposes a moratorium on transactions with the Corporation's securities for its employees ahead of disclosure of financial statements or any other material events. The employees planning a transaction with the securities of Sistema or its public subsidiaries must inform the Corporate Secretary of such plans.

In 2016, Sistema continued the explanatory activities aimed at prevention of disclosure of insider information. All new employees must complete the course on this topic in the first several days after their employment starts. The employees of the Corporate Centre attended the trainings on the key concepts, regulations and procedures related to work with insider information.

SISTEMA'S PLANS FOR DEVELOPMENT OF BUSINESS ETHICS

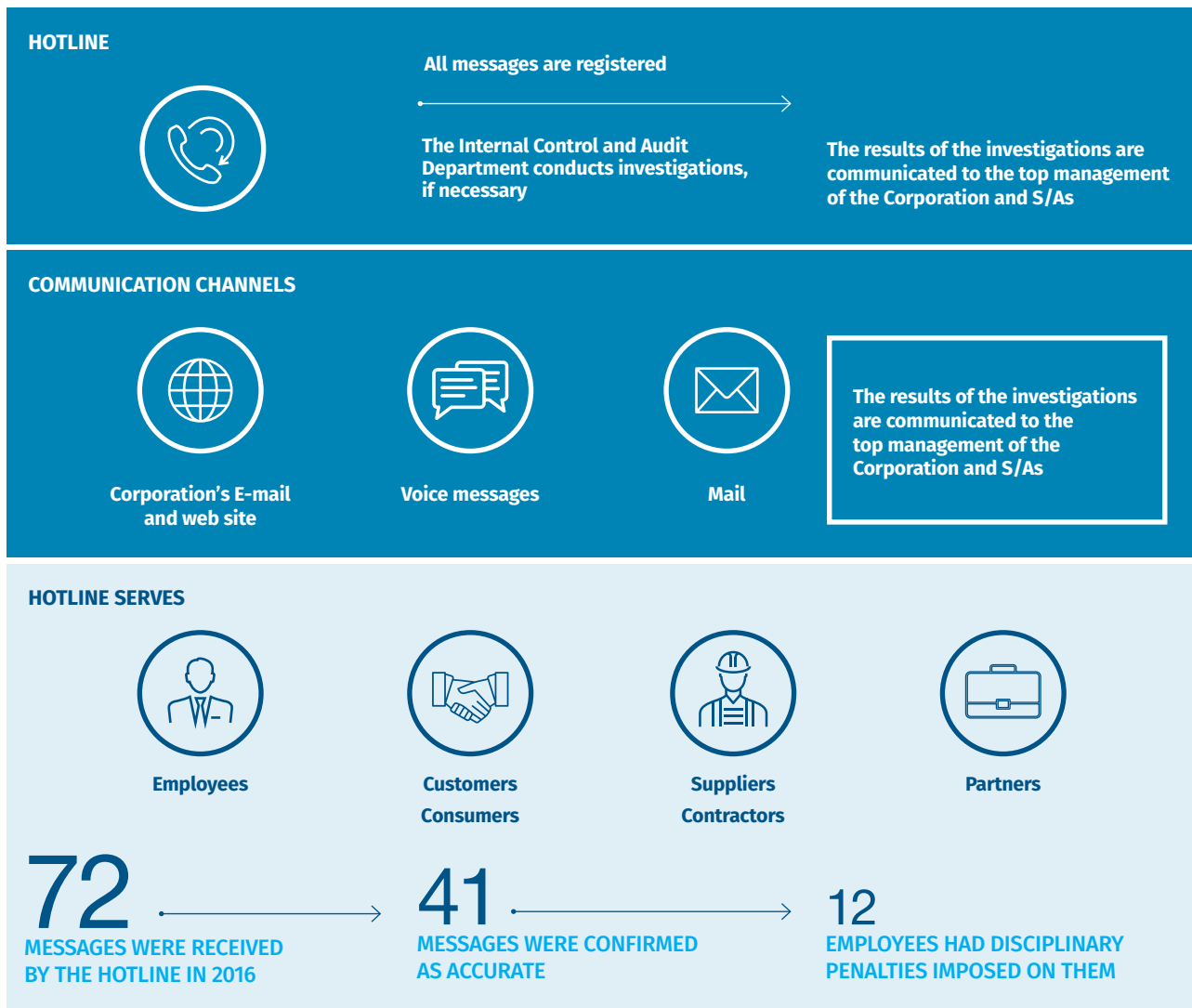
Plans for 2017:

- ① the next round of ethics assessment of the Corporation's employees;
- ② mandatory trainings on the Code of Ethics for new employees.

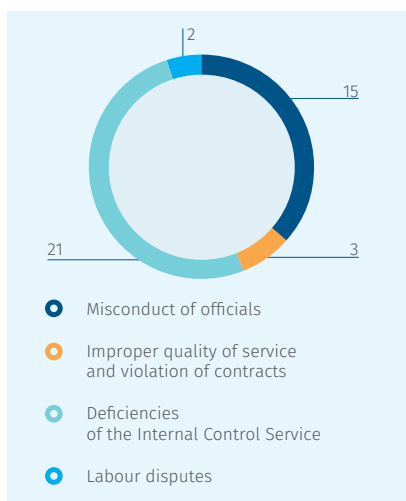


¹⁹ Compliance means conformity to internal or external regulations. Conformity is covered by the segment of an organisation's management and control system that deals with the risks of non-conformity and non-compliance with the requirements of the law and regulations, the rules and standards of supervisory bodies, industry associations and self-regulating organisations, codes of conduct, etc.

HOTLINE



Issues reported to the Hotline in 2016



The number of messages received through the Hotline in 2016, by communication channels

Communication channels	Number of messages
E-mail and web site of the Corporation	36
Voice messages	1
Mail	4

For many years, the Corporation has had a mechanism, which its employees can use to provide feedback on the quality of work and the cases of ethical

misconduct – Hotline. [The updated Hotline Regulations were approved](#) in 2014. Most of the messages come through the special page at Sistema's web site¹. This ensures full anonymity for the whistleblowers who do not want to disclose their identity.

Almost all of the Group's operating companies have their own Hotlines. The corresponding pages were updated on the companies' websites in 2016. In 2016, Kronstadt Group, Sistema Charitable Foundation and Lift to the Future introduced their own Hotline pages, and the employees of these organisations

¹⁾ The 2015 data was adjusted due to exclusion of Targin and SG-trans from the consolidation perimeter.

were informed of the principles of their operation and the communication channels.

In particular, Kronstadt Group held a training course on this topic for its managers.

In the reporting period, the Hotlines at subsidiaries received 1,391 messages in total, 545 (40%) of which were fully or partially confirmed. After the investigations, various disciplinary penalties were imposed on 118 employees of the Group companies.

PLANS FOR DEVELOPMENT OF THE HOTLINE IN 2017

There are plans to reorganise the operation of the Hotlines at subsidiaries to give the whistleblowers a possibility to contact the Hotline and ask for a repeated investigation if they are not satisfied with the results of the first investigation in response to their message.

OBSERVANCE OF HUMAN RIGHTS AND EQUAL OPPORTUNITIES

Sistema and its subsidiaries seek to fully observe the human rights and liberties outlined in the key international and national regulations. The Corporation adheres to the principles of tolerant and respectful attitude to racial, religious, physical and other differences of its employees and views child and forced labour as unacceptable.

The corresponding provisions on prevention of discrimination and violation of human rights are included in the Code of Ethics and the HR Management Code, as well as the relevant internal regulations of subsidiaries.



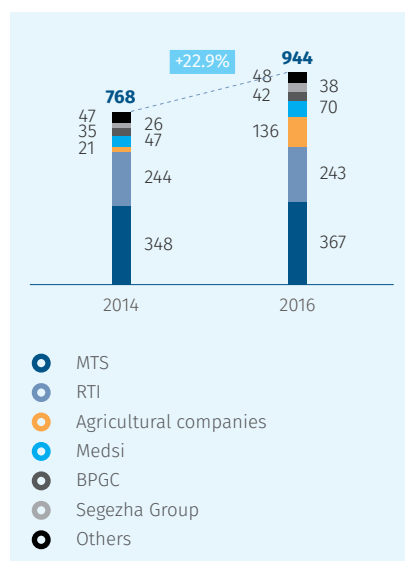
No cases of discrimination or violation of human rights were identified in the Corporation in the reporting year.

Sistema strictly adheres to the principles of privacy and ensures protection of the personal data that it keeps. In 2016, the Corporation

adopted the new Policy on Processing and Protection of Personal Data developed in accordance with the Russian law. This Policy defines the principles, purposes, ways and terms of personal data processing, the list of the persons that can access it and their rights and obligations, as well as the measures to avoid leaks.

In 2016, no personal data leaks were identified in the Corporation.

Number of disabled employees of the Corporation



Sistema is very attentive to the special category of candidates wishing to work for the Corporation – disabled people. Every year, key companies of Sistema Group hire several hundred people with disabilities.

In 2016, the number of disabled people working for the Corporation reached 944 (0.6% of the total number of employees), most of them in MTS (38.9%), RTI (25.7%) and agricultural companies (14.4%). The largest increase of the number of disabled employees in 2016 was in the agricultural assets (from 21 to 136 people) due to the expansion of the subsidiary and improvement of its accounting system.

G4-HR3

G4-HR5

G4-HR6

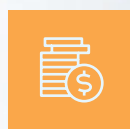
Prevention of corruption

Zero tolerance to corruption is one of the basic principles of responsible business practices in Sistema Group companies. The Corporation's activities strictly comply with the anti-corruption laws – the key applicable regulations of the Russian Federation and the United Kingdom Bribery Act.

Sistema has the **Anti-Corruption Policy** approved by the Board of Directors, which defines the basic principles and requirements aimed at prevention of bribery and other corrupt practices. The key anti-corruption principles outlined in the Anti-Corruption Policy include the following:

- 1 the management of the Corporation sets an example of ethical conduct;;
- 2 the risks of corruption are assessed on a regular basis;
- 3 anti-corruption procedures are implemented, followed and improved;
- 4 the credibility of contractors is checked;
- 5 the employees of the Corporation are provided with information and training;
- 6 monitoring and control are ensured.

In 2016, Sistema adopted the Corruption Prevention Concept in addition to its Anti-Corruption Policy. The Concept, developed in accordance with the Russian law, became the Corporation's basic document regulating prevention of corruption. It outlines the key methods, ways and actions to prevent corruption in Sistema and its subsidiaries. It covers all business processes, first of all those related to investment, procurement and contracting.



KEY RESULTS OF THE ANTI-CORRUPTION ACTIVITIES IN 2016:

227 DISCIPLINARY PENALTIES IMPOSED

10 CONTRACTS WITH COUNTERPARTIES TERMINATED

27 BIDDING PROCEDURE RESULTS CANCELLED



G4-S05

The key measures for prevention of corruption in the Corporation are ensured by Sistema's **Security Department**. The anti-corruption action plan is developed jointly by the Legal Function and the Internal Control and Audit Department.

Sistema's anti-corruption regulations are mandatory for all of its employees. Subsidiaries have their own internal anti-corruption regulations and regulations on identification of conflicts of interest. Anti-corruption measures are ensured by the economic security departments of subsidiaries.

ANTI-CORRUPTION MEASURES

In 2016, the key anti-corruption measures included:

- 1 anti-corruption monitoring and control of the economic rationales for expenses in the areas with high risk of corruption

(exchange of business gifts, entertainment expenses, charity contributions, payments to external consultants);

- 2 prevention of unfair competition in procurement;
- 3 mitigation of corruption risks under the transactions that require control of compliance with the corporate procedures, as well as the transactions related to mergers & acquisitions and divestment of the Corporation's assets;
- 4 identification of the causes and conditions that facilitate corrupt practices;
- 5 analysis of partners, customers and competitors;
- 6 ensuring a competitive environment for bidders, prevention of unfair competition;

- 7 development and implementation of methodologies on prevention of corruption (Corruption Prevention Concept);
- 8 assistance to security departments opened in subsidiaries;
- 9 audits of the financial and business operations of subsidiaries.

INFORMATION ON THE POLICIES AND METHODS FOR PREVENTION OF CORRUPTION

The personnel's awareness of the policies and methods for prevention of corruption reduces the probability of fraud and minimises the risk

of the Corporation being held liable for non-compliance with the anti-corruption laws. This is why all new employees must complete the training on the corresponding rules and procedures. Such trainings are regularly held for all employees of Sistema and its subsidiaries.

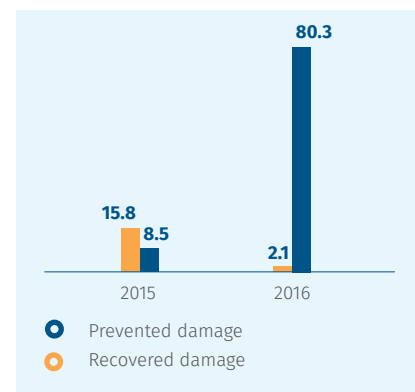
The Corporation also informs 100% of its counterparties of its policies and methods for prevention of corruption and includes anti-corruption provisions in all of its contracts.

Plans for 2017

In 2017, Sistema plans to monitor the implementation of the Corruption Prevention Concept in its portfolio companies.

Results of the anti-corruption activities in 2015-2016

G4-S04



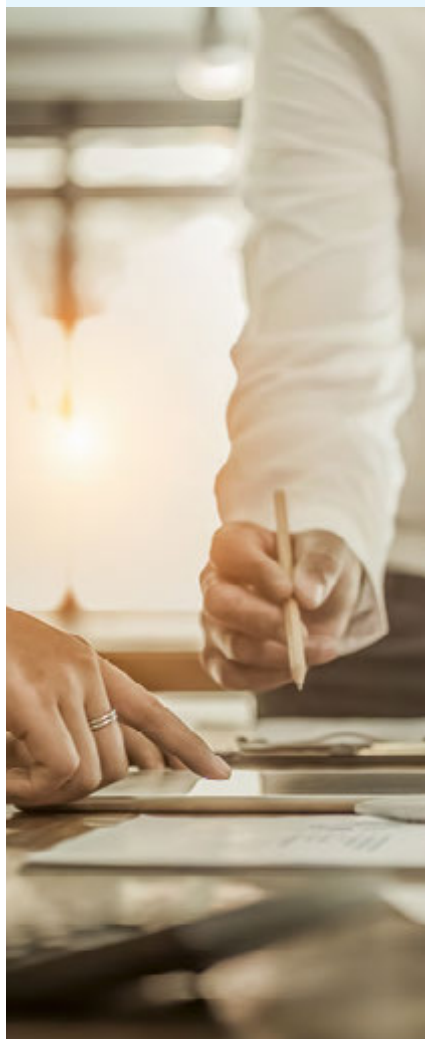
> 68th employees

OF SISTEMA GROUP
(50.8% OF THE TOTAL NUMBER
OF PERSONNEL) PARTICIPATED
IN THESE TRAINING COURSES.



2.5. Risk management

Identification of potential risks in the Corporation's business, assessment of the probability and consequences of their occurrence and their efficient management are important parts of Sistema's strategy.



The activities in this area are regulated by the **Risks Code** that was adopted in 2014 and that defines risk as a "negative impact on the goals of Sistema or its subsidiaries that can potentially arise as a result of the current processes or future events". Non-financial risks, including environmental, social and corporate governance (ESG) risks specific for each subsidiary are considered together with other factors to the extent that they can impact the Corporation's financial stability.

THE RISKS CODE CONTAINS THE REQUIREMENTS THAT REGULATE THE FOLLOWING ISSUES:

- principles of organisation and functioning of the integrated risk management system;
- Sistema's insurance process.

PARTNERSHIP WITH RUSRISK

Sistema is a partner to the Russian Risk Management Society (RusRisk), a member of the Federation of European Risk Management Associations (FERMA). This way, **the Corporation contributes to creation of national risk management standards** and improvement of the quality of risk management systems across the country.

The head of risk management at Sistema is a member of the Supervisory Board of RusRisk. In 2016, the Corporation's employees in charge of risk management were included in the Committee on Professional Qualifications in Risk Management of the Council for Professional Qualifications in the Financial Market of the Russian Federation.

In 2016, Sistema supported a number of international events organised by RusRisk in cooperation with the Federal Agency for Technical Regulation and Metrology of the Russian Federation:

- Corporate Risk Management conference;
- meeting of technical committee 262 of the International Organisation for Standardisation on risk management (ISO/TC 262), held for the first time in Russia;
- working groups on updating international standard ISO 31000:2010 Risk Management.

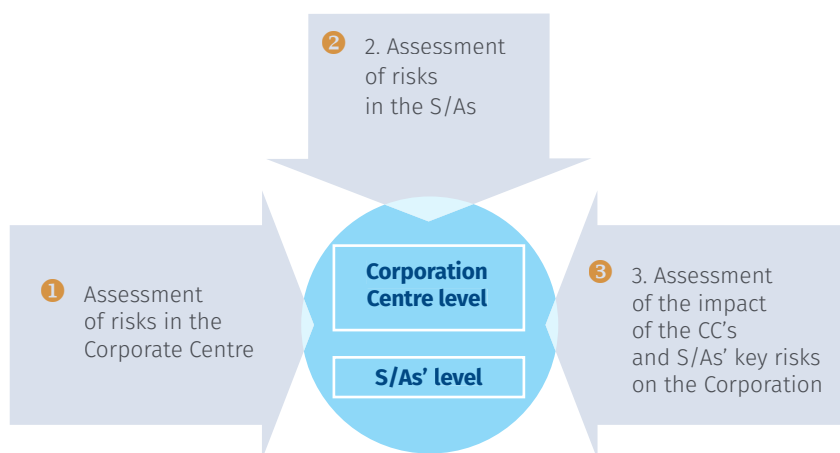


The Corporation has an **integrated risk management system** (Enterprise Risk Management, ERM) based on the international standards¹, recommendations and best practices in risk management. It keeps risks at the level that is acceptable for Sistema shareholders and management. Every three months, risk managers at subsidiaries build risk registers by assets and the consolidated risk register of the Corporation. They prioritize risks, analyse their trends and the degree of impact on the financial performance of the companies and Sistema as a whole. The Group companies develop action plans for management of specific risk categories in advance.

The risk management system is monitored quarterly at the level of the Management Board and the Risk Subcommittee under the Finance

SISTEMA USES A TWO-LEVEL APPROACH TO RISK MANAGEMENT

Risk assessment sequence



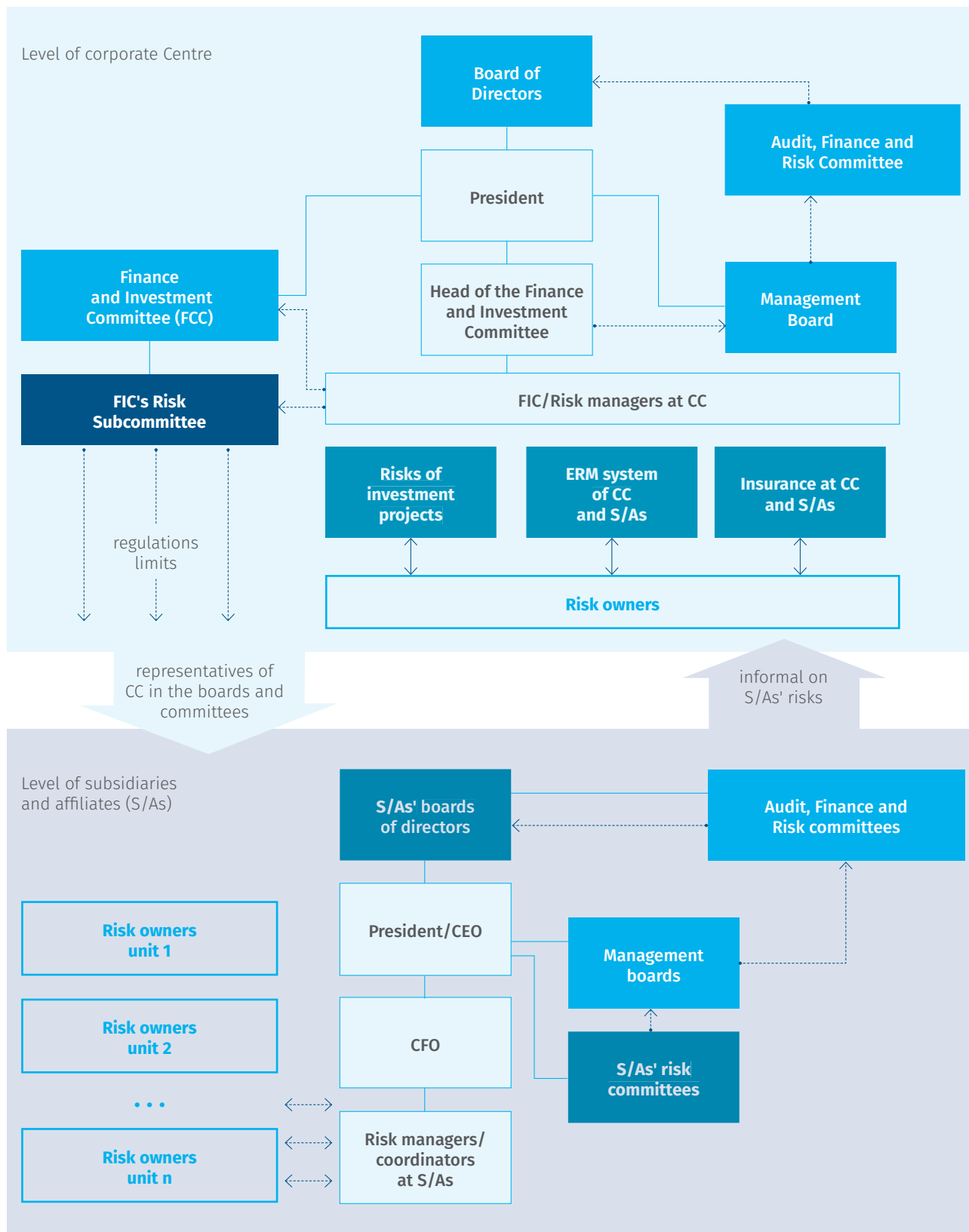
and Investment Committee. Risk management reports are reviewed at each meeting of the Audit, Finance

and Risk Committee of the Board of Directors and every 6 months by the Board of Directors of the Corporation.



¹⁰ Standard Enterprise Risk Management. Integrated Framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2004

Sistema's risk management system



Key environmental, social and governance (ESG) risks of the Corporation

G4-2

ESG risk	Risk description	Risk management tools
Social risks	Decrease of living standards and potential rise in social unrest in the regions where Sistema Group companies operate may threaten the Corporation's profits.	Supporting social stability through implementation of internal and external social programmes. Charitable and volunteer activities to support local communities.
Quality of corporate governance	Potential claims from regulators and minority shareholders triggered by transactions that may cause undesirable legal, financial or reputational consequences.	Introduction of uniform corporate governance standards, principles and procedures in all portfolio companies. Regular monitoring of efficiency of the corporate governance system in S/As.
Reputational risks	Sistema's reputation may be damaged in case of unethical conduct of business, non-observance of human rights in the Corporation, its S/As or its supply chain or incidents related to disclosure of insider information and corrupt practices.	Codes of Ethics in Sistema and its S/As that are mandatory, which is stipulated in employment agreements and job instructions. Ethics assessment of the top and middle management in order to settle any potential conflicts of interest. Informing the personnel about the principles and rules of ethical conduct, including online trainings. Work of the Ethics and Control Committee of the Board of Directors and the President's Disciplinary Committee. Work of the Hotline in Sistema and all of its S/As. Implementation of the Anti-Corruption Policy at Sistema and S/As.
Management and key personnel	Success in implementation of Sistema's strategy largely depends on the professional qualities of its managers. A management team that is not sufficiently prepared or motivated may have a negative impact on the business, performance, financial situation and development prospects of the Corporation.	Control of recruitment of the key managers for portfolio companies at the Corporate Centre level. Implementation of the uniform incentive system for top management. Training and development programme for the Corporation's top management. Assessments of the key functions at Sistema and S/As.
Engineering and operating personnel	Low qualification and lack of professionals in the regions where the Corporation operates may reduce the companies' rates of modernisation and lead to insufficient utilisation of new capacities.	Advanced training programmes for the current employees. Targeted programmes for training of the required personnel in partnership with specialised schools and employment agencies.
	Lack of qualified engineering and technical personnel for high-tech and knowledge-based industries/assets may prevent innovative development of Sistema Group companies.	National programme Lift to the Future aimed at finding and training talented young professionals in engineering and technology, taking into account the priorities of the country's technological development. S/As' joint targeted programmes with schools and universities.

ESG risk	Risk description	Risk management tools
Occupational health and safety	The operational activities of a number of Sistema's portfolio companies involve threat to the personnel's occupational health and safety.	<p>Quick, targeted and comprehensive audits of the Group companies for compliance with the requirements to occupational health, safety and environment and elimination of the identified irregularities.</p> <p>Training and testing (preliminary, regular, unscheduled) of employees on the occupational health and safety rules.</p> <p>Updating S/As' internal regulations on occupational health, safety and environment.</p> <p>In case of an accident – investigation, mitigation measures and prevention of similar cases in the future.</p> <p>Comprehensive insurance programme, including the obligatory part (insurance of hazardous facilities, insurance of civil liability, insurance of construction and installation works) and voluntary types of insurance (voluntary insurance of property, accident insurance for the operating personnel).</p> <p>Compensation of damages to the victims of emergencies at hazardous facilities, including at the company's expense if the amount of damage exceeds the insurance limit.</p>
	Improper quality of the products and services of Sistema's S/As may lead to customer complaints, reduction of sales volumes and, as a consequence, financial and reputational damages for the Corporation.	<p>Introduction of a quality control system at the key stages of production and in supply chains.</p> <p>Development of customer feedback channels.</p>
Brand quality and reputation	Improper quality of the products and services purchased by Sistema and S/As or unreliability and claims of suppliers may lead to negative consequences for Sistema and S/As.	<p>Building a transparent system for procurement, pre-qualification and checking the credibility of suppliers.</p> <p>Creation of a single system across Sistema and S/As for settlement of potential conflicts with counterparties arising in the procurement process.</p>
	<p>Accidents and incidents on production facilities of S/As may cause significant environmental impact: pollution of land and water bodies, excessive air emissions, wastewater discharges or spills of hazardous substances.</p> <p>Irrational use of natural resources (land, forest) by portfolio companies may deplete the raw materials/ production base and reduce the economic performance.</p>	<p>Based on the precautionary principle, the Group companies implement measures to protect the environment and use the technologies that reduce the potentially hazardous impact on the environment and health.</p> <p>Insurance of liability of owners of hazardous industrial facilities for damage caused by emergencies, including liability for damage to the environment.</p> <p>Responsible land use and application of green agricultural technologies.</p> <p>Sustainable forest use and reforestation, voluntary FSC certification of the leased forest resources.</p>
Environmental risks		

ESG risk	Risk description	Risk management tools
Security threats	In view of the increased threat of global and regional terrorist attacks, potential accidents at enterprises and infrastructure facilities of the Group may cause a significant economic damage and affect people's health and life.	<p>Creation of the Anti-Terrorist Commission at Sistema comprised of representatives from S/As' security departments and the Corporation's top management.</p> <p>Regular monitoring of potential threats to the Corporation's security.</p>

When analysing investment opportunities and making decisions, Sistema also assesses the assets' ESG risks that can significantly affect their price both at the time of the deal and in future.

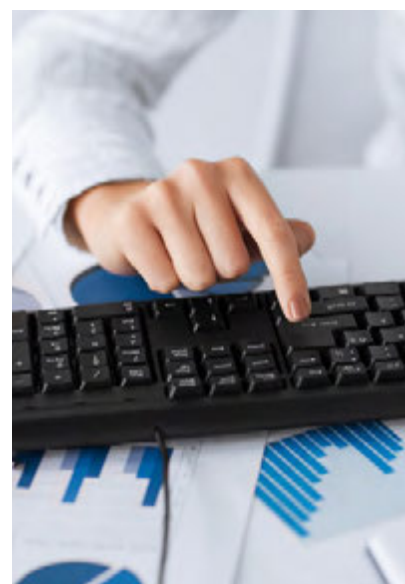


For more details on the risks of investment projects implementation, see [*Sistema's Annual Report for 2016, p. 67-69*](#)

Plans for development of the risk management system in 2017

Plans for 2017:

- internal audit of Sistema Group's current risk management system (under way);
- external independent audit of the Corporation's risk management system;
- update/adjustment of the Plan for Development of the Risk Management System (ERM) in the Corporation (introduction of the ERM in the new assets, improving maturity of the existing risk management systems, etc.), taking into account the recommendations of the internal and external audits;
- update of the Corporation's risk register;
- update of the comprehensive programme for insurance of industrial assets and employees of the Corporation's subsidiaries taking into account the subsidiaries' expanded social commitments (ESG risks);
- internal training workshops on risk management for CFOs and risk managers of the Corporation;
- preparation of risk managers for the national and European risk management certification FERMA – RIMAP (voluntary).



2.6. Procurement

Transparent procurement system structured according to the principles of sustainable development enables Sistema to efficiently manage supply chains reducing potential financial and non-financial risks and creating additional value for the Corporation and interested parties: partners, customers and suppliers.

The key principles of procurement in the Corporation: competition, economic viability, openness and transparency for potential suppliers, ensuring the required quality of the purchased goods and services at the best prices, meeting the Corporation's needs timely and to the necessary extent.



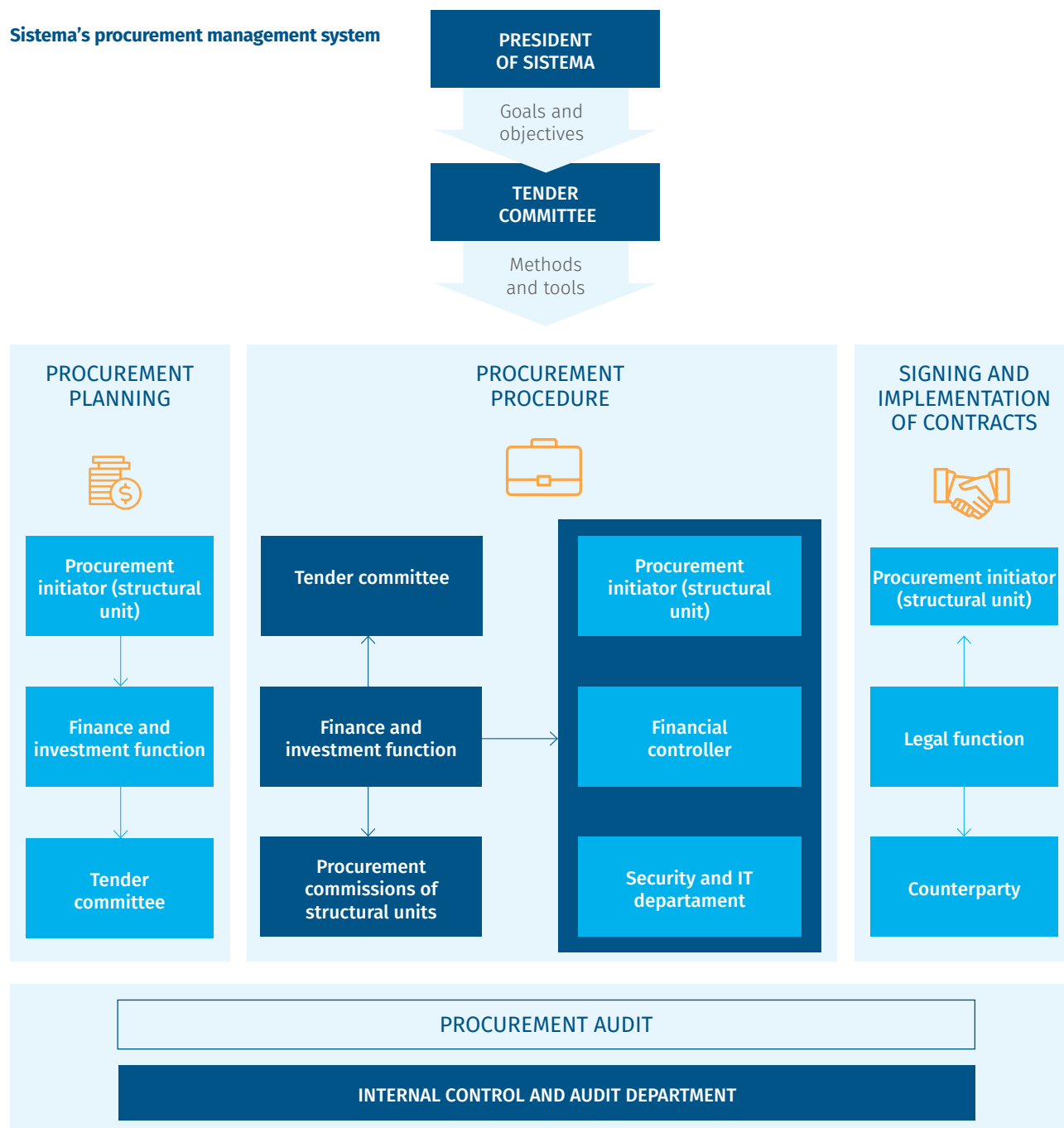
for more detail see [Sistema's Sustainability Report for 2015](#)

THE PURPOSES OF PROCUREMENT MANAGEMENT AT SISTEMA:

- timely provision of high quality goods, works and services;
- efficient spending on the goods, works and services that increase the value of the product (project) for implementation of which they are purchased;
- minimisation of the costs of purchase/ownership/operation of goods, works and services;
- disposal of the property (through sale or otherwise) and rights that lose their operational necessity on the most beneficial terms;
- transparency of procurement procedures and impartial decision-making;
- prevention of corruption and other types of misconduct.



Sistema's procurement management system



Sistema's procurement activity is regulated by the Tender Procedures and Procurement Code and the Tender Committee Regulations.

The information on the procurement activities of the Corporate Centre is published in the corresponding section of the official web site¹. Sistema also

actively uses the trading section of Sistema Group at electronic trading platform Sberbank AST² used by other companies of the Group.

¹ <http://www.sistema.ru/zakupki>

² <http://utp.sberbank-ast.ru/AFK>

PROCUREMENT CENTRE OF EXCELLENCE

To advance to the next level of procurement development, in 2016 the Corporation started creating a centre of excellence for procurement. Its strategic initiatives included organisational, staff and process changes.

To implement them, in 2016, Sistema Group established the **Procurement Management Department** reporting directly

to the President of the Corporation. For 2017, organisational changes are planned, aimed at implementation of category management principles and improvement of procurement consolidation, as well as forming professional centres of excellence for procurement at subsidiaries, improving regulatory framework, training and education of employees and creating the community of professional procurement experts within the Group.



Olga Malyshkina

Executive Vice
President, Head
of the Procurement
Management
Department, Sistema



As an investment company, Sistema mainly purchases consulting services, but across the Corporation we manage a huge amount of funds, which imposes on us a special responsibility for interacting with suppliers, building stable supply chains and implementing uniform standards in the Group companies. To ensure that, in 2016 we started transformation of the procurement management function on the basis of category management and launched the programme for development of competences in the procurement departments of subsidiaries.

G4-12

Corporate Centre's supply chain

The main types of services purchased by Sistema in its investment activities are financial, tax and legal consultations. To meet the needs of the Corporate Centre Sistema also buys office equipment and services for its maintenance, as well as other administration and support services. The **practice of joint procurement** of the necessary goods and services for the entire Group is also being actively implemented in the Corporation.

Suppliers undertake to comply with Sistema's anti-corruption and ethics requirements, as well as the

legal requirements to employment of personnel and working conditions. The contractors providing consultation services must sign non-disclosure agreements. The purchased materials and equipment must conform to the standards/certification requirements valid in the Russian territory.

The conformity to certification requirements is checked at the supplier pre-qualification stage. If a potential supplier does not conform to the qualification requirements it cannot participate in the further bidding procedures.

FEEDBACK FROM SUPPLIERS

Any participant of the tenders held by Sistema or its subsidiaries can send its comments or complaints regarding the bidding process to zakupki@sistema.ru or the hotline e-mails of relevant subsidiaries.

**IN 2016, THE TOTAL NUMBER
OF SUPPLIERS OF SISTEMA
CORPORATE CENTRE WAS**

373

COMPANIES

Procurement and supply chain management at subsidiaries

Sistema's subsidiaries have their own procurement management systems that are based on the procurement principles adopted by the Corporation.

Procurement at Sistema's subsidiaries is conducted in accordance with the Russian law and the Corporation's internal regulations.

When acquiring a new asset, Sistema takes action to introduce the procurement standards adopted across the Group. For example, in 2016, it started reorganisation of the procurement process at Segezha Group.



MTS: responsible procurement

MTS takes a responsible approach to procurement and believes that improving efficiency of the supply chain is directly related to application of sustainable development principles by all participants of the process.

For MTS, the transparency of relations with suppliers and partners, including in procurement, is an important aspect of the corporate social responsibility. The company has fully automated its supplier selection and electronic

bidding processes. This ensures equal access to procurement procedures and uniform rules for all bidders before the start of the procurement process.

The company has adopted [the MTS Supplier Business Conduct Code](#) that outlines the standards with which suppliers must comply, including acting in good faith, fairness and conformity to the legal requirements on environmental protection. Compliance with this Code is a prerequisite for new suppliers.

In 2016, a CSR form was added to the MTS supplier questionnaire that all bidders must fill out. If the screening reveals any significant symptoms of a potential ESG risk for the company and this is subsequently confirmed as the supplier is checked, the company may stop cooperating with such supplier.



≈ 100%

OF PROCUREMENT
AT MTS IS DONE
ELECTRONICALLY



Concept Group: quality control in the supply chain

Concept Group has developed and implemented **quality standards** that are communicated to each new supplier and used for control of the final products sold through the retail chain. The standards include the requirements to the quality of fabrics, materials, accessories, clothing manufacture process and suppliers' technical and technological capacities.

Supplier quality control is ensured in all countries of manufacture. It is conducted by the company's main office in Russia, Uzbekistan and Kyrgyzstan, by the remote office in China and by an inspection company in India and Bangladesh. The items that do not comply with the approved quality standards are not accepted for shipping.

In 2016, the quality of the company's products was inspected at the initiative of the Russian Quality

System (Roskachestvo). Children's t-shirts, shirts and socks sold through the Acoola retail chain that is part of Concept Group were given the product of advanced quality status.

In addition to that, the Acceptable Quality Limit **was raised for the products** in Concept Group stores from AQL4.0 to AQL2.5. This means that the acceptable defect rate per one product batch decreased from 4% to 2.5%.

In case a customer is dissatisfied with a product's quality, he/she can contact Concept Group's call centre dealing with manufacturing defects. Each request is analysed, and, if necessary, changes are made to the quality standards to prevent such cases in future.



РОС КАЧЕСТВО
РОССИЙСКАЯ СИСТЕМА КАЧЕСТВА

THAT THE ACCEPTABLE DEFECT RATE PER ONE PRODUCT BATCH DECREASED

from **4** to **2.5%**



Detsky Mir Group: support of import substitution

By purchasing Russian-produced goods Detsky Mir supports development of the national industry, including small and medium businesses. In 2016, the share of Russian-produced children's clothes and footwear purchased by it was 25%. Also, 38% of 4.5m school uniforms sold through the company's stores were manufactured in Russia.

Development of production facilities in the country is not only supported by the sales under local supplier brands, but by Detsky Mir's own trademarks as well. In 2015, the company created its own trademark in the baby clothes category, specially for the goods produced in Russia. Today, it is one of the most popular brands in the retail stores. The company not only purchases Russian products, but also provides consultations to the producers. For example, Detsky Mir's employees developed a unique design for the children's clothing line of a local company.

Detsky Mir is the Government's key partner in promotion of products for children, in particular school clothing.

For several years, **the company has supported the Russian national competition for school uniform manufacturers**, the winners of which gain an opportunity to sell their goods through the chain's stores. In April 2016, Detsky Mir, in partnership with the Russian Ministry of Industry and Trade and the Education Department of Moscow, organised an exhibition of school uniforms in its flagship store at Vozdvizhenka. **15 clothes manufacturers** participated in the event. At the closing of the exhibition, representatives of the authorities, schools and parent committees discussed measures for making school uniforms more popular in the capital and developing the manufacturers' capabilities at the specially organised round table.

Vladimir Chirakhov

CEO of Detsky Mir Group



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



38%

OF 4.5M SCHOOL UNIFORMS SOLD THROUGH THE COMPANY'S STORES WERE MANUFACTURED IN RUSSIA



Alexander Gavrilov

Deputy Head of the Education Department of Moscow



Today, there are many different types of school uniforms, and our objective is to establish communication between schools, parents and manufacturers to provide children with high quality and safe clothing.



OZON Group: the platform for suppliers TradeUp

OZON developed a platform called TradeUP that provides its suppliers with a unique opportunity to sell the products through their own web sites. This is the first attempt at integration of the brands' sites with a single digital platform in the Russian market.

The project is beneficial to all the parties:

- OZON gets additional customer traffic;
- suppliers can sell their products online without expenses on creation of e-stores.

To launch online sales at its own web site a supplier does not need to develop a separate technological platform or infrastructure. Instead, it creates an e-store in the style of its brand where visitors would be able to see its products that are sold through OZON. The online retailer ensures full processing of the orders: delivery, call centre services, payment and storage.

This solution also gives producers a number of marketing advantages: an opportunity to test sales, hold promo campaigns and sell seasonal goods.



OZON Group: support of Tatarstan producers

In September 2016, OZON signed **a memorandum of cooperation with the Ministry of Industry and Trade of the Republic of Tatarstan**.

The parties agreed to collaborate in organisation of sales of the goods produced in the region and

raising the customers' awareness of such goods. According to the memorandum, OZON will offer the highest quality products that received awards in the Tatarstan's Best Goods and Services competition to its customers.



Procurement results in 2016

The Corporation is one of the major consumers of goods and services in Russia, making a significant impact on development of the markets. The total amount of purchases made by Sistema Group through its specialised departments increased by 10% in 2016 to RUB 223.6bn¹, which corresponds to about 1% of the annual government procurement amount² or 15% of the total amount of purchases made by Russian companies through B2B-Center, one of the major electronic trading platforms

for corporate procurement. In 2016, BPGC, MGTS and Segezha were among the top consumers in their respective industries³.

The volume of purchases by Sistema amounted to less than 1% of the total procurement of the Group in total.

In 2016, Segezha Group's share in the total volume of the Corporation's procurement increased to 10.3%. Steppe AgroHolding also became one of the major consumers in the Group due to the active expansion

of its business. In 2016, the percentage of Sistema's purchases made through electronic platforms was about 70% of the total volume of procurement, which is 10% more than in the last year and significantly above the market average⁴.

The procurement activities resulted in savings of RUB 31.5bn. (the biggest economic effect was achieved in MTS Group, Segezha Group, BPGC and Steppe AgroHolding).

⁽¹⁾ Not including the goods supplied for subsequent sale through the retail chains of MTS, Detsky Mir and Concept Group.

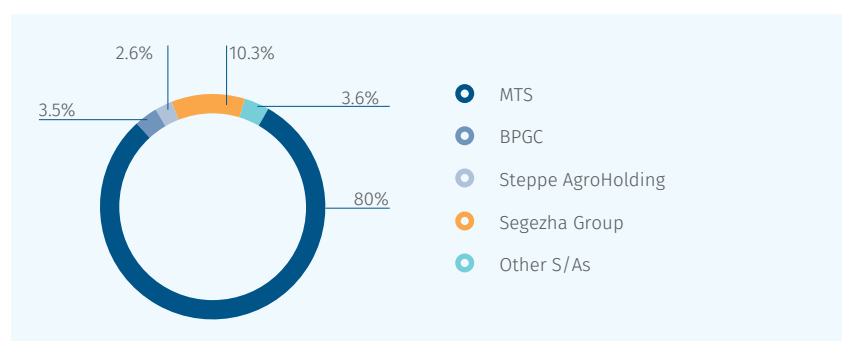
⁽²⁾ According to the data of <http://www.zakupki.gov.ru>, in 2016, state companies made purchases for the total amount of RUB 25.7tn in accordance with Law No 223-ФЗ dd 18 July 2011.

⁽³⁾ <https://www.b2b-center.ru/news/?id=17892>

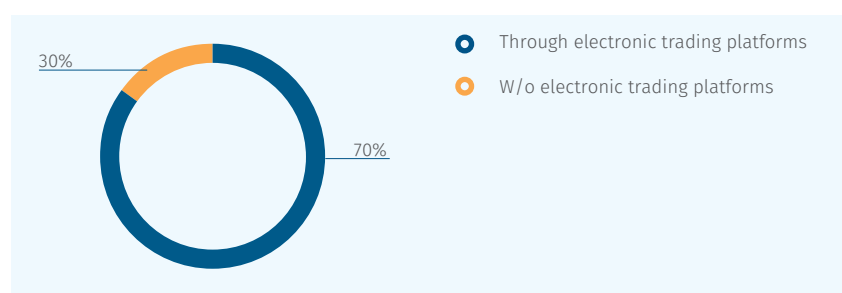
⁽⁴⁾ According to rating agency RAEX <http://www.interfax.ru/russia/549978>, in the reporting year, the share of purchases made by large corporate consumers in electronic format was 58%.

In 2016, Sistema Group continued its partnership procurement practice. For example, licenses to Microsoft Office software and advertising services were purchased under partnership procurement. This not only increases economic efficiency, but also creates added value for subsidiaries due to the volume, quality and support of the purchased goods and services. For example, the consolidated purchase of employee voluntary health insurance services allowed standardising the social security package for the personnel, expanding the list of services and significantly reducing the tariffs under voluntary health insurance programmes for companies of various sizes due to the bigger number of insured persons. The purchase of voluntary health insurance services covered over 20 companies of the Group, including real estate assets, Binnopharm, Sitronics, Sistema Capital, Sistema Venture Capital, etc. The consolidation resulted in savings of RUB 57m.

The Corporation's procurement by subsidiary in 2016¹, %



The Corporation's procurement structure in 2016



For more details on the partnership procurement of voluntary health insurance services, see [Sistema's Sustainability Report for 2015](#).

Plans for 2017

In 2017, the Corporation plans to:

- update its regulatory documents and procurement principles;
- introduce category management (the best procurement management practice used in leading foreign and Russian companies);
- change procurement management systems at subsidiaries, develop and approve functional strategies for procurement at subsidiaries;
- strengthen procurement consolidation and create centralised organisational structures for that purpose;
- organise professional trainings on procurement for the subsidiaries' personnel;
- set up control functions at subsidiaries, which would be independent from the companies' management;
- set up a Dispute Resolution Commission in the Corporate Centre to settle procurement conflicts and review claims from the existing and potential counterparties of Sistema Group concerning the organisation and application of procurement procedures.

¹ Not including the goods supplied for subsequent sale through the retail chains of MTS, Detsky Mir and Concept Group.



Contribution to Russia's economic development

>> **3.1.1.** Transition to innovative economy:
new technologies and development

105

>> **3.1.2.** Modernisation of infrastructure
and production facilities

114

Mikhail Shamolin
President
of Sistema



The money we make we invest in the Russian economy. Over the past three years, we have invested RUB 380bn in the development of the real and service sectors of our country; the aggregate share of the Group in GDP is about 1%. We believe that it is possible to create national champions in Russia, because Russia is one of the most attractive emerging economies.





≈ RUB **124**^{bn}

SISTEMA'S CAPEX IN 2016

3.1. Contribution to Russia's economic development

Achievement of the Corporation's long-term development goals is possible only if sustainable economic conditions are ensured in the countries and regions of the company's operation. Sistema is consistently investing in the intellectual potential of its business, development and implementation of

innovative technologies and services, creation of state-of-the-art production facilities and reliable infrastructure, thus contributing to economic growth, improving the affordability and quality of services for households and corporations, and forming a new living environment.



3.1.1. Transition to innovative economy: new technologies and development

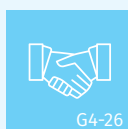
In December 2016, the Russian government adopted a strategy for scientific and technological development until 2035¹ designed to ensure fast and well-balanced development of the country in the long term. The strategy provides for consolidating the efforts of the government, academic and business

communities, and civil society organisations to create favourable conditions for applying scientific and technological advancements for the benefit of Russia's social and economic development.

Sistema places a particular emphasis on innovations and high-tech

industries and sees them as important drivers of the competitiveness and growth of the Russian economy helping to improve living standards in Russia. Sistema cooperates with organisations that support innovations, sets up own R&D centres and implements advanced technologies in its subsidiaries.

АО «РТИ»: бизнес-диалог российских компаний и русской научной диаспоры



INTERACTION WITH STAKEHOLDERS

G4-26

Developing contacts with Russian scientists living abroad is necessary for restoring the academic potential of the country and is an important task for many high-tech companies in Russia.

In June 2016, Sistema and RTI organised an international forum "Cooperation

of Russian companies and the Russian academic community in the field of high technologies." The event took place in St. Petersburg under the auspices of the Russian National Commission for UNESCO and attracted more than 100 Russian and foreign scientists, education workers, business

persons and government officials. The participants discussed the latest developments in science and exchanged information about employment opportunities for Russian scientists living abroad and in Russia, including potential employment at the companies of Sistema Group.

As a result of the conference, recommendations for the Russian government authorities aimed at stimulating the return of scientists to Russia were developed.

In particular, it was recommended to lift administrative barriers for research workers, ease procurement of equipment and materials for laboratories and create favourable conditions for inviting scientists from abroad. The document setting out the recommendations was submitted to the Administration of the Russian President, the Federation Council of the Federal Assembly of Russia, the Ministry of Foreign Affairs of Russia, the Russian Union of Industrialists and Entrepreneurs, and the Chamber of Commerce and Industry.

Andrey Fursenko

Aide to the President of the Russian Federation



There is a lot of work to be done to promote cooperation with Russian scientists abroad, to help them build ties with Russian universities and enterprises, to make this relationship a comfortable and a long-standing one.



Vladimir Evtushenkov

Chairman of the Board of Directors of Sistema



Today, we are ready to embark on an important task of repatriation of intellectual capital to Russia in the interests of the state and the Russian business. We hope that our initiative aimed at strengthening ties between the Russian business community and Russian scientists abroad will be supported by other funds, organisations and enterprises.

Sergey Boev

Chairman of the Board of Directors of RTI



We are interested in establishing contacts with Russian scientists when forming international research and development teams, research and manufacturing consortiums that make it possible to develop, produce and sell high-tech products and solutions in the global market. We have a track record of successful cooperation with colleagues from Switzerland and other countries and I am sure that we have reached a new stage in such cooperation.



> 100

RUSSIAN AND FOREIGN SCIENTISTS GATHERED THE INTERNATIONAL FORUM ORGANISED BY SISTEMA AND RTI.

Сотрудничество российских компаний и научных центров
директоров в области высоких технологий





Venture investments in new technologies

Sistema has long been investing in knowledge-based industries. Sistema Group includes such high-tech companies as RTI, Mikron and Kronstadt.

In 2016, the Corporation entered the venture capital market in order to find promising business ideas, products and technologies with high value growth potential and raise capital for their development. Corporate venture funds will help make Sistema's portfolio more technology-focused not only by using internal resources but also by attracting projects that are complementary to Sistema's existing business and that will get considerable support from a major partner for further development and expansion.

Mikhail Shamolin
President of Sistema



In 2011, the Corporation started a gradual transition to an investment company model. One of the key features of investment funds is raising outside capital and investing it through private equity mechanisms. In 2016, Sistema made its first steps in this transition by creating venture funds whose portfolios include a number of Russian and foreign innovative projects that will enable qualitative changes and effective solutions to relevant tasks in various fields: education, retail, banking and services.

SISTEMA VENTURE CAPITAL

Sistema_VC venture capital fund established by Sistema in 2016 **with RUB 10bn under management aims to promote the development of promising segments and new-generation infrastructure** by investing in artificial intelligence and cognitive technologies, machine learning, big data, scalable cloud platforms, marketplaces, Internet of Things and virtual and augmented reality services in Russia and the CIS.

In the reporting year the portfolio of Sistema_VC included five projects:

- **MEL Science** is an international company offering scientific and educational products based on VR/AR technologies. Its flagship product is a course for independent study of chemistry, MEL Chemistry: it comprises 38 kits for chemical experiments, a learning app and VR glasses that allow seeing chemical substances and crystals "from inside." The product is designed to motivate children to study chemistry and natural sciences.
- **Luden.io** is another company that develops instructive games with a scientific component based on VR technologies. The best known games are InMind and InCell, devoted to studying biology while playing.
- **YouDo.com** is Russia's biggest online service connecting customers with service providers for performing household errands and business tasks
- **VisionLabs** is a developer of a unique face recognition technology based on computer vision and machine learning and used for increasing safety, speed and customisation of services in the retail and banking sectors, and for identification and verification of customers with the aim of preventing fraud.

Alexey Katkov
President
of Sistema_VC



Venture businesses should be socially responsible and invest in projects that are important for people's welfare. According to statistics only one out of thirty investments turns out to be successful, with returns from one deal exceeding the losses from all others, and it is important that the 29 deals that don't generate profit change the lives of people for the better.

(repair works, delivery services, legal advice, cleaning, design, tutor services etc.). By forming the community of customers and contractors that trust each other the project helps increase employment in the service sector and develop a civilised market of affordable and quality services.

In December 2016, the fund signed a strategic partnership agreement with Sberbank to develop Segmento, a Russian IT platform based on machine learning technologies for targeted digital advertising (targeting adverts at specific users depending on their needs). The parties will monetise the anonymised big data received from the bank's customers and the clients of Sistema's portfolio companies.

Moreover, Sberbank and Maginvest invested RUB 2bn in Sistema's venture fund Sistema VC for joint investments.

JOINT INVESTMENT FUND WITH RUSNANO

In August 2016, Sistema and Rusnano Fund for Infrastructure and Educational Programmes established a joint private equity fund Rusnano Sistema Sicar with USD 100m under management with the aim of investing in high-tech companies and projects with a focus on microelectronics, energy efficiency, robotics, information and communication technologies and other knowledge-based industries. Cooperation with Rusnano will enable the Corporation to strengthen its in-house expertise in technology projects and share the risks with an experienced partner.

SUPPORTING STARTUPS IN INDIA

Another venture fund of the Corporation, Sistema Asia Fund, has USD 50m under management and is focused on startups from India and South-East Asia in the service and e-commerce sectors.

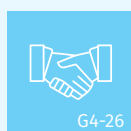
Key investments of the fund:

- **Seclore** is a company that developed the EDM (Enterprise Digital Rights Management) system which allows corporations to control the use of files within and outside the company. This technology is used for protecting information in the banking sector and for other purposes.



- **Qwiksilver** is the first Indian aggregator of gift cards and a developer of comprehensive prepayment solutions.
- **Licious** specialises in delivery of fresh meat and fish. The company manages the entire value creation chain from sourcing suppliers and meat processing to delivery of meat products using a cold chain with controlled temperatures to ensure superior quality for end consumers.
- **Woopl** is a female fashion mobile platform.

In the future Sistema will develop cooperation with Indian startups through accelerated models, enabling the companies to grow in scale and build a distribution network at a faster pace.



SISTEMA'S VENTURE FUND DOES NOT ONLY SUPPORT KNOWLEDGE-BASED STARTUPS, BUT

ALSO PROMOTES ADVANCED TECHNOLOGIES THAT ARE CHANGING MANY ASPECTS OF PEOPLE'S LIVES. FOR EXAMPLE, IN AUGUST 2016, SISTEMA_VC ORGANISED AN OPEN LECTURE OF THE LEADER OF GOOGLE VR TEAM IN PARTNERSHIP WITH THE STRELKA INSTITUTE FOR MEDIA, ARCHITECTURE AND DESIGN.



For more details on Sistema's venture funds, see [Annual report of Sistema PJSC for 2016, pages 60-63.](#)

Sarov Technopark: supporting innovative enterprises

SAROV TECHNO PARK IS AN EXAMPLE OF A SUCCESSFUL PUBLIC-PRIVATE PARTNERSHIP AIMED AT ESTABLISHING AN INNOVATIVE DEVELOPMENT CLUSTER AND IMPLEMENTING PROJECTS OF NATIONAL SIGNIFICANCE.



BY THE END OF 2016,
SAROV TECHNO PARK:

ATTRACTED
48

48 RESIDENT COMPANIES WITH THE
TOTAL REVENUE OF RUB 1.39BN

CREATED MORE THAN
670
JOBS

PAID
> RUB 160m

IN TAXES TO THE STATE
BUDGET OF ALL LEVELS

Total revenue of resident companies, RUB bn

+16%

2016

1.39

2015

1.20

Being one of the key segments of the Sarov Innovation Cluster and of the regional programme for supporting innovations in the Nizhny Novgorod region, Sarov Technopark caters for the innovation development needs of its shareholders and partners: Sistema, Rosatom, Fund for infrastructure and educational programs and All-Russian research institute of experimental physics "Russian Federal Nuclear Center".

Sarov Technopark is seen by its shareholders as a tool for commercialising breakthroughs in the following fields:

- information technologies;
- energy saving technologies;
- industrial sensors and automation;
- materials and coatings;
- biomedicine.

Since 2009 Sarov Technopark has been a member of the International Association of Science Parks (IASP); in 2015 the quality of its services and compliance with international standards was confirmed by a voluntary accreditation certificate issued by the Association of Clusters and Technology Parks with a status "Technopark operating in the field of high technologies".

Sarov Technopark has developed and tested mechanisms for financing innovative projects and has built a track record of successful cooperation with small businesses. At present, a Priority Social and Economic Development Area is being developed on the premises of Sarov Technopark, with preferences and benefits to be provided to its residents, including social tax credits for a 10-year term.

The general strategy of the Technopark is determined by the Board of Directors which includes representatives from Sistema, RTI and Sitronics.

Science and Technology Council is responsible for developing the Technopark's strategy and conducting due diligence of its projects. Members of the Council include representatives from RTI. Sarov Technopark is operated by Sarov Technopark Management Company (MC), which aims to create an efficient and comfortable eco-system for the residents, and to develop infrastructure, projects and companies.

The main areas of activity of Sarov Technopark MC:

1 Supporting innovative projects:

- major projects financed by Rosatom-Sistema science and production cluster (SPC): operating expenses are covered by the resident company and capital expenses are financed by the government. In 2016, SPC implemented 16 R&D projects with the total value of more than RUB 2.5bn;
- venture projects at all stages including startups and major independent companies financed from the equity of a management company. In 2016, 34 applications from project originators were considered, 14 startups were established.

- #### 2 Attracting, developing and promoting residents:
- In 2016, Sarov Technopark conducted more than 60 events attracting more than 3,000 participants, including:

- 30 research and development events (workshops, training sessions, business meetings, exhibition of inventions and utility models of venture projects);
- five training programmes for residents, including consultations on developing business plans and implementing projects.

3 Infrastructure management:

- 23 sq m of office, research, manufacturing and social space;
- the total area of office and manufacturing facilities located on the premises is 37.5 ha.

KEY RESULTS OF 2016:

- a new industrial building was commissioned to start production of composite materials for window frames, sheet piles and pump rods;
- agile prototyping centre was launched to produce components for nuclear power stations;
- preparations were started to launch manufacturing of powdered metal high-speed steel for metal cutting tools (such materials are currently not produced in Russia and have higher wear resistance and durability compared to conventional steel);
- a project was launched to create knowledge-based production of fullerenes – carbon nano products that modify the consumer qualities of various materials used in many industries (energy, healthcare and cosmetology);
- 13 official visits of representatives from local and regional governments were conducted, of which nine visits were made to large enterprises.

Innovation Technology Centre Sistema-Sarov (ITC Sistema-Sarov), a joint R&D centre of Sistema and RTI Group, has been operating on the Technopark's premises since 2010. ITC's work is aimed at ensuring security in big cities, on public transport, at production and utility facilities, and providing analytical support to the employees and experts of security services. One of the Technopark's residents is the Mintz Radio Technology Institute (a subsidiary of RTI), one of Russia's key organisations responsible for development of sophisticated radio-technical systems.

Among the key ITC projects are:

- **Acoustic detectors** for video surveillance systems that are attached to a video camera, and record and recognise various sounds. This technology makes it possible to identify an emergency event, turn the camera accordingly, make a recording and alert emergency services.
- **Intelligent systems** for independent integration and analysis of live data, which are widely used for analysing traffic in big cities.
- **Safe pedestrian crossings** receive information about an approaching train automatically and close the crossing. This system was developed in cooperation with the Russian Railways on the basis of proprietary technologies.
- **A system for identifying wheelset failures** and monitoring the condition of railway tanks.
- **Speech recognition technologies** that can be used by "112" emergency services to record calls and assess the psychological and emotional state of the caller.



IN JANUARY 2016, SAROV TECHNO PARK AND CHINESE-RUSSIAN TECHNO PARK IN YANTAI, SHANDONG PROVINCE, SIGNED AN AGREEMENT ON COOPERATION IN THE AREA OF R&D AND INNOVATIONS PROVIDING FOR ENTRY OF THE RUSSIAN INNOVATIVE PROJECTS INTO THE CHINESE MARKET.

IN MARCH 2016, SAROV TECHNO PARK SIGNED AN AGREEMENT ON COOPERATION WITH SKOLKOVO TECHNO PARK. THIS AGREEMENT WILL ENABLE THE RESIDENT COMPANIES OF BOTH PARKS TO CONDUCT A MORE IN-DEPTH ANALYSIS OF THEIR PROJECTS, FIND NEW INVESTORS AND CUSTOMERS, GET ACCESS TO BUSINESS DEVELOPMENT SERVICES.

MOREOVER, AGREEMENTS WERE SIGNED WITH MORDOVIA, ZHIGULEVSKAYA VALLEY, STROGINO AND YUGRA TECHNO PARKS.

MTS: establishing an in-house innovation centre

One of the elements of MTS's diversification strategy is development of services that are not directly related to the telecom business. For this purpose the company opened an Innovation Centre to develop and launch new products and services in the field of cloud technologies and e-medicine, and to conduct research in other promising segments.

The Innovation Centre works on the basis of agile development methodology. Up to ten managers work in the Centre and devote their time entirely to one project until its commercial launch. Each project has a dedicated working group consisting of employees from different subdivisions of the company: MTS, MGTS, NVision Group etc.

Establishing an Innovation Centre will make it possible to decrease the time required for launching new products from one year to three months.

Cloud and e-health solutions will be the first projects of MTS's Innovation Centre. For example, a medical service for online consultations is going to be launched in partnership with Medsi. Patients will be able to get recommendations on preparing for their first visit to a doctor, to discuss treatment results and make adjustments in treatment plans. Besides, it is expected that a new IaaS service will be launched for corporate customers

Vladimir Khrenkov
Director of MTS
Innovation Centre



We are already offering a wide range of proprietary mobile applications and providing innovative services to corporate customers. We believe that there are good prospects for developing these and other segments that go beyond traditional telecom services. However, we need to respond quickly to the new developments in the fast-changing markets in order to be successful. Having opened an in-house Innovation Centre, we are creating a unique approach to development of services in Russia: we are combining the expertise, experience and professionalism of the employees of a leading telecom operator with the simplicity of business processes in startups..



**THE TIMING OF MARKET ENTRY
OF NEW PRODUCTS WILL
DECREASE**

by **4** times.



*Detsky Mir Group: cooperation with the Skolkovo Foundation***Vladimir Chirakhov**

CEO of Detsky Mir Group



Being a leader in the children's goods market, we understand the need for change through introduction of innovative products in order to increase the effectiveness of our stores. We are focused on finding unique and unrivalled solutions. Our main task is to sell goods, therefore, we are primarily looking at those technologies that help the company to achieve its business goals. We have many interesting ideas and we are happy to cooperate with Russian innovators that will enable us to bring them to life. I am confident that cooperation with the Skolkovo Foundation will enable us to maintain leadership both in the Russian market and globally.



In 2016, Detsky Mir and the Skolkovo Foundation entered into a strategic cooperation agreement in order to select and implement R&D projects with the aim of developing and creating innovative technologies and manufacturing high-tech products for the retail sector.

The partners organised a contest of technological projects that will allow the winner to implement his or her project in the Detsky Mir retail chain. About 40 startups of the Foundation are working on retail technologies. **More than 20 teams proposed projects targeted at Detsky Mir** and six teams took part in the pitch session conducted as part of the Innovations Day. The proposed new projects include: smart personnel tracking wristbands and task planners; intelligent baby bottle warmers; horizontal interactive displays; automated stores etc.





Binnopharm: innovative pharmaceuticals

In July 2016, as part of its long-term strategy Binnopharm opened an in-house R&D centre including seven laboratories for developing drugs with improved characteristics:

- Research and Development Department,
- Department for Pharmaceutical Developments, Technologies and Analytical Methods,

- Marketing Authorisation Department,
- Medical Department,
- Analytical Methods Department,
- Chemical Drugs Department,
- Medical Information and Clinical Research Department.

The centre is located in the Zelenograd special economic zone with the total area of 400 sq m and state-of-the-art equipment for developing and testing drugs. The Centre employs more than 30 people, graduates from the leading universities of Moscow. The main objectives of the R&D centre include finding new formulas for manufacturing new highly effective and safe drugs and conducting clinical trials to study the mechanisms and effects of drugs on the human body and its organs. The Centre is designed to provide the company with new technologies to create genetically engineered drugs in the following therapeutic areas: cardiology, pulmonology, neurology, oncology, endocrinology and gastroenterology.

The innovative drugs to be launched in 2018-2020 will be effective, safe and convenient due to prolonged dosage forms, new dose combinations, and new forms of drug delivery. This will help patients decrease the number of times they take drugs during the day, avoid complicated treatment plans and the need to take several drugs simultaneously.

Alexey Chupin
CEO of Binnopharm



Today, our company produces about ten types of drugs. With the launch of the R&D centre in 2017 we are planning to produce 24 new products. Our strategy is called "Convenient Drugs". We are creating drugs that Russian people buy in pharmacies every day. Binnopharm's products are available in 46 cities of Russia and we are going to enter the CIS markets in the near future. We are also actively working in the area of import substitution. For example, today Binnopharm is completing the development of its new cardiological drug simultaneously with a global pharmaceutical company. Implementation of the above initiatives will enable the company to become a leading Russian producer and distributor of genetically-engineered drugs.



4

**DRUG REGISTRATION
DOSSIERS WERE SUBMITTED
TO THE MINISTRY OF
HEALTH OF THE RUSSIAN
FEDERATION IN 2016.**



Sitronics: a research laboratory in telecommunications

In April 2016, Sitronics opened a new laboratory for conducting research and development in the field of new-generation telecom technologies, machine learning and artificial intelligence.

The company's R&D centre that does research in the field of radio technologies for communication systems employs more than 40 people. They develop and test embedded software, conduct climatic and functional tests, study electromagnetic compatibility.

The laboratory has all the necessary equipment meeting the latest global technological trends, complies with global standards for R&D centres and is fitted with appliances and software from the best producers. The laboratory conducts full-cycle development of GSM and LTE telecommunications equipment and plans to start works on 5G equipment.

Moreover, the R&D centre develops software and hardware platforms and products created on their basis in such segments as speech technologies, Internet of Things, Safe City, etc.



NIIME: centre of assessment of qualifications in microelectronics

In December 2016, the Council for Professional Qualifications in the nano-industry of the Research Institute of Molecular Electronics (NIIME), a leading research centre operating as part of RTI, set up the first Russian Qualifications Assessment Centre in microelectronics.

With the adoption of the Federal Law "On independent assessment of qualifications" dd 1 January 2017 regulating the introduction of professional standards

and establishment of qualification assessment centres in Russia, **nanotechnology experts will be able to obtain an independent assessment of their skills** and get a certificate confirming their qualifications in eight professional standards.

In 2015-2016, NIIME experts also took part in developing professional qualifications and assessment tools, as well as developing and validating qualification assessment procedures in the nanoindustry.

IN 2016

20

APPLICANTS SUCCESSFULLY PASSED PROFESSIONAL EXAMS AT THE NIIME QUALIFICATIONS ASSESSMENT CENTRE.



RTI: modernisation of Science and Production Complex

In 2016, the Science and Production Complex of the Research Institute of Long-Range Radio Communications (NIIDAR), a leader in development and manufacturing of radars operating as part of RTI holding, opened an experimental centre for R&D work. In order to launch the centre RTI upgraded its old production facilities.

In 2016, major repair works were done and new equipment was purchased for the Centre. Besides, press mould & metal processing, welding and polymer materials shops were commissioned.

In 2017, the company will continue modernisation of the experimental centre's facilities.

The company is planning to establish close cooperation with the Moscow State Institute of Electronics. Modern equipment and qualified personnel will enable the institute to conduct training and offer internship placements to the University's students and staff on the site of the Science and Production Complex of NIIDAR.

3.1.2. Modernisation of infrastructure and production facilities

Obsolete production facilities and outdated infrastructure impede economic development and have an adverse effect on the environment, as well as the social and economic condition of Russia's regions.

Modernisation of production facilities is one of the key priorities of the Corporation's investment programmes,

while capital investments in this area is a prerequisite for successful development of the business and achievement of sustainable development goals.

The companies of Sistema group are consistently updating their production facilities and implementing innovative solutions, which enables

them to maintain leading positions in the market. For many years the Corporation has been facilitating the development of infrastructure in the regions of operations, improving living standards and stimulating economic growth. Development of telecommunications and power transmission is the main focus of investment in infrastructure.

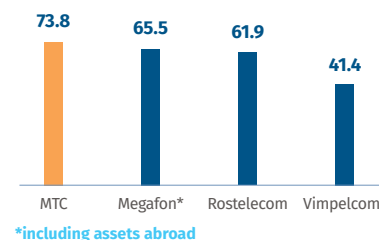
MTS: eliminating digital inequality

One of MTS's strategic priorities is development of the telecom infrastructure to reduce digital inequality in Russia by ensuring people's access to mobile communication and Internet across Russia.

According to a report issued by The Boston Consulting Group (BGC), a global consulting company, Russia is lagging behind the leaders in

the digital economy by 5-8 years. By pursuing intensive digitalisation Russia will not only be able to reduce the digital gap with leading countries but will also ensure real long-term sustainable development. **MTS is making a significant contribution in the development of digital economy in Russia by implementing the largest investment programme among the main Russian mobile operators.**

Capital expenses of Russian mobile operators in 2016, RUB bn



90,000 people in 10 localities in the Kaluga region received access to high-speed mobile Internet

3G networks were upgraded in **50 locations** of the Samara region

800 residents of the Sara village in the Kuvandyk district of the Orenburg region were provided with communication services

Stable mobile communication and 3G Internet services were provided to the main territory of the Caucasus Nature Reserve

130,000 residents of cities located within the Arctic circle (in the Krasnoyarsk region) received access to mobile Internet

2016: construction of networks in 2 villages of the Arctic and northern districts of the Sakha (Yakutia) Republic
Plans for 2017: connecting 7 more localities

60,000 residents of the Amur region were provided with mobile Internet

More than 80,000 people in 6 localities in the Khabarovsk region received access to high-speed mobile Internet

More than 40,000 people in the Irkutsk region received access to communication services

Mobile Internet networks were upgraded in **40 localities** of the Altay region

5,000 employees of remote oil producing districts of the Tomsk region received access to communication services



MTS: improving the quality of communications

Andrey Ushatsky
Vice President
of MTS for
Technology and IT



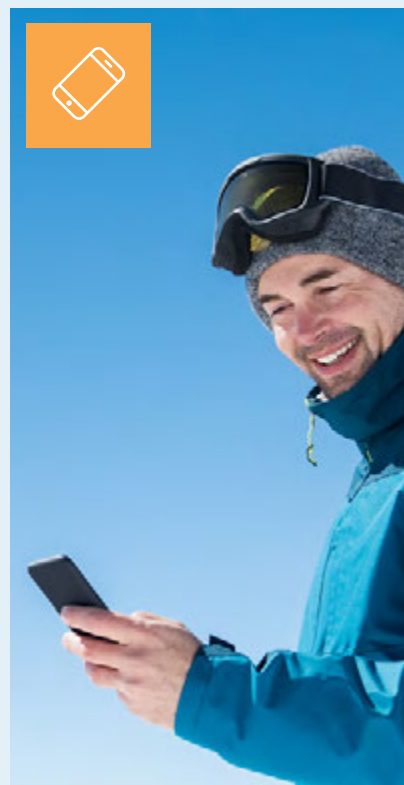
MTS is the first mobile operator in Russia to start using Cisco SON solution. This system significantly improves the quality of network operations and impacts the customers' satisfaction with our services. Using SON at peak loads makes it possible to increase data speed by an average of 20%, improve network availability by 25%, and reduce the number of call drops by approximately 10%.



MTS and Cisco, a global leader in the industry of network technologies, completed the first stage of the project to launch Cisco SON (Self Optimizing Network), a powerful platform that allows MTS to automate network optimization in real time to improve the quality of voice and data services.

In the event of big network loads some of the subscribers are automatically switched to another base station.

At the same time, Cisco SON selects the optimal base station and makes sure that calls are not interrupted during switching. This technology was for the first time used at the Olympic Games in Sochi. In 2016, MTS implemented this technology at its 3G and LTE networks in Moscow and the Moscow region.



Steppe AgroHolding: automation for agriculture

SUCCESSFUL DEVELOPMENT OF STEPPE AGROHOLDING IS BASED ON EXTENSIVE USE OF STATE-OF-THE-ART AGRICULTURAL TECHNOLOGIES, EQUIPMENT, INFRASTRUCTURE AND INNOVATIVE SOLUTIONS, INCLUDING THE MOST ADVANCED TECHNOLOGIES FOR BREEDING AND KEEPING 9 THOUSAND HEAD OF CATTLE.

Four modern dairy farms located in the Kanevsky and Pavlovsky districts of the Krasnodar region are using Afimilk, a comprehensive dairy herd management system (Israel).

The monitoring system with online central management makes it possible to keep track of the health and productivity of cows and receive information on feeding and breeding regimes, to make it possible to closely monitor and increase the production of milk, improve the health and reproductive performance of the herd. All deviations from the set parameters are automatically recorded, so that short-term tactical measures and long-term strategic solutions could be implemented with respect to target cattle numbers, milk yields, selective breeding and reproduction.

Yuzhny Agricultural Complex, the largest greenhouse farm in Russia, is using modern agricultural technologies:

- ⦿ A low-volume cultivation technology involving a drip watering system and a moistening system enabling microclimate control and fertiliser dosing (plants grow in a mineral wool substrate continuously fed with a special solution containing nutrients and fertilisers);
- ⦿ Automated seeder lines and sorting machines by specified criteria of product quality.



STEPPE AGROHOLDING IS A LEADER IN EFFICIENCY OF DAIRY FARMING IN RUSSIA. MILK YIELD PER COW IS MORE THAN 10,000 LITRES OF MILK A YEAR.

RZ AgroHolding: commissioning a new seed plant

THE SEED PLANT PRODUCED

3,3th.

TONNES OF SEEDS IN 2016.



Introduction of new technologies will make it possible to improve grain quality and yields.

Стефан Мак Фарлан
Генеральный директор
RZ Agro Holding



In August 2016, a new seed plant was launched at Donskoye farm. The plant was built for providing high-quality wheat and winter barley seeds to two RZ Agro farms located in the Zernograd district of the Rostov region with the total area of arable land above 40,000 ha. The plant has modern equipment for seed cleaning, calibration, disinfection and packaging.

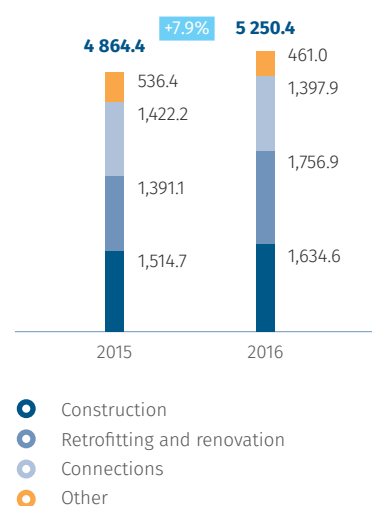
Since it is impossible to buy a lot of elite seeds in the market, we are actively working on selection of good seed material. The new wheat and winter barley seed plant will enable us to safeguard the purity of our crops. From now on we will be able to produce elite seeds independently by cooperating with leading research institutions to get quality material for seed production and cut seed production costs. Thanks to commissioning the plant in 2017 the company managed to increase the share of elite winter grains from 18% to 60%. In the near future the company will be able not only to fully meet its demand for quality seeds but also sell some of the seed plant's produce to other farms.

BPGC: investment in power grid infrastructure

BASHKIR POWER GRID COMPANY IS CONTINUOUSLY IMPROVING THE QUALITY AND RELIABILITY OF POWER SUPPLY TO THE RESIDENTS OF THE REPUBLIC OF BASHKORTOSTAN. THE PRIORITY OF BPGC'S INVESTMENT PROGRAMME IS CONSTRUCTION OF NEW SUBSTATIONS AND RENOVATION AND MODERNISATION OF THE EXISTING INFRASTRUCTURE.

The company also continues construction of new substations to meet the growing power demand in the region. In 2016, two major substations Zubovo and Irek (110 kV), and a 220 kV Gvardeyskaya substation were commissioned in Ufa. Three more 110 kV substations should be commissioned in 2017.

Investments of BPGC in 2015-2016, RUB m





BPGC: investment in power grid infrastructure

SMART GRID

Since 2013 BPGC has been implementing a long-term project for modernisation of the power grid infrastructure in Ufa on the basis of Smart Grid technology.

Introduction of smart technologies makes it possible to significantly increase the quality and reliability of power supplies to consumers, cut power losses, the number of failures and maintenance costs, thus slowing down the growth of tariffs.

By 2020 the capital of the Republic of Bashkortostan is expected to fully switch to smart grids. This will increase the sustainability of the Republic's power network and will dramatically improve the reliability of power supplies to households. Innovative approaches to the design and construction of new power facilities and the achieved level of competences will enable BPGC to roll out its unique Smart Grid project across Russia and the CIS and offer its services and equipment to foreign global markets.

GRID CONNECTION OF NEW CUSTOMERS

In 2016, thanks to implementation of its investment programme and acceleration of power connections BPGC connected more than 24,000 consumers to power lines, including 21,000 customers entitled to discounts.

≈ 21th

**CUSTOMERS ENTITLED
TO DISCOUNTS WERE CONNECTED
TO POWER LINES IN 2016**

OVERHAUL OF STRANDED ASSETS

There are more than 700 km of stranded power grids in the Republic of Bashkortostan. BPGC is conducting an overhaul of such abandoned power grids, which are still being used to supply power to households without any maintenance. In 2016, the company renovated 8km of grids, thus ensuring uninterrupted power supplies to Kumertau, as well as the Beloretsk and Ishimbay districts of the Republic of Bashkortostan.

UPGRADE OF OPERATING ASSETS

In March 2016, Bashkirenergo, which is a part of BPGC Group, completed the renovation of a 35/6 kV Mayachnaya substation ahead of schedule. The substation will ensure power supplies for a new oilseed crushing plant. Total spending on the project amounted to RUB 34.5m. The commissioning of the facility will create 500 new jobs.

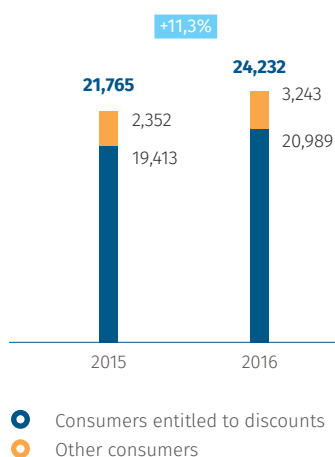
Dmitry Sharovатов
CEO of BPGC



Today, we see a significant level of wear of the main power grid assets of the Republic of Bashkortostan, while power consumption has grown substantially. Our project for modernisation of power grids envisages replacement of equipment and automation of power transmission and metering processes. These measures will not only improve the quality and reliability of power facilities but will also significantly decrease commercial and technical losses.



Number of consumers connected to power lines in 2015 and 2016



Sitronics: safe city and transport solutions

In October 2016, Sitronics Group, a high-tech Group with full-cycle product development specialising in implementation of large-scale projects (intelligent transport system, safe city and telecommunications), signed **a Memorandum of Cooperation with the Republic of Ingushetia**. The company made the commitment to implement a Safe City project: a system of technological solutions (including video data analysis) making it possible to quickly identify emergency situations and take urgent response measures. The project will be conducted in two stages. At the first stage the company will roll out a traffic enforcement system with photo and video cameras and install all the necessary equipment in the capital of the Republic. At the second stage the Safe City project will be implemented across the entire region.

In 2017, Sitronics is planning to continue its cooperation with Russia's regions as part of the Safe City project. In particular, the company is considering potential cooperation with the Omsk region and the Karachay-Cherkess Republic.

The products and solutions of Sitronics are making a substantial contribution to the economy and development of transport, information and communication sectors, and public security in cities and regions.



Development of telecom infrastructure	Development of road and transport infrastructure	Innovative technologies for development of territories
<p>Capacity transfer repeaters are designed to provide cellular communication coverage for remote populated areas and roads where it is economically unviable to install base stations. This equipment will make it possible to provide coverage to remote populated areas and improve signal quality.</p> <ul style="list-style-type: none"> cutting capital and operating expenses without sacrificing the quality of services; reducing energy consumption 4-5-fold compared to ordinary base stations while maintaining network capacity; decreasing the number of communication failures and increasing the service coverage 4-6-fold; ensuring coverage in tunnels and restricted areas. 	<p>The hardware and software complex Safe City aims to improve security in regions and municipalities by means of forecasting, addressing, monitoring and preventing potential threats and overseeing the process of handling emergencies.</p> <ul style="list-style-type: none"> enhancing the performance of executive and law enforcement bodies, increasing the level of public security; decreasing the time of response to emergencies by 25%; increasing the number of crimes solved shortly after they occur, decreasing crime rate and risks of terror attacks; preventing anti-social behaviour and vandalism. improving protection of strategically important facilities. 	<p>The Intelligent Transport System collects, processes, and communicates data about the current state of transport infrastructure and provides real-time liaison between users and control units</p> <ul style="list-style-type: none"> centralised management of transport, prevention of road congestion; increasing passenger traffic by 20%, reducing transport traffic by 15%; decreasing traffic in highways, cutting travel time by 15%; improving driving competences, reducing the number of accidents and cutting mortality rates by 15%; cutting fuel consumption, improving environmental situation, quality of transport services.
	<ul style="list-style-type: none"> decreasing the number of conflicts, bribes and abuse of office in identification of road offences; extra receipts for the budget due to timely payment of fines enhancing the efficiency of traffic management and road infrastructure maintenance reducing damage for the economy due to a decrease in the number of accidents, road death and injury rates 	



MGTS: smart home and safe public spaces

Andrey Ershov
CEO of MGTS



MGTS was one of the first mobile operators in Russia to implement the function of video analytics by launching the real time alarm service for households. We were also one of the first in the Russian market to use an operational model for promoting the smart home services to ensure high quality of services and support for the users.



In 2016, MGTS, a subsidiary of MTS, launched new projects ("Security and video surveillance" and "Monitoring of utility systems") as part of implementing the Smart Home concept based on the principle of automation and digitalisation of living space.

Video surveillance with an analytical monitoring function makes it possible to keep track of what is happening inside a home in real time: devices have sound and motion sensors and a night vision function. In the event of emergency the camera sends an alert signal to the user. The service is very popular among families with children, elderly relatives and home staff.

In 2016, the company continued implementation of its investment project for installing video surveillance in nursery schools called **"Window to a nursery school"**. The company installed surveillance cameras at entrance gates to ensure security at nursing schools as part of its cooperation with the Education Department of Moscow.

Each nursery school is equipped with an average of seven cameras. Video surveillance is subject to the consent of parents and the administration of the respective child care facility. Cameras are installed only in public spaces: play rooms, gyms, music rooms etc. Schools make this service available to parents who determine the terms of the service themselves.

Besides, **a pilot system was launched in 2016, which meters the consumption of utility resources in autonomous mode and transfers data from water, heat and power meters to suppliers** enabling households to avoid potential errors and utility management organisations to receive data from all consumers in a timely manner.

After completion of the pilot stage such systems were implemented at all public facilities of Moscow. In 2017–2018, smart meters will be installed at shared metering systems of apartment blocks.

Moreover, special devices will be installed in apartments and lobbies of Moscow's residential properties in order to detect fires, water and gas leakages and alert emergency services accordingly. In some cases the system will be able to address failures: for example, if water leakage is detected, it will switch off water supply before the arrival of an emergency crew.

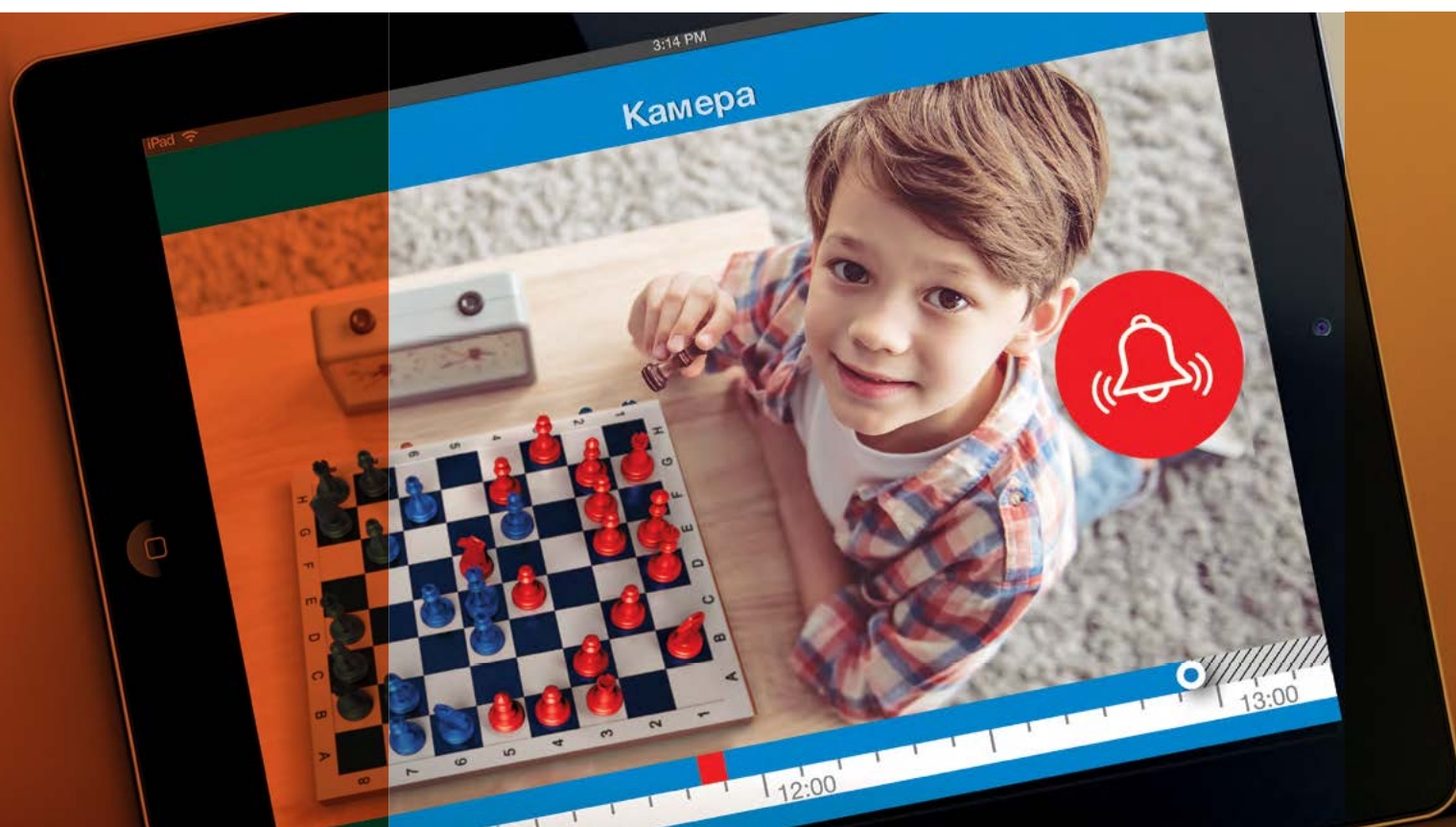


1,528

OUTDOOR SURVEILLANCE CAMERAS
WERE INSTALLED

in **753** buildings

OF 208 EDUCATIONAL
ORGANISATIONS WITH DATA
TRANSFERRED TO THE UNIFIED DATA
STORAGE AND PROCESSING CENTRE



Mikron: using RFID tags for labelling goods

MIKRON IS A LEADING RUSSIAN PRODUCER OF RFID TAGS.

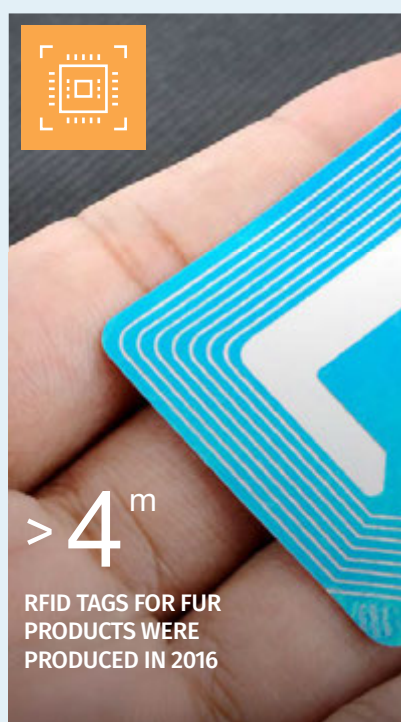
This technology of radio frequency identification is used in many industries for monitoring stock movements, protection against theft and counterfeiting, electronic payments and many other purposes. RFID technology is also a part of the industrial Internet of Things, which is currently developing in Russia.

In 2016, Mikron supplied Goznak RF with a pilot batch (more than 4m pcs.) of RFID tags for labelling fur products in pursuance of the Unified Goods Marking System, a project of the Eurasian Economic Union. The use of such tags allows keeping track of labelled goods, ensures additional protection against counterfeit

products and contains information about the origins and movements of products.

RFID-labelling of fur products made it possible to decrease the number of audits in the fur market. With the introduction of RFID-labelling in 2016 the turnover of fur products in Russia increased 9-fold, while **20% of the companies that did not file their reports to the tax authorities in the past have now become legal businesses.**

In the future RFID tags produced by Mikron are going to be used for marking timber products in the State Unified Automated Information System. This will help decrease the volumes of illegal logging and timber supplies in Russia.





PJSC Mikron: Russian chips for bank cards

In spring 2016, Mikron started mass production of chips for the Mir cards of the National Payment Card System. The first batch of 300,000 cards was ordered by KS Bank (Republic of Mordovia). In July, **MTS Bank started issuing Mir cards based on a Russian-made microchip**. One of the advantages of this project is the possibility of using the bank card with Mikron chip not only in Russia but also abroad, as it is integrated with Maestro (MasterCard), while the use of Russian technologies enables quick adaptation of additional services to the needs of different Russian regions

**Gulnara
Khasianova**
CEO of Mikron



Thanks to the use of Mikron chips the bank cards of the national payment system are becoming fully domestic products. Our joint project with MTS Bank and the National Payment Card System is an example of successful import substitution and a testimony to the high quality of Russian microelectronic and banking technologies. The government policy aimed at promotion of domestic technologies has given an important stimulus to the electronics segment and will facilitate further development of the industry in line with new market trends, such as the Internet of Things and industrial Internet.



The card's chip for banking applications was designed and produced by Mikron in 2015. To ensure a high level of data security it supports all the main cryptographic algorithms, is resistant to climatic and electrical impacts, has a guaranteed data storage term of up to ten years or 100,000 recording cycles.

In December 2016, Russia's Ministry of Industry and Trade confirmed that Mikron's integrated microchip had the status of a chip developed and produced exclusively in Russia. All chip manufacturing operations are conducted at Mikron's in-house research and production facility in Zelenograd by in-house engineering personnel using state-of-the-art high-tech equipment. The Russian bank card chip fully meets international standards and operates on the basis of an operating system created by company specialists. Quality assurance and compliance with all applicable manufacturing requirements are guaranteed in line with the quality management, environmental management and energy management systems.

In 2017, Mikron is planning to increase the output of chips for Mir bank cards 30-fold, up to 15m chips. The company also intends to obtain the status of 1st category domestically produced integrated microchips for its products (microchips for electronic documents, RFID chips and microcontrollers) that have no rivals in Russia.



Data processing centre for Medsi Group

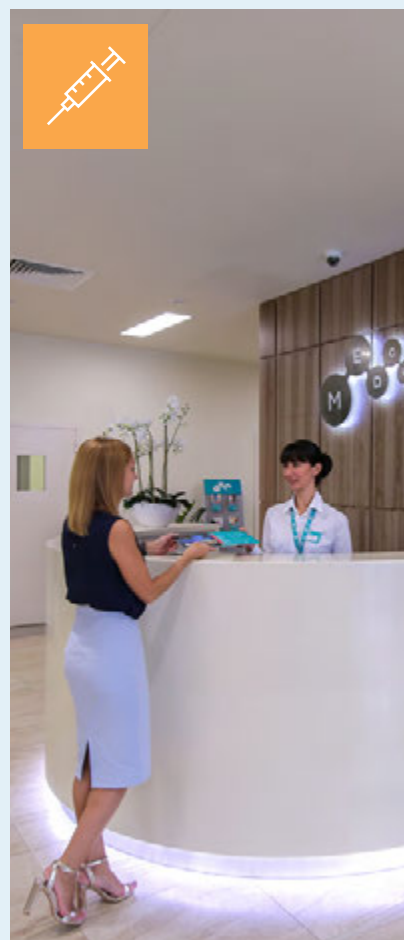
Elena Brusilova
President of Medsi
Group



The launch of a scalable and fail-safe data processing centre is a solid foundation for strategic development of Medsi in the next five years. It will ensure a high level of accessibility, reliability and speed of data sharing and processing for all departments and medical staff. Powerful and adaptable IT solutions mean new broad opportunities for patients and optimisation of important processes for doctors.

In 2016, NVision Group (a subsidiary of MTS Group) and Medsi launched a modern data processing centre to ensure reliable operation of the key departments of the clinical chain: medical, laboratory, radiology, dental, endoscopic systems. **The data processing centre will ensure the keeping of medical images of examined patients and will synchronise the work of the ambulance, hospital and retail pharmacies with personal patient accounts and mobile applications.**

The data processing centre will also facilitate the development of the federal project for launching the Unified Medical Information System, an IT complex used for automation of document flow and provision of information support to clinics. The system makes it easier to plan resources and manage clinics and also performs lab and diagnostic functions: entering and keeping the results of diagnostic examinations, data processing and analysis.



OZON Group: development of logistical infrastructure

On the back of robust growth in sales in Russia's regions the largest **online hypermarket OZON.ru opened new warehousing complexes in Yekaterinburg and Kazan** in order to improve the quality and speed of goods delivery.

The commissioning of regional warehouses made it possible to deliver goods in just one day to the residents of the Sverdlovsk region and the Republic of Tatarstan, as well as to the neighbouring regions and big cities: Chelyabinsk, Perm, Nizhniy Tagil, Magnitogorsk, Nizhnevartovsk, Kurgan, Surgut, Ufa, Nizhny Novgorod, Samara, Ulyanovsk, and Togliatti.

In 2017, the company is planning to open a 4,000 sq m warehouse in Krasnodar making it possible to quickly deliver goods to the key cities in the South of Russia.

**NEXT-DAY DELIVERY
OF GOODS HAS BECOME
AVAILABLE FOR**

≈ 30%

OF THE RUSSIAN POPULATION





Social and community projects

>> 3.2.1. Development of territories and communities

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>> 3.2.2. Expanding opportunities for education and science

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>> 3.2.3. Healthcare practices

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Sergey Boev

Chairman of the
Board of Trustees
of Sistema
Charitable
Foundation



The programmes of the corporate charitable foundation are closely aligned with the social strategy of the Corporation. Sistema includes more than 20 different businesses, and each of them has its own customer base, social strategy and sometimes even a charitable foundation. Therefore, our main task is to create programmes in which maximum synergies and social effects can be achieved for all parties. These can be both new initiatives, the goals of which correspond to the social strategies of the Corporation and its individual companies, and systemic long-term programmes such as 'Lift to the Future'



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More details
in section [Expanding
opportunities for
education and science](#)



ABOUT

11th.
participants



OF THE "LIFT TO THE FUTURE"
PROGRAMME IN 2016

3.2. Development of territories and communities

The companies of Sistema Group are making a significant contribution to the social and economic development of the regions where they operate, improving social infrastructure and living standards, creating equal opportunities for various groups of the population, supporting education, science, healthcare, underprivileged people, and developing local communities in view of the relevant needs of territories and target groups: children, elderly and disabled people.

Sistema conducts its social projects in close cooperation with the government authorities, non-profit organisations and other partners.



Cooperation with regional authorities and social partnerships

One of Sistema's strategic priorities is building a long-term constructive cooperation with regional authorities. All projects and initiatives in this field are aimed at forming a favourable economic, investment and social environment. The Corporation's joint projects with partners in different regions promote industrial development, growth of taxable base, creation of new jobs and opportunities for the population, and help maintain social stability. Cooperation of the Group with regional governments is beneficial for all interested parties: Sistema gets the opportunity for developing its assets and the regions attract investments to support the economy and the social sphere.

In December 2016, Sistema signed an [agreement with the Kirov region](#), on cooperation in such industries as timber, IT, telecoms, finance and retail.

In the reporting year Sistema also established stable relationships with the governments of the Kostroma, Samara, Rostov, Tula, Krasnodar, Krasnoyarsk and Stavropol regions, and the Karachay-Cherkess Republic.

Sistema's subsidiaries are also actively developing their cooperation with the regions.



IN 2016, SISTEMA HAD
5 agreements

**WITH THE RUSSIAN REGIONS:
THE ARKHANGELSK, VOLOGDA,
IRKUTSK, KIROV REGIONS
AND THE REPUBLIC OF KARELIA**



G4-26

STAKEHOLDER ENGAGEMENT

In January 2016, the Chairman of Sistema's Board of Directors Vladimir Evtushenkov held a meeting with Rashid Temrezov, Head of the Karachay-Cherkess Republic, to discuss further development of the Yuzhny Agricultural Complex that was acquired by the Corporation at the end of 2015.

The Head of the Republic stressed the strategic importance of this major enterprise, which employs up to 3,000 residents of the region.

The agricultural complex is also performing an important social function, being the main employer of the Moskovsky town and providing it with heating. Vladimir Evtushenkov confirmed its intention of not only keeping the enterprise but also giving a new impulse to its development. The parties agreed to conduct gradual modernisation of the agricultural enterprise. This will help increase production output and modernise greenhouse vegetable growing processes. Moreover, it was decided to register a legal address of the Yuzhny Agricultural Complex in the Karachay-Cherkess Republic, making it possible to expand the tax base.

Vladimir Evtushenkov
Chairman of the Board of Directors of Sistema



Sistema is ready to commit itself to different types of social projects aimed at developing the Republic. We are willing to participate in the development of rural territories, preservation of culture, development of physical education and sports.

Taking Care of Veterans

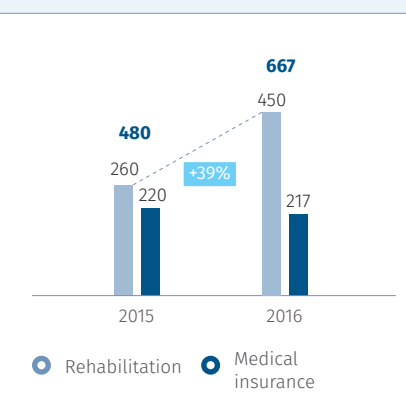
The long-term programme for supporting the Great Patriotic War veterans is one of the key social activities of the Corporation launched in 2015 as part of Sistema's partnership with the Moscow Government and the Moscow City Council of war, labour, armed forces and law-enforcement veterans.

Sistema Charitable Foundation in partnership with the Moscow City Council of veterans, the Social Security Department of Moscow and Medsi Group launched the "Taking Care of Veterans" project to provide free medical care and rehabilitation to veterans at Medsi Otradnoye Sanatorium in the Moscow region.

In 2016, the number of the Great Patriotic War veterans that were covered by a two-week medical rehabilitation

programme increased more than 1.5 times and the total number of veterans receiving medical aid at Medsi clinics in Moscow **reached 700 people**.

The number of veterans covered by the healthcare support programme





> 1,000

**FAMILIES OF THE WAR
VETERANS WAS PROVIDED
BY MGTS WITH FREE
LANDLINE TELEPHONY
IN SIX YEARS**



In addition to medical insurance, other important elements of the veterans support programme include volunteering and increasing patriotism among young people. In 2016, many patriotic events were organised to mark the Victory Day, the Day of Memory and Sorrow on 22 June, the Day of Older Persons, the 75th anniversary of the Soviet Counter Attack near Moscow, including:

- 11 volunteer clean-ups and five gala concerts at hospitals and care homes for more than 3,000 people;
- Sistema Charitable Foundation hosted a reception for 120 veterans of the Corporation at the Scientists' Palace.
- Binnopharm donated 1,000 aerosol cans and the team of Cosmos hotel - 20 packages of aid to a care home for elderly people in Noginsk.

- Medsi and its volunteers organised a charitable theatre performance based on Cinderella fairy tale for the Great Patriotic War veterans.

On the Victory Day MTS offered free domestic and international calls to the war veterans, and on 1-14 May 2016 MGTS made it possible for all veterans living in Moscow to call any fixed-line and mobile numbers from their home phones for free. The company also continued implementation of its programme for providing free landline telephony to the Great Patriotic War veterans in Moscow.

In 2017, the company will increase the volume of support provided to the war veterans and similar categories of citizens and will roll out its charity programme

Segezha Group: development of regions of operation

Segezha Group aims to bring investment, technologies and personnel training systems to the regions of its presence to ensure competitiveness of the forest industry enterprises. The main areas of cooperation include expansion of product range and markets, ensuring full-cycle use of wood resources, achieving an additional economic effect from recycling timber processing waste to produce value added products for export.

IN JUNE 2016, SEGEZHA GROUP SIGNED PARTNERSHIP AGREEMENTS WITH THE ADMINISTRATIONS OF THE REPUBLIC OF KARELIA, THE KIROV AND ROSTOV REGIONS AT THE INTERNATIONAL ECONOMIC FORUM IN ST. PETERSBURG.

A modern paper sack and packaging plant in Salsk built in record time and commissioned in March 2016 was included in the list of "100 governor's investment projects" that have great social and economic value for the development of the region. Initial investment in the project totalled RUB 1.5bn. Tax payments to the state budgets of all levels are estimated at RUB 50m in the first year alone. The new enterprise will create up to 160 new jobs and provide quality eco packaging for construction mixes and food to most regions of the South Federal District.

In addition to cooperating with regional and local governments on economic and employment matters the company will also implement social and charity programmes for the communities.

**SEGEZHA GROUP ENTERPRISES
PROVIDE HEATING AND SEWAGE
DISPOSAL SERVICES TO**

> 600th

**OF RESIDENTS OF THE REPUBLIC
OF KARELIA, THE VOLOGDA AND
KIROV REGIONS.**

**THE COMPANY DOES CHARITABLE
WORK IN FIVE REGIONS OF
RUSSIA WITH INVESTMENTS
EXCEEDING IN 2016**

> RUB 20^m



Solony charity festival for children



Alexander Berdnikov
Head of the Republic of Altay

« We are grateful to our friends from Sistema Charitable Foundation for bringing so much joy and happiness to children from rural areas. I am confident that this successful project will go on and we will see a lot of interesting and useful events. »

On 16 June 2016, the government of the Republic of Altay and Sistema Charitable Foundation signed a public private **partnership agreement** on the sidelines of the St Petersburg International Economic Forum.

The first joint project under the agreement was a large-scale children's charity festival dubbed Solony (the Altay word for "rainbow"), which was organised by Sistema Charitable Foundation in cooperation with Sistema's subsidiaries and the local government and took place from 30 July to 10 August 2016 in Gorno-Altaysk and the Koch-Agach district of the Altay Republic.

The festival aims to improve people's quality of life, promote social activity and cultural education and support talented young people.

Sistema's subsidiaries and volunteers in cooperation with partners conducted a 12-day programme including charitable, social, volunteer and educational projects for more than 5,000 children from large and underprivileged families of Gorno-Altaysk and remote rural areas.

For the first time so many big social projects were conducted in the Republic of Altay. Together with regional authorities, the Corporation not only has involved local residents, but also have brought more optimism and activity to the remotest areas of the Republic. Even after the festival

our initiatives remain relevant: the communities continue using the equipment, new facilities, books, stationery etc.

In 2017, Sistema Charitable Foundation will expand the geography and the themes of its festivals and will focus on environmental protection of the regions.



SCF's Volunteer Centre and volunteers from the Republic of Altay organised sport events and creative master classes for **2,000 children in seven summer camps and schools** of Gorno-Altaysk and the Koch-Agach district.



75 high school students from virtually all districts of the Republic of Altay took part in the first regional engineering school Lift to the Future.



The Ministry of Education of the Republic of Altay distributed **4,000 books from the OZON.ru** online store among families living in the region's remote areas.



Detsky Mir opened **two playrooms** in children's hospitals in Koch-Agach and Onguday districts. **Four more playrooms** were opened in a tuberculosis sanatorium in Chermal village.



The creative team of Detsky KinoMay Foundation met with **the participants of the Lift to the Future summer school at Altay Resort**.



Binnopharm donated **2,000 flu and cold aerosol sprays** to the hospitals located in Turochak and Onguday districts.



Psychologists and doctors from Medsi provided consultations for **50 large families and practical medical consultations** on hepatology in remote areas of the Altay Republic.



Medsi and MTS made a presentation to the Health Ministry of the Altay Republic on the Telemedicine project, a **service for providing online medical consultations**.



In Kuray village of the Republic of Altay Segezha Group installed **two shelters and six benches** as part of its project for creating a quality recreational space for the village residents.



The MTS Fairytale Mobile Theatre, a volunteer puppet show, staged a performance and conducted several workshops on creating **puppet shows in three villages** of the Republic of Altay.

Detsky Mir Group: supporting low-income families

**19,500 CERTIFICATES FOR
THE TOTAL AMOUNT OF ABOUT**

RUB 40^m

**WERE GRANTED TO LOW-
INCOME FAMILIES IN 2016
AS PART OF COOPERATION
BETWEEN DETSKY MIR
AND THE MOSCOW
GOVERNMENT.**



Providing support to low-income and large families is one of the key social priorities of Detsky Mir Group.

Since 2005 the retail chain has been a regular participant of the social project for supporting families with children under the auspices of the St Petersburg Government. The Government of the region makes one-off payments after the birth of a child and monthly payments to children under seven. The money may be used by the parents for buying children's goods in the stores accredited

by the city administration. Detsky Mir has also received accreditation under the programme.

In March 2016, Detsky Mir also became the key partner of the social project organised by the Social Security Department of Moscow. Low-income families with children receive electronic certificates with a nominal value of **2 thousand roubles each**. The certificates may be used to acquire toys, school supplies, children's clothes and footwear.

Cooperation agreements between MTS and regional governments

In 2016, MTS signed eight new agreements on social and economic partnership with regional government authorities.

Among the key social initiatives of the company in the regions are cultural and educational projects based on modern information and telecommunication technologies, including MTS Mobile Library involving the installation of "virtual" bookshelves in libraries and other public places. In 2016, the project was implemented in **11 regions of the country**:

- ⦿ St Petersburg;
- ⦿ Arkhangelsk region;
- ⦿ Voronezh region;
- ⦿ Penza region;
- ⦿ Pskov region (Velikiye Luki);
- ⦿ Samara region (Togliatti);
- ⦿ Saratov region;
- ⦿ Ulyanovsk region;
- ⦿ Republic of Bashkortostan;
- ⦿ Republic of Mordovia;
- ⦿ Republic of Chuvashia.

Agreements signed by MTS with regional authorities in 2016

Area of cooperation	Region	Format
Development of telecom infrastructure and elimination of digital inequality	Moscow region	Agreement with the Ministry of Public Administration, IT & Communications.
	Tambov region	Agreement with the region's administration
	Yamal-Nenets autonomous district	Agreement with the government of the autonomous district
Social and cultural partnership	Novosibirsk region	Agreement with the Ministry of Culture of the region
	Tyumen region	Agreement with the Administration of Tobolsk
	Krasnoyarsk region	Agreement with the Ministry of Culture of the region
	Republic of Dagestan	Agreement with the Ministry of Education and Science of the Republic
	Jewish autonomous region	Agreement with the Administration of Birobidzhan

**AS OF THE END OF 2016, MTS
HAD 16 AGREEMENTS WITH
RUSSIA'S REGIONS INCLUDING THE
VORONEZH, NIZHNY NOVGOROD,
RYAZAN, TULA, YAROSLAVL
REGIONS AND THE REPUBLIC
OF BASHKORTOSTAN.**

Andrey Dubovskov
President of MTS



It is impossible to be successful in doing business without cultivating the territory where it operates and without investing in culture. Today, this is one of the main social oriented fields of activity in the regions of operation.

3.2.1. Development of territories and communities

The top priorities of the Corporation's social policy are improving the quality of life of the people, ensuring the safety and awareness of consumers, supporting local communities, non profit organisations and underprivileged social groups, and implementing charitable projects in the interests of these stakeholders.



"Giving Corporation": continuous charity work in Russia

In November 2016, Sistema Charitable Foundation took part in "Giving Tuesday", an international charitable initiative that brings together active citizens, non-profit organisations and socially responsible businesses, held for the first time in Russia.

As part of this initiative, more than 10 companies of the Group organised a number of social campaigns designed to provide help and promote charity and volunteering ideas.



MTS together with Detsky Mir organised a festival of corporate theatres, where performances were shown for children from large families and from seven residential care facilities in Moscow and the Moscow region.



Medsi Group, in support of the charitable programme "Women's Health", organised free check-ups in the clinicodiagnostic centre at Krasnaya Presnya to identify the risk of breast cancer for more than 200 women and promoted the benefits of early diagnosis.



RTI organised fundraising among employees to install a children's playground for Moscow's family education centre Academy of Family.



Detsky Mir opened six play rooms for children in medical institutions of the North Caucasus.



Collection of donations among employees to buy furniture for a nursing home and nursing care hospital wards near Tula.



Assistance in marketing of goods made by mentally disabled people – support of the project in the field of social entrepreneurship "Naive? Highly".



RUB 150,000 was donated to the non-profit organisation Hospital Clowns to deliver New Year greetings to children forced to spend the festive season at clinics and hospitals.



An educational tour around the premises for students of the Olympic reserve vocational school No 2.



Donation of 20 cubic metres of high-quality sawdust to the Moscow Zoo for cage winterisation purposes.



Tea party for the visitors of the Onego Palace hotel in Petrozavodsk, where guests could discuss charity issues.

RZ Agro: supporting rural communities



For RZ Agro, the support of the local population is an essential prerequisite for business development, as many residents of rural areas of the Stavropol and Rostov regions are directly involved in the work of the agricultural holding as employees or unit holders.

The company on a regular basis implements the programme for development of children's and youth sports. In 2016, the company opened

two sports grounds in the Rostov region (the villages of Chernyshevka and Novotroitskaya) and a martial arts club in the Donskoy rural settlement. RZ Agro also holds the RZ Agro Cup, a football competition among the children's teams from rural schools.

In 2016, RZ Agro's spending on social support for the population was 1.2% of annual EBITDA; next year the company plans to increase it to 2%.

MTS: creative charity

MTS implements, on a regular basis, a nationwide creative charitable project for children and teenagers "Generation M", which combines the development of children's creative abilities and the fundraising for the treatment of seriously ill children.

The project's website offers creative online contests, workshops and interactive exercises from famous Russian directors, actors, musicians, fashion designers, artists and representatives of other creative professions. For all their actions, participants receive points, which the company converts into real money at the end of the year and spends on the

treatment of seriously ill children through partner charitable foundations.

In 2016, the project had an online audience of **over 11m people** and included a number of charitable and creative events in different regions. For example, in February 2016 a party was organised for the young patients of the neurological department of the Altay Regional Children's Hospital.

Other key events include:

- Page 16, a read aloud contest among high school students, which had more than 25,000 participants from 15 regions of Russia;
- 15 online competitions in various arts in cooperation with the children's theatre studio "Neposedy";
- song and dance contests jointly with "Ecole" Productions, which gave participants a chance to build a career in show business;
- a film contest conducted with the youth creativity forum "Boomerang" and the Young Russian Filmmakers Union;
- online theatre workshops for creatively gifted children with the assistance of the Stanislavsky International Foundation.

Andrey Dubovskov
President of MTS



Digital philanthropy is still at a nascent stage in Russia and usually just means the possibility to make a donation using a bank card. Our project raises charity to a new level, when people don't even need to make a donation – they can develop their own creative skills and thus help others. MTS uses digital tools to create an equal opportunity system for the talented youth from all parts of the country. At the same time, we realise that websites cannot fully replace offline learning and communication, which is why interesting events throughout the country are an important part of Generation M.

**OVER THREE YEARS, THE PROJECT
FOR SURGERIES FOR 35 CHILDREN
HAS COLLECTED MORE THAN**

RUB 15 m



Steppe AgroHolding: social infrastructure development

Yuzhny Agricultural Complex has a cultural and sports centre for its employees, their families and the residents of Moskovsky settlement (the Republic of Karachay-Cherkessia). The centre was established more than 15 years ago and offers various sports and hobby classes, a theatre studio and a choir.

The centre is visited by 600 children, and its sports clubs (karate, judo, track and field, boxing, football and artistic gymnastics) have over 300 members.

The Agricultural Complex organises annual competitions among its divisions in game-based sports and relays, including futsal tournaments, tug-of-war, track and field competitions and arm wrestling.

Yuzhny Agricultural Complex also provides aid to underprivileged children. It supports the state republican orphanage in the Moskovsky district and "Zabota" care home for children with special mental needs.



Participate! with Detsky Mir Charitable Foundation

Detsky Mir has been running the Participate! campaign for over a decade. It aims to collect gifts for children from orphanages or large families and for children with disabilities, and every year involves more and more customers who have the opportunity to purchase the necessary goods for children from 500 social institutions in 160 cities of Russia and Kazakhstan.

In 2016, the company organised the collection of gifts three times: in the run-up to the Children's Day, the beginning of the school year and the New Year.

Gifts for underprivileged children were also collected as part of the internal corporate campaign "Charity instead of gifts".

In 2016, the company's employees decided to donate New Year's souvenirs from their partners to the programme of Detsky Mir Charitable Foundation: the foundation received necessary goods for children and money.

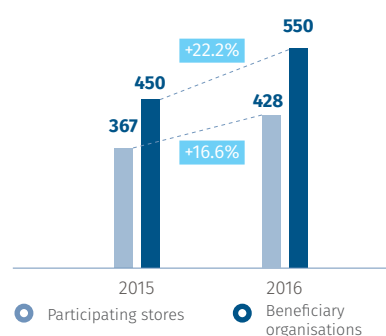
Starting from 2017, the charitable initiative "Participate!" will be held continuously throughout the year.



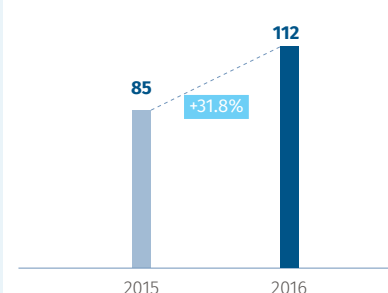
2.35^m

CUSTOMERS COLLECTED ALMOST 2.7M GIFTS FOR UNDERPRIVILEGED CHILDREN IN 2016

Number of participating stores and beneficiary organisations



Value of gifts collected as part of the campaign, RUB m



MTS: "Children and the Internet"



OVER THE COURSE OF FIVE YEARS,
MORE THAN

350th.

CHILDREN, TEACHERS AND PARENTS
FROM 30 RUSSIAN REGIONS HAVE
PARTICIPATED IN THE PROGRAMME



≈ 80%

OF CHILDREN IN RUSSIA USE
THE INTERNET WITHOUT PARENTS'
CONTROL



According to the Russian Foundation for Internet Development, children in Russia start to go online on their own at the age of 8-10. Many parents are not aware of the associated risks and often underestimate the dangers of the content that is not suitable for children.

Since 2011, MTS has been implementing the social and educational programme "Children and the Internet" in order to promote the rules of productive and safe use of the Internet among children, parents and primary school teachers. The company organises interactive exhibitions and classes to combat online illiteracy. **In 2016, educational exhibitions were attended by about 30,000 primary schoolers** from the Omsk, Kemerovo, Kurgan, Orenburg, Saratov and Krasnoyarsk regions, as well as the Republic of Udmurtia and the Republic of Chuvashia.

As part of the programme to improve Internet safety of children, MTS has also developed the services for content filtering, parental control and anti-virus protection. The Parental Control service restricts a child's access to web pages with adult content, obscene language, extremist materials, and materials promoting violence, illegal drugs or gambling. The service uses a blacklist system and prohibits access to more than 60m websites in 23 languages.

In 2017, MTS plans to update the federal educational project "Children and the Internet" in accordance with the latest trends in education and digital technology.

Andrey Dubovskov
President of MTS



As a result of the growing popularity of gadgets and mobile Internet, today every fourth child has a smartphone or a tablet. And half of the children independently go online using mobile devices. This means that it becomes increasingly difficult for parents to monitor their children's behaviour in the global network. Therefore, the task of MTS as a telecom operator is to show children the good side of the Internet and to guard them from potential risks. Our project "Children and the Internet" is part of the work that we are doing in this area.



BPGC: safe childhood

One of the key areas of social responsibility of Bashkir Power Grid Company is prevention of children's electrical injuries in the region.

For three years already, the company has been teaching power safety to the young generation within the framework of cooperation with the Ministry of Education of the Republic of Bashkortostan. Extracurricular power safety classes are held in schools throughout the republic, and during the summer holidays BPGC employees give talks on the same subject in Bashkortostan's children's summer camps. The company also released eight episodes of the educational animated series on power safety for preschool and primary school children, which is shown on local TV channels, in preschool institutions, in orphanages, in schools and during various events for children.

In 2016, the company expanded the project to include classes for preschool children.

Due to the active educational work, **not a single child suffered an injury at BPGC's power lines in 2016.** In 2017, the company intends to continue implementing a set of measures aimed at raising awareness of children, parents and teachers about electrical safety. A new agreement on this subject with the republic's Ministry of Education was signed in September 2016.

IN 2016, BPGC VOLUNTEERS HELD 955 EXTRACURRICULAR POWER SAFETY LESSONS IN BASHKORTOSTAN'S EDUCATION INSTITUTIONS AND FOUR THEATRICAL PERFORMANCES FOR CHILDREN IN THE CITIES OF UFA, OKTYABRSKY AND ISHIMBAY AND THE VILLAGE OF CHISHMY.

*Meds Group: contest for subsidies for non-profits*

Meds actively supports projects aimed at improving the quality of life of the people, the non-profit sector and social entrepreneurship.

In 2016, the company acted as a partner of the PR Committee of the Moscow City Government for the annual contest for subsidies to be allocated to the social welfare organisations of Moscow.

Representatives of Medsi sat on the Expert Council of the contest, searching for and evaluating promising projects

in general healthcare, digital health and related areas, along with identifying most relevant trends in the field of social entrepreneurship.



**173 PROJECTS WERE SUPPORTED
IN 2016 WITH SUBSIDIES EXCEEDING**

> RUB 230^m

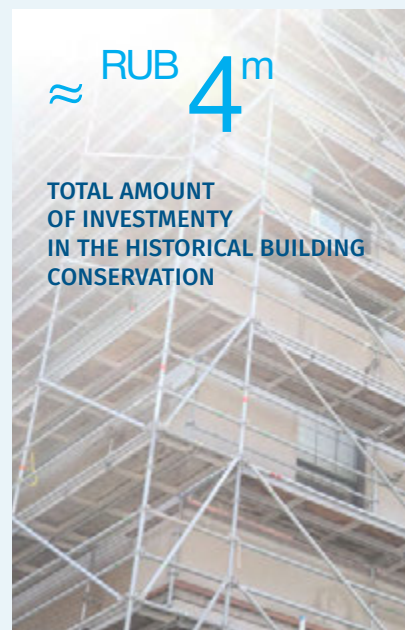




Leader Invest: preservation of historical and cultural heritage

Preservation of architecturally significant buildings for future generations is one of the important tasks for the development of Moscow's urban environment. As a responsible property developer, **in November 2016 Leader Invest began cooperating with the Agency for the Management and Use of Historical and Cultural Monuments** on the project of restoration and conservation of a significant cultural heritage site – Anna Mons House at 53 Baumanskaya St in Moscow. This is an architectural monument of federal significance built at the turn of the 17th and 18th centuries and the only surviving residential building of the German Quarter in Moscow. Today it is in a critical condition.

In January 2017, the Department of Cultural Heritage of the Moscow Government approved the project for the preservation of the house, which will be sponsored by Leader Invest. The total amount of investment is about RUB 4m. The project includes elimination of roof leaks, repair of floors, etc.



Mosdachtrest: improvement of the Moscow suburbs

Mosdachtrest, which maintains and leases out suburban real estate (including under joint programmes with the Moscow Government, municipal/state bodies and commercial enterprises), improves the territory of residential complexes in the Moscow suburbs: creates walking paths, benches, gazebos, etc. In addition, during the development of forests with an area of 63 ha Mosdachtrest carries out sanitary cleaning of forests and bodies of water.



**IN 2016, THE IMPROVED AREA
TOTALLED**

76.5^{ha}



3.2.2. Expanding opportunities for education and science

Given rapid technological development, investment in human capital means, first of all, the training of future professionals capable of successfully solving the tasks of tomorrow in the interests of the country's sustainable social and economic development.

In order to increase the overall level of education and digital literacy of the population, create an innovative business environment and attract prospective employees to the Corporation's enterprises, Sistema Group companies carry out numerous activities on development of intellectual potential and career guidance for young people starting from school years. The companies facilitate the employment of young professionals, promote the introduction of new technologies in the system of general and special education, and stimulate scientific and engineering



activities. To achieve these goals, the Corporation closely interacts with state and non-profit entities, academic and expert communities, developers of modern services, educational institutions and cultural institutions.



Relaunch of the "Lift to the Future" project

Since 2011, Sistema's flagship project in the field of education has been the "Lift to the Future" programme established jointly with the Lomonosov Moscow State University and implemented with the support of the Ministry of Education and Science of the Russian Federation. The programme is designed to identify and train young engineers for professional career by solving scientific and practical issues related to the development of innovative sectors of the Russian economy. Successful graduates of the programme receive support in the implementation of their projects and additional points for admission to the leading Russian universities, and get included in Sistema's pool of young talents for the advanced industries.

"LIFT TO THE FUTURE" ACTS AS A LINK BETWEEN ACADEMIA AND ONE OF THE LARGEST EMPLOYERS IN RUSSIA WITH A WIDE RANGE OF TECHNICAL AND ENGINEERING JOBS. ON THE ONE HAND, THE PROGRAMME CONTRIBUTES TO THE IMPROVEMENT OF THE EDUCATION SYSTEM THROUGH THE INTRODUCTION OF A PROJECT APPROACH IN TRAINING FUTURE SPECIALISTS; ON THE OTHER HAND, IT CAN BRING REAL ECONOMIC BENEFITS TO THE CORPORATION BY REDUCING THE COSTS FOR RECRUITMENT AND ADAPTATION OF YOUNG EMPLOYEES.

In 2016, the programme was reorganised and expanded to take into account the priorities of the National Technical Initiative, which determines the vector of technological development in Russia in line with global trends. For the first time, projects were launched to support supplementary science and technology education for high-school students and employment of university students and graduates. Thus, "Lift to the Future" covered all levels of education and career trajectory – from students and teachers to universities and employers.

Vladimir Evtushenkov
Chairman of the
Board of Directors
of Sistema



The Russian economy faces a shortage of skilled engineers, chemists, technologists and IT specialists. We clearly see this problem when selecting employees for our Corporation's high-tech companies. To reverse the negative trend, it is necessary to turn to the younger generation, support young talents and give them an idea of modern professions and innovative businesses where they can realise their dreams. These are the tasks of the programme 'Lift to the future'.

THE KEY OUTCOMES OF THE PROGRAMME IN 2016:

- Three engineering schools for schoolchildren "Lift in the Future" were organised:

APRIL



Engineering and design school at the Orlyonok Children's Centre jointly with the Moscow Polytech University. The school focused on the markets covered by National Technical Initiative.

**150 CHILDREN
FROM 60 CITIES**

AUGUST



Regional engineering and design school Lift to the Future as part of the children's charity festival Solony 2016.

**75 HIGH SCHOOL
STUDENTS FROM
THE REPUBLIC
OF ALTAI**

OCTOBER



National engineering and design school Lift to the Future at the Orlyonok Children's Centre. The winners received additional entrance exam scores from seven leading technical Russian universities.

**152 CHILDREN
FROM ALL
AROUND RUSSIA**

- Three new grant contests were established for a total of more than RUB 32m:

"PEOPLE OF THE FUTURE"

A grant contest for organisations supporting supplementary science and technology education for high-school students

**40 GRANTS
OF UP TO RUB
600,000**

"FACULTY OF CAREER"

A grant contest for university departments dealing with employment of graduates with engineering and science degrees

**5 GRANTS
OF UP TO RUB
900,000 EACH**

"SYSTEMIC SOLUTION"

A grant contest for university students and postgraduates, which is aimed at resolving real operational tasks of seven companies of Sistema Group

**16 GRANTS
OF UP TO RUB
500,000 EACH**

- RUB 6m was allocated to the ITMO University for the development of a specialised educational pilot programme to train IT specialists for Kronstadt Group.
- A total of more than 20 partnership agreements was signed with Russian universities.
- Cooperation agreements were signed with the Shiffers Institute and Quantorium technoparks.

Dmitry Peskov
Director of the
“Young Professionals”
programme of the
Agency for Strategic
Initiatives



'Lift to the future' plays an important role for the National Technology Initiative, since it not only implements project-based type of education but also supports individual projects in the field of supplementary school education in STEM.



EDUCATION INITIATIVES OF SAROV TECHNOPARK

In 2016, Sarov Technopark, together with its residents, held **12 training programmes for schoolchildren, students and young professionals**, including:

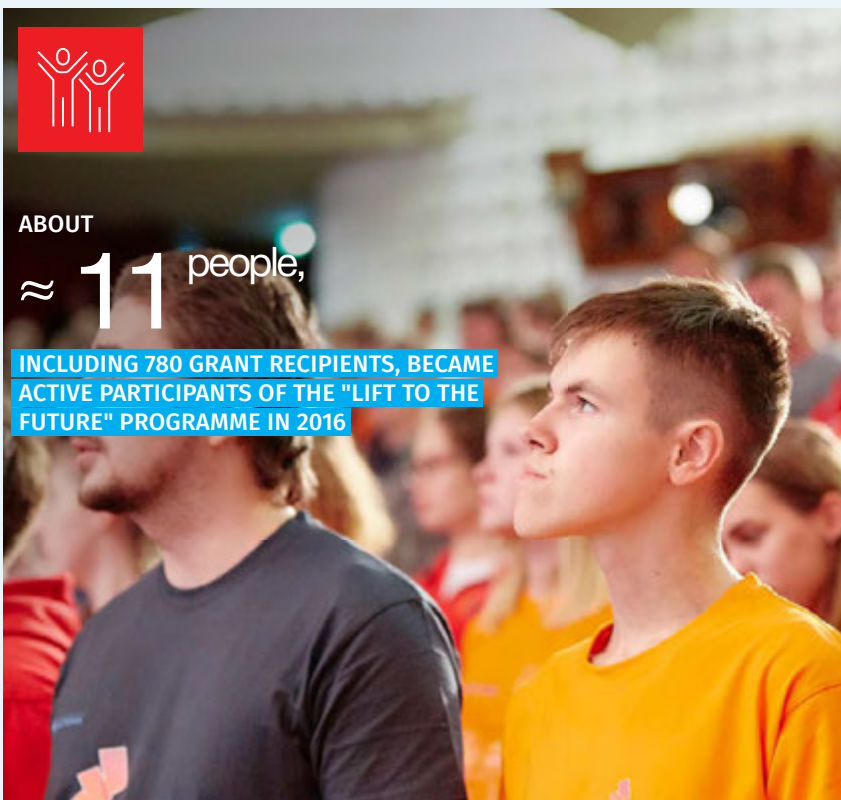
- 9th summer school of parallel programming Vector++ – annual school for high school students **(50 participants)**;
- Sarov Open School – a physics and mathematics school **(100 participants)**;
- animation festival “Belka and Strelka in the Technopark” and workshops by Moscow’s artists, screenwriters and animators **(2,500 participants)**



ABOUT

≈ **11** people,

INCLUDING 780 GRANT RECIPIENTS, BECAME ACTIVE PARTICIPANTS OF THE "LIFT TO THE FUTURE" PROGRAMME IN 2016



KidZania: a game-based approach to career guidance


≈ 100 professions

ARE AVAILABLE IN KIDZANIA



Sergey Sobyenin
Mayor of Moscow



This educational city for children is now the largest in Europe, and Moscow has long been waiting for it. One in ten residents of Moscow is a child who learns about life. Adults can influence what this child will learn about new professions and new opportunities. It's great that businesses are getting more and more involved in this work.

In January 2016, KidZania, an entertainment and education centre for children aged 4 to 14 years, was opened in Moscow, which allows children to try themselves in various jobs. This 10,000 sq m theme park became the largest in the world.

The social goal of the project is to introduce children to various professions. The project also provides inclusive education for children with developmental disabilities. KidZania helps children form general educational skills, which are given special attention in the new generation of national educational standards.

A number of Sistema's companies (MTS, Kronstadt Group, Medsi and Detsky Mir) organised their interactive educational sites in KidZania:

- **MTS** launched the network management centre for communications services and fast mobile Internet. Here, children will learn how images and voice are transferred wirelessly, what determines the speed of mobile Internet and how many generations of mobile networks have already changed.
- **Kronstadt Group** created an aviation school equipped with six aircraft simulators of its own production in the fuselage of a real Tu-134 aircraft with real pilot seats and the main control elements of an aircraft: modular instrument panel, control wheels, power levers, etc.

- In **Medsi's** clinic for children consisting of four modules – Ambulance, Diagnostics, Surgery and Clinical Laboratory – young visitors can try themselves in the role of doctors. All equipment is safe but as realistic as possible.

- **Detsky Mir** opened a supermarket in KidZania where children can “work” as shop assistants, cashiers, merchandisers or marketing managers.

≈ 800th.

VISITORS OF THE CENTRE A YEAR



MTS: support of youth innovations



A TOTAL OF ABOUT

1,500 projects

HAVE BEEN SUBMITTED TO “TELECOM IDEA” SINCE 2011

#TELECOMIDEA



MTS, with the support of the Ministry of Communications of the Russian Federation, the Higher School of Economics, Sistema Group companies and other partners, is implementing the long-term programme “Telecom Idea” to find, select, accelerate and promote innovative youth projects in the field of information and communication technologies and services which contribute to solving commercial and social problems and to developing a comfortable, eco-friendly and accessible environment.

In 2016, the events of the 6th annual contest “Telecom Idea” were held in **18 cities of Russia and in the capital of the Republic of Belarus**. Students, young scientists, research teams, startups and entrepreneurs presented **more than 500 projects of which 42 made it to the short list**. Experts selected winners in such categories as knowledge-intensive solutions, financial and educational products, services for the mass market, retail and e-commerce, projects in the field of cloud technologies, neural networks, telemedicine, culture, etc. In the category “Social startup”, the winner was a mobile application called “Driver Never Sleeps” (from the city of Ryazan), which prevents the driver from falling asleep during the ride.

The main award for the winners of the contest was an invitation to an educational tour to South Korea. The authors of the projects that most closely meet the business objectives of MTS were also able to participate in the acceleration programme jointly with the company's employees in order to finalise the projects for further implementation.

Andrey Dubovskov
President of MTS



We are organising this contest for the sixth time already with the expert and mentor support by MTS. Pitch sessions can be used by contestants to test their projects and by MTS experts to catch the trends in the development of promising segments. It is especially satisfying that most of the projects are aimed at mass consumption and are designed to improve the lives of millions of people.”



RTI: science school in the field of radio engineering

In 2016, the science school of RTI was awarded **a grant from the President of the Russian Federation for 2016-2017** for a study on the development of models and control methods for the creation of early warning radar systems.

The RTI science school, which is recognised not only in Russia but also abroad, assists the company in the development of radar stations

of ballistic missile defence for the detection of objects in near-Earth space environment. The school is headed by Professor Sergey Boev, Doctor of Technical and Economic Sciences, and Professor Alexander Rakhmanov, Doctor of Technical Sciences. The RTI school consists of both science units of RTI's enterprises (the Mintz Radio Technology Institute, NPK NIIDAR and OKB Planeta) and representatives of universities:

- Moscow Institute of Physics and Technology,
- Tver State Technical University,
- Yaroslavl State University
- Mordovian State University.

RTI: "Mintz Readings"

In November 2016, "Mintz Readings 2016", 4th Russian Science and Technology Conference for young designers and engineers, took place at RTI. It was commemorating the 70 years of the Mintz Radio Technology Institute and 100 years of the Research Institute of Long-Range Radio Communications. This year's conference was organised by RTI, Mintz Radio Technology Institute and Moscow Institute of Physics and Technology. The



conference has become a modern communication platform for young engineers, designers and researchers of the defence industry, technical universities, academic institutes and research institutions of the Ministry of Defence of the Russian Federation.

One of the key goals of the event is to test the results of research conducted by young scientists and engineers.

Another objective of the conference is to create a methodology for the development and promotion of science schools formed within RTI Group, in which much attention is paid to youth science. Moreover, the science school of RTI was awarded a grant from the President of the Russian Federation for a study on the development of models and control methods for the creation of early warning radar systems.



**THE NUMBER
OF PARTICIPANTS INCREASED TO**

160

IN 2016

Sergey Boev
Chairman of the
Board of Directors
of RTI



Our conference is named after Academician Alexander Mintz, an outstanding scientist, engineer, designer and manager. The very name of the conference shows the continuity of ideas and motivations for different generations of researchers in academia and industry. The mission of the forum is to realise the scientific and engineering potential of young scientists and specialists, and to allow them to work in the interests of Russia's research and production enterprises.



RTI: cooperation with Mordovian State University

In 2016, a specialised laboratory of **the Radio Engineering Department of Mordovian State University was opened at the Saransk TV Factory (STZ)**, which is part of RTI Group. The educational process at the department is carried out in cooperation with the factory. Students can complete on-the-job training and internship programmes at the enterprise, and some of diploma projects are related

to the business of STZ each year. The opening of the laboratory will make it possible to have classes right at the factory with the involvement of its leading specialists.

Earlier STZ and the university created the educational module "Development and Diagnostics of Radio Engineering Systems and Complexes", which will be used for targeted training of five students.

THE PROJECT WAS SUPPORTED BY THE MINISTRY OF EDUCATION AND SCIENCE OF THE RUSSIAN FEDERATION, WHICH ALLOCATED MORE THAN RUB 280,000 TO IT IN 2016 AS CO-FINANCING.

Mikron and NIIME: occupational guidance for high school and university students

Mikron is constantly working to develop a talent pool for the microelectronic industry by working with bright young people, supporting schools/universities focused on physics and mathematics, and organising occupational guidance for students.

For example, the company supports the internship **programme of the Ministry of Industry and Trade of the Russian Federation** for senior students and recent graduates of universities by providing opportunities for internships and participation in scientific competitions, and by conducting open tours of its production facilities.

In 2016, National Research Institute of Molecular Electronics (NIIME) together with Zelenograd Development Corporation organised career guidance courses for high school students of the Zelenograd Lyceum. A total of 59

students took part in the educational programme and submitted their own projects. The best ones received job offers for the summer holidays at NIIME and were accepted to National Research University of Electronic Technology (MIET).

Mikron conducted **seven tours around the enterprise** for students as part of the programme “Technonavigator” of the Department of Science, Industrial Policy and Entrepreneurship of the Moscow Government and the public institution Small Businesses of Moscow, aimed at increasing the prestige of engineering professions. The students learned about the professions of engineer and semiconductor manufacturing operator, how to build a career in the microelectronic industry and what universities train specialists for modern high-tech enterprises. In April, Mikron also took part in the

employment fair at Bauman Moscow State Technical University. Students, graduate students and graduates of the university were able to get information about the opportunities for internships and work at Mikron.



Stream: navigating the digital world

Stream, a member of MTS Group, regularly conducts career guidance tours and meetings for high school students of Moscow and the Moscow region. The project also involves institutions for children with disabilities. During the meetings, volunteering employees talk about the jobs and professions that are in demand in the multimedia technology business.

In 2016, about **180 students** learned about mobile applications and services developed by the company.

One of the main events was a meeting with **15 teenagers** from the regional public organisation of persons with disabilities “Perspective”, including the visually impaired. They learned about the possibilities of remote work in the IT industry and creation of specialised mobile applications for blind people. Another specialised meeting on career guidance was organised for students of the Olympic reserve vocational school No 2.

Oksana Vorobyova
CEO of Stream



Technology develops at an amazing pace today, impressing with innovative discoveries and expanding opportunities. This potential should also be applied in education. We are glad that we have found such a creative way to talk about the development and application of information and communication technologies with the younger generation. Today these kids are our guests, and tomorrow they can become our employees.



Sistema Charitable Foundation and Binnopharm: helping to choose a profession

In 2016, Sistema Charitable Foundation initiated the project **"Map of professions"** for children from orphanages and care homes. Unprivileged children from social institutions have the opportunity to learn about the work of companies in such sectors as biotechnology, pharmaceuticals, microelectronics, aviation, IT, radio and space technologies, and other knowledge-intensive industries.

In April 2016, SCF had a joint event with Binnopharm, which for many years has been conducting tours to offices and production facilities, lectures and master classes for children from orphanages. The teenagers from Moscow's Orphanage No 48 visited one of Binnopharm's plants, where they learned about the system of water purification and water treatment at the enterprise, saw the process of product packaging and visited the laboratory for quality control of medicines.



Kronstadt Group: flight simulators for pilot training

Armen Isaakyan
CEO of
Kronstadt Group



Our company has vast experience in developing and building technical facilities for the training and retraining of aircraft pilots. The visualisation system Aurora 3 takes the pilot training to a whole new level. This unique product required developers to significantly improve the quality of production.

In 2016, Kronstadt Group, a world expert in the manufacture of flight simulators and on-board equipment for Russian and foreign aircraft and helicopters, installed at the **St. Petersburg Civil Aviation University** the Boeing 737-800 NG simulator with the unique visualisation software "Aurora 3", in which real satellite images of the Earth's surface were used. The visualisation system is one of the most important components of a flight simulator because visual perception is the main source of information for a pilot.

In the summer of 2016, **Boeing's research and training aviation centre** was opened in Moscow's Skolkovo, for which Kronstadt Group developed the first domestic full-flight simulator of the civil aircraft Boeing 737 NG. The high-tech training centre is designed for theoretical and practical training of Russian pilots and engineers.



MTS: laboratory at Tula State Pedagogical University

In 2016, MTS and Tula State Pedagogical University signed a cooperation agreement to jointly develop educational, scientific, innovation and research activities for improving the quality of education in relevant areas.

The first stage of the agreement implementation was a series of lectures from the representatives of MTS for the university's students. They talked



>200

**STUDENTS ATTENDED
THE MTS LECTURES**

about the latest trends in telecom, the possibilities of communication technologies in the next five years, the development of Wi-Fi and the ways to protect personal data when using Wi-Fi.

In April 2016, the **MTS Laboratory** was opened at the Department of Mathematics, Physics and Informatics; it features a set of modern telecom equipment, which gives an opportunity to learn about the structure of broadband Internet access and data transmission. The laboratory will allow students to practice the skills of working with a new generation of fixed communications equipment.

Vladimir Panin
Rector of the Tula
State Pedagogical
University



Our university pursues a policy of making contacts with those employers which are open to cooperation and offer projects that fit into the framework of educational programmes. One such employer is MTS. This laboratory will enable our students to obtain practical skills in working with modern specialised equipment and acquire additional professional competences.



Cooperation between MTS and the Ministry of Education of Belarus

In 2016, MTS and the Ministry of Education of the Republic of Belarus signed an agreement on the implementation of joint projects, including the creation of an "e-school", i.e. a set of actions to incorporate information and

communication technologies in the educational process, including an interactive platform for teachers, parents and students, which can replace traditional paper journals with grades.

Other joint initiatives include :

- holding a national contest to identify initiatives that contribute to the innovative development of education;
- promoting the project "Children and the Internet", which helps elementary school children learn the rules of online security;
- developing teaching guides on the subject of online behaviour and holding relevant seminars.

Pavel Lis

Director of the Main Information and Analytical Centre of the Ministry of Education of the Republic of Belarus



This is a good example of successful public-private partnership in both social projects and computer literacy initiatives. Digital networks of educational institutions of all levels keep growing. It is likely that in the near future all the hardware capacities could be combined into a single cloud-based ecosystem. But it is important that teachers learn computer literacy and online security so that they can be good at using these new resources.





MTS: training for pensioners

SINCE 2012, MTS HAS BEEN IMPLEMENTING THE FEDERAL SOCIAL AND EDUCATIONAL PROJECT “ALL AGES ARE ONLINE”, DESIGNED TO TEACH SENIOR CITIZENS USEFUL SKILLS OF USING THE INTERNET AND MOBILE SERVICES.



> 15th.

PENSIONERS HAVE ATTENDED THE INTERNET LITERACY COURSES IN FOUR YEARS

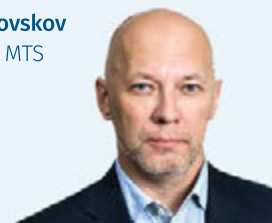


In 2016, MTS jointly with the Russian Retiree Union opened free classes on mobile Internet literacy “**MTS Mobile Academy**”. The attendees will learn how to use tablets for phone and utility payments, shopping for groceries and medications, online calls to family and friends, and subscription to various public services. The programme aims to attract roughly 1,000 students in the Moscow, Oryol, Kurgan, Novosibirsk, Amur, Saratov, Krasnodar and Altay regions, as well as the Republics of Adygeya and Dagestan, in 2016-2017 academic years.

MTS plans to develop “Mobile Academy” in all federal districts of the Russian Federation, including opening new educational Internet classes and attracting new partners from government entities and non-profit organisations, and promoting the teaching methods among all interested parties.

The graduates of the educational programmes have the opportunity to demonstrate their skills in competitions. In 2016, MTS supported the 6th Russian computer skills championship for elders in Novosibirsk, which gathered more than 120 participants from 61 regions of Russia and abroad.

Andrey Dubovskov
President of MTS



Today one in four citizens of Russia is in retirement age, and the importance of educational work for the adaptation of the older generation to modern digital technologies is increasing each day. The task of the MTS Mobile Academy is to make mobile devices truly understandable and accessible for the elderly, to raise the self-esteem of senior citizens and to integrate them into the digital environment.



Sistema Shyam TeleServices Limited (SSTL): educational initiative in India



In 2016, SSTL took part in the state programme “**Skill India**”, which was launched by the country's Prime Minister in 2015 to teach more than 400m Indians various useful skills by 2022. The company developed training courses for work in the telecommunications industry.

THE TRAINING ACTIVITIES TOOK PLACE IN 24 INSTITUTIONS OF TECHNICAL EDUCATION AND WERE PARTICIPATED BY A TOTAL OF MORE THAN 1,500 STUDENTS IN INDIA.

Cooperation with the Russian Museum

SINCE 2003, SISTEMA HAS BEEN SUPPORTING THE CULTURAL AND EDUCATIONAL ACTIVITIES OF THE STATE RUSSIAN MUSEUM UNDER THE LONG-TERM AGREEMENT SIGNED FOR THE PERIOD OF 20 YEARS WITH AN ANNUAL FUNDING OF RUB 30M.



The largest joint initiative is the project called **“The Russian Museum: A Virtual Branch”**. This is an extensive network of unique information and educational centres that host educational events introducing the general public to the masterpieces of Russian art, as well as a website that provides free access to digital and printed materials based on the museum's collection.

In 2016, SCF supported the launch of the updated website of the museum and the opening of the multimedia information and exhibition centre in St Petersburg.

The Foundation also supported the exhibition to celebrate Ivan Aivazovsky's 200th anniversary and the exhibition about Elizabeth's era from the Romanov Dynasty series. In three months, the paintings of the famous seascape painter were seen by almost **300,000 people**, and the museum earned RUB 60m from the sale of tickets.

Another major project of SCF and the Russian Museum is the annual festival of garden art The Imperial Gardens of Russia. Its central theme in 2016 was childhood. The festival was visited by more than **100,000 people**.

Kronstadt Group: multimedia museum at the cruiser “Aurora”

Kronstadt Group took part in the creation of a modern exposition within the framework of the reconstruction of the cruiser “Aurora” **in St Petersburg commissioned by Central Naval Museum of the Ministry of Defence** of the Russian Federation in order to recreate the historical appearance of the legendary military ship.

The company installed a high-tech complex on the ship designed for six halls, including a number of multimedia installations and two holographic installations about the crew's daily routine. Kronstadt Group also equipped two new halls of the museum with multimedia equipment and sponsored the installation of an automated ticket system with video surveillance.

Armen Isaakyan
CEO of Kronstadt Group



For us, participating in the reconstruction of the cruiser is an important milestone that confirms the status of the company as a professional developer and manufacturer of military-patriotic museum solutions. Given our vast experience in equipping real warships, we are happy to apply this knowledge in the museum and educational spheres.



DETSKY MIR GROUP: WORKSHOPS FROM THE STAFF OF THE PUSHKIN MUSEUM

In November 2016, Detsky Mir's flagship store in Moscow hosted a series of free creative workshops for children aged 4-10 years. The classes devoted to various forms of fine art were conducted by the teachers of the Pushkin Museum's Centre for the Aesthetic Education of Children and Young People.

3.2.3. Healthcare practices

In 2009, Russia adopted the concept for the development of the healthcare system until 2020, aimed at preservation and strengthening of the health of the nation. The companies of Sistema Group – primarily Medsi and Binnopharm – make a significant contribution

to improving the quality of medical services and facilitate R&D for new medicines, professional development of medical personnel, promotion of healthy lifestyles among the population and establishment of an inclusive environment in the country.



Medsi Group: new quality Russian of healthcare

The history of Medsi, the largest federal chain of clinics which celebrated its 20th anniversary in 2016, is an integral part of the evolution of private healthcare in Russia. In 2016, the company adopted its **long-term medical strategy**, which was developed by not only the business executives but also leading doctors. The strategy is aimed at switching from process-based healthcare to results-based healthcare and at becoming the national leader in the Russian market of medical services through the implementation of a set of measures in the following key areas.

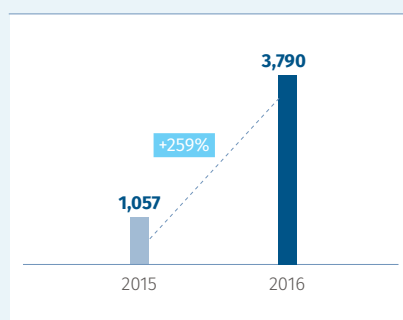
IN CERTAIN AREAS, MORE THAN 80% OF MEDICAL CARE SERVICES IN THE MOSCOW REGION IS PROVIDED BY PRIVATE CLINICS.

IN 2017, THE COMPANY PLANS TO OPEN A JOINT TRAINING CENTRE AT THE CDC KRASNAYA PRESNYA WITH ONE OF THE LEADING MANUFACTURERS OF MEDICAL EQUIPMENT TO IMPROVE DOCTORS' COMPETENCES AS PART OF THE "MEDICAL ACADEMY" PROJECT.

1. INTEGRATION IN THE STATE HEALTHCARE SYSTEM

- In 2016, Medsi joined the **programme of government guarantees** of free medical care in the Moscow region and, in the long term, plans to participate in the programme for high-tech medical care, which is not included in the programme of obligatory medical insurance.

The volume of medical services provided at Medsi clinics under obligatory medical insurance programme, number of cases



In 2016, the volume of medical services under the programme of government guarantees at Medsi clinics increased more than 3.5 times.

- The company **helps bridging the gap between the demand** for medical services and the resources of the public healthcare system.

In 2016, Medsi started doing cardiac surgery in one of the Russian regions for patients with acute coronary syndrome who cannot receive timely care in the public clinics.

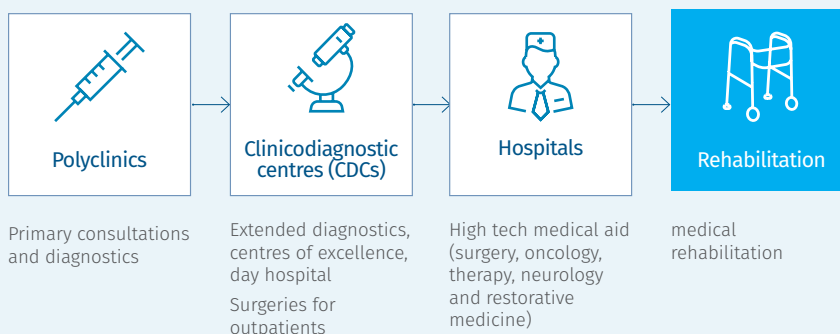
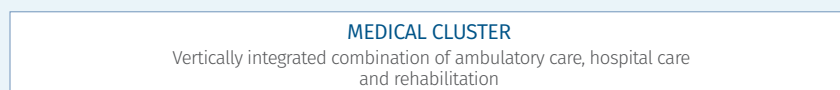
- Medsi participates **in the improvement of the system of training of medical personnel**.
- The company has been accredited for training and education activities and in 2017 plans to open its own **"Medical Academy"** – a platform for training and promotion of best practices. It will be open for both the Group's staff and other doctors, including those from the regions.
- Participation in large-scale projects of private-state partnership and industry partnership in the field of healthcare, including at the international level, in order to apply global best practices and methods of providing medical care in Russia.

2. FORMATION OF MEDICAL CLUSTERS AND SPECIALISED CENTRES OF EXCELLENCE

Medsi develops a **vertically integrated cluster model** that will allow it to offer a full cycle of healthcare services on the basis of its assets, expand the range of types and technologies of medical aid, and strengthen the competence.

In 2017-2018, the company plans to form the in-patient **care cluster** on the basis of the Clinical Hospital and the Medsi Sanatorium in Otradnoye (the Moscow Region's Krasnogorsk District), as well as the **oncology cluster** based around the Medsi Clinical Hospital in Botkinsky Proezd.

Medsi creates specialised **Centres of Excellence** in its clinical hospitals and clinicodiagnostic centres (it is planned to expand in the future):



CDC Grokholsky

- Otolaryngology centre for children and adults

CDC Krasnaya Presnya

- Allergology and immunology for children and adults
- Herniology
- Somnology centre
- Otoneurologia
- Endovascular methods of diagnosis and treatment
- Endocrinology
- Centre for medical cosmetology and dermatology
- Pain centre
- Women's health centre
- Centre for endoscopic methods of treatment of gastrointestinal diseases
- Hepatology centre

Children's clinic at Blagoveshchensky

- Centre for pediatric cardiology and arrhythmology
- Centre for allergology, immunology and preventive vaccination
- Centre for infant care and nutrition
- Children's rehabilitation centre

CDC Belorusskaya

- Centre for diagnostics and innovative medical technologies
- Centre for extracorporeal treatment methods
- Centre for endovascular phlebology and vascular surgery
- Men's health centre

2017:

- Centre for diagnosis and treatment of diabetes
- Clinic of innovative rheumatology
- Centre for foot and hand surgery
- Memory centre
- Centre for early diagnosis of cancer

Children's clinic at Pirogovskaya

- Centre for the treatment of haemangiomas, vascular, benign tumours in children
- Centre for children's orthopaedics and rehabilitation
- Ophthalmology centre for children
- Otolaryngology centre for children
- Uro-nephrology centre for children

Clinical Hospital at Pyatnitskoye Shosse

- Centre for oncohematology
- Centre for orthopaedics and traumatology
- Centre for peritoneal dialysis

2017:

- Urology centre
- Centre for cardiac rhythm disorders

Clinical Hospital at Botkinsky Proezd

2017:

- Chemotherapy centre
- Orthopedics and traumatology centre
- Mammology centre



3. NEW MODEL FOR ORGANISATION OF HEALTHCARE

HEALTHCARE AT MEDSI WILL BE ORGANISED USING THE P4 APPROACH

In 2016, Medsi Group began to introduce diagnostic standards into clinical practice, allowing verification of the diagnosis and determining the tactics of treatment at the outpatient stage. Medsi plans the standardisation of medical institutions in accordance with the international JCI standards of quality and safety.

Predictive

Identifying the patient's predisposition to the disease

Personalised

Individual approach to every patient

Preventive

Preventing diseases

P4

Participatory

Involving patient into the process of treatment

Elena Brusilova
President of Medsi Group



In Medsi we form such a system that will allow us to lead in terms of the quality and safety of medical services. We see ourselves as a reliable partner of the state in building a modern and competitive healthcare system for Russia. Our social mission is to make the world-class medical services, including complex high-tech medical aid, available to the maximum number of patients in our country, including under the obligatory medical insurance programme. First of all, we are talking about such areas where there is a particularly strong demand and where existing resources are not enough for prevention, timely diagnosis and effective treatment: oncology, traumatology, haematology, cardiology and medical rehabilitation. In each region of Medsi's operations, patients should receive equally high-quality medical aid. For this purpose, we standardise not only the patient diagnosis and treatment methods but also the medical and non-medical equipment used in our chain of clinics.



Clinical trials at Medsi Group



In 2016, Medsi was accredited by the Ministry of Health of the Russian Federation for conducting clinical trials of medicines and testing medical equipment and consumables.

The trials will be carried out at Medsi hospitals jointly with Binnopharm, which will provide its newly developed therapeutic agents for testing. **The first two trials in the field of endocrinology and cardiology were launched in the first quarter of 2017 at the Clinical Hospital in Botkinsky Proezd.** It is planned to expand the list of institutions included in the clinical trials programme in the future.

Elena Brusilova
President of Medsi
Group



Participation in this strategically important project requires professional staff. All employees who will take part in clinical trials have been trained in accordance with the international standards of ethics and quality of scientific research. Many of them already have experience of participating in similar international projects.



Meds Group: promotion of healthy lifestyles and prevention of diseases

“Be Healthy with Medsi” is a free comprehensive programme promoting healthy lifestyles among the customers and partners of the company, which started in 2014 and includes a series of lectures, consultations and newsletters, as well as free preventive and diagnostic activities.

In 2016, the programme had more than **90 events**, including:

- **health days** and lectures for partner companies, including those of Sistema Group;
- weekly lectures and **consultations** for the visitors of the children's entertainment centre KidZania and “Health Week”, a series of lectures for parents about the most common problems with children's health and the possibilities of modern healthcare.

TOGETHER AGAINST CANCER

IN FEBRUARY 2016, MEDSI HOSTED AN EVENT DEDICATED TO THE WORLD CANCER DAY. EMPLOYEES AND PATIENTS WERE OFFERED FREE MAMMOGRAMS AT MEDSI CLINIC IN SOLYANKA AND SKIN CANCER SCREENINGS AT MEDSI CLINIC IN SHCHELKOVO. AFTER THE TESTS, ALL VISITORS WERE OFFERED DOCTOR CONSULTATIONS AND NECESSARY RECOMMENDATIONS. DURING THE FORUM OF ACTIVE CITIZENS “COMMUNITY” IN NOVEMBER 2016, MEDSI SIGNED AN AGREEMENT WITH NOVARD GROUP ON SOCIAL PARTNERSHIP IN THE FIGHT AGAINST BREAST CANCER.



Medsi Group: research council



Medsi's Research Council chaired by Professor Konovalov has been working at CDC Belorusskaya since 2008. It unites the elite of Russian medicine – leading scientists including **46 academicians and professors from six countries** (Germany, Switzerland, France, Greece, the US, etc.) – and is an effective platform for sharing advanced scientific knowledge and introducing advanced diagnostics, treatment and rehabilitation technologies. Another important objective of the Research Council is to constantly improve

the skills of the company's medical personnel through conferences, master classes and other training events. The Council supervises the publishing of a unique scientific journal “Medsi's Bulletin”.

In 2016, the Research Council had **six meetings** dedicated to various issues of modern medicine. Medsi also had an anniversary scientific and practical conference with the participation of Sistema's and Medsi Group's executives as well as the heads of clinics and Medsi's divisions.

Binnopharm: Medical Academy

In an effort to improve the quality of medical services throughout the country, Binnopharm launched the federal educational initiative “Medical Academy” for general practitioners, pulmonologists and neurologists in 2016. The project aims to increase the level of knowledge of medical practitioners about modern methods of diagnosis and treatment of various neurological and pulmonological diseases. To this end, the company conducts conferences, seminars and webinars with the participation of leading Russian specialists in the field of neurology, and also sends out free copies of the electronic scientific journal “Neuron” to a mailing list of about **5,400 doctors**, including about 2,500 neurologists and 2,900 general practitioners.

MORE THAN 23,000 GENERAL PRACTITIONERS, NEUROLOGISTS AND PULMONOLOGISTS FROM ALL OVER THE COUNTRY TOOK PART IN THE EDUCATIONAL EVENTS

In 2016, the company held five conferences, 21 seminars and two webinars, and published four issues of the journal. Events dedicated to the diagnosis and treatment of patients with chronic cerebral ischemia, headaches, cognitive impairment and other diagnoses were held in the Moscow region and 16 other Russian cities. Thanks to remote communication channels, the project involved medical specialists from the most distant regions of the country.



THE TOTAL INVESTMENT OF BINNOPHARM IN THE MEDICAL ACADEMY AMOUNTED TO

RUB 1 m



Binnopharm: ensuring drug safety

By participating in the implementation of the Pharmaceutical Industry Development Strategy through 2020 (the Pharma 2020 programme), Binnopharm contributes directly to ensuring Russia's drug safety and preserving the health of the nation: it develops and manufactures drugs for the treatment of socially dangerous diseases in the fields of nephrology, neurology, pulmonology, etc.

Within the framework of licensing agreements with major foreign partners, the company carries out both contract manufacturing and marketing of some important drugs that were previously unavailable in the Russian market. For example, in December 2016, Binnopharm became the exclusive representative of the German pharmaceutical company MEDICE for distributing in Russia four effective and high-quality medicines that have top positions in their segments in Europe.

All technological processes at Binnopharm enterprises are carried out in compliance with the international requirements of Good Manufacturing Practices (GMP). Quality control is carried out at all stages of production. In April 2016, the production facilities of the company were certified under the GOST R ISO

9001:2015 standard, confirming the compliance of the quality management system with the most advanced international requirements for the development, production, storage and sale of medicines. The new version of the standard focuses on achieving customer satisfaction and creating value from the organisation's products/services for all stakeholders.

BINNOPHARM PRODUCES "REGEVAC", HEPATITIS B VACCINE DEVELOPED BY THE COMPANY, WHICH ALMOST COMPLETELY SATISFIES THE DEMAND OF THE RUSSIAN POPULATION FOR VACCINATION AGAINST THIS SOCIALLY DANGEROUS DISEASE. WITHIN THE FRAMEWORK OF THE PROGRAMME "REGEVACCINATION" FOR IMMUNISATION OF GROUPS OF PEOPLE AT RISK OF HEPATITIS B INFECTION, MORE THAN 200 PEOPLE WERE VACCINATED AGAINST HEPATITIS B IN THE FIRST HALF OF 2016, INCLUDING 100 EMPLOYEES OF TYUMENNIIGIPROGAS, A SUBSIDIARY OF GAZPROM.

IN ADDITION, AS A RESULT OF WORK WITH DISTRIBUTORS, THE COMPANY SUPPLIED MORE THAN 3,500 VACCINE PACKAGES, WHICH CAN BE USED FOR VACCINATION OF ABOUT 1,200 PEOPLE IN ADDITION TO VACCINATION OF CHILDREN AS PART OF THE NATIONAL VACCINATION CALENDAR.



Katja Pütter-Ammer and Richard Ammer
Managing partners and general managers
of MEDICE Arzneimittel Pütter GmbH & Co. KG.



In a structured selection process that lasted over 12 months, we found a perfect partner, Binnopharm, which is known for its patient-centred thinking, knowledgeable teams and a strong belief in medical and business ethics. Our companies share common values and always put the patients and the quality of drugs first.



Meds Group: innovations in rehabilitation

Meds Group, one of the flagships of medical rehabilitation in Russia, introduces advanced methods in this socially important sphere. In 2016, the rehabilitation department of Medsi's Otradnoye Sanatorium – where, in particular, the Great Patriotic War veterans receive free treatment – purchased **modern robotic complexes** designed for motor function recovery

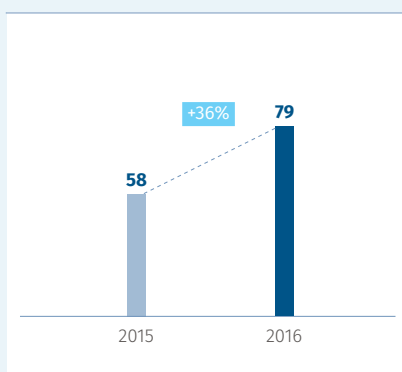
in patients with neurological and orthopedic diseases. For example, the biofeedback used implies that the training is conducted in a virtual environment with visual screen control, and patients can adjust their movements by observing signals from the computer. This contributes to a more effective formation of motor skills.

The use of such rehabilitation complexes contributes to improving the quality of life of patients, reducing disability and the degree of dependence of people with disabilities on others.

Detsky Mir Group: playrooms in medical institutions

"Operation Toys" is a long-term project of Detsky Mir's charitable foundation for the organisation of playrooms in medical institutions. Its goal is to ensure a comfortable stay in the hospital for children on long-term treatment and thus speed up the recovery process. Detsky Mir provides such playrooms with toys, musical instruments and materials for developing speech, memory, thinking and attention skills, renovates and decorates the rooms, and purchases furniture and medical equipment.

Number of opened children's playrooms



IN 2016, DETSKY MIR OPENED

79

PLAYROOMS IN 30 MEDICAL
AND SOCIAL INSTITUTIONS
IN 18 CITIES OF RUSSIA.

A TOTAL OF
174 playrooms

PLAYROOMS WERE OPENED
AS PART OF THE PROJECT
AS OF THE END OF 2016



Sistema Charitable Foundation: support for children's festival "Redhead"

On 5 June 2016, the 3rd children's festival "Redhead", which promotes inclusion and disability rights, was held in the Bauman Garden in Moscow with the support of SCF. It was organised by the non-profit organisation **"Hospital Clowns"**.

This colourful event was aimed at bringing about a rapprochement between children with disabilities and those without them, as well as at helping children overcome their fear of doctors. The main participants of the event were children with special needs supported by partner charitable foundations. The festival included 50 professionals from **"Hospital Clowns"**, 80 volunteers from different regions of Russia and CIS, and more than **40 volunteers from the Corporation**.

The festival brought together all the charitable projects of Sistema Group companies: **MTS, Stream, Medsi, Leader Invest, Binnopharm, Detsky Mir and RTI**. For example, Medsi

organised a game called "Hospital". Binnopharm equipped the site with professional medical props. Volunteer puppet theatres of MTS and Detsky Mir had environment-themed performances. Detsky Mir also held interactive and creative master classes. Real estate developer Leader Invest installed a tent with wooden construction toys.

Konstantin Sedov

Co-founder of Hospital Clowns



The main goal of the festival is not only to hold a children's party, but also to provide psychotherapeutic help for children. Simulating and repeating hospital conditions in a game environment helps to cheer up the kids, to free and relieve them psychologically, and to give them the necessary attention and care.





Environmental protection

>> 3.3.1. Rational models of production and consumption

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>> 3.3.2. Increasing energy efficiency

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>> 3.3.3. Taking care of nature and biodiversity

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Kamil Zakirov
President of
Segezha Group



« Forests are among the most important resources of the country, and they must be preserved by joint efforts of the authorities and businesses. Intensive forest management achieves two targets. We grow target timber species where large processing industry is located, we improve forest composition and its productivity, and we supply the necessary raw materials to industrialists. Where forests are inaccessible, biodiversity remains intact. This is stability for decades to come in the interests of society and the timber industry.



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More details
in section
[Taking care of nature
and biodiversity](#)



> 96%

OF FORESTS LEASED BY SEGEZHA
GROUP IS FSC-CERTIFIED

3.3. Environmental protection

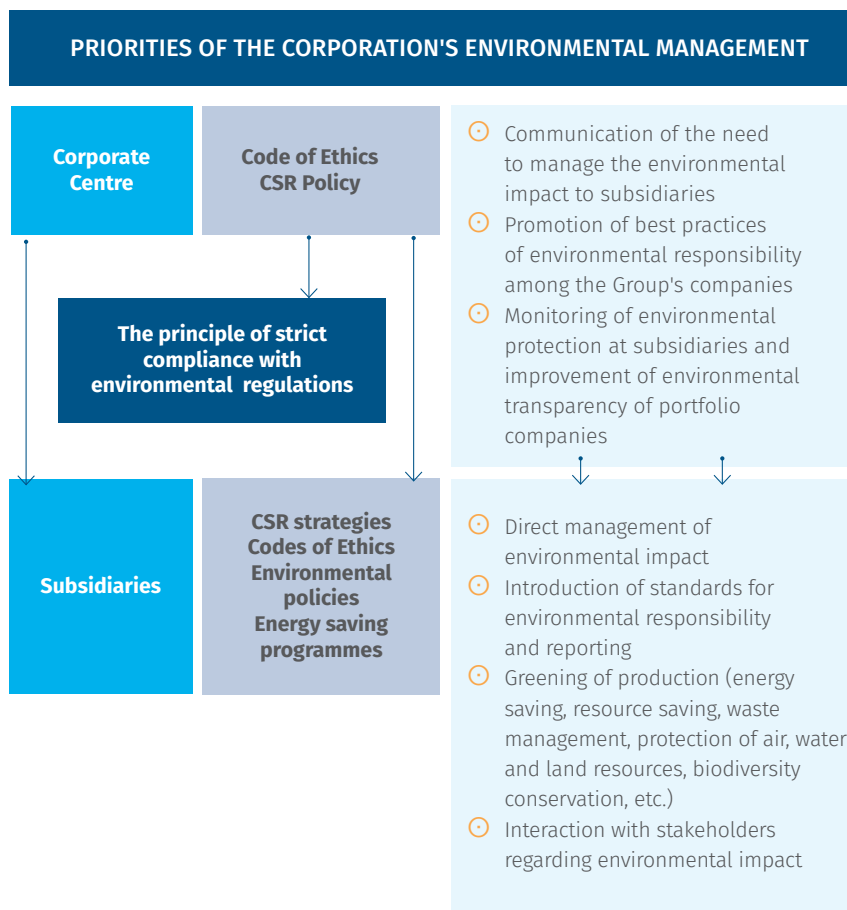
Sistema, as an investment company, does not have a direct significant impact on the environment, but, guided by the principles of precaution, seeks to avoid harm to the environment and to save natural resources.

Reduction of the negative impact on the ecosystem and conservation of the environment are among the priorities of the Corporation in the field of sustainable development. The primary responsibility of Sistema, as set out in the Code of Ethics, is to monitor the activities of its portfolio companies to assess and prevent the possible risks associated with the environmental impact of production assets that are required to work in strict compliance with Russian and international environmental regulations.

In turn, the Group's companies implement projects and activities aimed at:

- greening of production;
- improvement of the environment in the regions of operations;
- conservation of biological diversity;
- support for public environmental initiatives;
- development of environmental volunteering and raising of awareness.

Environmental management system



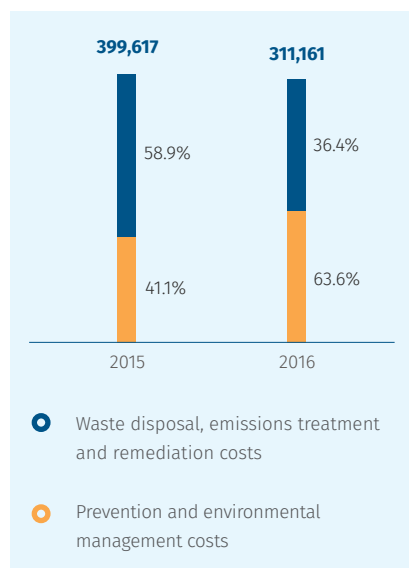
G4-EN31

In 2016, environmental protection expenditures decreased by 22.1% year-on-year due to lower costs for the elimination of environmental damage, waste management and emission purification. At the same time, **expenses for the environmental management system and prevention of adverse environmental impact**

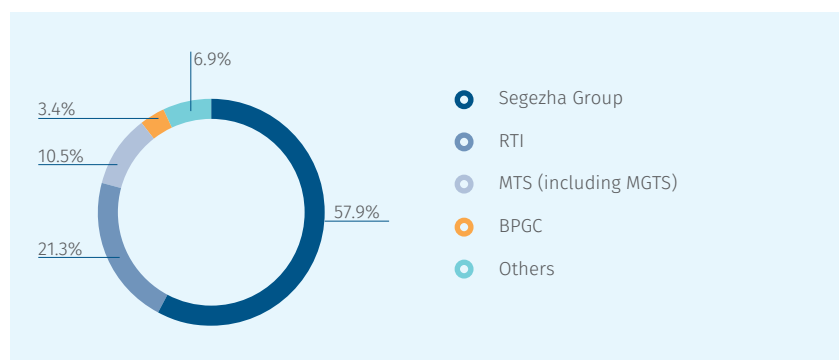
increased by 20.8% to approximately RUB 200m. The share of expenses on this segment was 63.6%.

Of all the Corporation's subsidiaries, the largest contributions for environmental protection in 2016 were made by Segezha Group (57.9%), RTI (21.3%) and MTS including MGTS (10.5%).

Environmental protection expenditures, RUB K¹



Total environmental protection expenditures by subsidiaries, %



Interaction with environmental non-profits

Cooperation with the Russian Geographical Society



Sistema has been supporting the scientific, research and educational **projects of the Russian Geographical Society (RGS)** since 2011. This public organisation aims to study, preserve and promote the natural resources of Russia.

In 2016, within the framework of the RGS grant programme, the

Corporation allocated RUB 15m for the implementation of the following projects:

- expedition "Deltas of the rivers of the south of Russia";
- project "The Russian heritage of the Himalayas: Continuation of the way";
- national congress of young geographers GeoSearch;
- creation of a geographic information system "Rivers and river basins of the Arctic

- Drainage Basin in the Asian part of Russia";
- creation of an electronic register of caves of Russia and large caves of the neighbouring countries.



RUB 15^m

WAS ALLOCATED FOR THE SUPPORT OF RGS BY SISTEMA IN 2016

¹ Consolidated data includes MTS (including MGTS), RTI, Steppe AgroHolding, RZ Agro, Segezha Group, Cosmos Hotel, BPGC, real estate assets, SG -trading and Biryulya Maral Farm.

In February 2016, the Russian National Office of the Forest Stewardship Council (FSC) held a working meeting with the representatives of Sistema Group companies (Segezha Group, MTS, MGTS, MTS Bank, RTI and Detsky Mir) regarding

the development of cooperation in the production, application and promotion of FSC-certified products. In particular, as a result of the meeting, **Detsky Mir took part in a large-scale public service advertising campaign of FSC and the Moscow**

Government to raise awareness of eco-friendly paper packaging – in all stores of the chain the posters were placed calling for responsible consumer choice that contributes to the preservation of forests.



Segezha Group: environmental ranking of forest companies

In June 2016, Segezha Group and WWF Russia came up with a joint initiative to develop an environmental responsibility ranking of Russian timber companies.

The main objective of the ranking is to **increase the transparency and environmental and social responsibility of the forest industry**

by providing public, objective and comparable data on the impact of the sector's companies on the environment. According to the organisers, the ranking will unite different companies of the forest sector: those involved in logging, timber processing and timber trade. Unified evaluation criteria will be developed for all industry segments based on the use of publicly available information.

In 2016, an expert discussion was held on the methodology for the pilot version of the ranking for pulp and paper companies.

Nikolay Shmatkov

Forest Programme Director at WWF Russia and chairman of the Coordination Council of FSC Russia



The ranking will provide objective information about the degree of environmental responsibility of participating companies to all interested parties. Thus, consumers and investors can consciously choose more responsible companies that cause less damage to the environment, and contribute to reducing the negative environmental impact of the forest industry.



RZ AgroHolding: preservation and promotion of the Budyonny horse breed

Despite the fact that horse breeding is not the main activity of RZ Agro group of companies which includes the 1st Cavalry Army Horse Farm since 2012, the holding took **responsibility for the preservation of the Budyonny horse breed** that was created in the late 1940s in the Rostov region.

Budyonny breed is one of the best riding breeds in Russia. Budyonny horses successfully compete in all Olympic equestrian disciplines. The stud farm closely cooperates with the National Research Institute of Horse Breeding and promotes the breed.

In 2016, RZ Agro launched a programme under which about 30 horses will be donated to organisations where the animals can demonstrate their best natural

characteristics, will be properly cared for and will be used for noble purposes. The company chose organisations from two areas: children's horse riding and local Cossack movement.

In April 2016, 10 horses were given to organisations working with the Stavropol Cossack Society in Mikhailovsk and Essentuki. In August 2016, 16 more horses were given to the Equestrian Centre in the Novosibirsk region, where more than 240 children train. A total of about 20 horses will be given to the regional equestrian schools for children.

Also, the stud farm plans to open its own equestrian school children to train young athletes of the Chernyshevka village and the neighbouring settlements in the Rostov region.

The 1st Cavalry Army Horse Farm is one of the main stud farms engaged in breeding of Budyonny horses. It has the most valuable part of the nucleus. At a conference held in Moscow in early 2016 on the problems of sport horse breeding, it was decided to create a council under the Russian Equestrian Federation which will represent the interests of the domestic horse-breeders with the participation of RZ Agro representatives.

≈ 30 horses

DONATED TO CHILDREN'S HORSE RIDING SCHOOLS AND LOCAL COSSACK MOVEMENT.

Segezha Group: joining the Boreal Forest Platform

In November 2016, Segezha Group joined the Boreal Forest Platform (BFP), an open discussion platform for the exchange of experience among forest industry companies and regulatory authorities. Joining the initiative will allow Segezha Group to share practices in the field of intensive sustainable forest management, and to participate in discussions on initiatives and proposals for improving forest legislation and strategies for the industry.

The transition to intensive sustainable forestry, the necessity of which is recognised at the level of the Russian Government, is the basis of Russia's forest policy. This type of forestry increases the efficiency and profitability of forest land use and also ensures sustainable forest management in the most productive

forests, which will ensure sustainable raw material supplies to the forest industry. Intensive forestry in developed forests will help preserve intact forest lands, protective and other valuable forests.

Today the BFP is supported by the World Wildlife Fund (WWF), FSC Russia, the Ministry of Nature Management and Ecology of the Republic of Karelia, St Petersburg Forestry Research Institute, Sukachev Institute of Forest and Russia's largest timber companies.



Kamil Zakirov
President of
Segezha
Group



Segezha Group values its reputation of a responsible forest user. In an effort to maintain a balance between active production activities and the environment, we are consistently engaged in reforestation and preservation of forest biodiversity in constant dialogue with all stakeholders.

3.3.1. Rational models of production and consumption

Projects aimed at the development of lean and environmentally friendly production not only reduce the negative impact on the environment and climate change, but also increase the efficiency of operations of Sistema Group companies.

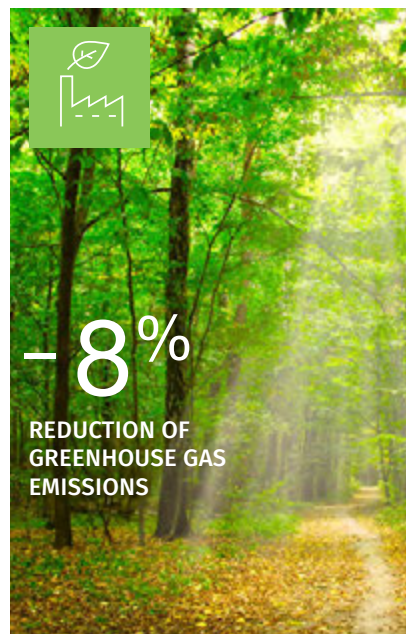


Main activities of the Corporation in this sphere include effective use of natural resources, reduction of waste and emissions, and promotion of "green" practices among consumers.

Emissions

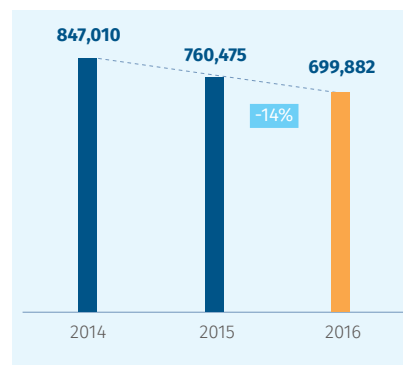
The companies of Sistema Group have an uneven impact on the atmosphere. The distribution of greenhouse gas emissions among the companies of Sistema Group depends on the specific industries to which they belong.

In 2016, direct greenhouse gas emissions decreased by 60,600 tonnes (8%), which was primarily due to the modernisation of Segezha Group's production facilities. Other Sistema Group companies whose production activities are associated with emissions to the atmosphere are also introducing technologies that reduce harmful impact. For example, Binnopharm plant in Zelenograd has more than 350 terminal filters for fine air purification. The emissions were reduced by 14% in three years.

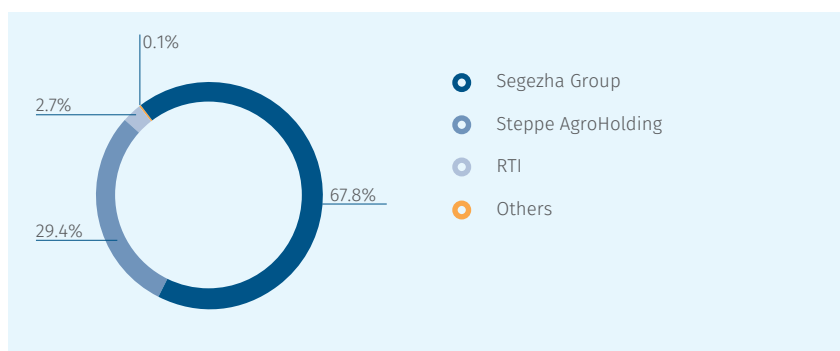


Direct GHG emissions, tonnes

G4-EN15¹



Direct GHG emissions by subsidiaries in 2016, %



⁽¹⁾ Consolidated data includes: MTS, RTI, Steppe AgroHolding, Segezha Group, BPGC and SG-trading.

Water

Sistema does not have a significant direct impact on the environment. In 2016, water consumption decreased significantly and amounted to 1,336.88 litres.

Most of the water (93% in 2016) is consumed by the enterprises of Segezha Group. In the reporting year, the volume of water withdrawn by the company increased significantly as a result of the merger of the Vyatka Plywood Mill and

NLPK Energy Company, the main activity of which is the generation of heat and electricity using water – for production facilities and a residential neighbourhood in the city of Kirov.

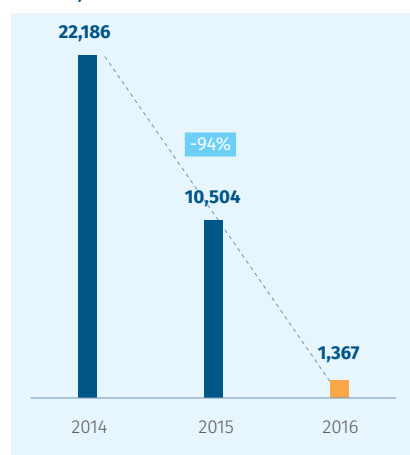
Sistema Group companies transfer most of the water for cleaning to specialised enterprises. 26.5% of the water is cleaned by the companies themselves, mostly by Segezha Group.



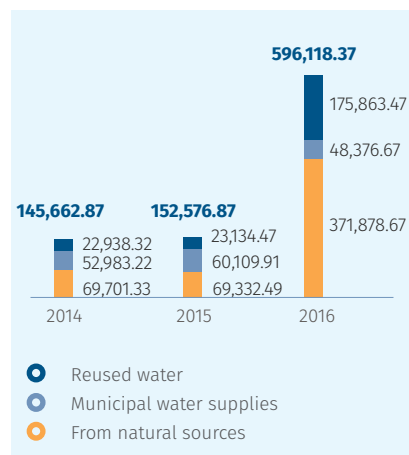
+ 21.2 %

INCREASE IN THE VOLUME OF WATER PURIFIED BY ENTERPRISES INDEPENDENTLY

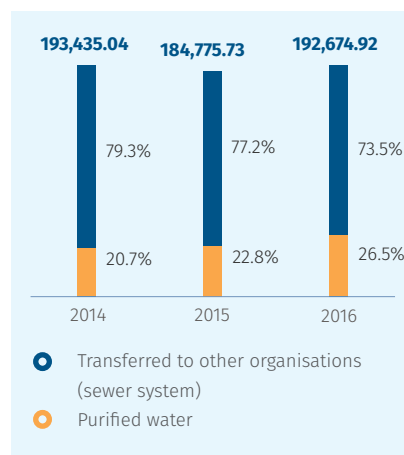
Water consumption in the Corporate Centre, cu m



Water withdrawal by source, K cu m¹



Water discharge, K cu m¹



G4-EN22

G4-EN8

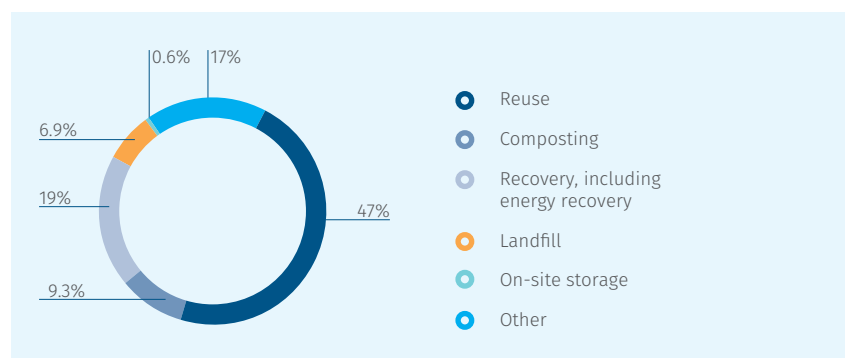
Wastes and discharges

Sistema generates an insignificant amount of waste, mainly of 5th hazard class (municipal solid waste).

Most of the waste generated by Sistema Group companies is “low-hazard” (49.1%) and “practically non-hazardous” (50.8%); such wastes do not cause damage to the environment and the ecosystem can recover in about three years. Most of the waste (91.7%) is generated by Segezha Group. Mostly it is waste of 4th and 5th hazard classes (bark, shavings, sawdust, municipal solid waste, etc.). In 2016, the total weight of waste increased by 1.5%

Waste disposal methods depend on the sectors of the companies. Mostly this is “reuse”, “incineration” and “landfill”.

Total weight of waste by disposal method, K tonnes



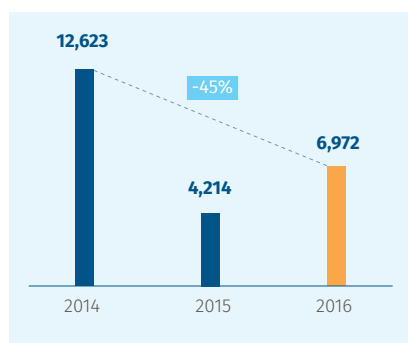
G4-EN23

⁽¹⁾ Consolidated data includes: MTS, MGTS, RTI, Segezha Group, Steppe AgroHolding, MTS Bank, BPGC, Binnopharm, Kronstadt Group, SG-trading, real estate assets, Cosmos Hotel and Biryulya Maral Farm.

Total weight of waste in 2014-2016 by hazard class¹

		HAZARD CLASS ACCORDING TO RUSSIAN REGULATIONS					TOTAL
		1st	2nd	3rd	4th	5th	
2014	t	20.11	82.73	1,432.86	733,129.19	483,422.69	1,218,087.58
	%	0.001 %	0.007 %	1.1 %	57.6 %	38 %	100%
2015	t	50.88	64.78	1,099.40	661,971.92	558,078.06	1,221,265.04
	%	0.004 %	0.005 %	0.08 %	52.2 %	44.0 %	100%
2016	t	27.42	125.36	935.92	609,133.67	628,842.20	1,239,064.57
	%	0.002 %	0.01 %	0.07 %	47.1 %	50.7 %	100%

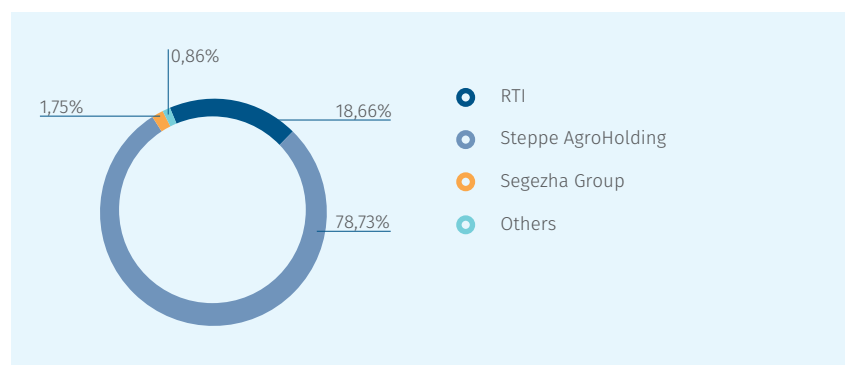
G4-EN23

Fines for non-compliance with environmental laws and regulations, RUB K


	2014	2015	2016
Reuse	1,124.6	847.56	752.44
Recycling	0.03	0.04	0.02
Composting	121.2	179.64	149.37
Recovery, including energy recovery	0.001	0.005	0.001
Incineration (mass burn)	349.9	372.7	304.23
Landfill	57.9	47.6	111
On-site storage	30.8	18.27	10.06
Other	123.88	247.65	272.12

G4-EN29

The number of non-monetary sanctions against Sistema's subsidiaries for non-compliance with environmental laws and regulations remained virtually unchanged over the past three years and amounted to 11. The increase in the amount of fines is primarily due to the acquisition of new agricultural assets, where control over compliance with environmental standards will be tightened as part of integration into Steppe AgroHolding.

Fines for non-compliance with environmental laws and regulations by subsidiaries, %


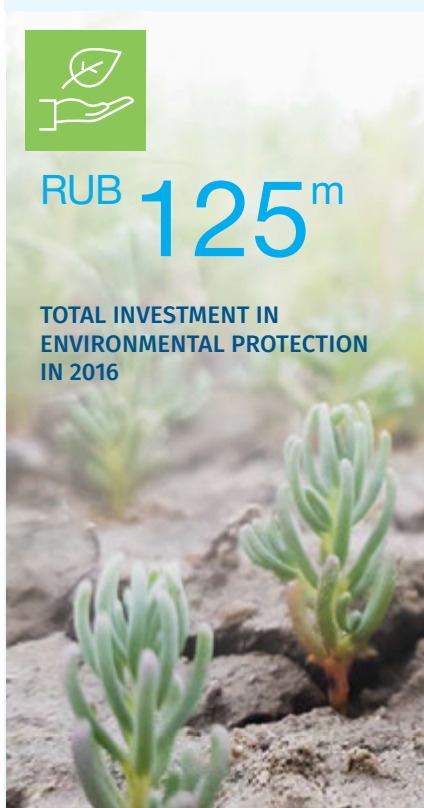
¹ Consolidated data includes: MTS (including MGTS), RTI, Detsky Mir Group, Steppe AgroHolding, RZ Agro Holding, Segezha Group, MTS Bank, Cosmos Hotel, BPGC, real estate assets, Kronstadt Group, SG-trading and Concept Group.

Segezha Group: sustainable forest management



RUB 125^m

TOTAL INVESTMENT IN ENVIRONMENTAL PROTECTION IN 2016



Sustainable forest management is one of the basic principles of Segezha Group's business, which directly impacts both the raw material security of the Group's enterprises and the preservation of forests for future generations. This envisages sustainability of resources, protection of forest, reforestation, and prevention of forest fires and illegal felling.

The forests leased by Segezha Group are certified by the Forest Stewardship Council (FSC), an international organisation that has developed a certification system

for environmentally and socially responsible forest management. Each year, the company carries out large-scale reforestation.

If Segezha Group finds an object included on the environmental protection list, the company suspends its economic activities on that object. The Group coordinates the boundaries and the type of use with forest authorities and local administrations. At each stage of economic development of forests, the company takes into account the transformation of animal habitats and the state of water, soil and unique vulnerable landscapes.

Segezha Group is a consistent initiator and partner of the state in projects on implementation of modern models of intensive and responsible forest management aimed to facilitate sustainable forestry development.

Since 2015, Segezha Group has been supporting a pilot project to introduce a model of intensive forest management and reforestation in the Republic of Karelia. Such model may ensure proper forest management and satisfy the demand of processing enterprises in raw materials. During the reporting period, the Ministry of Environmental Management and Ecology of the Republic of Karelia and the St Petersburg Forestry Research Institute continued to develop the standards in this area in close cooperation with Segezha Group, the largest forest user in the region. In 2017, it is planned to carry out the necessary research and field works through the joint efforts of stakeholders.

Kamil Zakirov
President
of Segezha
Group



Forests are among the most important resources of the country, and they must be preserved by joint efforts of the authorities and businesses. Intensive forest management achieves two targets. We grow target timber species where large processing industry is located, we improve forest composition and its productivity, and we supply the necessary raw materials to industrialists. Where forests are inaccessible, biodiversity remains intact. This is stability for decades to come in the interests of society and the timber industry.



Organic farm products of Steppe AgroHolding

Yuzhny Agricultural Complex (owned by Steppe AgroHolding), which grows tomatoes and cucumbers, uses environmentally friendly technologies:

- ⦿ tomatoes are pollinated naturally by bumblebees;
- ⦿ plants are protected from pests using the biological method – with insectivores and bioagents, i.e. insects that keep the number of pests in greenhouses at a safe minimum level without the use of chemical agents;

- ⦿ they are grown in the company's own laboratory for bioprotection of plants;
- ⦿ the quality of vegetables is controlled at each stage of production in the company's own laboratory;
- ⦿ the plants are watered using clean water from local natural sources with a minimum level of mineral admixtures..

The high quality of products is also ensured through the use of advanced agrotechnology and equipment.

According to an independent assessment of domestically produced vegetables conducted by the [Russian Institute for Consumer Testing](#), the vegetables of Yuzhny Agricultural Complex are safe in terms of all tested aspects (nitrates and pesticides)¹. The samples were purchased in accordance with the principles declared by the member organisations of Consumers International (CI), the world confederation of consumer groups.

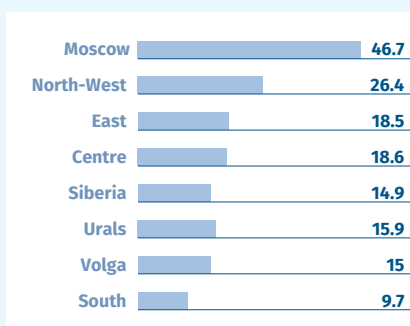
Detsky Mir Group: eco-friendly consumer packaging

Plastic bags, which are used by most retail chains, cause significant damage to the environment: they do not decompose under natural conditions and release harmful substances into the atmosphere when incinerated. This problem can be solved through the use of packaging made from environmentally friendly materials, including paper. Paper bags are made from renewable resources, do not harm the environment during decomposition and can be easily recycled.

[Detsky Mir Group became the first retail chain of children's goods in Russia to offer its customers paper packaging produced by Segezha Group.](#)

Sale of paper bags was launched in December 2015 in stores in Moscow and the Moscow region, and in July 2016 the project was scaled to the entire chain. As a result, the number of sold paper bags increased five-fold to 30,600 in the first month alone. As of the end of 2016, the share of paper bags among all types of packaging exceeded 50%. Paper bags are most popular in the Moscow and North-Western regions.

Sales of paper bags in July-December 2016, K pieces



Part of the proceeds from the sale of bags goes to Detsky Mir Charitable Foundation.

The company expects that eco-friendly packaging in the retail chain will gradually replace traditional plastic bags, which will lead to a significant reduction of the company's harmful impact on the environment and enhance the environmental awareness of customers.



ELC: TOYS TRADE-IN

In 2016, ELC (Detsky Mir Group) held two "Toys Trade-In" events, during which customers were invited to donate old toys in exchange for an up to 30% discount. Collected toys in good condition were passed on to orphanages, large families and disabled children.

¹⁾ <http://www.ripi-test.ru/testy/3401-test-svezhie-ovoshhi#C09>

MTS: transition to paper packaging for SIM cards



MTS has completed the project to switch to eco-friendly packaging for SIM cards.

Three years ago, the company decided to abandon the bright packaging using a lot of chemical dyes and switch

to kraft fibres, a **100% biodegradable material without synthetic additives**. This type of packaging is completely safe for both humans and the environment.

During the pilot project launched in 2015, the company sold about 15.5m SIM cards in kraft paper envelopes. In 2016, all of MTS SIM cards were sold in eco-friendly packaging with a minimum amount of added chemicals.

MTS continued implementation of the federal project for collection of used batteries called "Let's Protect Nature Together!" Batteries contain toxic materials, so it is very important to dispose of them in the right way.

The company, with the help of a partner with the required licenses, organises the collection, safe storage and transportation of used batteries for further processing at a specialised enterprise in Chelyabinsk without harm to the environment.



The campaign was launched in 2012 in the back offices of MTS, and in 2015 it was expanded to the operator's retail outlets. At the first stage, the idea was tested in Moscow, the Moscow region and the Urals. **In 2016, the project for collection of batteries for recycling was launched in more than 200 outlets of the MTS retail chain throughout Russia.**

Joint environmental initiatives with FSC

In March 2016, five companies of Sistema Group (Segezha Group, RTI, MTS, MGTS and MTS Bank) took part in FSC Friday, an annual event organised by the Russian National Office of the Forest Stewardship Council (FSC Russia) to mark the International Day of Forests and aimed at raising public awareness of the protection of forest ecosystems and their reproduction.

As part of FSC Friday, 25 companies collected waste paper. About 50% of the total volume (2,398 kg) was transferred for processing by the participating companies of the Corporation. This helped save **more than 40 trees, 17,000 litres of water and 9,600 kWh of energy, and prevented emission of over 4 tonnes of CO₂.**

One more FSC Friday was held in September, furthering the cause of responsible forest management. Sokol Woodworking Plant (represented by its Moscow office and NLK Domostroenie, a producer of prefabricated log homes) became FSC Friday's official partner in Moscow. As part of FSC Friday, the company's employees held master classes on the importance of preserving the world's forests and rational use of renewable natural resources. MTS Bank also took part in the event and transferred over 1,100 kg of waste paper for recycling.





MGTS: electronic bills

MGTS is implementing a programme to reduce paper consumption by switching to electronic bills for communication services.

To this end, in late 2015 the company jointly with WWF Russia launched a project that allows Muscovites not only to switch to a convenient remote form of settlements with the operator, but also to make a personal contribution to the preservation of nature through SMS donations for the restoration of forests.

Andrey Ershov
CEO of MGTS



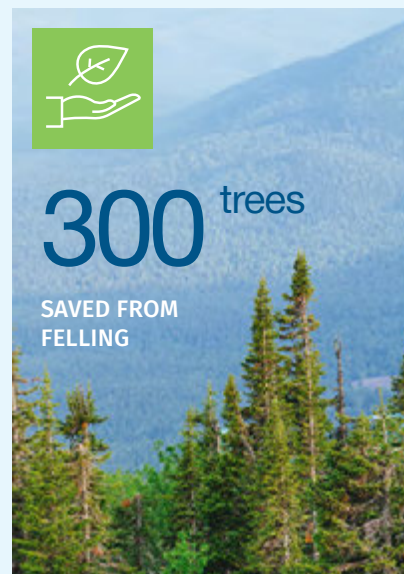
We urge as many customers as possible to use digital communication channels, pursuing three tasks: improving convenience of services, saving the company's money and preserving the ecosystem through the reduction in consumables usage.



In 2016, about 1,000 customers made personal donations to preserve forests; for each rouble contributed by a subscriber MGTS contributed another seven roubles. The raised funds went to protect about 3m trees in specially valuable forests of the Arkhangelsk region.

During the reporting period, the number of MGTS customers who switched to electronic bills doubled. This allowed the company to reduce its spending on paper bills by 6.5%, saving 300 trees from felling, which is equal to a small boulevard or garden square.

To raise environmental awareness, MGTS also supported **Earth Overshoot Day**, the calculated illustrative calendar date on which humanity's resource consumption for the year exceeds Earth's capacity to regenerate those resources that year. Earth Overshoot Day is calculated by Global Footprint Network. On 8 August 2016, 2.7m customers received symbolic "bills" for the use of Earth's resources.



Cosmos Group: responsible hospitality

One of the key areas of Cosmos Group's strategy for responsible hotel management is the systemic work to reduce the use of natural resources (electricity, water and heat) and consumables.

For example, one of the largest hotels in Russia – Moscow's Cosmos Hotel – uses energy-saving lamps and

a system regulating the supply of thermal energy from external heat supply systems (the equipment gets switched off during the low-load periods). In order to save fresh water, the hotel encourages its guests to use the towels repeatedly, and the daily change of bed linen can be ordered by the guest, if desired, but is not systematic.

The company uses certified special chemicals and seeks to increase the share of environmentally friendly materials: detergents, paints, floor coverings, etc.

Mikron: modernisation of waste water treatment plant

by **80%**

**INCREASED CAPACITY
OF LOCAL TREATMENT FACILITIES**

The ingress of untreated industrial effluents into water bodies disturbs the ecological balance and leads to the death of flora and fauna. The use of such water by humans has serious health consequences.

In July 2016, the Mikron plant in Zelenograd put into operation a high-tech complex that provides a full cycle of water purification.

It consists of local treatment facilities and a laboratory for quality control of sewage. The treatment facilities meet all the applicable standards, take into account the requirements for safety, labour protection and energy conservation, and have no analogues in Russia. Their capacity (2,700 cu m per day) is 80% higher than that of the previous waste water treatment plant (1,500 cu m per day).

Fyodor Bezgin
Deputy CEO for
Infrastructure
Development
and General
Matters at Mikron



Thanks to the introduction of new treatment facilities, the production cycle has become completely 'closed'. Our waste water treatment system complies with the regulations and permissible concentrations of pollutants discharged into the central sewerage system.



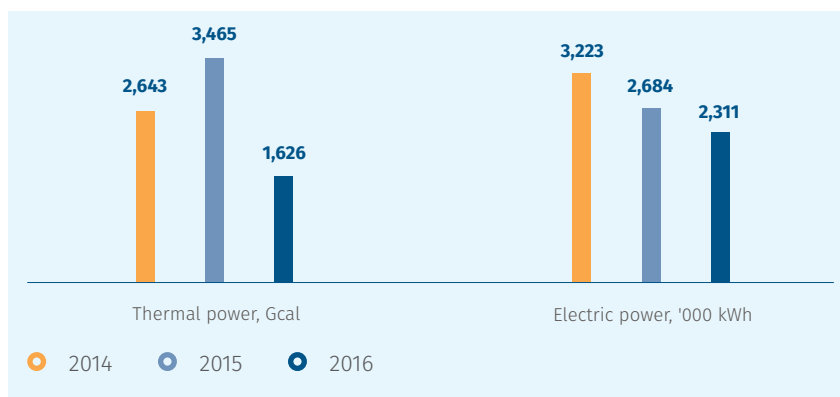
3.3.2. Increasing energy efficiency

Sistema aims to reduce energy consumption at its production facilities by implementing energy saving technologies and switching to more cost-effective and environmentally friendly types of fuel. This helps the Corporation to cut costs, enhance operational efficiency and increase the environmental sustainability of its business.



In 2016, thermal power consumption at the Corporate Centre decreased by 53% and electric power consumption fell by 14% compared to the previous year.

Consumption of fuel and energy resources at the Corporate Centre



G4-EN3

Consumption of fuel and energy resources at Sistema Group¹

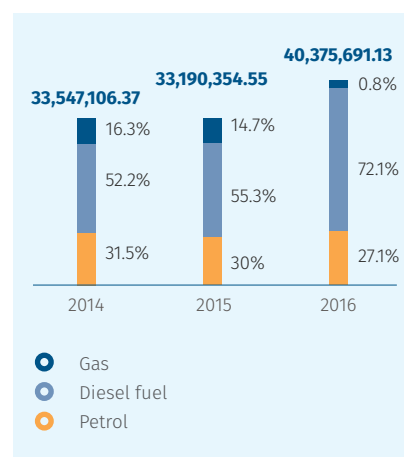
INDICATOR	2014	2015	2016	2016 vs 2015, %
Electric power consumption, '000 kWh	25,336,024.44	25,372,767.40	25,123,150.02	-1%
Thermal power consumption, Gcal	3,657,510.99	3,554,939.85	3,702,858.63	+4.2%
Boiler and furnace fuels, t	2,701,991.23	2,607,898.56	2,704,273.86	+3.7%

G4-EN3

The Group's companies are using various types of fuel and energy: electrical and thermal energy, boiler & furnace and motor fuels.

Motor fuel consumption in the companies of Sistema Group depends on the nature of operations and the scale of assets. The highest levels of consumption were demonstrated by the agricultural assets (about 46%), Segezha Group and MTS (17.3% each), and BPGC (14.1%).

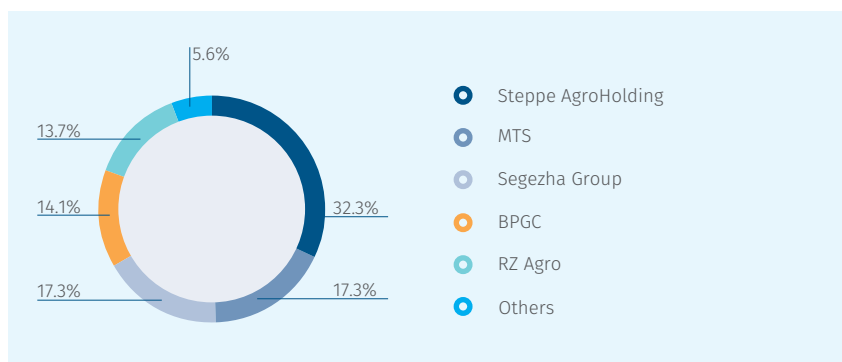
Motor fuel consumption in 2014-2016



⁽¹⁾ Consolidated data includes: MTS, MGTS, RTI, Detsky Mir Group, Steppe AgroHolding, RZ Agro Holding, Segezha Group, MTS Bank, Cosmos Hotel, BPGC, Binnopharm, Kronstadt Group, real estate assets, SG-trading, Concept Group.

In 2016, motor fuel consumption increased substantially at Medsi (by 114.1% due to improved accounting policy) and at Steppe AgroHolding (by 104.2% due to production expansion). At the same time, motor fuel consumption at SG-trading fell significantly (by 42.1%).

Motor fuel consumption by subsidiary, %



As part of its effort to enhance energy efficiency BPGC is increasingly using diesel fuel instead of petrol, which is much more efficient. The company buys diesel vehicles with lower energy consumption and discards obsolete vehicles with petrol engines.

IN 2016, DIESEL FUEL CONSUMPTION INCREASED BY

4.8%

AND PETROL CONSUMPTION DROPPED BY

2.1%

Segezha Group: production and use of biofuel

Timber processing is accompanied by the accumulation of bark and other types of wood waste. At the same time, being a renewable resource, wood biomass can be used as biofuel. Application of waste disposal solutions helps reduce carbon dioxide emissions, preserve forests and ensure reliable and cheap sources of renewable energy.

The multi-fuel fluidised-bed boiler that has been in operation at Segezha PPM for almost ten years consumes 900-1,000 cubic meters of bark and wood waste per day, which is comparable to more than 100 tonnes of fuel oil and makes it possible to save more than RUB 1m a day. In 2016, Segezha Group entered into an agreement with Valmet to install a new boiler unit at Segezha PPM that will use wood waste and sewage residue as fuel, enabling the company to cut electric and thermal power costs, reduce fuel oil consumption and greenhouse gas emissions. The equipment will be supplied in 2017 and commissioned in 2018. After the launch of the new multi-fuel boiler, 45 t of solid residue will be burnt in the fluidised-bed boiler (even with moisture levels at 70-75 %), helping to reduce air emissions and contain any negative impact on the environment.

Onega Energy, another subsidiary of Segezha Group and the largest heat supplier in the town of Onega and the Onega district of the Arkhangelsk region, fully switched to the use of wood waste for power generation. The commissioning of a new biofuel boiler ensured heat supplies to about 90 % of households and other consumers in the town of Onega.

As a result, air emissions and consumption of oil products by the company were significantly reduced. The residents of Onega are now provided with heat and hot water at affordable prices. Moreover, significant funds were freed up from the municipal budget due to cutting costs on subsidising the operations of the utility company.

The supplier of wood waste, Onega Woodworking Plant (also a subsidiary of Segezha Group), completely switched to biofuel in 2015. The last fuel oil boiler was replaced by a wood chip boiler, and **in 2016 the fuel oil storage facilities of the plant were removed.** The remaining fuel oil was delivered to a contractor for disposal and the obsolete equipment was discarded as scrap metal.

The use of modern energy generation facilities that utilise production waste as fuel is a mandatory requirement to all ongoing and future projects aimed at modernising and expanding production capacity at Segezha Group.

For example, the projects for construction of two birch plywood plants in Kirov and Sokol (the Vologda region) provide for construction of new boilers using waste from plywood production as fuel and fully meeting the needs of the enterprises. A boiler house consisting of two boilers (8 MW each) and two thermal oil boilers (7 MW each) with total power generation of 128,000 Gcal a year at the Kirov plant (to be launched in 2017) will make it possible to dispose of more than 87,500 cubic meters of wood waste annually. In Sokol,

thermal power for household and industrial purposes and for heating the main production facility and warehouse will be generated by a thermal oil boiler that will ensure complete disposal of waste from plywood production.

Andrey Brotsman
Vice President for Commercial
Operations, Segezha Group



Being one of the alternative sources of energy, bioenergy will play an important role in providing power to remote regions of Russia. It may be used in decentralised and local electric and thermal power generation units and may potentially fully meet the demand for heat and electricity in the territories that are rich in natural bioresources, including agricultural enterprises and neighbouring populated areas. Added-value wood processing is self-sufficient in terms of energy generation, since modern technologies make it possible to effectively use the bark and wood waste of the production facilities. Implementation of relevant technologies in combination with sustainable forest use, protection of nature reserves and other environmental activities facilitates sustainable development of the regions where we operate.



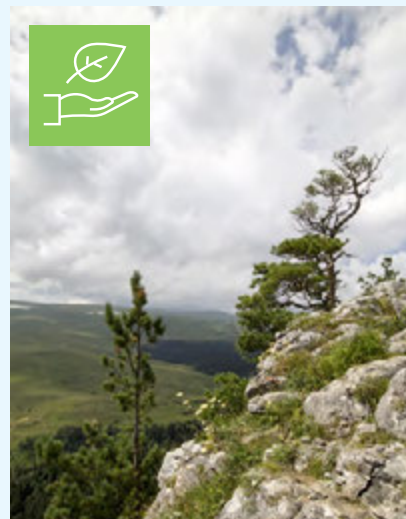
MTS: solar power for mountainous regions

MTS is working on a unique technological project to provide voice communication services and high-speed mobile Internet to villages located in the mountainous areas of the Krasnodar territory and the Republic of Adygeya, where it is often impossible to lay power cables.

Radio coverage in these regions is usually ensured by installing several base stations powered by solar energy, which relay the radio signal. Even if solar cells are shaded, the batteries are able to support the system for 30 days.

In 2016, such MTS facilities were available in the mountain tourism hubs and in remote villages (Guzeri, Tyumensky, Tretya rota).

Due to implementation of innovative solutions, small villages in mountainous regions get access to the Internet with speed comparable to that of broadband, and provision of modern communication infrastructure stimulates the development of small businesses, promotes new activities of local people and attracts tourists.

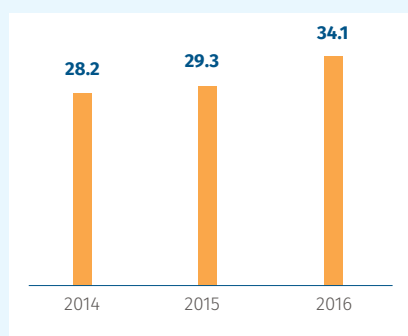


BPGC: energy saving in power grids

One of the key activities aimed at increasing energy efficiency is implementation of an automated system for commercial measurement of power consumption.

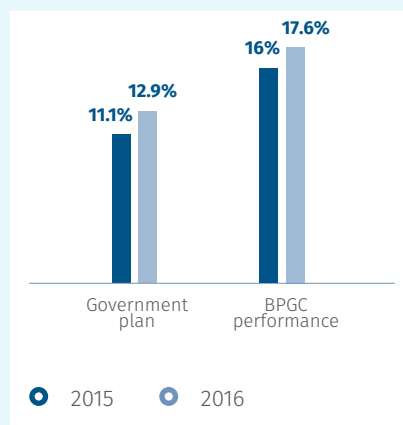
In 2016, implementation of the system was almost completed at BPGC's substations: the system includes 7,700 electric power meters accounting for 99 % of the total number of metering devices installed at substations. The number of meters installed

Implementation of an automated system for power consumption measurement, thous. pcs



at switchboards of the main substations more than tripled reaching 5,138 devices. As a result of implementation of an automated system for power consumption measurement the power losses of the company were reduced by 57.1m kWh in 2016.

Implementation of an automated system for power consumption measurement and compliance with the government programme "Energy efficiency and development of the energy sector"



SINCE 2011, BPGC INSTALLED

156.3^{th.}
meters

OF AN AUTOMATED SYSTEM, OF WHICH

34.1^{th.}
meters in 2016

BPGC is implementing an automated system for power consumption measurement ahead of the plan set out by the Russian Government in its programme "Energy efficiency and development of the energy sector" in 2014.

By 2019 the company is planning to increase the share of the automated system for commercial measurement of power consumption up to 35 % of the total number of metering devices, making it possible to significantly reduce power losses.

Leader Invest: energy efficiency in buildings

Leader Invest is a development company which facilitates the creation of a sustainable urban environment in Moscow by building residential and

office properties that meet high energy efficiency standards. The company has a responsible approach to designing properties: it uses modern construction

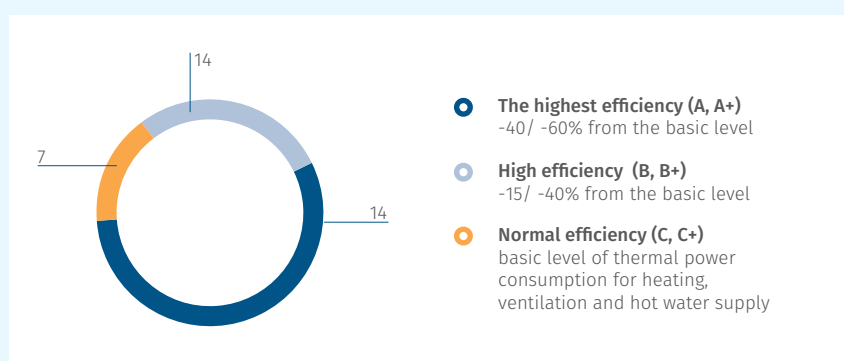
materials, energy-saving technologies and utility systems.



over
80 %

OF PROPERTIES ALREADY COMMISSIONED AND BEING DEVELOPED BY LEADER INVEST MEET THE HIGHEST ENERGY EFFICIENCY STANDARDS.

Energy efficiency classes of properties



3.3.3. Taking care of nature and biodiversity

Sistema and its subsidiaries are actively involved in environmental efforts in the regions where they operate, seeking to gradually reduce their environmental impact and raise people's awareness about environmental issues.

As part of this work Sistema is actively cooperating with non-profit environmental organisations to preserve biodiversity and contribute to environmental education.



The Far Eastern leopard conservation programme



Since 2012 Sistema has been cooperating with the Eurasian Centre for Leopard Preservation and Rehabilitation, which is restoring the population of the Amur (Far Eastern) leopard, the world's most endangered big cat.

SISTEMA ALLOCATES RUB 3M ANNUALLY TO SUPPORT THE NON-PROFIT ORGANISATION.

In 2016, the funds were spent on implementing nature protection initiatives aimed at preserving the Amur leopards and setting up the Leopard Land national park in the Primorye region (biotechnical activities, buying salt and agricultural products for feeding animals etc.).

Segezha Group: agreement between Onegales and WWF of Russia

In 2016, Onegales logging company (a subsidiary of Segezha Group and a forest user in the Arkhangelsk region) signed an agreement with the WWF of Russia on preservation of the leased forest areas in the Onezhskoye Pomorye nature reserve. The company made a voluntary commitment not to log trees within an area stretching 1 km from the national park's borders. In the future, this area of land may be given the status of a Special Protection Area.

Several years ago Onegales voluntarily gave up its title to a large area of old-growth forest on the Onega peninsula paving the way for creation of the Onezhskoye Pomorye nature reserve in 2013.

The agreement opened a new chapter in preservation and sustainable use of the unique nature resources of the region and provides for environmental planning and designation of special protection areas in the commercial parts of old-growth forests. This will make it possible to preserve the most valuable wood species and ensure careful use of forest in the remaining part of the Onega peninsula. The requirements to the environmental protection area and its elements will be set in 2017.



MTS: fire safety in forests

In 2016, MTS became the partner of The Central forestry Association (Tsentrleskhoz) in the project for video surveillance of forest conditions in Moscow region. MTS provides the infrastructure and communications technologies that are used for monitoring forests in a number of Russian regions in order to timely identify and prevent fires.

Video cameras are installed on MTS's cell towers in order to keep track of forest conditions. MTS also ensures that data from the video cameras is transmitted through secure dedicated channels with a static IP address.

Each camera rotates and covers the area of 30 km depending on weather conditions. If a camera detects any smoke or fire outbreak, it sends an alert signal to a regional emergency service which ensures online surveillance of forests, analysis of collected data, and alerts fire-fighters whenever necessary. This makes it possible to cut spending on patrolling services and to quickly respond to emergencies.

Alexander Migunov
Chairman of the
Forest Committee
of the Moscow region



Video surveillance of forests enables us to receive reliable and real time information on forest fires. Thanks to this, we are using our resources more effectively during the fire season in order to prevent, detect and extinguish fires.



MTS: environmental lessons

> 10th.

**TEACHERS GAVE ECO-LESSONS
IN 2016 ALL ACROSS RUSSIA**

In April-May 2016, MTS supported by the inter-regional public organisation EKA Green Movement of Russia, initiated the project of interactive eco-lessons.

To take part in the project teachers were required to register on the project's official website and get materials for the lesson: colourful presentations, a table game, methodological and video guides. At the end of the lesson children were given original pocket books with an eco-assignment.

The project also included a contest of videos on the use of technologies

for protecting the environment and a creative Internet flash mob that enabled schoolchildren to talk about their eco-initiatives. The contests attracted more than 200 entries.

All teachers were awarded with diplomas and schools received appreciation letters from the project organisers.



Annex

>> Annex 1. Key stakeholders

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and the UN Global Compact Principles

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Annex 1.

Key stakeholders

G4-25

During the preparation of the 2016 Report, Sistema redefined the list of Corporation's key stakeholders. For this purpose, six managers of Sistema were interviewed and assessed the degree of impact of the Corporation's activities on stakeholders and the level of influence of stakeholders on Sistema, using a three-point scale:

- 2 points – strong influence;
- 1 point – there is an influence;
- 0 points – no influence.

G4-24

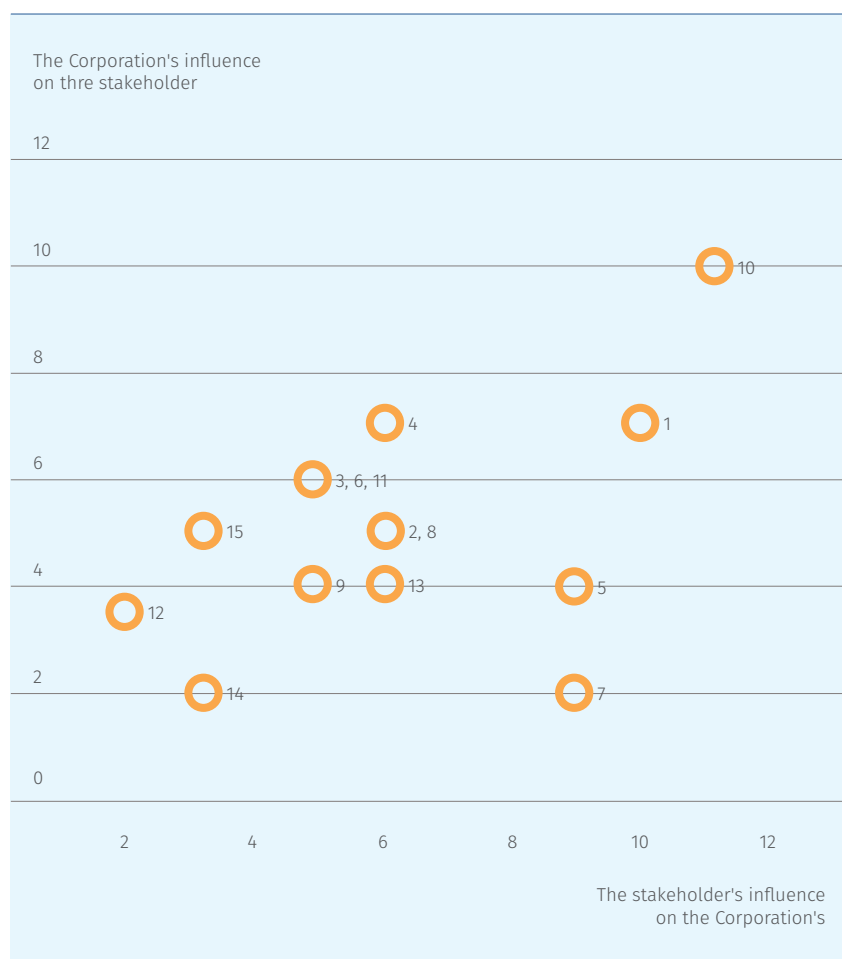
G4-26

G4-27

The results of the survey were calculated on a cumulative basis, and the average points were used to update the rank map of stakeholders.

Unlike in the rank map prepared in 2016, the key stakeholders included professional associations and the population of the regions where the Corporation operates. The representatives of the investment community were included in the group "Shareholders and investors".

Rank map of stakeholders



The Corporation's stakeholders include¹⁾:

Stakeholder groups	Approach to stakeholder engagement
1. Shareholders and investors	1.2. Responsible investment 2.1. Corporate governance
2. Customers and consumers	2.4. Business ethics and anti-corruption efforts
3. Business partners (including suppliers and contractors)	2.4. Business ethics and anti-corruption efforts 2.6. Procurement
4. Personnel (including trade unions)	2.3. HR management
5. Federal authorities	3.1. Contribution to Russia's economic development
6. Regional and municipal authorities	1.2. Responsible investment 3.1. Contribution to Russia's economic development
7. State authorities and regulators	3.3.1. Rational models of production and consumption
8. Professional associations	1.1. About the Corporation 2.5. Risk management
9. Academic community	3.2.2. Expanding opportunities for education and science
10. The Corporation's management	1.2. Responsible investment 2.3. HR management
11. Population in the regions of operations	3.2. Social and community projects 3.2.1. Development of territories and communities 3.2.2. Expanding opportunities for education and science 3.2.3. Healthcare practices
12. Schools	3.1. Contribution to Russia's economic development 3.2.2. Expanding opportunities for education and science
13. Media	In line with the policy of information transparency, Sistema regularly provides information to the media regarding its business and social activities. In 2016, over 6,000 articles were published reflecting the Corporation's strategic objectives, including about 1,500 publications about social and charitable activities, a 25% increase year-on-year.
14. Environmental non-profits	3.3. Environmental protection 3.3.1. Rational models of production and consumption 3.3.2. Increasing energy efficiency 3.3.3. Taking care of nature and biodiversity
15. Non-profit organisations and charities	3.2. Social and community projects 3.2.1. Development of territories and communities

¹⁾ NSistema's key stakeholders are bolded

Annex 2.

Compliance with the GRI Guidelines (G4) and the UN Global Compact Principles

№	Code	Indicator	Disclosure	Location in the Report
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	Complete	<i>Address of the Chairman of the Board of Directors</i>
2.	G4-2	A description of key impacts, risks and opportunities	Complete	<i>2.5. Risk management</i>
Organisational profile				
3.	G4-3	The name of the organisation	Complete	<i>1.1. About the Corporation</i>
4.	G4-4	The primary brands, products and services	Complete	<i>1.1. About the Corporation</i>
5.	G4-5	The location of the organisation's headquarters	Complete	<i>1.1. About the Corporation</i>
6.	G4-6	The number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the Report	Complete	<i>1.2. Responsible investment</i>
7.	G4-7	The nature of ownership and legal form	Complete	<i>1.1. About the Corporation</i>
8.	G4-8	The markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries)	Complete	<i>1.1. About the Corporation</i>
9.	G4-9	The scale of the organisation, including: <ul style="list-style-type: none"> • Total number of employees • Net sales (for private sector organisations) or net revenues (for public sector organisations) • Total capitalisation broken down in terms of debt and equity (for private sector organisations) • Quantity of products or services provided 	Complete	<i>1.1. About the Corporation</i>
10.	G4-10	<ul style="list-style-type: none"> • The total number of employees by employment contract and gender • The total number of permanent employees by employment type and gender • The total workforce by employees and supervised workers and by gender • The total workforce by region and gender • A portion of work performed by workers who 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 numbers 	Complete	<i>2.3. HR management</i>
11.	G4-11	The percentage of total employees covered by collective bargaining agreements	Complete	<i>2.3. HR management</i>
12.	G4-12	Description of the organisation's supply chain	Complete	<i>2.6. Procurement</i>
13.	G4-13	Significant changes during the reporting period regarding the organisation's size, structure or ownership, including: <ul style="list-style-type: none"> • Changes in the location of, or changes in, operations, including facility openings, closings, and expansions • Changes in the share capital structure and other capital formation, maintenance and alteration operations (for private sector organisations) • Changes in the location of suppliers, the structure of the supply chain or in relationships with suppliers, including selection and termination 	Полностью	<i>1.1. О Корпорации</i>
14.	G4-14	Whether and how the precautionary principle is addressed by the organisation	Complete	<i>3.3. Environmental protection</i>

Nº	Code	Indicator	Disclosure	Location in the Report
15.	G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses	Complete	1.1. About the Corporation
16.	G4-16	Memberships of associations (such as industry associations) and national or international advocacy organisations in which the organisation: <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 	Complete	1.1. About the Corporation
Identified material aspects and boundaries				
17.	G4-17	A list of all entities included in the organisation's consolidated financial statements or equivalent documents	Complete	Information about the Report
18.	G4-18	<ul style="list-style-type: none"> • The process for defining the report content and the Aspect Boundaries • Explanation regarding how the organisation has implemented the reporting principles for defining report content 	Complete	Information about the Report
19.	G4-19	A list of all the material Aspects identified in the process for defining report content	Complete	Information about the Report
20.	G4-20	A description of the Aspect Boundary within the organisation for each material Aspect	Complete	Information about the Report
21.	G4-21	A description of the Aspect Boundary outside the organisation for each material Aspect	Complete	Information about the Report
22.	G4-22	The effect of any restatements of information provided in previous reports, and the reasons for such restatements	Complete	Information about the Report
23.	G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	Complete	Information about the Report
Interaction with stakeholders				
24.	G4-24	A list of stakeholder groups engaged by the organisation	Complete	Annex 1. Key stake-holders
25.	G4-25	The basis for identification and selection of stakeholders with whom to engage	Complete	Annex 1. Key stake-holders
26.	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 • An indication of whether any of the engagement was undertaken specifically as part of the report preparation process 	Complete	Information about the Report Annex 1. Key stake-holders
27.	G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting	Complete	Information about the Report
Report profile				
28.	G4-28	Reporting period for information provided	Complete	Information about the Report
29.	G4-29	Date of most recent previous report (if any)	Complete	Information about the Report
30.	G4-30	Reporting cycle	Complete	Information about the Report
31.	G4-31	The contact point for questions regarding the report or its contents	Complete	Contact details
32.	G4-32	The 'in accordance' option the organisation has chosen. The GRI Content Index for the chosen option. The reference to the External Assurance Report, if the report has been externally assured.	Complete	Information about the Report

№	Code	Indicator	Disclosure	Location in the Report
33.	G4-33	<p>The organisation's policy and current practice with regard to seeking external assurance for the report</p> <ul style="list-style-type: none"> • The scope and basis of any external assurance provided • The 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 	Complete	<i>Information about the Report Annex 3. External assurance for the Report</i>
Governance				
34.	G4-34	The governance structure of the organisation, including committees of the highest governance body responsible for decision-making on economic, environmental and social impacts	Complete	<i>2.1. Corporate governance Sistema's Annual Report for 2016, pages 72-88</i>
Ethics and integrity				
35.	G4-56	The organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	Complete	<i>2.4. Business ethics and anti-corruption efforts</i>
ECONOMIC				
Economic performance				
36.	G4-DMA	Disclosure on Management Approach	Complete	<i>1.2. Responsible investment</i>
37.	G4-EC1	Direct economic value generated and distributed	Complete	<i>1.2. Responsible investment</i>
38.	G4-EC4	Financial assistance received from government	Complete	<i>1.2. Responsible investment</i>
Market presence				
39.	G4-DMA	Disclosure on Management Approach	Complete	<i>2.3. HR management</i>
40.	G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	Complete	<i>2.3. HR management</i>
41.	G4-EC6	Proportion of senior management hired from the local community at significant locations of operation	Complete	<i>2.3. HR management</i>
ENVIRONMENTAL				
Energy				
42.	G4-DMA	Disclosure on Management Approach	Complete	<i>3.3.2. Increasing energy efficiency</i>
43.	G4-EN3	Energy consumption within the organisation	Complete	<i>3.3.2. Increasing energy efficiency</i>
Water				
44.	G4-DMA	Disclosure on Management Approach	Complete	<i>3.3.1. Rational models of production and consumption</i>
45.	G4-EN8	Water withdrawal by source	Complete	<i>3.3.1. Rational models of production and consumption</i>

Nº	Code	Indicator	Disclosure	Location in the Report
Emissions				
46.	G4-DMA	Disclosure on Management Approach	Complete	3.3.1. Rational models of production and consumption
47.	G4-EN15	Direct greenhouse gas (GHG) emissions	Complete	3.3.1. Rational models of production and consumption
Effluents and waste				
48.	G4-DMA	Disclosure on Management Approach	Complete	3.3.1. Rational models of production and consumption
49.	G4-EN22	Total water discharge by quality and destination	Complete	3.3.1. Rational models of production and consumption
50.	G4-EN23	Total weight of waste by type and disposal method	Complete	3.3.1. Rational models of production and consumption
Compliance				
51.	G4-DMA	Disclosure on Management Approach	Complete	3.3.1. Rational models of production and consumption
50.	G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Complete	3.3.1. Rational models of production and consumption
Overall				
52.	G4-DMA	Disclosure on Management Approach	Complete	3.3. Environmental protection
53.	G4-EN31	Total environmental protection expenditures and investments by type	Complete	3.3. Environmental protection
SOCIAL – LABOUR PRACTICES AND DECENT WORK				
Employment				
54.	G4-DMA	Disclosure on Management Approach	Complete	2.3. HR management
55.	G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	Complete	2.3. HR management
56.	G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	Complete	2.3. HR management
57.	G4-LA3	Return to work and retention rates after parental leave, by gender	Complete	2.3. HR management
Training and education				
58.	G4-DMA	Disclosure on Management Approach	Complete	2.3. HR management
59.	G4-LA9	Average hours of training per year per employee by gender and by employee category	Complete	2.3. HR management
60.	G4-LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Complete	2.3. HR management
61.	G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Complete	2.3. HR management



№	Code	Indicator	Disclosure	Location in the Report
SOCIAL – HUMAN RIGHTS				
Non-discrimination				
62.	G4-DMA	Disclosure on Management Approach	Complete	2.4. Business ethics and anti-corruption efforts
63.	G4-HR3	Total number of incidents of discrimination and corrective actions taken	Complete	2.4. Business ethics and anti-corruption efforts
Child labour				
64.	G4-DMA	Disclosure on Management Approach	Complete	2.4. Business ethics and anti-corruption efforts
65.	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	Complete	2.4. Business ethics and anti-corruption efforts
Forced or compulsory labour				
66.	G4-DMA	Disclosure on Management Approach	Complete	2.4. Business ethics and anti-corruption efforts
67.	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	Complete	2.4. Business ethics and anti-corruption efforts
SOCIAL – SOCIETY				
Anti-corruption				
67.	G4-DMA	Disclosure on Management Approach	Complete	2.4. Business ethics and anti-corruption efforts
68.	G4-SO4	Communication and training on anti-corruption policies and procedures	Complete	2.4. Business ethics and anti-corruption efforts
69.	G4-SO5	Confirmed incidents of corruption and actions taken	Complete	2.4. Business ethics and anti-corruption efforts

COMPLIANCE WITH THE UN GLOBAL COMPACT PRINCIPLES

Category	Principles	GRI G4 disclosures	Location in the Report
HUMAN RIGHTS	Businesses should support and respect the protection of internationally proclaimed human rights	G4-HR3	2.4. Business ethics and anti-corruption efforts; Sustainability Report for 2015
	Businesses should make sure that they are not complicit in human rights abuses		
LABOUR	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	G4-11	2.3. HR management
	Businesses should uphold the elimination of all forms of forced and compulsory labour	G4-HR6	2.4. Business ethics and anti-corruption efforts
	Businesses should uphold the effective abolition of child labour	G4-HR5	
	Businesses should uphold the elimination of discrimination in respect of employment and occupation	G4-HR3	2.4. Business ethics and anti-corruption efforts; Sustainability Report for 2015
ENVIRONMENT	Businesses should support a precautionary approach to environmental challenges	G4-14	3.3. Environmental protection
	Businesses should undertake initiatives to promote greater environmental responsibility	G4-EN3 G4-EN8 G4-EN15 G4-EN22 G4-EN23 G4-EN29 G4-EN31	
	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	2.4. Business ethics and anti-corruption efforts



Annex 3.

External assurance for the Report



Sistema's 2016 Sustainability Report has received public verification from the Board on Non-Financial Reporting of the Russian Union of Industrialists and Entrepreneurs (RUIE).

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The subject of public verification is the significance and completeness of information on the company's operation results disclosed in the non-financial report (as stated in the Russian Business Social Charter).

The Board members are experts in corporate responsibility and non-financial reporting who have authority and reputation in the expert and business community.

According to the expert review, Sistema's Report provides the material data on the corporate responsibility and discloses information about the company's activities with sufficient completeness.

We will consider the recommendations and comments received from the assurance provider during the preparation of our future reports.



The public verification report for 2016 is available at: <http://www.sistema.ru/ustoichivoe-razvitie/socialnye-otchety/>

G4-33

Consideration of recommendations received from the Non-Financial Reporting Board of RUIE regarding Sistema's 2015 Sustainability Report

Recommendation of the The RUIE Board on Non-Financial Reporting (excerpt ¹⁾)	Consideration and fulfilment of recommendations in the 2016 Report:
1. For a clearer and more transparent presentation of data, the Report shall provide information on reporting perimeter regarding various aspects of activities and subsidiaries	Fulfilled, see the following sections: <i>Information about the Report</i>
2. Include measurable benchmarks for the upcoming planning period	Partly fulfilled
3. Use conversations, round-table discussions and public hearings to receive feedback and suggestions from stakeholders when preparing the Report	In 2016, Sistema organised a round-table discussion about the role of responsible business in the social and economic development of the regions, during which the Corporation publicly presented its Sustainable Development Report for 2015
4. Increase the number of disclosed environmental parameters, show absolute and relative indicators of environmental impact and energy consumption by key subsidiaries, and provide comments on significant changes in such indicators	Fulfilled, see the following sections: <i>3.3. Environmental protection</i>
5. Pay more attention to the assessment of the effectiveness of the Corporation's social investments	Fulfilled, see the following sections: <i>1.2. Responsible investment</i> <i>2.2. Managing social responsibility</i>
6. Show how the goals of the Corporation correspond to the specific UN Millennium Development Goals	Fulfilled, see the following sections: <i>1.1. About the Corporation</i>

⁽¹⁾ The public verification report for 2016 is available at:
http://www.sistema.ru/fileadmin/user_upload/social_reports/zakluchenie_pssp_2015.pdf

Glossary and acronyms

GLOSSARY

BIOFEEDBACK	The process of gaining greater awareness of many physiological functions primarily using instruments that provide information on the activity of those same systems, with a goal of being able to manipulate them at will.
BOREAL FOREST PLATFORM	An open platform for the exchange of experience and free discussions in the field of intensive sustainable forestry.
CLOUD TECHNOLOGIES	Data processing technologies in which computer resources are provided to an internet user as an online service.
COMMONWEALTH OF INDEPENDENT STATES (CIS)	A geopolitical region comprising a number of former soviet republics
COMPETENCE-BASED VOLUNTEERING (PRO BONO WORK)	Professional work undertaken voluntarily and without payment for the benefit of non-profit organisations or individuals.
CORPORATE SOCIAL RESPONSIBILITY (CSR)	A company's responsibility for the impact of its decisions and activities on society and the environment through transparent and ethical behaviour that promotes sustainable development, takes into account the expectations of stakeholders, and is consistent with applicable laws and international standards of conduct; a regularly reviewed set of obligations that are voluntarily and consistently developed with the participation of key stakeholders, including the implementation of internal and external social and environmental programmes corresponding to the company's specifics and level of development.
CREATION OF SHARED VALUE	A business concept establishing the link between competitive advantage and corporate social responsibility, which implies the implementation of projects that have a positive impact on both the company and its stakeholders.
DIGITAL HEALTH	The use of information and communication technologies in medicine to facilitate the patients' interaction with the healthcare system (including mobile and telemedicine, wearable devices and information systems for various healthcare purposes).
DIGITAL INEQUALITY	An economic and social inequality with regard to access to information and communication technologies.
DISCLOSURE ON MANAGEMENT APPROACH (DMA)	Narrative information on how an organisation identifies, analyses and responds to its actual and potential material economic, environmental and social impacts.
DONORS FORUM	A non-profit partnership of the largest charitable organisations working in Russia.
ECOLOGICAL FRAMEWORK OF THE TERRITORY	A set of ecosystems with an individual mode of nature management for each site, which form a spatially organised infrastructure that supports the ecological stability of the area, preventing loss of biodiversity and landscape degradation.
FULLERENES	Carbon nanoproducts that modify the consumer properties of various materials (for example, they create a protective film, prevent dissolution by organic substances, etc.) And are used in various industries – from energy to healthcare and cosmetology.
INFRASTRUCTURE AS A SERVICE (IAAS)	Online services that provide high-level APIs used to dereference various low-level details of underlying network infrastructure like physical computing resources, location, data partitioning, scaling, security, backup etc.
INCLUSIVE ENVIRONMENT	Inclusive environment: an environment that facilitates the full integration of people with disabilities into society.
KEY PERFORMANCE INDICATOR (KPI)	An integrated indicator of activities of a structural unit or an officer, reflecting the achievement of targets set for a certain period.
MARKETPLACE	A type of e-commerce site for business where consumers interact directly with suppliers of goods.
NATIONAL ASSOCIATION OF CORPORATE DIRECTORS	The first and only self-regulatory organisation in Russia in the field of corporate governance, which unites leading Russian directors, top managers and senior executives of companies.

PENSION RESERVES	Funds generated from voluntary pension contributions of legal entities and individuals within the framework of the non-state pension provision system and intended for the performance by a non-state pension fund of its obligations in accordance with pension agreements.
PITCH (PITCH SESSION)	A brief presentation of the project with the aim of finding investors willing to finance it.
PRIVATE EQUITY INVESTMENT	Investments in mid- and large-sized non-public companies.
RUSSIAN INSTITUTE OF DIRECTORS	Leading russian research, consulting and educational centre for corporate governance.
RUSSIAN UNION OF INDUSTRIALISTS AND ENTREPRENEURS (RUIE)	A russian public organisation representing the interests of business and uniting the largest russian companies.
SMART GRID:	A concept for the development and modernisation of electrical grids, which uses information and communication technologies to monitor and account for the transmission and consumption of energy, thereby improving efficiency, reliability, economic benefits and sustainability of electric power distribution.
SOCIAL CHARTER OF THE RUSSIAN BUSINESS	A code of basic principles of socially responsible business practices developed by the russian union of industrialists and entrepreneurs; it covers the company's interaction with employees, civil society organisations, government authorities and local communities, as well as environmental security.
SPECIALLY PROTECTED NATURAL AREAS	Land, water surface and air space with natural systems and objects having special environmental, scientific, cultural, aesthetic, recreational and health value, which have been withdrawn completely or partially from economic use and for which a special protection regime has been established.
STAKEHOLDERS	Individuals and legal entities with interests in the corporation, which affect or can be affected by the corporation's actions.
STARTUP	Is an entrepreneurial venture, which is typically a newly emerged business in the stage of development or research on prospective markets.
SUBSTATION	A part of an electrical generation, transmission and distribution system consisting of transformers or other converters of electric power.
SUSTAINABLE DEVELOPMENT	Development of society/business which ensures that the living conditions improve, the impact on the environment remains within the economic capacity of the biosphere, and the satisfaction of current needs is carried out without harm for future generations.
TELEMEDICINE	The use of telecommunication and information technology to exchange medical information.
TICKER (TICKER SYMBOL)	Is an abbreviation used to uniquely identify publicly traded instruments (stocks, bonds or indices).
VENTURE CAPITAL INVESTMENTS	Investments in new or growing companies with a high or moderate level of risk.
UN GLOBAL COMPACT	The largest initiative of the united nations in the field of corporate social responsibility and sustainable development, which brings together 13,000 companies and organisations from 170 countries and 88 national networks that share and implement the ten principles in the field of human rights, labour relations, environment and anti-corruption for sustainable and equitable socio-economic development.
UN SUSTAINABLE DEVELOPMENT GOALS (SDGS)	A set of 17 global goals in the field of sustainable development approved by the un in 2015, which are expected to be the focus of the global community and business until 2030.



ACRONYMS

AGM (Annual General Meeting)	annual general meeting
AQL (Acceptable Quality Limit)	Maximum defect rate per one product batch which can be considered as acceptable and complying with average standards
CDC (Clinical-Diagnostic Centre)	clinical-diagnostic centre
EBITDA (Earnings before taxes, depreciation and amortization)	an accounting measure calculated using a company's net earnings, before interest expenses, taxes, depreciation and amortisation are subtracted
ERM (Enterprise Risk Management)	enterprise risk management
ESG-risks (Environmental, Social and Corporate governance)	environmental, social and governance risks
FSC (Forest Stewardship Council)	forest stewardship council, an international non-commercial and non-governmental organisation that promotes responsible management of the world's forests
GDP (Gross Domestic Product)	gross domestic product
GDR (Global Depositary Receipt)	Global Depositary Receipt
GFN (Global Forest Network)	global forest network, an international research institute that has developed a set of methods that allow countries, regions, cities and individual households to measure their natural capital consumption and compare it with the amount of available renewable resources
GMP (Good manufacturing practice)	good manufacturing practices, the practices required in order to conform to the guidelines recommended by agencies that control authorisation and licensing for manufacture and sale of food, drug products and active pharmaceutical products
GR (Government Relations)	government relations
GRI (Global Reporting Initiative)	global reporting initiative, an organisation dedicated to the development and promotion of non-financial reporting standards
HR (Human Resources)	human resources
IASP (International Association for Science Parks)	international association for science parks
IFRS (International Financial Reporting Standards)	International Financial Reporting Standards
ISO 26000:2010	an international standard providing guidelines for social responsibility
ISO 31000:2010	a family of standards relating to risk management

ISO 9001:2015	an international standard providing requirements to quality management systems
IT (Information Technology)	information technology
JCI (Joint Commission International)	joint commission international, one of the most respected international standards in the field of quality of healthcare
LTI (Long Term Incentives)	long-term incentives for senior management
MBA (Master of business administration)	master of business administration
NGO (Non-Governmental Organization)	Non-governmental organization
NIIDAR	Scientific and Research Institute for Long-Distance Radio Communications
NIIME (National Research Institute of Molecular Electronics)	National Research Institute of Molecular Electronics
OHSAS 18000 (Occupational Health and Safety Assessment Series)	occupational health and safety assessment series, an internationally applied british standard for occupational health and safety management systems
OIBDA (Operating Income Before Depreciation And Amortization)	operating income before depreciation and amortisation
PPM (Plant and Paper Mill)	plant and paper mill
R&D (Research and Development)	research and development
RGS (Russian Geographic Society)	Russian Geographic Society
RFID (Radio Frequency Identification)	radio frequency identification, the use of electromagnetic fields to automatically identify and track tags attached to objects
SCF (Sistema Charity Fund)	Sistema Charity Fund
STEM (science, technology, engineering, math)	the academic disciplines of science, technology, engineering and mathematics; this term is typically used when addressing education policy and curriculum choices in schools, to improve competitiveness in science and technology development
UNESCO (United Nations Educational, Scientific and Cultural Organization)	United Nations Educational, Scientific and Cultural Organization
WWF (World Wildlife Fund)	World wildlife fund

Information about the Report

G4-28

G4-29

G4-30

Sistema is presenting its fourth annual Sustainability Report. In the past (starting from 2006) the company published social reports. The previous report for 2015 was published in Q3 2016.

Some subsidiaries of Sistema (MTS, Detsky Mir and Segezha Group) publish their own sustainability reports, which include more detailed information on the companies' approaches to sustainable development, social projects and interaction with stakeholders.

The purpose of this Report is to inform a broad range of interested parties of the principles, goals, practical results and plans of Sistema in the area of sustainable development and corporate social responsibility. Preparation of non-financial reporting is also a tool for regular monitoring of the CSR activities conducted by Sistema's subsidiaries.

Priority subjects of the Report



Contribution
to Russia's economic
development



Development
of the social sphere
and communities



Contribution
to protection
of the environment

Compliance with the GRI Guidelines

G4-32

The report was prepared in accordance with the G4 Sustainability Reporting Guidelines and discloses information at the core level.

The location of standard reporting elements and results is shown in Annex 2.

The Report was prepared in compliance with:

- principles of the UN Global Compact;

- provisions of the Social Charter of the Russian Business;
- basic efficiency metrics, the indices "Responsibility and Transparency" and "Sustainable Development Vector" developed by the Russian Union of Industrialists and Entrepreneurs (RUIE);
- Russian and global non-financial reporting practices of comparable companies: conglomerates and financial groups;

- annual corporate transparency rating of Russia's largest companies prepared by the Russian Regional Network for Integrated Accounting;
- recommendations from RUIE given as part of public verification of Sistema's Sustainability Report for 2015 (see Annex 3).

In the description of the Corporation's business model, the International Integrated Reporting Standard with respect to capital concept was also used.

⁽¹⁾ <http://www.sistema.ru/ustoichivoe-razvitie/socialnye-otchety/>

Determining material subjects (aspects) for disclosure in the Report

When preparing the 2016 Report, the Corporation revised the list of material aspects identified in the course of preparation of the 2015 Report (for more detail on establishing materiality in 2015 see Sistema's Sustainability Report for 2015, p.188-189). Questionnaires were circulated among the stakeholders that had not previously participated in the materiality determination procedure. The stakeholders were asked to assess the materiality of each subject disclosed in the previous-year report on a five-point scale depending on their importance for Sistema and its stakeholders. The respondents were also allowed to make adjustments in the proposed wordings and offer additional subjects for disclosure. More than 60 people were surveyed in the reporting period, including 23 representatives from Sistema and 13 representatives from its subsidiaries¹.

In three years the involvement of interested parties in preparation of the Report increased significantly: the

number of survey participants almost doubled and the share of external stakeholders increased from 42% in 2014 to 68% in 2016.

Based on the survey findings a materiality matrix was developed, with estimates of Sistema's impact on the material aspects shown along the horizontal axis and estimates of materiality of these aspects for stakeholders shown along the vertical axis.

Seven aspects shown in the top right-hand corner of the matrix were recognised as mandatory for disclosure.

After building the matrix the list of material aspects was extended in accordance with the recommendations of ESG analysts (including Vigeo Eiris, Oekom research AG, Global Engagement Services etc.) and investment analysts of asset management companies (Alfred Berg Asset Management etc.) that paid particular attention to observance of human rights (including providing employee training on this subject) and greenhouse gas emissions (aspects № 7, 16, 17). The added subjects (aspects) are highlighted in blue in the table.

Key stages of establishing material aspects

Stage 1. New stakeholders determine the materiality of aspects (revision)

A survey of new stakeholders' representatives

Этап 2. Построение Stage 2. A revised materiality matrix for 2016 is developed

7 aspects are recognised as material

Stage 3. The list of material aspects for disclosure in the 2016 report is extended

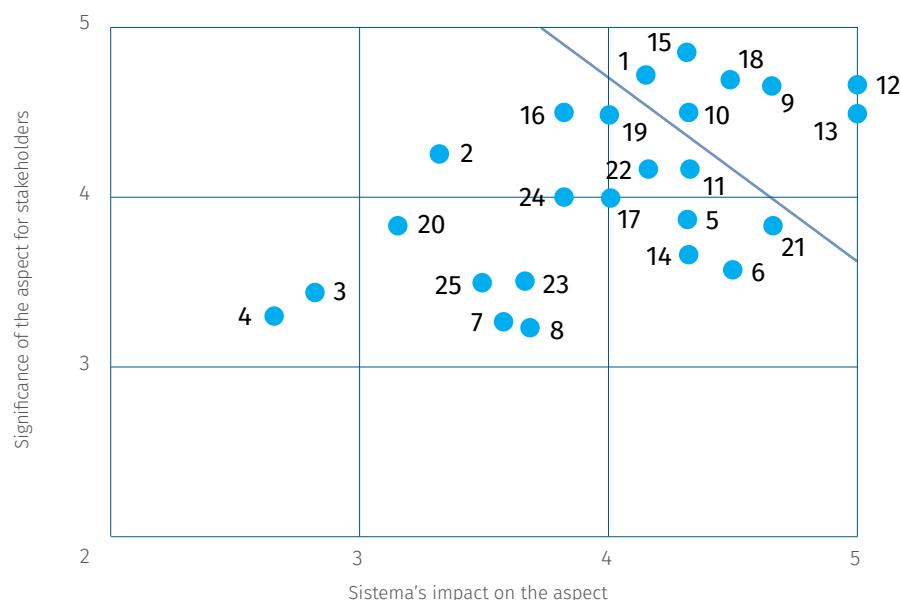
3 aspects are added

G4-18

Number of questionnaires completed by stakeholders that were taken into account in establishing materiality



Materiality matrix



¹ Internal: personnel (20 people), management (3 people), subsidiaries and affiliates (13 representatives). External: shareholders (independent directors of Sistema), investment community (the Russia-China Investment Fund, the National Rating Agency), innovative development institutions (Rusnano), government authorities (Ministry of Economic Development of the Russian Federation, Government of the Republic of Karelia, Ministry of Economic Development and Industry of the Republic of Karelia) and non-governmental watchdogs (the Public Chamber of Moscow), professional associations (the Managers Association, the EU-Russia Industrialists' Roundtable), partners (the Russian-American Business Council) and expert communities (Analytical Centre of the Government of the Russian Federation, Russian Risk Management Society), non-governmental social and charitable organisations (National Council on Corporate Volunteering, the Donors Forum, CAF Fund) and environmental organisations (World Wildlife Fund Russia, Forest Stewardship Council Russia, Russian Carbon Fund), representatives of Russia's regions (the Chamber of Commerce and Industry of the Republic of Bashkortostan), educational facilities and the academic community (CSR Centre of the Moscow International Higher Business School MIRBIS, Research Centre for Civil Society Institutions of the Economics Department and the Higher School of Management and Innovation of the Moscow State University, European University in St. Petersburg, the Finance University of the Government of the Russian Federation, the Higher School of Economics)



G4-19

Full list of material aspects

Nº	Aspect
ECONOMY	
1.	Economic results achieved by Sistema and its subsidiaries
2.	Activities of Sistema and its subsidiaries to ensure Russia's technological leadership: projects aimed at implementing innovations and modernising production facilities, developing knowledge-based industries, building infrastructure
ENVIRONMENTAL PROTECTION	
3.	Activities aimed at developing "green" (environmentally responsible) economies: projects for developing eco-friendly businesses in Russia, stimulating consumption of eco-products
4.	Programmes of Sistema and its subsidiaries aimed at preserving biodiversity in the regions of presence
5.	Compliance with environmental regulations by Sistema and its subsidiaries
6.	Total investment of Sistema and its subsidiaries aimed at protecting the environment
7.	Information about harmful emissions of Sistema's subsidiaries (volumes and intensity, reduction of emissions)
8.	Information about effluents and waste discharged by the production facilities of Sistema's subsidiaries (volumes and intensity, reduction of effluents and waste)
PERSONNEL	
9.	Sistema and its subsidiaries as attractive employers: wages paid to the employees in the regions of presence, percentage of senior management that are hired from the local community
10.	Main characteristics of personnel working for Sistema and its subsidiaries (numbers, turnover, employee benefits)
11.	Health and safety of employees at Sistema and its subsidiaries
12.	Training and development of employees at Sistema and its subsidiaries (advanced training programmes, length of training)
13.	Programmes implemented by Sistema and its subsidiaries to train personnel for the innovative sectors of the Russian economy
14.	Transparency and quality of communication between the employees and the senior management of Sistema and its subsidiaries
15.	Business ethics and corruption prevention at Sistema and its subsidiaries
HUMAN RIGHTS	
16.	Preventing discrimination at Sistema and its subsidiaries (by gender, nationality, religion)
17.	Information about implementation of training programmes for the security employees of Sistema and its subsidiaries in the area of observance of human rights
REGIONS OF PRESENCE AND COMMUNITIES	
18.	Charitable activity and social investments of Sistema and its subsidiaries
19.	Contribution of Sistema and its subsidiaries in development of the regions of presence and local communities (support of healthcare, development of internal tourism, comprehensive development of territories, strengthening food security in Russia)
20.	Involvement of Sistema and its subsidiaries in development of government policies (development of federal and /or regional laws, political donations)
21.	Compliance with anti-monopoly regulations by Sistema and its subsidiaries
22.	Social partnership and results of Sistema's cooperation with local communities, regional and local authorities
23.	Information about fines or non-financial sanctions imposed on Sistema and its subsidiaries for non-compliance with regulations
RESPONSIBILITY TOWARDS CONSUMERS	
24.	Ways of insuring the health and safety of consumers of products and services of Sistema's subsidiaries (estimated impact of the products and services on consumers' health, measures aimed at minimising harmful effects)
25.	Information about fines or non-financial sanctions imposed on Sistema and its subsidiaries for non-compliance with product regulations

Report Boundaries

The Report perimeter includes Sistema and key subsidiaries and coincides with the perimeter of the consolidated financial statements.

Sistema's production, financial and economic results presented in the report are shown in a consolidated format on the basis of audited IFRS financial statements, if not otherwise provided for herein. The list of legal entities whose reports were included in the consolidated financial statements has been published on the Corporation's website.

Some indicators disclosed in previous non-financial reports of the Corporation were revised due to:

- retrospective exclusion of Targin and SG-trans (divested in 2016) from the consolidation perimeter to ensure comparability of data;
- changes in the consolidation perimeter of hotel assets due to acquisition of new assets in November 2016 (only data on Cosmos hotels was included for ensuring comparability of data);

- revision of data related to improvement of accounting policy in some subsidiaries, changes in data consolidation perimeter and correction of technical errors (see table below).

G4-17

G4-22

G4-23

Indicator	Reasons for revisions in the Report for 2016
G4-10. Number of employees	Figures were revised for MTS, Detsky Mir, Kronstadt Group, Segezha Group, Sistema Venture Capital, real estate assets; data on NVision Group was included.
G4-LA9. Average hours of training per year per employee by gender and by employee category	Figures were revised for MTS, Segezha Group.
G4-EN3. Power consumption within the organisation (consumption of fuel and energy resources)	Figures were revised for Detsky Mir, RTI, Steppe AgroHolding; data was included for Segezha Group, BPGC, MTS Bank.
G4-EN3. Power consumption within the organisation (consumption of motor fuel)	Figures were revised for Detsky Mir and RTI; data on Segezha Group, Detsky Mir, Concept Group, BPGC, MTS Bank was included.
G4-EN8. Total water withdrawal by source	Figures were revised for Segezha Group, RTI, Binnopharm, BPGC, Kronstadt Group, Leader Invest.
G4-EN15. Direct greenhouse gas (GHG) emissions	Data on Segezha Group was included.
G4-EN22. Total water discharge by quality and destination	Figures were revised for Steppe AgroHolding.
G4-EN23. Total weight of waste by type and disposal method	Figures were revised for Segezha Group, Kronstadt Group, Binnopharm.
G4-EN31. Total environmental protection expenditures and investments by type	Figures were revised for MTS, Mikron, BPGC, Segezha Group.

⁽¹⁾ Please follow this link to see the consolidated financial statements of Sistema and its subsidiaries for 2016: http://www.sistema.ru/fileadmin/user_upload/financial_statements/bukh.otchetnost_za_2016_g_s_az_i_pz.pdf.

⁽²⁾ The aspects were not qualified as material outside the Corporation.

G4-20

G4-21

Awards and achievements

Corporate social responsibility



- 1 Sistema ranked third in 2016's edition of Leaders of Corporate Charity (a joint project of PwC, the Donors Forum and Vedomosti) and received an award in a special category **"Best programme revealing the policy of corporate charity and the principles of the company's social investments"** for its social programme Taking Care of Veterans.



- 2 Sistema was named the leader of corporate transparency among Russia's private companies **in 2016's edition of Corporate Transparency of Largest Russian Companies**, a ranking compiled by the Russian Regional Network on Integrated Reporting.



- 3 Sistema ranked first in the category **"For the development of intersectoral partnership in solving social problems of territories"** of the national contest Russian Business Leaders: Dynamics and Responsibility 2016 organised by the Russian Union of Industrialists and Entrepreneurs.

- 4 Sistema was included in list of **Russia's 50 largest taxpayers** compiled by RBC and was the only private company not from the non-renewable resources sector in the top 15¹.



- 5 Sistema's **multimedia light show titled #oПобеде** (#aboutVictory) ranked second in the category "Best mass event" of the national independent award for event organisers Golden Puzzle 2016, ranked second in the category "Best public project" of the 5th international contest of communication projects Eventiada Awards and also became a finalist of the national award in the field of public relations Silver Archer.

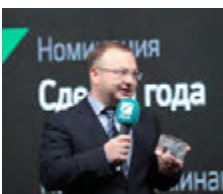


- 6 Sistema Charitable Foundation's Charity Newsletter won in the categories "The most efficient tool of shaping corporate culture and promoting CSR principles" and "The best newsletter/bulletin/corporate almanac" of the national contest **Best Corporate Media** organised by the Russian Association of Directors for Communications and Corporate Media.



- 6 Sistema Charitable Foundation ranked second in the category "CSR and charity" of the public relations award RuPoR for "Redhead" festival that promotes inclusion and disability rights.

Investments



- 8 Sistema won in the category **"Deal of the Year"** of the regional business award RBC Petersburg Award 2016 for the acquisition of Kronstadt Group.

- 9 The Corporation became one of **Russia's 10 largest land owners with the biggest** growth of land assets in 2016, according to the ranking by the audit and consulting company BEFL.

⁽¹⁾ Without taking into account contributions to extra-budgetary funds and other fiscal payments related to labour taxes including personal income tax.

HR

- 10 Sistema's President Mikhail Shamolin was the winner in a number of categories of the ranking **CEO of the Year Russia 2016** compiled by the Swiss financial research firm Obermatt Research.
- 11 Vsevolod Rozanov, Senior Vice President and Head of the Finance and Investment Function of Sistema, became the winner of the national award Top 1000 Russian Managers in the category **"Best Financial Director"**, and Mikhail Tolokonnikov (Ozon Group) became the winner among commercial directors.
- 12 Roger Munnings, independent member of Sistema's Board of Directors, received the **Director of the Year** award organised by the Association of Independent Directors and the Russian Union of Industrialists and Entrepreneurs in partnership with PwC. The list of top 50 independent directors also included two independent directors of MTS (Thomas Holtrop and Stanley Miller).
- 13 **Vladimir Evtushenkov**, Chairman of the Board of Directors of Sistema, and **Ron Sommer**, Chairman of the Board of Directors of MTS, were included in the list of 25 best board chairs. Igor Petrov (Sistema) and Maksim Kalinin (MTS) were included in the list of 25 best directors for corporate governance and corporate secretaries.
- 14 Representatives of Sistema, MTS and Medsi were included in the national ranking of **top 50 corporate social responsibility managers** compiled by the Russian Managers' Association.



Subsidiaries and affiliates

Corporate social responsibility

- 15 **MTS** became the winner:
 - in the category **"Infrastructure Project of the Year"** (subcategory "Public Activities") of the 5th national award in the field of SME support Foundation for Growth 2016 initiated by the Social Projects and Programmes Foundation with the support of the Department of Science, Industrial Policy and Entrepreneurship of the Moscow Government and the public institution Small Businesses of Moscow; the award was for the project "Telecom Idea", as well as for products and services that allow businesses to cut costs and create new entrepreneurial niches;
 - in the category **"The leader in promoting environmental security"** of an independent award in the field of ecology and energy saving Eco Best Award;
 - in the category **"The most customer-oriented company in Russia"** of the award Customer Experience Awards Russia for the unique ecosystem which integrates over 20 applications;





- in the category **"Science and Education"** of the national award in the field of high technologies and the Internet The Runet Award established by the Federal Agency for Press and Mass Communications of Russia;

- in the category of electronic mass media and web portals of the 13th annual contest **Best Corporate Media** held by the Russian Association of Directors for Communications and Corporate Media;

- in the category "Technological Solution" of the award for achievements in the area of HR management **Crystal Pyramid 2016** established by the organising committee of the summit of HR directors of Russia and the CIS – for the creation of an automated personnel training system "Virtual Academy";



- the corporate university of MTS ranked second in the category **"Best innovative corporate university"** of the Global CCU Awards;

- MTS's 2015 Sustainability Report won the platinum MarCom Awards international competition and became a winner in three categories of the international annual report competition organised by the League of American Communications Professionals (LACP);



- the annual report of MTS for 2015 became the best in the telecommunications sector of the 19th contest of annual reports organised by the Moscow Exchange, and received a diploma of the Russian Institute of Directors for the **"Best level of disclosure of information on corporate governance practices"** in the contest of annual reports organised by the RAEX rating agency.



- 16 Within the framework of the annual national contest of corporate volunteering projects Good Cause Champions 2016 established by the Managers' Association and the National Council for Corporate Volunteering, **Meds** ranked second in the category "Competence-Based Volunteering" for its "Be Healthy With Medsi" project promoting healthy lifestyles and volunteering, and **MTS** won in the category "Local Communities" for the volunteer puppet show "Mobile Theatre of Fairy Tales".

- 17 **Meds** won the annual national award Russia's Best Social Projects in the category "Social Projects in Healthcare" for its programme "Be Healthy With Medsi".

- 18 **Segezha Group** was awarded the National Quality Mark Russia's Choice. An exemplary taxpayer for the creation of an effective governance structure and a significant contribution to the national economy.

- 19 **Segezha Group's** sustainability report for 2014-2015 won in the category "Debut of the Year" of the Corporate Transparency Ranking organised by the Russian Regional Network on Integrated Reporting.



20 BPGC

- was named the most transparent company of the Republic of Bashkortostan in the annual competition organised by the regional Print and Media Agency and the Association of Business and Economic Journalism;

- won in the categories “Socially Responsible Power Grid Company” and “The Most Transparent Power Grid Company” of the 6th national contest Russia's Best Power Grids;

- ranked third in the category “The Best Social Project in Business” of the 8th national contest Press Office of the Year and became the winner of the regional stage of the 2nd national competition MediaTEK in the category “Social and Environmental Initiative” for the project “Safe Childhood”.

- RTI won the silver prize in the category “The Best Disclosure of Corporate Information on the Website of a Non-Public Company” of the contest The Best Disclosure of Corporate Information on a Website of the National Association of Corporate Secretaries.

- RTI's science and technology journal **Intellect & Technology** (I&T) won in the category “Corporate publication of the year” of the public relations award PROBA-IPRA Golden World Awards. The Grand Prix for effectiveness went to the information project “MTS/Media”.

- The cruiser “Aurora”, with its cutting-edge multimedia solutions provided by **Kronstadt Group**, won the Museum Olympus award in the category “Museum of the Year” and the contest of the Ministry of Defence of the Russian Federation in the field of culture and art for in the category “Multimedia projects”.



Investment and finance

- RAEX (Expert RA) for the first time rated **Leader Invest** as A+ (“Very high level of creditworthiness”).

- Sarov Technopark** won in the category “Best Technopark” of the national award **Young Lions 2016** during the 6th International Business Incubator Forum.



Международный форум
по бизнес-инкубаторству



HR

- 26 **Detsky Mir Group and MTS** were recognised as the best employers of the year according to “AON Best Employers Russia 2016” study conducted by Aon Hewitt and AXES Management.
- 27 MTS became one the **top 5 employers in Russia according** to HeadHunter, confirming its status of the leader among telecommunications companies.
- 28 **Ruslan Ibragimov**, Vice President for Corporate and Legal Affairs at MTS, was included in the ranking of the most effective lawyers in the world The Legal 500.
- 29 Valery Shorzhin, Vice President for Procurement and Administrative Matters at **MTS**, and Artyom Blinov, Director for Procurement at **MGTS**, won in the category “Professional of Competitive Procurement” of the award Leaders of Competitive Procurement.
- 30 **The Research Institute of Long-Range Radio Communications (NPK NIIDAR) and Mikron**, both members of RTI Group, became industry leaders in terms of labour productivity in the radio electronic industry of Russia, and NPK NIIDAR also ranked third among the top 100 enterprises of the military-industrial complex in the national award Labour Productivity: Industry Leaders of Russia 2016.
- 31 Engineers of the **Yaroslavl Radio Plant** (RTI Group) received personal grants from the Government of the Russian Federation for their contribution to the creation of breakthrough technologies and the development of modern models of military and special equipment.
- 32 **The RTI science school** for the first time became one of Russia's 23 leading science schools in engineering and technology.
- 33 **Gennady Krasnikov**, Chairman of Mikron, CEO of NIIME and member of the Russian Academy of Sciences, received the UNESCO Medal for contributions to the development of nanoscience and nanotechnologies.
- 34 Alexander Shefer, Deputy CEO for Security at **BPGC**, was awarded the medal of the Ministry of the Russian Federation for Affairs of Civil Defence, Emergencies and Disaster Relief (EMERCOM) “For cooperation between rescue services” for the high performance in maintaining the proper level of civil defence, ensuring protection of the population of the Republic of Bashkortostan and the company's personnel against emergencies.
- 35 **The team of Medsi's training centre won** the Efficient Business Education award in the category “Best Training Centre for Medical Personnel”.

Customer focus and quality of services

36 MTS won:

- in the category “Russia's Most Customer-Oriented Company” at the **Customer experience Awards Russia** in recognition of the company's unique ecosystem of more than 20 branded mobile apps;
- in the category “Telecommunications” of the **World Branding Awards** organised by the World Branding Forum, a non-profit registered in England and Wales;
- in the category “Programme of the Year in IT and Telecom” of the independent annual awards **Time of Innovations 2016**;
- Mobile app My MTS won the **Golden App 2016** award in the category “People's Choice” and also won the silver prize in the category “Best app of a brand”;

37 Detsky Mir won:

- in the category “Best private label in the segment of children's goods” of the Private Label Awards organised with the participation of the Retail Companies Association;
- in the category “Leader of the Year” of the Russian Retail Awards;
- in the categories “Hall of Fame” and “Best Footwear” of the Little Golden Bear award established by the Association of Children's Goods Industry.
- Detsky Mir's online store won in the category “Breakthrough of the Year” of the Russian e-commerce award Big Turnover.

38 Medsi topped the ranking of Moscow's clinics in terms of customer loyalty according to the report by BusinessStat.

39 Medsi Otradnoye Sanatorium was awarded in the category “Best rehabilitation technologies” at the annual national Russian forum **Zdravnitsa 2016**.

40 The bonus programme of MTS Bank (MTS Money Deposit card) became the leader in the category of cards with cashback in the ranking of banking loyalty programmes prepared for RBC by Frank Research Group.

41 Mikron ranked second in the category “Best Microelectronic Product” of the Golden Chip 2016 competition during the international exhibition New Electronics 2016.





- 42 **NVision Group** topped the annual ranking of the largest IT suppliers for telecom operators by CNews Analytics and became the winner of the Sport and Russia 2016 award in the category “The Best IT Solution for Olympic Facilities”; meanwhile, the Hybrid TV project for MTS won in the category “Best IT project in the field of interactive services” of the contest Project of the Year organised by Global CIO, Russia’s largest community of IT directors.



- 43 **Leader Invest** received the special prize “Breakthrough of the Year” of the international award Records of the Real Estate Market 2016 and the prize “Ambitious Plans” of RREF Awards 2016, and the premium-class apartment block Sretenka Clubhouse currently under construction won in the category “Serviced Apartments”. The company’s Nagatinskaya House was named the best comfort-class residential complex in Moscow, while three other projects became the finalists of the Urban Awards 2016.



- 44 **Kronstadt Group** became the winner of the national import substitution award Priority 2016 in the IT category.

- 45 Association of Children’s Goods Industry presented **Detsky Mir and Ozon** with an industry award for not selling counterfeit goods.

- 46 The **Altay Resort** has won the “Medical-Hotel of the Year” nomination of the All-Russian Hospitality Award.



Procurement



- 47 **Detsky Mir** was named the private company with the most transparent procurement procedures in the National Ranking of Procurement Transparency prepared by the National Association of Electronic Trading.

- 48 **MTS**, BPGC and MGTS received awards Leaders of Competitive Procurement organised by B2B-Center, one of the major electronic trading platforms for corporate procurement.

- 49 Heads of procurement units of **MTS, MGTS and BPGC** were among the top ten procurement directors in the ranking prepared by the rating agency AK&M.



Disclaimer

The non-financial report of Sistema PJSFC for 2016 is unaudited; it contains consolidated data for the Group on the basis of information from the subsidiaries, as well as statements that are only predictions regarding the production, financial, economic, social and environmental indicators of the Corporation's development.

Due to changes in the composition of Sistema's assets, accounting policy in subsidiaries, changing situation in the markets and various factors and risks associated with the activities of Sistema and its portfolio companies, actual events or results disclosed in subsequent reports may differ materially from those published earlier.



Social Charter
of the Russian
Business



Global Compact
Network Russia



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