Our mission is building a first-rate Russian investment company that can ensure long-term growth of shareholder value through efficient management of the asset portfolio and achievement of high returns on investment.

>20 years
Years of track record

>13 sectors
Sectors of investments and expertise

RUB 709 bln
Revenue for 2015

RUB 176 bln
Adjusted OIBDA for 2015

ABOUT THE GROUP
04 Sistema today
06 CEO’s statement
08 Shareholder capital
10 Mission and strategy
12 Investment portfolio

PORTFOLIO & STRATEGIC PRIORITIES
16 Key highlights of 2015
19 Financial performance in 2015
22 Credit ratings
23 Dividends

STRATEGIC DEVELOPMENT
24 MTS
28 Detsky Mir
32 Segezha Group
36 RTI
40 BPGC
42 Medsi
46 Agricultural businesses
52 Targin
56 SSTL
58 Binnopharm
60 MTS Bank
64 Real-estate assets
68 SG-trans
70 Other investments

You can find more information on our corporate web site:
www.sistema.com
RISKS

72 Integrated ERM system
73 External risks
75 Risks related to Sistema’s operations

CORPORATE GOVERNANCE

81 General Meeting of Shareholders
84 Board of Directors
92 President
93 Management Board
95 President’s committees
97 Risk management, internal control and internal audit systems
99 Development of corporate governance in 2015
100 Remuneration policy

SOCIAL RESPONSIBILITY

102 Responsible investor
105 Social investments and charity
106 Lift to the Future: innovations and talents for high-tech industries
108 Taking Care of Veterans
109 Culture, historical and religious heritage
110 Corporate volunteer movement
112 Shared values and social marketing
114 Green economy and environmental protection
116 Responsibility towards employees
Sistema today

Sistema JSFC is Russia’s largest public investment company. Incorporated in 1993, Sistema JSFC is today one of Russia’s 10 biggest companies by revenue and one of the world’s largest publicly traded investment companies. Sistema’s investment portfolio is dominated by companies operating in various sectors including telecoms, oil & gas, power, retail and high-tech. Sistema is the controlling shareholder of most of its portfolio companies.

Sistema’s strategic goal is to grow shareholder value by boosting return on investment in existing assets and reinvesting available cash in new investment projects to achieve diversification and growth of its asset base.

Sistema today

Sistema is a reliable partner for states and foreign businesses.

**STRATEGY**

In 2002, Sistema partnered with Allianz to develop ROSNO, an insurance holding company. In 2007, Allianz bought Sistema’s interest in ROSNO based on a total equity valuation for ROSNO of US$ 1.58 bln.

**Partner: Allianz**

Investment: ROSNO

In 2011, Sistema partnered with Thomas Cook to develop Intourist, a tourism agency. The partnership resulted in Thomas Cook acquiring 75% of shares in the joint venture.

**Partner: Thomas Cook**

Investment: Intourist

SISTEMA’S PORTFOLIO

<table>
<thead>
<tr>
<th>Sector</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telecom</td>
<td>61</td>
</tr>
<tr>
<td>High-tech</td>
<td>11</td>
</tr>
<tr>
<td>Children's retail</td>
<td>9</td>
</tr>
<tr>
<td>Pulp &amp; paper</td>
<td>5</td>
</tr>
<tr>
<td>Banking</td>
<td>4</td>
</tr>
<tr>
<td>Oil services</td>
<td>4</td>
</tr>
<tr>
<td>Other</td>
<td>6</td>
</tr>
</tbody>
</table>

(1) Based on Sistema’s consolidated revenues.
COMPETENCE

Sistema’s approach focuses on improving the operating efficiency of its assets through restructuring and cooperation with industrial partners to enhance expertise and mitigate financial risks.

SHARES

The Company’s shares are traded on the London Stock Exchange (LSE) in the form of global depositary receipts (GDRs) under the ticker SSA. One GDR represents 20 ordinary shares. Sistema’s shares are also traded on Moscow Exchange under the ticker AFKS.

Partner: Russian government
Investment: SSTL
In 2011, Sistema partnered with the Russian Government’s Federal Agency for State Property Management (Rosimushchestvo), who bought 17% in Sistema’s Indian subsidiary SSTL, a telecom operator.

Partner: Louis Dreyfus
Investment: RZ Agro
In 2012, Sistema and the Louis Dreyfus family set up RZ Agro, an agricultural business owning more than 100,000 ha of land. Sistema and Louis Dreyfus are continuing to jointly develop their agrobusiness in Russia.

Partner: Deutsche Telekom
Investment: MTS
Sistema struck a partnership with Deutsche Telekom during the early years of MTS, a major Russian telecoms operator.

KEY FIGURES 2015

>13 sectors of operation
Industry presence

>160 patented solutions
Patented innovations

>100 mln consumers
Consumers of the Group’s companies production

150,000 employees
Responsible employer

>20 years
In the high-tech market

RUB 709 bln
Revenue

Partner: Louis Dreyfus
Investment: RZ Agro
In 2012, Sistema and the Louis Dreyfus family set up RZ Agro, an agricultural business owning more than 100,000 ha of land. Sistema and Louis Dreyfus are continuing to jointly develop their agrobusiness in Russia.
Dear shareholders,

Although 2015 was a challenging year for the Russian economy, for Sistema it was a year when we secured new drivers of growth for our investment portfolio and shareholder value. We performed strongly in terms of strategy execution and achieved all key targets, delivering robust growth at our key portfolio companies and reporting solid financial results as well as bolstering our cash position. In the new macroeconomic environment, we continued to actively reinvest funds in some of the most promising assets in Russia – assets that we expect will become important drivers of value creation going forward.

All key portfolio companies achieved strong operating and financial performance, ensuring significant growth of the Group’s consolidated results. Sistema’s revenue for FY 2015 increased by 10%, while OIBDA rose by 7%. Our non-listed subsidiaries continued to increase their contribution to the Group’s overall performance as their share in consolidated revenue rose from 36% in 2014 to 39% in 2015 and 41% in the last quarter of the year.

MTS and other major Sistema companies confirmed their status as leaders in their respective industries.

Detsky Mir strengthened its leadership position as Russia’s top children’s goods retailer as it continued to pursue an aggressive growth strategy. In 2015 Detsky Mir Group opened 104 new stores, bringing its retail chain to 425 stores.

At the end of 2015 Sistema sold a 23.1% stake in Detsky Mir to the Russia-China Investment Fund. This transaction is a good example of successful monetisation of our investments and a testament to the effective development of this asset.

Segezha Group, the pulp and paper holding we acquired in late 2014, delivered the highest growth rates among Sistema’s key assets: revenue increased by 35% and OIBDA doubled. In 2015 we transformed Segezha into an efficient business and a global market leader, providing one more proof that our strategy of turning distressed assets into industry champions is working. We are currently supporting a large-scale investment programme, which we expect will help drive value growth at Segezha for the benefit of Sistema and our shareholders.

Although 2015 was a challenging year for the Russian economy, for Sistema it was a year when we secured new drivers of growth for our investment portfolio and shareholder value.

Mikhail Shamolin
Sistema’s President
Our Indian telecommunications asset SSTL significantly improved its financial performance and achieved positive OIBDA in all operating circles in the fourth quarter of 2015. In November we announced plans to merge SSTL’s telecommunications business with RCom, one of India’s major telecom operators, in exchange for an equity stake in the combined company. The completion of the transaction is now subject to final approvals from courts and the Department of Telecommunications of India.

We also continue to grow our high-tech businesses in microelectronics, IT and defence through our portfolio company RTI, whose key divisions show strong growth and profitability.

Effective re-investment of cash remains a key priority for Sistema as an investment company. We continue to see attractive opportunities for efficient capital allocation in the current macroeconomic environment. In 2015, our biggest investment was into expansion of our presence in agriculture, where we see strong growth potential, clear production cost advantages and excellent prospects to capitalise on import substitution.

At the end of the year, we acquired a large and highly efficient dairy operation, Rodina, which is among Russian leaders for productivity and OIBDA margins; a top apple producer, Sady Kubani; and the largest greenhouse farm in Europe and Russia, Yuzhny Agricultural Complex, which produces vegetables.

On the basis of existing assets as well as new acquisitions we intend to create one of the country’s largest and most efficient agricultural holdings with a total land bank of at least 500,000 hectares. We will continue investing in the most attractive segments in the agriculture sector and expect that this business will make a notable contribution to the Group’s financial performance in 2016 and beyond.

Among Sistema’s investments in other sectors, I would like to highlight the acquisition of Kronshtadt Group, a prominent player on the Russian high-tech market with a set of competencies, products and solutions complementary to those of RTI.

We also increased our stake in Medsi, Russia’s largest chain of private medical clinics, reflecting our confidence in the huge potential of the Russian private healthcare market.

Successful implementation of our investment strategy, stronger cash generation and growing value of the Group’s assets create a strong base for further growth in our shareholder return. In 2016, we adopted a new dividend policy, which stipulates that the total dividend recommended by the Board of Directors for each reporting year will be, at a minimum, the higher of either an amount equivalent to a dividend yield of 4% per Sistema ordinary share or RUB 0.67 per share. We believe that the new policy will provide our investors with a progressive dividend story going forward.

As a major investor in the Russian economy, Sistema has a strong focus on social responsibility. We seek to ensure that our businesses help to improve living standards and the social, economic and environmental well-being of the country. We continue to increase our social investments, which includes creating new jobs, improving infrastructure and making important services more accessible.

I have no doubt that Sistema is on the right track towards achieving its key strategic goals. And with our extensive knowledge of the Russian economy, we remain absolutely confident in Russia’s high growth potential and in the prospects of our key investments.
Shareholder capital

Sistema JSFC has 9,650,000,000 ordinary shares outstanding with a nominal value of RUB 0.09 each. Its shareholder capital amounts to RUB 868.5 mln.

+54.8%
share price
Sistema’s ordinary shares growth in 2015 r.

+13.2%
GDR’s price
Sistema’s GDR growth in 2015 r.

In February 2005, Sistema held an IPO on the London Stock Exchange (LSE). Its shares are traded on the LSE in the form of global depositary receipts (GDRs) under the ticker SSA. One GDR represents 20 ordinary shares. Sistema’s ordinary shares are listed on Moscow Exchange (MOEX) under the ticker AFKS. The GDRs traded on the LSE represent about 19% of Sistema’s equity, and shares traded on MOEX about 16.8%.

Moscow Exchange includes Sistema’s shares in calculations of its main equity indexes (MICEX and RTS). Sistema’s shares are also included in calculations of MOEX’s MICEX FNL sector index, which includes shares of banks and financial-services companies.

Sistema’s GDRs are included in the MSCI Russia index which is one of the MSCI Emerging Markets indexes. Inclusion in MSCI indexes testifies to the company’s international recognition and promotes the issuer’s good reputation among major institutional investors that use these indexes when selecting securities.

Shares of OJSC MTS, a Sistema subsidiary, are traded in the form of ADRs under the ticker MBT on the New York Stock Exchange (NYSE) and as ordinary shares under the ticker MTSS on Moscow Exchange.

The Chairman of Sistema’s Board of Directors, Vladimir Evtushenkov, is the principal shareholder of the company, and owns 64.2% of the equity.
SISTEMA’S SHARE PRICES PERFORMANCE (1)

Sistema’s ordinary shares in 2015 grew by 54.8% in 2015, recovering after the recession year of 2014 and significantly outperforming the RTS, which declined by 15.0%. Sistema’s GDRs rose by 13.2% during 2015, although much of that growth was offset by the depreciation of the ruble against the US dollar.

The closing price of Sistema’s GDRs on the LSE on the first trading day of 2015 was US$ 4.80, giving Sistema a total market capitalisation of US$ 2,361.8 mln. On the last trading day of the year, the closing price was US$ 5.90, for a total market capitalisation of US$ 2,246.8 mln.

On 30 June 2015, the closing GDR price reached the highest value during the year of US$ 8.85, and on 7 August 2015 the Company’s ordinary shares peaked at RUB 21.13. The lowest closing GDR price was seen on 27 January 2015 (US$ 4.24), and for ordinary shares on 12 January 2015 (RUB 12.13). Average daily trading volume on LSE in 2015 was 527,030 GDRs, and on MOEX 11,922,240 ordinary shares.

(1) As of 31 December, 2015.
Source: Bloomberg, Moscow Exchange.
Mission and strategy

Sistema’s mission is building a first-rate Russian investment company that can ensure long-term growth of shareholder value through efficient management of the asset portfolio and achievement of high returns on investment.

Mission

• Become one of Russia’s leading companies by shareholder return
• Diversify investment and achieve a more even distribution of portfolio value among assets

KEY LONG-TERM GOALS

- Generate cash flow to Sistema through portfolio monetisation and higher dividends from assets;
- Take advantage of unique investment opportunities, including those unlocked by economic uncertainties in Russia;
- Rebalance the Group’s asset portfolio by acquiring large and medium-sized export-oriented companies capable of generating revenues in foreign currencies for Sistema’s benefit;
- Use current key assets to create new national leaders in their respective industries, including private healthcare, agriculture, timber processing, high-tech and real estate, to capitalise on their market position;
- Restructure and support portfolio companies operating in those segments most vulnerable to current macroeconomic trends and struggling to implement their strategies.

MEDIUM-TERM GOALS OF SISTEMA AS AN INVESTMENT COMPANY

- Reduce debt of the Corporate Centre and make new efficient investments;
- Reduce MTS’s share in Sistema’s overall portfolio value by prioritising the development of businesses with the potential to rapidly grow equity over the short and medium term;
- Create investment platforms in Europe, Asia and the US to invest in international projects in order to raise capital from co-investors, diversify country risks and find new points of growth for Sistema’s asset portfolio (export markets).

SISTEMA’S OBJECTIVES FOR 2016
Basic principles of the investment strategy:

- Generation of returns on investments above the cost of capital (IRR > WACC) with a five-to-seven-year payback period.
- Focus on investments that can yield positive net cash flow to Sistema over the medium term.
- Acquire assets with an acceptable debt level (Debt/OIBDA < 3.0x) to maintain the Group’s stable financial position.
- Pay considerable amounts of dividends to shareholders in compliance with the dividend policy.

Investment criteria set forth by Sistema’s portfolio strategy:

- Sectors and industries: The Group mostly buys assets in sectors that are complementary to the ones in which it already operates and that allow available competences to be used and synergies with the existing portfolio to be unlocked. It also invests in new economically attractive industries, including export-oriented ones, where it has expertise or industrial partners.

- Geography: The Group sees Russia and other CIS countries as top-priority investment locations, and also remains open to opportunities to further expand its business geography for the sake of diversification of its currency and country risks.

- Asset size: Sistema focuses on large and mid-size assets with the potential to become market leaders through synergies, industry consolidation, and efficient investment and operational strategies.

Asset-management principles:

- Sistema improves assets’ operational efficiency through restructuring, implementing corporate governance best practices and working with industrial partners to enhance expertise and mitigate financial risks.

- The Group aims to maintain a balanced portfolio of stable core assets paying dividends and developing assets at active stages of growth.

- Sistema controls implementation of the strategies of its portfolio companies through involvement in their governance bodies and by appointing industrial experts as members of their boards of directors.

- Assets are split into separate portfolios based on deal originators and the industrial expertise of the portfolio managers. The most important key performance indicator (KPI) used to assess management performance is total shareholder return (TSR).
Investment portfolio

**MTS**
Leading telecoms operator in Russia and the CIS
>107 mln subscribers
53%

**Segezha Group**
Leading pulp and paper holding with a full cycle of logging and wood processing
№3 globally by total output of sack paper
100%

**Detsky Mir**
Largest children’s goods retailer in Russia and the CIS
>420 stores
76%

**Steppe Agro Holding**
Crop farming, animal farming, fruit growing and vegetable growing
100%

**Medsi**
Leading provider of private healthcare in Russia
>6 mln visits per year
100%

**MTS Bank**
One of Russia’s 50 largest banks by assets
18.5% Capital adequacy ratio
87%

**BPGC**
Top-10 power grid company in Russia
> 80,000 km power lines with transformer capacity of 21,000 MVA
91%

**SG-trans**
One of the leading rolling stock operators in Russia
>29,000 railcars under management
50%

**Targin**
Major Russian oil field services provider
52 drilling rigs
100%
### Mission and strategy

#### Investment portfolio

<table>
<thead>
<tr>
<th>Company</th>
<th>Description</th>
<th>Key Figures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Binnopharm</td>
<td>Pharmaceutical company operating one of Russia’s largest full-cycle facilities manufacturing biotechnological drugs</td>
<td>6 mln supplied doses of Hepatitis B vaccines annually 74%</td>
</tr>
<tr>
<td>Real estate assets</td>
<td>Sistema’s strategy in real estate is focused on increasing the value of its portfolio and subsequent monetisation through rentals, development and sale</td>
<td>100%</td>
</tr>
<tr>
<td>SSTL</td>
<td>High-speed data transmission services</td>
<td>&gt;800 towns of India 57%</td>
</tr>
<tr>
<td>Intourist</td>
<td>Russia’s largest tourist holding, successfully operating in the hotel business for many years</td>
<td>2,501 rooms under management 66%</td>
</tr>
<tr>
<td>RTI</td>
<td>One of Russia’s largest industrial groups, a developer and producer of high-tech products and infrastructure solutions</td>
<td>5.8 mln industrial microchips annually 85%</td>
</tr>
<tr>
<td>Concept Group</td>
<td>Fast-growing retailer and a leader in the Russian market for women’s and children’s clothing</td>
<td>40%</td>
</tr>
<tr>
<td>Kronshtadt Group</td>
<td>Leading designer and manufacturer of high-tech products</td>
<td>100%</td>
</tr>
<tr>
<td>OZON Group</td>
<td>Russia’s leading e-commerce platform with a strong brand and own logistics service</td>
<td>10.8%</td>
</tr>
</tbody>
</table>
Growth prospects and strategic development

16 Key highlights of 2015
19 Financial performance in 2015
22 Credit ratings
23 Dividends
24 Growth prospects and strategic development of portfolio companies:

- MTS
- Detsky Mir
- Segezha Group
- RTI
- BPGC
- Medsi
- Agricultural businesses
- Targin
- SSTL
- Binnopharm
- MTS Bank
- Real-estate assets
- SG-trans
- Other investments
About the Group

Key highlights of 2015

Investments and M&A transactions

**Development of Segezha Group**

In February 2016, LLC LesInvest, a Segezha Group company, acquired a controlling equity interest in OJSC Lesosibirsk Woodworking Plant No.1, one of Russia’s largest producers of sawn timber, fibreboards, planed timber, and furniture from Angara pine, based in the Krasnodar region. LWP No.1 processes more than a mln cbm of round timber annually and has access to an allowable cut of 2.9 mln cbm a year.

**Monetisation of a stake in Detsky Mir**

In December 2015, Sistema’s subsidiary CJSC DM Finance sold 23.1% of equity shares in OJSC Detsky Mir to the Russian-China Investment Fund (RCIF) for RUB 9.75 bln. As a result, RCIF is now entitled to nominate two directors on Detsky Mir’s board out of ten.

**Increase of ownership in Medsi Group to 100%**

In October 2015, Sistema acquired 25.02% of shares in CJSC Medsi Group from State Unitary Enterprise Medical Center of the Moscow Mayor and Government Administration («GUP») for RUB 6,116 bln, with half to be paid on a one-year instalment plan. The increased ownership in Medsi Group will give Sistema more flexibility in expanding the chain of private clinics, building new facilities, and making the company more manageable.

**Sale of NVision Group**

In July 2015, Sistema’s subsidiaries - LLC Sistema Telecom Assets and OJSC RTI - sold 100% of JSC NVision Group’s equity to telecoms operator PJSC MTS. The transaction value including NVision Group’s debt was around RUB 15 bln.

**Acquisition of Kronshtadt Group**

In October 2015, Sistema acquired 100% of shares in JSC Kronshtadt Group and assets belonging to the Group from Industrial Investors Group for RUB 4.8 bln. Kronshtadt Group combines a range of Russian innovative companies that manufacture high-tech products and world-class solutions for aircraft engineering, security, transport and development of natural resources (including in the Arctic region).

The Group has a number of key technological competences and unique intellectual potential in mathematical modelling and engineering of complex informational systems as well as engineering and production of commercial unmanned aerial vehicles (UAVs), modern comprehensive training simulators, visualisation systems, and on-board & land-based electronic navigation equipment.

Because Kronshtadt Group’s competences are highly complementary to RTI (another Sistema subsidiary), the companies will work in synergy to strengthen their market position and create a platform for future growth.
Key highlights of 2015

Financial performance in 2015

Merger of telecom assets in India

Sistema has signed binding documents to merge its Indian telecom business with Reliance Communications Ltd (RCom), one of India’s biggest telecom operators.

The deal structure has been approved by Indian courts and envisages a demerger of the telecom business from Sistema Shyam TeleServices Ltd. (SSTL) to be further merged with RCom under the RCom brand, with SSTL holding 10% of the combined company. SSTL plans to repay its outstanding debt before closing.

Once the deal is closed, RCom will assume obligations towards the Indian Department of Telecommunications (DoT) to pay spectrum fees due from SSTL. If the DoT confirms that SSTL’s spectrum may be used for the roll-out of 4G networks at no extra charge, SSTL will be entitled to an additional earn-out payment of US$ 300 mln.

Closing is scheduled for Q2 2016 subject to several conditions precedent, including obtaining corporate approvals from both SSTL and RCom and regulatory and judicial approvals from relevant authorities in India.

After closing, SSTL’s minority shareholders may exchange their shares in SSTL for shares in RCom in proportion to their interests in SSTL pre-closing.

Investments in real estate

In December 2015, LLC Razvitie, a joint venture of Sistema and LSR Group, won an open tender for the right to acquire 100% of LLC ZIL-Yug for RUB 34.2 bln. The terms of the tender envisage an eight-year instalment plan. Razvitie will have to make no further payments in 2016 (as it already paid a RUB 1.5 bln deposit in 2015), but will pay RUB 2.5 bln in 2017 and one-third of the total amount in 2023. Sistema plans to invest no more than 10% of the amount now attributed to it based on its stake in Razvitie (or no more than RUB 1.7 bln), and expects to find co-investors to cover the rest of the expenses. LLC ZIL-Yug owns development rights for 109.9 hectares in the southern premises of the now-defunct automobile manufacturer ZIL (23 Avtozavodskaya St.).

The development project envisages construction of 1.5 sqm of real estate, including 1.1 m sq. m in housing, 0.35 m sq. m in commercial real estate and 0.05 sqm in infrastructure. The city will finance about 40 hectares of infrastructure, including new roads and landscaping of adjacent areas. Sistema’s subsidiary Leader-Invest, charged with managing the project on Sistema’s behalf, already has another project in the same industrial park, called Nagatino i-Land.

Corporate events

Loan facility agreement

In December 2015, Sistema signed a loan facility agreement with Chinese banks for an unsecured 6-year credit limit of US$ 350 mln. The advantageous long-term club deal is a product of many years of cooperation between Sistema and Chinese banks.

The banks’ in-depth knowledge of Sistema Group’s business was a key success factor in the deal.

Issue registration-exempt series 001P-03 bonds

In December 2015, Sistema issued a RUB 10 bln worth of registration-exempt series 001P-03 bonds. The bonds mature in 2.25 years, with no put option embedded.

The first coupon rate is 12.70% p.a., and all further coupon rates will be calculated as the Bank of Russia’s key interest rate plus 170 bps.
In November 2015, Sistema issued RUB 1.7 bln worth of registration-exempt series 001P-02 bonds. The bonds mature in 10 years, but bondholders are provided with put options exercisable four years after the float. The coupon rate on the bonds is 10.90% p.a.

In October 2015, Sistema issued RUB 5 bln worth of registration-exempt series 001P-01 bonds. The bonds mature in 10 years, but bondholders are provided with put options exercisable three years after the float. The coupon rate on the bonds is 12.50% p.a.

In February 2015, Sistema issued RUB 10 bln worth of certificated interest-bearing non-convertible registration-exempt series 80-01 bonds with a principal value of RUB 1,000 apiece. Despite the challenging market environment, the bonds were in high demand, with the book built at a coupon rate of 17% p.a., payable semi-annually. The bonds mature in 15 years but are putable at 18 months after the issue date.

In January 2016, criminal charges against Sistema’s majority shareholder and chairman of the Board of Directors Vladimir Evtushenkov over his acquisition of shares in oil and energy companies in Bashkortostan were dismissed due to a lack of evidence that any crime had been committed. Sistema was recognised as a good faith buyer.

Developments after the transfer of Bashneft shares to the government

In April 2015, Sistema signed another agreement with Ural-Invest to receive an additional RUB 12.9 bln in cash assets for the recovery of damages arising from the confiscation from Sistema of shares in OJSC ANK Bashneft.

In March 2015, Sistema JSFC and LLC Ural-Invest signed a settlement agreement under which Ural-Invest would transfer to Sistema RUB 46.5 bln in cash assets, constituting all of Ural-Invest’s property at that moment.
Key highlights of 2015

Financial performance in 2015

Sistema’s consolidated financial results in accordance with IFRS

<table>
<thead>
<tr>
<th>(RUB mln)</th>
<th>FY 2015</th>
<th>FY 2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>708,641</td>
<td>646,269</td>
<td>9.7%</td>
</tr>
<tr>
<td>Adjusted OIBDA</td>
<td>176,438</td>
<td>165,335</td>
<td>6.7%</td>
</tr>
<tr>
<td>Operating income</td>
<td>69,048</td>
<td>60,329</td>
<td>14.5%</td>
</tr>
<tr>
<td>Net income/ (loss) attributable to Sistema</td>
<td>33,592</td>
<td>(156,237)</td>
<td>-</td>
</tr>
<tr>
<td>Adjusted net income/ (loss) attributable to Sistema</td>
<td>(5,354)</td>
<td>(19,123)</td>
<td>-</td>
</tr>
<tr>
<td>Sistema’s consolidated debt</td>
<td>556,760</td>
<td>462,433</td>
<td>20.4%</td>
</tr>
<tr>
<td>Net debt at the Corporate Centre</td>
<td>66,226</td>
<td>39,994</td>
<td>65.6%</td>
</tr>
</tbody>
</table>

In 2015, the Group’s revenues increased by 9.7% due to consolidation of Segezha Group since the fourth quarter of 2014, robust growth in MTS data traffic revenues and handset sales and continued expansion of Detsky Mir in the Russian market. The share of Sistema’s non-public assets in the consolidated revenues increased from 36% in 2014 to 39% in 2015 and 41% in the fourth quarter of 2015. Newly consolidated Segezha Group contributed 5% to total revenues in 2015.

Acquisitions of Kronstadt and agricultural businesses in the fourth quarter of 2015 contributed RUB 1.2 bln and RUB 0.8 bln, respectively, to the Group’s revenues.

In 2015, selling, general and administrative expenses (SG&A) grew by 7.7% year-on-year, which is lower than the rate of inflation in Russia over the same period, despite consolidation of Segezha Group and other new assets in 2015. Depreciation and amortisation expenses increased by 8.6% year-on-year in 2015.

Adjusted OIBDA analysis, RUB bln

Consolidated revenue analysis, RUB bln
The Group’s adjusted OIBDA increased by 6.7% year-on-year in 2015, mainly due to consolidation of Segezha Group, organic growth at Detsky Mir and OIBDA improvements at RTI’s Defence Solutions and Information and Communication Technologies (ICT) business units. Sistema’s non-public assets showed profit on aggregated OIBDA.

In 2015, consolidated net income attributable to Sistema amounted to RUB 33.6 bln as compared to net loss in 2014 due to recognised gain from settlement agreements with Ural-Invest.

Growth of debt at the Corporate Centre level was due to refinancing of SSTL’s liabilities, guaranteed by Sistema as per agreement with RCOM.

The core business of Sistema’s JSFC is management of interests in commercial organisations.

### Financial performance according to Russian Accounting Standards (RAS)

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>30,843,245</td>
<td>59,553,440</td>
</tr>
<tr>
<td>Sales profit</td>
<td>20,632,717</td>
<td>50,824,355</td>
</tr>
<tr>
<td>Net income (loss) in the reporting period</td>
<td>34,461,228</td>
<td>(307,202,105)</td>
</tr>
</tbody>
</table>

### Revenue structure

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity holdings in other companies</td>
<td>30,794,973</td>
<td>59,425,402</td>
</tr>
<tr>
<td>Other operating income (property rent, agency services and sureties)</td>
<td>48,272</td>
<td>128,038</td>
</tr>
<tr>
<td>TOTAL</td>
<td>30,843,245</td>
<td>59,553,440</td>
</tr>
</tbody>
</table>

### Structure of other incomes and expenses

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest receivable</td>
<td>8,908,439</td>
<td>3,349,784</td>
</tr>
<tr>
<td>Interest payable</td>
<td>(9,073,920)</td>
<td>(5,829,656)</td>
</tr>
<tr>
<td>Other incomes</td>
<td>97,047,630</td>
<td>21,922,856</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(71,367,743)</td>
<td>(387,064,514)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>25,514,406</td>
<td>(367,621,530)</td>
</tr>
</tbody>
</table>
Key highlights of 2015

Financial performance in 2015

Credit ratings

<table>
<thead>
<tr>
<th>Operational performance</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Productivity, RUB th./FTE</td>
<td>109,762.4</td>
<td>197,196.8</td>
</tr>
<tr>
<td>Debt to equity ratio</td>
<td>0.451</td>
<td>0.310</td>
</tr>
<tr>
<td>Long-term debt to the sum of long-term debt and equity</td>
<td>0.240</td>
<td>0.191</td>
</tr>
<tr>
<td>Debt service coverage ratio</td>
<td>0.21</td>
<td>0.31</td>
</tr>
<tr>
<td>Overdue debt, %</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial stability</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net working capital, RUB th.</td>
<td>59,739,476</td>
<td>31,944,852</td>
</tr>
<tr>
<td>Current ratio</td>
<td>2.50</td>
<td>2.64</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>2.50</td>
<td>2.63</td>
</tr>
</tbody>
</table>

Sistema’s net working capital as of 31 December 2015 totalled RUB 59,739,476,000, short-term liabilities equalled RUB 39,797,347,000, and production costs in 2015 totalled RUB 19,675,000.
Credit ratings

Standard & Poor’s
Rating agency

Date of most recent rating update
18 December 2015

Long-term credit rating
BB

Forecast
Stable

Moody’s
Rating agency

Date of most recent rating update
22 January 2016

Long-term credit rating
Ba3

Forecast
Stable

Fitch
Rating agency

Date of most recent rating update
18 March 2015

Long-term credit rating
BB-

Forecast
Stable
Dividends

In 2016, Sistema’s Board of Directors approved new dividend policy. The policy states that the recommended total dividend for each reporting year will be, at a minimum, the higher of either an amount equivalent to a dividend yield of 4% per Sistema ordinary share or RUB 0.67 per Sistema ordinary share.

Sistema’s dividend policy aims to both pay a predictable amount of dividends and enable investment of profits in new attractive projects.

The amount of dividends paid in 2015 was calculated based on performance in the previous financial period. Pursuant to Sistema’s dividend policy effected in 2015, dividends equalled at least 10% of the Sistema’s IFRS net income (net of distributed special dividends). Sistema could also distribute in special dividends at least 10% of net income as determined by the Board of Directors in the event of cash proceeds being generated by transactions such as asset sales. According to Russian law, the maximum amount of dividends that a company may distribute to shareholders is its entire non-consolidated RAS net income.

On 27 June 2015 the Annual General Meeting of Sistema’s shareholders (Minutes No.2-15 dd 01 July 2015) issued a decision to distribute 4,535,500,000.00 (four billion five hundred and thirty-five million five hundred thousand) roubles, or 0.47 (zero point forty-seven) roubles per one ordinary share of Sistema JSFC.

As of 31 December 2015, the total amount of dividends distributed equalled RUB 4,535,221,388.70. Tax on dividends distributed to foreign shareholders (individuals and legal entities) totalled RUB 1,303,565.00.

Amount of dividends accrued and paid from 2011 to 2015

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total amount of dividends, RUB m</td>
<td>2,509.0</td>
<td>2,702.0</td>
<td>9,264.0</td>
<td>19,879.0</td>
<td>4,535.5</td>
</tr>
<tr>
<td>Amount of dividends per share, RUB</td>
<td>0.26</td>
<td>0.28</td>
<td>0.96</td>
<td>2.06</td>
<td>0.47</td>
</tr>
<tr>
<td>Declaration date</td>
<td>25.06.2011</td>
<td>30.06.2012</td>
<td>29.06.2013</td>
<td>28.06.2014</td>
<td>27.06.2015</td>
</tr>
</tbody>
</table>

Omitted dividends as of 31 December 2015 totalled RUB 793,947.16, including RUB 278,611.30 due in 2015. These dividends were declared but unpaid due to lack of information about the recipients necessary to make the cash transfers.

In 2016, Sistema’s Board of Directors approved an updated dividend policy. The policy states that the recommended total dividend for each reporting year will be, at a minimum, the higher of either an amount equivalent to a dividend yield of 4% per Sistema ordinary share or RUB 0.67 per Sistema ordinary share.

Sistema seeks to distribute dividends twice per year. Sistema’s calculation of the average dividend yield on its ordinary shares is based on the weighted average price of one ordinary share of the Company traded on Moscow Exchange in the respective reporting period: full year or six months.
Mobile TeleSystems (MTS) is a leading telecoms operator in Russia and the CIS. Together with its subsidiaries, MTS services approximately 107 mln mobile subscribers in Russia, Armenia, Ukraine, Turkmenistan, Uzbekistan and Belarus. MTS and its subsidiaries also provides fixed telephony and cable TV services in Moscow (MGTS), all federal districts of Russia and in Ukraine. In 2015, MTS entered the market of systems integration and satellite TV.

Financial results of MTS

<table>
<thead>
<tr>
<th>(RUB mln)</th>
<th>2015</th>
<th>2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>431,232</td>
<td>410,780</td>
<td>5.0%</td>
</tr>
<tr>
<td>Adjusted OIBDA(1)</td>
<td>171,821</td>
<td>171,558</td>
<td>0.2%</td>
</tr>
<tr>
<td>Operating income</td>
<td>84,135</td>
<td>98,133</td>
<td>(14.3%)</td>
</tr>
<tr>
<td>Net income attributable to Sistema</td>
<td>26,460</td>
<td>28,075</td>
<td>(5.8%)</td>
</tr>
</tbody>
</table>

(1) Including share in net losses of MTS Bank.
Despite the unfavourable macroeconomic environment, the combined profits of the telecoms market rose by 2.1% year-on-year in 2015 driven by growth of mobile data, pay TV and fixed broadband services.

The growth rate of the mobile communications segment slowed to 1.2% vs 1.9% in 2014 as a result of a downturn in traditional mobile services (voice, SMS) and their partial replacement by OTT services (such as Skype, WhatsApp and Viber) and a decline in consumption of roaming services. At the same time, voice traffic continued to grow due to a wider range of bundled tariffs including free calls, and cancellation of intra-network roaming charges for calls inside Russia.

The penetration of OTT services in Moscow reached 15% in 2015 and continues to grow. The launch of own-brand messaging applications by telecoms operators (IP telephony, message and file sharing) and associated regulatory changes to be introduced by the Ministry of Communications in 2016 may help boost operator’s incomes and enhance customer loyalty.

Sales of smartphones in Russia in 2015 increased by 5%-6% year-on-year in ruble terms due to a 13-15% increase in the average price of smartphones. However, unit sales fell by 8%, compared to 40% growth in 2014(5).

In October 2015, LLC T2 RTK Holding entered the Moscow market under the Tele2 brand, offering 3G/4G mobile communications services (the company does not have any GSM spectrum in Moscow). Tele2’s market entrance did not have a material effect on the performance of other operators.

The profit margins of mobile operators in Russia declined as a result of decreased consumption of international roaming services, all communication services in the B2B segment, as well as higher operating expenses caused by the ruble’s weakening against the US dollar and euro and a higher inflation rate.

Changes introduced to communications regulations at the end of 2015 will facilitate the further development of LTE technology. The changes enabled operators to unite LTE frequencies in the 900Mhz, 1800 MHz and 2.2GHz spectrum bands, which will increase Internet access speeds and reduce costs. Voice-over-LTE (VoLTE) and Wi-Fi calling(4) using IP Multimedia Subsystem (IMS) technology will make it possible to reduce connection time six-fold, improve voice quality and enable operators to use spectrum more effectively.

<table>
<thead>
<tr>
<th>Mobile subscriber base of MTS in Russia, mln</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q '15</td>
</tr>
<tr>
<td>MTS</td>
</tr>
<tr>
<td>74.6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MTS subscriber base in Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
</tr>
<tr>
<td>2015</td>
</tr>
</tbody>
</table>

Source: Company data, as well as TMT-Consulting, Comnews.
(1) MTC In December 2015 MTS launched MTS Connect Messenger, which deploys the Rich Communication Suite (RCS) standard. Megafon has been developing its Multifon project since 2010. Vimpelcom in partnership with WhatsApp offers free-of-charge messenger traffic to subscribers of its bundled tariffs (October 2015).
(2) Forecast by TMT consulting.
(3) Preliminary data of Euroset, Svyaznoy and MTS. News dd 13, 14 January 2016.
SUSTAINABLE GROWTH OF MTS AND KEY EVENTS IN 2015

MTS remains a leader by revenue and OIBDA in absolute terms among the Russian “Big Three” operators. In 2015, MTS’s active mobile subscriber base grew by 3.6%. Churn of mobile subscribers in 2015 remained the lowest among the Big Three (10.8% in Q4 2015). The share of mobile Internet users in MTS’s active one-month subscriber base increased by 3.7 p.p. to 47.2%. The share of mobile Internet users may increase further due to greater penetration of mobile smartphones among MTS’s subscriber base (48.4% in 2015 vs 42% in 2014).

In Q4 2015 MTS Russia’s revenue from sales of smartphones and other devices rose by 50% year-on-year due to a flexible pricing policy and marketing activities(2), cooperation with leading equipment manufacturers and the development of MTS’s own retail chain. In 2015, MTS’s retail chain expanded by 22% and reached 5,136 retail outlets.

In response to competitors’ activities, in the middle of 2015 MTS revised its retail development strategy and increased the number of new retail outlets to be opened in order to boost revenues from this segment(3). By the end of 2015, MTS’s retail chain had become the biggest in Russia’s mobile retail segment. In April, retail prices of mobile phones, smartphones and tablets were reduced by an average of 30% with the aim of stimulating Internet traffic consumption and boosting the company’s revenue. MTS’s website entered the 20 most-visited websites in Russia. Internet sales doubled year-on-year.(3)

In 2015, MTS Russia continued the trend of strong income growth. Revenue rose by 4.4% year-on-year, while revenue from the mobile business grew by 2%. Revenue from the mobile data segment in 2015 increased by 19.8% year-on-year, MTS’s market share in Q4 2015 reached 38.5% among the Big Three.

Lower consumption of international roaming services due to a decline in outbound tourism and a drop in the number of international calls had a negative impact on revenue from the mobile business.

In 2015, MTS built more than 15,000 base stations (of which 7,300 were built for LTE and 4,400 for 3G networks). Most of the base stations were commissioned in the first half of 2015 to minimise currency risks related to equipment procurement. In 2015, MTS completed the construction of infrastructure and in future periods it will aim to reduce capital expenses by an average of RUB 5 bln per annum, which will have a positive impact on free cash flow.

In 2015, MGTS(4) completed the construction of a Gigabit-capable Passive Optical Networks (GPON) optical network in Moscow. More than 4.6 mln ports were built during the project, while the number of GPON-based service users reached 1.5 mln. Penetration of double- and triple-play among the GPON subscriber base was 62%. The total length of MGTS’s fibre-optic network exceeded 40,000 km. Subscribers of MGTS’s Home TV service had access to 230 channels, of which more than 40 are in HD quality.

In 2015, MTS’s fixed-line telephony business grew by 3.1% year-on-year due to the growth of the broadband and TV subscriber base driven by modernisation of networks using target technologies (GPON and fibre-to-the-building (FTTb)), development of convergent services (including mobile virtual network operator (MVNO)), and launch of a uniform TV platform with a multi-screen digital TV function.

In April 2015, MTS launched satellite TV services, initially for residents of the Moscow region and later for other regions across Russia (potential coverage of 90% of Russia’s population). The launch of a hybrid platform in September 2015 enabled MTS to expand the capabilities of traditional digital and satellite TV by adding interactive services. MTS and Vodafone conducted a rebranding of MTS Ukraine, with the Vodafone brand from now being used for construction of 3G networks and provision of communication services. As of the end of December 2015, the 3G network had been launched in 18 regional centres of Ukraine and in Kiev.
STRATEGY

In 2016-2018, MTS will continue actively developing the fastest-growing business segment of data transfer and new projects aimed at differentiating itself from competitors. The company will continue building out multi-range LTE networks with subsequent frequency aggregation, resulting in increased speeds of up to 190 Mb/s.

In 2016, the company will embark on a large-scale development of small cell micro base stations using MGTS’s GPON network. It will continue building microcells in places of mass Internet traffic consumption and indoor base stations in big cities.

In 2016, MTS jointly with Ericsson will start research and development of 5G mobile technologies. The 5G solutions will be tested at the football World Cup in 2018.

The strategy for developing financial services in 2016 envisages integration of mobile and financial services under a single MTS brand, promotion of cash transfers, traditional banking products, development of payment and transport NFC applications, and an e-wallet. The integration of MTS Bank offices and RTK(1) outlets will continue.

In the segment of mobile devices, MTS will continue selling smartphones through its own retail outlets, with the main focus being on 4G, including branded MTS devices offered at prices close to production cost (a “shock price” campaign). In 2016, the company plans to further expand its chain up to 5,500 stores, including multi-brand Telefon.ru outlets.

Key drivers of added value creation include further growth of earnings from the mobile and data segments, retention of MTS’s share in the market of traditional services, and monetisation of new business segments. MTS’s entrance into new markets (systems integration, satellite TV and content) and development of joint projects with other Sistema portfolio companies (Ozon, MTS Bank) will enhance sustainability and create competitive advantages. Maintaining a high level of dividend payouts remains MTS’s top priority.

FINANCIAL RESULTS OF MTS

MTS reported robust results in the fourth quarter and full year 2015, retaining its leadership position among the “Big Three” mobile operators in Russia with 5.0% revenue growth in 2015. This was primarily driven by increased sales of mobile phones as part of the rapid expansion of MTS’ retail business, higher data revenues and also by growing sales in Uzbekistan.

MTS’ total subscriber base increased by 3.5% to 107.8 million customers as of December 31, 2015. In Russia, MTS continues to attract and retain high-quality subscribers by promoting innovative tariff plans and driving sales through its proprietary network.

Despite continued volatility during the reporting period, adjusted OIBDA remained stable and amounted to RUB 171.8 mln in 2015. Adjusted OIBDA margins were only slightly down year-on-year as a result of higher sales volumes of relatively low-margin mobile phones, retail expansion and increased costs of international calls and roaming in connection with the weakening of the rouble.

Net income attributable to Sistema in 2015 declined due to expenses associated with the development of operations in Uzbekistan, goodwill impairment with regards to MTS’ Armenia business and more expensive financing. Net income increased in the fourth quarter of 2015 year-on-year thanks to lower foreign exchange losses compared to 2014.

(1) Russian Telephone Company, subsidiary of MTS.
Detsky Mir Group is the largest children's goods retailer in Russia and the CIS. The Group comprises a retail chain under the Detsky Mir brand in Russia and Kazakhstan, a retail chain under the Early Learning Centre (ELC) brand in Russia, and the online stores www.detmir.ru and www.elc-russia.ru.

Financial results of Detsky Mir

<table>
<thead>
<tr>
<th>(RUB mln)</th>
<th>FY 2015</th>
<th>FY 2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>60,544</td>
<td>45,446</td>
<td>33.2%</td>
</tr>
<tr>
<td>Adjusted OIBDA</td>
<td>6,185</td>
<td>4,463</td>
<td>38.6%</td>
</tr>
<tr>
<td>Operating income</td>
<td>3,805</td>
<td>4,170</td>
<td>(8.8%)</td>
</tr>
<tr>
<td>Adjusted net income attributable to Sistema</td>
<td>2,167</td>
<td>1,600</td>
<td>35.4%</td>
</tr>
<tr>
<td>Net income</td>
<td>976</td>
<td>2,043</td>
<td>(52.2%)</td>
</tr>
</tbody>
</table>

Management

Vladimir Chirakhov (CEO)
Christopher Baxter (Chairman of the Board of Directors)

76%
Effective shareholding

No1 retailer
Russian retailer of children goods and fashion
In today’s turbulent economic environment, children’s goods remains one of the most resilient retail segments in Russia. Despite a decline in consumer spending, the children’s goods market expanded by 1.8% in 2015\(^{(1)}\). At the same time, many other non-food retail segments experienced a drop in demand in 2015: sales of furniture dropped by 11%, electronics by 12% and cars by 16%. In 2016, the market for children’s goods is expected to continue expanding, with growth forecast at up to 3.0%.

The demographic situation continues to play a key role in the development of the market. Government support for families and mothers, including the Maternity Capital programme, has made a sizable contribution to higher birth rates. In 2015, 1.9 mln babies were born in Russia\(^{(2)}\), the same as in 2014, which was a record year. The Russian Government has extended the Maternity Capital programme until 2017, which will have a positive effect on birth rates in 2016, as families will be granted additional financial aid.

Specialised retail remained the main sales channel for children’s goods in 2014-2015, and gradually it is squeezing out the unorganised retail, which accounted for 41% of the market in 2014\(^{(3)}\). Hypermarkets account for about 36% of the children’s goods market. Although online sales account for only 8% of children’s goods sales in Russia, Internet channels have the highest growth rates. Russia is experiencing difficulties in developing this segment due to the lack of high-quality delivery systems and the vast territory of the country.

Detsky Mir Group sees a lot of development opportunities in the e-commerce segment: in June 2015 pick-up outlets became available in more than 400 retail stores, which also function as distribution centres, significantly reducing delivery time and costs.

Detsky Mir has become an undisputed market leader in the specialised retail channel, leaving direct competitors such as Korablik, Dochki Synochki and others far behind. Moreover, the fast pace of expansion and revenue growth with an almost unchanged market size enabled Detsky Mir to strengthen its leadership in 2015 and increase its market share from 10% to 13%.

Detsky Mir’s retail stores revenue breakdown

<table>
<thead>
<tr>
<th>Category</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toys &amp; Stationery</td>
<td>19%</td>
<td>6%</td>
</tr>
<tr>
<td>Newborn</td>
<td>42%</td>
<td></td>
</tr>
<tr>
<td>Apparel</td>
<td>33%</td>
<td></td>
</tr>
<tr>
<td>Footwear</td>
<td>6%</td>
<td></td>
</tr>
</tbody>
</table>

\(^{(1)}\) Source: ComconSynovate.
\(^{(2)}\) Source: Rosstat.
\(^{(3)}\) Source: ComconSynovate.
Detsky Mir

SUSTAINABLE GROWTH OF DETSKY MIR AND KEY EVENTS IN 2015

In 2015, Detsky Mir opened a new logistics centre in Bekasovo, Moscow region, with a total area of 70,000 sqm. In the long term, the warehousing complex will make it possible to cut logistical costs and boost gross margins. Having its own warehouse will enable the company to increase centralisation of supplies from the current 20% to 60%, which will improve profit margins in 2016.

An important factor in enhancing efficiency was the adoption of a single IT platform to automate key business processes. For example, the automation of cash-desk and goods-acceptance services made it possible to cut in-store staff numbers.

With the aim of minimising expenses related to leasing selling space, Detsky Mir Group set new fixed ruble tariffs in contracts with retail space owners. Thanks to its strong negotiating position, the company’s management successfully cut rental expenses by 10%-15%.

Implementation of an omni-channel strategy is a key driver of the company’s sustainable growth. Including in-store pick-up services, revenue from online sales in 2015 almost tripled year-on-year to RUB 1.3 bln.

In 2015, the Group opened a record 104 new stores. Total selling space of stores under management increased by 26% (from 390 thousand to 491 thousand sqm). All new Detsky Mir stores were opened in accordance with a new retail concept, including new trade equipment, merchandising channels and play zones.

Toys and baby goods were the key drivers of growth in 2015, with Detsky Mir’s market share increasing from 16.3% to 24.8% and from 11.9% to 16.4%, respectively in these segments.

Number of Detsky Mir stores
2011-2015

CAGR: 26%

<table>
<thead>
<tr>
<th>Year</th>
<th>Other region (a)</th>
<th>Moscow and Moscow region</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>105</td>
<td>204</td>
</tr>
<tr>
<td>2012</td>
<td>143</td>
<td>204</td>
</tr>
<tr>
<td>2013</td>
<td>166</td>
<td>204</td>
</tr>
<tr>
<td>2014</td>
<td>204</td>
<td>274</td>
</tr>
<tr>
<td>2015</td>
<td>274</td>
<td>274</td>
</tr>
</tbody>
</table>

Detsky Mir selling space (sqm)

CAGR: 20%

<table>
<thead>
<tr>
<th>Year</th>
<th>Other region (a)</th>
<th>Moscow and Moscow region</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>162</td>
<td>350</td>
</tr>
<tr>
<td>2012</td>
<td>207</td>
<td>173</td>
</tr>
<tr>
<td>2013</td>
<td>231</td>
<td>278</td>
</tr>
<tr>
<td>2014</td>
<td>278</td>
<td>350</td>
</tr>
<tr>
<td>2015</td>
<td>350</td>
<td>350</td>
</tr>
</tbody>
</table>

Children’s market dynamics, RUB bln

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Other region (a)</td>
<td>304</td>
<td>331</td>
<td>348</td>
<td>396</td>
<td>437</td>
<td>487</td>
<td>500</td>
<td>509</td>
<td>524</td>
<td>548</td>
</tr>
<tr>
<td>Moscow and Moscow region</td>
<td>71</td>
<td>78</td>
<td>83</td>
<td>107</td>
<td>173</td>
<td>162</td>
<td>207</td>
<td>231</td>
<td>278</td>
<td>350</td>
</tr>
</tbody>
</table>

(a) Calculated for DM stores excl. ELC stores and Yakimanka stores.
(b) Includes Kazakhstan.
(c) Source: ComconSynovate.

(1) Calculated for DM stores excl. ELC stores and Yakimanka stores.
(2) Includes Kazakhstan.
(3) Source: ComconSynovate.
STRATEGY

Implementation of a single SAP platform in 2015 supported uninterrupted informational support for the retail chain, which will be expanded to 600 and more outlets in the future. In 2016, Detsky Mir will continue upgrading its cash-desk services and automating the work of shop personnel.

Online sales are a key element of Detsky Mir’s omni-channel strategy. Since June 2015, customers making purchases online have had the option to pick up their orders at any Detsky Mir store. This function, coupled with the multiplier effect of new openings, will enable the company to significantly decrease delivery costs and enhance the conversion rate.

While Detsky Mir’s direct competitors are cutting back on their development programmes, Detsky Mir continues to expand in Russia’s regions, and is opening stores in towns with populations of less than 50,000 people.

In 2016, Detsky Mir expects to open more than 50 new stores. The policy of affordable pricing will remain a priority for 2016, bringing in new customers and retaining and growing the loyalty of existing ones.

On 31 December 2015, Sistema sold a 23.1% stake in Detsky Mir for RUB 9.75 bln to the Russian-Chinese Investment Fund (RCIF, co-founded by the Russian Direct Investment Fund and China Investment Corporation). A significant part of the proceeds will be invested in further expansion, including financing of an investment programme aimed at achieving target growth rates. In 2016, Sistema will continue considering options for further monetisation of Detsky Mir, including a private placement or an IPO.

In addition, Detsky Mir will aim to increase the dividend yield for its shareholders. In 2015, Detsky Mir Group paid the total of RUB 3 bln in dividends.

FINANCIAL RESULTS
OF DETSKY MIR

Please see table on page 28.

Detsky Mir revenues increased by 33.2% for the full year 2015 thanks to like-for-like sales growth of 12.4% combined with continued expansion of the retail space by 26% to 491,000 sq.m. Detsky Mir opened 104 new stores in 2015 (the company’s record), bringing the total number of its stores to 425 as of December 31, 2015.

Adjusted OIBDA increased by 38.6% for the full year 2015 as a result of improved operational efficiency. The ratio of administrative expenses to revenues declined from 29.4% in 2014 to 27.8% in 2015 as efficiencies came on line, including further automatisation of key business processes.

Visits per year >132 mln

Detsky Mir’s share in total children’s retail market

<table>
<thead>
<tr>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015E</th>
</tr>
</thead>
<tbody>
<tr>
<td>6%</td>
<td>7%</td>
<td>8%</td>
<td>9%</td>
<td>13%</td>
</tr>
</tbody>
</table>
Segezha Group

Segezha Group is a Russian vertically integrated pulp and paper holding with a full cycle of logging and deep wood processing. The holding comprises Russian and European enterprises in the forest, wood-processing and pulp and paper industries, as well as paper packaging.

Management:

- Sergey Pomelov (President)
- Ali Uzdenov (Chairman of the Board of Directors)

Financial results of Segezha Group\(^{(1)}\)

<table>
<thead>
<tr>
<th>(RUB mln)</th>
<th>FY 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>33,436</td>
</tr>
<tr>
<td>OIBDA</td>
<td>6,805</td>
</tr>
<tr>
<td>Operating income</td>
<td>4,639</td>
</tr>
<tr>
<td>Net income attributable to Sistema</td>
<td>2,787</td>
</tr>
</tbody>
</table>

\(^{(1)}\) Sistema acquired Segezha Group on September 30, 2014, and has consolidated it starting from the fourth quarter of 2014.
INDUSTRY: SACK PAPER\(^{(1)}\)

Sack paper consumption is forecast to grow at 2% annually until 2020. Unbleached sack paper, Segezha Group’s main production segment, accounts for 87% of the global paper market. The fastest-growing markets in terms of consumption are Asia, Latin America and the Middle East.

Paper quality depends on the availability of soft timber. Only 21% of the world’s paper output (Europe, Russia, North America) is of high quality, has high profit margins and is in demand among consumers. Segezha Pulp and Paper Mill’s (PPM) has a 17% share in production of the global market for high-quality unbleached paper.

INDUSTRY: PAPER SACKS

The European paper sacks market has a surplus of production capacity. Consumption of paper sacks in Europe is projected to grow by 2.5% annually until 2020.

Meanwhile, there is a deficit of paper sacks in the Russian market, as production facilities of Russian manufacturers are fully utilised. The main consumer of paper sacks in Russia is the construction industry (dry construction mixes – 47%, cement – 39%).

INDUSTRY: BIRCH PLYWOOD

Global output of birch plywood is forecast to grow by 2.6% annually until 2020. Europe and Russia are the biggest global consumers, accounting for 70% of consumption. The greatest growth of birch plywood consumption is expected in Asia, where annual rates exceed 6%. In 2015, consumption in Russia slumped by 15% due to an unfavourable economic environment. Demand is expected to recover by 2017.

Key drivers of the birch plywood market are development of shipbuilding, construction and machine-building, which are all industries in which birch plywood cannot be substituted.

In 2013-2015, birch plywood producers reached full production capacity. Current and contracted capacities will fully meet the increase in demand only by 2020. Additional growth of production capacity is possible only in Russia, and in limited volumes of the raw materials needed for birch plywood production. In Russia the biggest reserves of birch veneer logs are in the Vologda and Kirov regions, with 62% of the national total. Russian producers have lower production costs than their European rivals thanks to lower costs of wood resources and personnel. Russia is the leading global producer, with global market share of 67% share.

INDUSTRY: SAWN TIMBER

The global market for sawn timber will grow by 3.8% annually until 2020. The market is fragmented: the five largest producers account for 10% of the market in Europe and 7% of the market in Russia. China and the US are expected to be key drivers of consumption growth. The US is the biggest sawn timber market, with demand for imported timber mainly met by Canadian producers.

In China, the deficit of sawn timber is growing at 10% annually. Imports from Canada are falling due to growing consumption of sawn timber in the US, which increases the available market for Russian producers. Segezha Group accounts for 1.4% of Russia’s total sawn timber output and for 3% of the output of the Northwest federal district, where the key manufacturers’ assets are concentrated.

\(^{(1)}\) Source: BCG, RISI, Vision Hunters, Poyry, Indufor, Eurosac, FAOSTAT.
PORTFOLIO COMPANIES

Segezha Group

INDUSTRY: HOUSE-BUILDING

In 2015, about 1 mln sqm of laminated log houses were produced in Russia, while exports accounted for 9% of total production. Sokol Woodworking Plant accounted for 7% of the Russian market of prefabricated houses. Consumption of laminated log houses in Russia amounted to 0.98 mln sqm, with imports accounting for 6.2% of total consumption. The prefabricated houses market is very fragmented, as smaller production facilities mostly import their house kits to Europe, China and Mongolia. Manufacturers have laminated log production capacities but, unlike Segezha Group, do not have their own raw materials base. Most of the prefabricated houses made in Russia and Europe are sold via a network of dealers, which include construction companies.

SUSTAINABLE GROWTH OF SEGEZHA GROUP AND KEY EVENTS IN 2015

Segezha Group is the largest forest user in the European part of Russia, with the total area of leased forest of 5.5 mln ha, including FSC-certified resources of 5.2 mln ha. (94%). The Group has a 16.5% share of the European paper packaging market, and 52% of the Russian market. The holding is the second largest in Europe by volume of brown sack paper output, and third largest globally by total output of sack paper. In 2015, Segezha Group became the world’s seventh-largest producer of birch plywood by output.

In February 2016, Segezha Group acquired a controlling stake in OJSC Lesosibirsk LDK No. 1, one of the largest vertically integrated wood processing enterprise in Russia, based in Krasnoyarsk region. OJSC Lesosibirsk LDK No. 1 is one of Russia’s largest producers of lumber, fibre board, planed mouldings and furniture made from Angara pine. It processes more than 1 mln cubic meters of logs annually. The total annual allowable cut comprises 2.9 mln cu. m.

Wood resources

In 2015, as part of its Wood Supply project, the company purchased modern logging equipment, including 12 state-of-the-art logging complexes, and 50 log trucks. Total investment in the project was RUB 1.3 bln. Acquisition of new equipment made it possible to significantly increase the volume of logging at Segezha Group facilities and ensure efficient use of the forest resource base. Wood resources are the main item in Segezha Group’s production costs (accounting for 30% to 62% of the total). The project made it possible for the Group’s production facilities to increase the share of own logging in their raw material base to 72%.

Segezha PPM – sack paper

In 2015, the company launched a comprehensive investment project to upgrade PPM in order to reduce production costs of paper and ramp up production capacity. Segezha PPM ranks fourth globally by production of unbleached sack paper. Segezha PPM is Russia’s undisputed leader by production and export of sack paper, accounting for 70% of total national output.

In 2015, Segezha PPM’s output rose by 6% to 266 th. tonnes. The mill’s key export markets include Europe, Mexico, Saudi Arabia, Egypt, Indonesia and China. The share of marketable paper in sales totalled 59% in 2015, while the share of paper converted into sacks at third-parties production facilities in Europe and Russia stood at 41%.

Segezha Group’s revenue by business segments, 2015

<table>
<thead>
<tr>
<th>Paper &amp; Paper bags</th>
<th>Wood production</th>
<th>Wood resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>14%</td>
<td>68%</td>
<td>13%</td>
</tr>
</tbody>
</table>

Operating results of Segezha Group

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paper, production output, th. tonnes</td>
<td>285.4</td>
<td>268.8</td>
<td>6.2%</td>
</tr>
<tr>
<td>Paper, production sales, th. tonnes</td>
<td>286.8</td>
<td>268.9</td>
<td>6.7%</td>
</tr>
<tr>
<td>Sacks, production output, mln ps</td>
<td>1,136.1</td>
<td>1,184.0</td>
<td>-4.0%</td>
</tr>
<tr>
<td>Sacks, production sales, mln ps</td>
<td>1,135.0</td>
<td>1,187.3</td>
<td>-4.4%</td>
</tr>
<tr>
<td>Sawn timber, production output, th. cu. m.</td>
<td>394.7</td>
<td>306.6</td>
<td>28.7%</td>
</tr>
<tr>
<td>Sawn timber, production sales, th. cu. m.</td>
<td>398.4</td>
<td>293.6</td>
<td>35.7%</td>
</tr>
<tr>
<td>Prefab houses, production output, th. cu. m.</td>
<td>27.0</td>
<td>22.1</td>
<td>22.2%</td>
</tr>
<tr>
<td>Prefab houses, production sales, th. cu. m.</td>
<td>26.4</td>
<td>22.0</td>
<td>20.0%</td>
</tr>
<tr>
<td>Plywood, production output, th. cu. m.</td>
<td>95.0</td>
<td>93.9</td>
<td>1.2%</td>
</tr>
<tr>
<td>Plywood, production sales, th. cu. m.</td>
<td>89.9</td>
<td>90.5</td>
<td>0.6%</td>
</tr>
</tbody>
</table>
Segezha Packaging - paper sacks

Segezha Group is a producer of high quality sacks under Segezha Packaging brand. It has one Segezha Packaging factory in Russia, six in Europe (Netherlands, Germany, Denmark, Czech Republic, Romania, Italy) and two in Turkey. Segezha Packaging is Europe’s second-largest and Russia’s largest producer of high quality paper sacks, with European market share of 16.5% and 52% of the Russian market.

In 2015, the company launched a new fast sack production line with capacity of 90 mln pcs/year, and had a new high-speed printing machine installed. Construction of a state-of-the-art multi-functional paper sack production plant in Salsk, Rostov region, is nearing completion. Production capacity of the new plant will amount to 90 mln sacks a year. The plant will be launched in 2016. Paper-to-sack conversion makes it possible to improve profit margin per tonne of paper, and is an efficient sales channel.

Vyatka Plywood Mill – birch plywood

As part of modernisation of the Vyatka Plywood Mill, a new gluing machine was acquired and commissioned in 2015, enabling the company to reduce specific consumption of raw wood, enhance productivity and start making plywood of premium grades.

At the end of 2015, the first stage of an investment project to build new production facilities in Kirov was launched. Birch plywood is a high-margin product for Segezha Group, with the OIBDA margin of this segment reaching 45%, while the share of plywood in the Group’s revenue is 8.4%.

Sawn timber

In 2015, Segezha Group achieved a 26% increase in production of sawn timber by boosting the operational efficiency of its sawmilling facilities. Export volumes rose by 38% due to overall growth in production and the favourable effect of the rouble depreciation. The geographical sales footprint expanded from 11 to 14 countries. The share of sawn timber in exports is 95%. The UK remains Segezha Group’s biggest market, accounting for 30.5% of its exports. Egypt’s share in exports has soared 15-fold since 2013, and reached 27.1% in 2015.

FINANCIAL RESULTS OF SEGEZHA GROUP

Segezha Group (“Segezha”) reported strong growth in revenues and OIBDA in the fourth quarter of 2015 and the full reporting year (based on management accounts of 2014), primarily due to increased sales in its core segments, as well as the strengthening of global currencies in relation to the Russian rouble. The share of export sales in overall revenue amounted to 79% in 2015.

Segezha managed to ramp up sales in its new markets of Asia and North America. Segezha’s OIBDA margin was 17.7% in the fourth quarter of 2015, up from 14.8% a year ago. In 2015, Segezha’s OIBDA margin reached 20.4% compared to 13.0% in 2014 (based on management accounts).

STRATEGY

Segezha Group is aiming to expand its sales geography and ramp up exports, both in its traditional markets across Europe and in new regions. Strategic priority will be given to the Middle East and North Africa, as well as China, South-East Asia and Latin America. The company will open representative offices in UAE and Egypt.

The overall portfolio of paper products will be maintained with a slight increase in the share of high-tech grades, while the processing of sack paper at Segezha Group’s own conversion facilities will be increased.

The Group's main objective in the Russian and CIS paper sacks markets is to expand market share on the back of import substitution and squeezing out of local players. The total increase in production capacity in Russia will be 54%, with projected capacity reached by 2017.

The Group’s strategy envisages construction of two new plywood mills in Kirov, Kirov region, at the Vyatka Plywood Mill, and in Sokol, Vologda region. These mills are expected to reach their design capacity: in 2018 in Kirov with total production capacity of 83.2 th. cu. m.; and in 2019 in Sokol with total production capacity of 130 th. cu. m. After completion of the project Segezha Group will become the world’s fourth-largest company by production of birch plywood.

A new investment project to build a new Segezha Woodworking Plant is scheduled for 2016-17 and is aimed at boosting output of sawn timber and enhancing Segezha PPM’s access to wood chips.

Segezha Group’s logging strategy for 2016 envisages implementation of an investment project to upgrade logging equipment and trucks, and construction of forest roads. These steps will reduce the cost of raw wood, boost logging volumes and ensure much-needed security in terms of supplies of raw materials, given Segezha Group’s growing demand for raw wood.
RTI

RTI is a major holding company that operates in the defence, microelectronics, comprehensive communication and security systems segments, and a leading integrator of high-tech R&D and manufacturing companies. RTI’s production facilities have their own R&D infrastructure and implement projects in radio and space technologies, security and microelectronics that are unique in terms of their scale and complexity. RTI Group comprises the assets of RTI Systems Concern (defence and security systems) and NIIME and Mikron (microelectronics).

Financial results of RTI

<table>
<thead>
<tr>
<th>(RUB mln)</th>
<th>FY 2015</th>
<th>FY 2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>77,287</td>
<td>81,028</td>
<td>(4.6%)</td>
</tr>
<tr>
<td>Adjusted OIBDA</td>
<td>7,030</td>
<td>4,816</td>
<td>46.0%</td>
</tr>
<tr>
<td>Operating income</td>
<td>4,548</td>
<td>4,067</td>
<td>11.8%</td>
</tr>
<tr>
<td>Adjusted net income attributable to Sistema</td>
<td>(2,074)</td>
<td>(5,622)</td>
<td>-</td>
</tr>
<tr>
<td>Net income attributable to Sistema</td>
<td>(2,074)</td>
<td>(3,476)</td>
<td>-</td>
</tr>
</tbody>
</table>
The defence sector is expected to see considerable growth in demand for high-tech products. Under the National Arms Programme through 2020, state defence spending will amount to about RUB 20 tln, with up to 70% expected to be invested in acquisitions of new defence systems and equipment.

The Russian microelectronics market exceeded US$ 2 bln in 2015, but accounts for only 1% of the global market. Commercial microelectronics in Russia is dominated by foreign companies. Russian microelectronics companies mainly manufacture military and special-purpose products, which account for about 40% of the domestic microelectronics market. In the future, the microelectronics industry will be supported by growing demand for RFID-based solutions, including orders from the government. Major demand drivers are the semiconductor segment and the telecoms sector, which, given the import substitution programme, Western sanctions and the depreciation of the ruble, is likely to boost demand for Russian microelectronic products.

The Russian market for information and communication technologies grew in ruble terms in 2015. The company expects the average annual growth rate in this market to stand at 7% until 2018, with the segment of comprehensive security systems being the most attractive.

As Russia’s biggest private defence concern, RTI continues to assert its position in the sector. In 2015, it improved its standing in the Defence News Top 100 international ranking from 78th to 69th place. RTI’s core business is the segment of defence solutions, which accounts for the bulk of the Group’s revenue and OIBDA.

Mikron, which manufactures over 50 mln items per month, is the biggest producer of microelectronic components, RFID cards and tags in Russia and the CIS. In 2015, Mikron continued working to commercialise its solutions. It developed a prototype for the Citizen’s ID chip, supplied a batch of chips for issuing in the trial area (the Southern Federal District) and developed and delivered to Goznak, the state-owned security products manufacturer, RF tags for producing identification tags to be used on products supplied within the Eurasian Economic Community.

In July 2015, Mikron renewed a contract with Mosgortrans to supply contactless tickets for public transport, under which it will deliver 12 mln tickets within the next three months.

In September, Mikron and its subsidiary NIIME became residents of the Zelenograd special economic zone, where they will carry out an investment project to develop technologies and launch production of microchips using 65 nm topology. The project will be carried out in 2015-2017, with production launch scheduled for 2018. Residency in the Zelenograd special economic zone will ensure lower tax rates for the companies and make it easier for them to get customs clearance of imported components and equipment. Preferential rates of the unified social tax (14%), a lower income tax rate, zero customs duties on materials and components needed for production, and exemption from the property and transport taxes offered to residents will allow them to significantly reduce their expenses, with the funds released going towards development of new technologies and products.
A new division of RTI, the Mikron Design Centre, which develops microelectronic equipment, in 2015 successfully completed a pilot project for design, software development, assembly, start-up and commissioning of the Regional System for processing of unified social e-cards in Mordovia.

In April 2015, RTI acquired a 45% stake in the IKAR engineering centre, which has competencies in development of metal and composite aerostructures, such as components of airplane wings and body. RTI plans to use IKAR to create enduring composite structures for UAV and to develop system engineering.

STRATEGY

The strategy of the defence solutions segment is aimed at growing the business through entering promising innovative segments of government contracts, developing and modernising the core product range, developing schools of thought and the research and education system. The company focuses on development of complex information systems for aerospace defence and OTH radio positioning of air, marine and ground objects. Its key customers within the segment are law enforcement agencies and operators of strategic facilities and critical infrastructure.

The strategy of the microelectronic solutions segment aims at integrating the development and production of microelectronic components into processes to supply ready-to-use sensor equipment and provide technical support. The key objective is to ensure technological parity of Russian microelectronic solutions for the defence, space and nuclear industries.

RTI is also actively developing the comprehensive security systems segment. Its objective for the next few years is to become Russia’s biggest supplier of comprehensive solutions in threat monitoring and control, as well as decision-making support systems based on technologies and products developed by RTI and its partners. One of the segment’s strategic goals is increasing profitability by expanding the share of intellectual property in the end product, and developing exports.

The strategy of RTI’s R&D divisions is aimed at developing the most promising breakthrough technologies to support the company’s long-term leadership on target markets, and capitalisation of its solutions and competencies by bringing new high-tech segments to the market. RTI plans to develop its R&D network through the acquisition, retention and development of key competencies and interaction with leading developers in segments that are of interest to the company.

Overall, in 2015 Mikron:

- **>350 mln** transport cards
  - Issued transport cards
- **1.5 mln** chips
  - Delivered for biometric foreign passports
- **5,8 mln** industrial microchips
  - Supplied to Russian customers
- **39 types** of circuits
  - Developed to industrial and commercial companies

Information technologies market, bln RUB

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>698</td>
<td>740</td>
<td>794</td>
<td>850</td>
<td>897</td>
</tr>
</tbody>
</table>
RTI’s revenues declined for the full year 2015 and in the fourth quarter of 2015 year-on-year due to uneven revenue recognition on a number of long-term contracts, as well as decreased revenues in the Information and Communication Technologies business unit (ICT, mainly represented by NVision) in particular as a result of disposal of NVision in 2015. Excluding the ICT unit, RTI’s revenues grew by 11.8% year-on-year in 2015. Revenue of the Defence Solutions business unit increased by 25% year-on-year in 2015.

Adjusted OIBDA increased for the reporting year by 46.0% following strong revenue performance at the Defence Solutions business unit as well as due to reduced OIBDA loss at ICT.

### Results by RTI business segments in 2015

<table>
<thead>
<tr>
<th>Business Segment</th>
<th>2014 Revenue</th>
<th>2015 Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defence solutions</td>
<td>39.4</td>
<td>14%</td>
</tr>
<tr>
<td>Microelectronics</td>
<td>11.4</td>
<td>11%</td>
</tr>
<tr>
<td>Margin OIBDA</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

750 mln chips
Exported to assembly plants in Southeast Asia and Europe

45 types of integral circuits
Set up production for different purposes
Bashkirian Power Grid Company (BPGC) is one of Russia’s leading power grid companies. The company’s assets comprise distribution and transmission assets located in Bashkortostan.

Financial results of BPGC

<table>
<thead>
<tr>
<th>(RUB mln)</th>
<th>FY 2015</th>
<th>FY 2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>14,816</td>
<td>14,061</td>
<td>5.4%</td>
</tr>
<tr>
<td>OIBDA</td>
<td>4,325</td>
<td>5,083</td>
<td>(14.9%)</td>
</tr>
<tr>
<td>Operating income</td>
<td>2,088</td>
<td>3,279</td>
<td>(36.3%)</td>
</tr>
<tr>
<td>Net income attributable to Sistema</td>
<td>2,027</td>
<td>2,626</td>
<td>(22.8%)</td>
</tr>
</tbody>
</table>

Operational results of BPGC

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power losses in transmission grids, %</td>
<td>1.38%</td>
<td>1.49%</td>
<td>-0.11 p.p.</td>
</tr>
<tr>
<td>Power losses in distribution grids, %</td>
<td>8.22%</td>
<td>8.46%</td>
<td>-0.24 p.p.</td>
</tr>
<tr>
<td>Net supply from distribution grids, m kWh</td>
<td>20,013</td>
<td>19,683</td>
<td>1.7%</td>
</tr>
</tbody>
</table>

INDUSTRY

Power generation in Russia increased by 0.2% in 2015, while consumption increased by an average of 0.4%. One of the factors influencing consumption was outdoor temperature: last year’s winter months were much warmer compared to 2014.

Power generation by power plants in Bashkortostan declined by 0.4% last year, while consumption saw a small rise of 0.3%.

Despite continued economic challenges, power consumption in Bashkortostan is expected to remain stable. The biggest consumers are oil refining companies, which have stable power demands, and the authorities are working to create a favourable investment climate. Moreover, domestic energy demand has grown in recent years thanks to the active development of low-rise housing construction.
SUSTAINABLE GROWTH OF BPGC AND KEY EVENTS IN 2015

In terms of transmission capacity, BPGC ranks among Russia’s 10 largest power grid companies, and ranks among the leading regional grid operators that make up Russia’s inter-regional distribution grid companies (IDGCs) by total length of power lines and number of substations, transformer and distribution substations.

Under its programme to improve the operational efficiency of its power grid assets, the company is continuing to install power metering units. The total number of units installed as part of the programme has reached 111 th., of which 31 th. were installed in 2015, which helped to significantly reduce power losses.

The volume and number of new connections to distribution grids continued to grow in 2015.

BPGC Engineering, which was established in 2014, acted in 2015 as general contractor for 49 of BPGC’s facilities, or 31% of the total investment programme.

BPGC’s priorities include consolidation of power grid assets in Bashkortostan. In 2015, the company continued acquiring ownerless networks and renting municipal networks. It signed 17 sale-and-purchase agreements for power-grid equipment, including a RUB 320 mln contract to acquire the majority of transmission facilities in Ufa, the regional capital. The company also signed 30 contracts to rent transmission facilities.

As part of its project to completely overhaul distribution grids in Ufa and introduce Smart Grid technology, BPGC implemented a pilot project in Ufa, including construction of a grid management centre and introduction of an automated dispatch control system. The company also signed an agreement with Siemens AG on localisation of power-grid equipment manufacturing in Bashkortostan.

STRATEGY

The main objective of the investment strategy is to increase BPGC’s market share in Bashkortostan by acquiring assets of territorial grid operators and expanding and modernising existing grid infrastructure.

The goal of the investment strategy is to ensure reliable power supply for consumers and a stable dividend flow for shareholders.

FINANCIAL RESULTS OF BPGC

Please see table on page 40.

BPGC’s revenue grew by 6.4% in the fourth quarter and by 5.4% for the full year 2015 as a result of organic growth of electricity usage and an increase in the number of connections. Electricity consumption was up 1.7% year-on-year in 2015 thanks to the addition of new connected customers, in part due to the backdrop of a growing economy in Bashkortostan. Successful implementation of the investment programme and accelerated connection to the distribution grids allowed BPGC to increase the number of new connections.

OIBDA and net income declined for the year as a result of the decreased gains from the sale of non-core assets, combined with the additional provisions to cover potential customer disputes. BPGC’s net income excluding these effects for 2015 increased by 2.5%.
Medsi Group is one of Russia’s largest nationwide private healthcare providers, offering a full range of preventive, diagnostic and treatment services, including rehabilitation services for children and adults.

Financial results of Medsi

<table>
<thead>
<tr>
<th>(RUB mln)</th>
<th>FY 2015</th>
<th>FY 2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>8,227</td>
<td>9,764</td>
<td>(15.7%)</td>
</tr>
<tr>
<td>OIBDA</td>
<td>471</td>
<td>843</td>
<td>(44.1%)</td>
</tr>
<tr>
<td>Operating income</td>
<td>(161)</td>
<td>249</td>
<td>-</td>
</tr>
<tr>
<td>Net income attributable to Sistema</td>
<td>(127)</td>
<td>261</td>
<td>-</td>
</tr>
</tbody>
</table>

Medsi’s operating highlights

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area, thousand sqm</td>
<td>233.2</td>
<td>228.7</td>
<td>1.98%</td>
</tr>
<tr>
<td>Visits, thousand</td>
<td>7,265.8</td>
<td>7,663.1</td>
<td>-5.18%</td>
</tr>
<tr>
<td>Rendered services, thousand</td>
<td>11,403.3</td>
<td>13,384.8</td>
<td>-14.80%</td>
</tr>
<tr>
<td>Average cheque, RUB</td>
<td>1,132.3</td>
<td>1,274.5</td>
<td>-11.16%</td>
</tr>
<tr>
<td>Revenue per sqm, thousand RUB</td>
<td>35.3</td>
<td>42.7</td>
<td>-17.40%</td>
</tr>
</tbody>
</table>
INDUSTRY

In 2015, the private healthcare market was influenced by various trends. Under-financing of obligatory medical insurance (OMI) programmes and the contraction of the state-subsidised healthcare market stimulated growth in the private medical sector. An audit conducted by the Audit Chamber showed that in 2015 the OMI funding deficit increased by 25% year-on-year. However, this growth was inhibited by a number of macroeconomic factors, including rising inflation, shrinking consumer purchasing power and a crisis in the voluntary medical insurance (VMI) market in some regions of Russia.

In absolute terms, Russia’s private healthcare market was worth RUB 638.8 bln in 2015. At the same time, growth rates dropped by almost half, to 12% vs 21% in 2014, due to a slowdown in the retail sector (direct services to individuals).

The VMI segment is closely correlated with business and market trends. In 2015, only 2% of employers offering VMI as part of their employee benefits packages cut spending on medical insurance, with almost a quarter of companies increasing medical expenses and 14% of employers maintaining spending at the same level as the previous year. However, 62% of companies did not provide VMI policies to their employees at all, with some companies abandoning the practice due to the financial crisis. HR experts expect the main reductions in spending on benefits and non-financial employee compensation to take place in 2016.

The Moscow region remains Russia’s largest healthcare market, accounting for 25% of the total volume of private healthcare services provided nationwide. The Moscow VMI segment is also the biggest in Russia. In 2015, its share reached 64% of the total as regional markets declined. Overall, over the last six years the total private healthcare market in Moscow has doubled.

\[ \text{Source: Company data.} \]
\[ \text{Source: Superjob.ru.} \]
As part of the reorganisation of its asset portfolio, Medsi plans to sell its non-strategic non-core assets and reinvest the proceeds in the development of its core healthcare business. To ensure the implementation of its investment plans the company is considering engaging strategic partners not only to co-invest in Medsi projects but also to enhance the company’s competences in project implementation and management and to contribute additional medical expertise to the company’s day-to-day operations.

The introduction of polyclinics in the hospital segment in 2015 is aimed at creating fully-featured clinical and diagnostic centres at existing inpatient facilities to ensure maximum satisfaction of clients’ needs and stimulate effective development of these assets.

One of the most important events was the launch of the second flagship clinical and diagnostic centre (CDC) at Krasnaya Presnya in December 2015. The CDC is designed to service 1.8 mln patients per year, and its advanced technological capabilities means it is able to provide a wide range of outpatient services and perform high-tech surgeries in its day and 24-hour clinics.
STRATEGY

Medsi’s development strategy is aimed at ensuring exponential growth, primarily by increasing efficiency and expanding its clinical chain in the most promising regions. Medsi’s long-term development strategy envisages enhancement of the efficiency of its existing assets and investment in personnel training, new technologies, renovation of infrastructure and expansion of facilities.

Completion of a project launched in 2014 to renovate medical centres and install state-of-the-art medical equipment as well as development of children’s clinics is an important element of the strategy designed to increase Medsi’s share in the children’s healthcare market in Moscow.

To make Medsi a national-scale operator, management is aiming to increase the company’s share in regional markets that are attractive to both financial and strategic investors. The company has earmarked more than ten strategic cities for expansion in the medium term. Partnerships with local market players will be built either via M&A deals or by opening own clinics on leased premises.

FINANCIAL RESULTS OF MEDSI

Please see table on page 42.

Revenues at Medsi declined as a result of the ending of a state contract in 2014 that had accounted for 24% of total revenues. However, new clients partially offset this effect, with sales to individuals accounting for 37% of revenues in 2015 versus 24% in 2014. Revenue from individuals rose more than 26% in 2015 as patient visits in this segment increased by 29%.

The OIBDA and OIBDA margin of Medsi were also impacted by ending of the large state contract due to decreased utilisation ratios in certain assets. Significant OIBDA growth in the fourth quarter of 2015 year-on-year resulted from optimisation of Medsi’s administrative expenses.

Medsi’s largest facility, the clinical-diagnostic centre at Belorussskaya accounted for 26% of revenues in 2015, with a 41% OIBDA margin and a 66% utilisation rate, which improved by 2 percentage points year-on-year in 2015.

>1,800 doctors
Work in Medsi centres

>7,800 surgeries
Performed in 2015

MEDSI’s Revenue by clients 2015

MEDSI’s Revenue by assets 2015
Agricultural businesses

Sistema’s agricultural assets are represented by the RZ Agro joint venture (50%) and Steppe Agro Holding (100%).

INDUSTRY

Russia’s agricultural sector grew by 2.9% in 2015, thanks to another high yield of grains and oil crops and increased poultry and pork production.

Even though weather conditions were worse than the previous year, Russia harvested 104.3 mln tonnes of grains and grain legumes, the third-most in the country’s post-Soviet history after 2008 and 2014. In 2015, Russia accounted for 5% of global grain production and 10% of grain exports, and its share continues to grow. Russian wheat accounted for 8% of global production and 15% of exports in 2015.

The global agricultural market is undergoing serious changes. The strengthening US dollar and euro make purchases of US, Canadian and European wheat unprofitable, while Russia is gradually becoming a leader in terms of grain export volumes. Russia’s prominence on the international market is supported by global trends: on the one hand, US and European wheat is becoming less competitive due to exchange rates and the shift towards corn seen in the American agricultural sector; on the other, Russia has set the bar high with the price-to-quality ratio of its wheat.

Last year, agricultural producers’ margins were seriously affected by the drastic fall of international grain prices, which hit a six-year low.

Most experts and market participants expect the Russian agricultural sector to continue growing in 2016. Growth will remain positive, but will be limited to 2%-3%, or approximately the same as in 2015. The Agricultural Ministry expects to harvest at least 105 mln tonnes of grain in 2016.

RZ Agro Holding (RZ Agro) is a major producer of grain and oil crops in southern Russia with a land bank of 99,000 hectares. It is controlled jointly by Sistema JSFC and members of the Louis-Dreyfus family, and currently comprises six farms grouped into three regional clusters in the Rostov and Stavropol regions.

JSC Steppe Agro Holding (Steppe Agro) comprises a number of farms in Krasnodar region, with a total land bank under management of 37,600 ha. Steppe Agro operates in four segments: crop farming, animal farming, fruit growing and vegetable growing.

Source: Agricultural Ministry, FAS USDA, WASDE - 500, Rosstat.
Source: Rosstat, USDA, RGU
Krasnodar region is Russia’s main agricultural region:

- **7%** of gross agricultural output
  - Gross agricultural output of Russia
- **40%** of fruit output
  - Leader in terms of fruit output
- **10%** of gross grain output
  - Leader in terms of gross grain output
- **15%** of sunflower seeds output
  - Major producer of sunflower seeds
- **17.3%** of sugar beet output
  - Leader in terms of sugar beet output
- **37%** of wines output
  - Leader in terms of wines output

Gross harvest volume of grain and legumes in Russia, mln tonnes

Gross harvest volume and export of grain in Russia, mln tonnes

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Harvest</th>
<th>Export</th>
<th>% of Export</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>94.2</td>
<td>89</td>
<td>15%</td>
</tr>
<tr>
<td>2012</td>
<td>70.9</td>
<td>66</td>
<td>23%</td>
</tr>
<tr>
<td>2013</td>
<td>92.4</td>
<td>88</td>
<td>25%</td>
</tr>
<tr>
<td>2014</td>
<td>105.3</td>
<td>99</td>
<td>31%</td>
</tr>
<tr>
<td>2015</td>
<td>104.3</td>
<td>98</td>
<td>31%</td>
</tr>
</tbody>
</table>
Further development of the sector will depend on the government taking measured actions to support domestic producers and exporters at a time when macroeconomic risks are high. The drastic deterioration of the macroeconomic environment in 2014-2015 and high exchange-rate volatility have had negative consequences for agricultural producers including reduced ability to borrow and a significant rise in prices of basic production tools.

STEPPE AGRO IN 2015

All of Steppe Agro’s companies, except for the greenhouse farm Yuzhny, are located in the northern part of Krasnodar region. Southern Russia, and Krasnodar region in particular, have the best natural and weather conditions for agriculture.

Steppe Agro’s land bank as of the end of 2015 totalled 37,600 ha (including the Rodina dairy farm and two fruit farms acquired at the end of 2015).

The land cultivated by Steppe Agro is classified as improving. According to the UN, improving land accounts for just 10% of the world’s agricultural land. The rest is in different stages of degradation.

Approximately 40% of the harvested winter wheat was exported and 60% sold on the domestic market. Steppe Agro’s high yields in 2015 were driven by its high farming standards, use of state-of-the-art agricultural technologies, consistent work to improve soil fertility, and also favourable weather conditions. According to Kuban State Agricultural University, Steppe Agro’s soil is the best in Krasnodar region for microflora quality.

NEW AGRICULTURAL ASSETS

At the end of 2015, Steppe Agro Holding acquired four companies operating in three agricultural segments: fruit, dairy and greenhouse vegetable growing.

<table>
<thead>
<tr>
<th>Crop farming</th>
<th>Livestock production</th>
<th>Fruit growing</th>
<th>Vegetable growing</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Krasnodar region)</td>
<td>(Krasnodar region)</td>
<td>(Krasnodar region)</td>
<td>(Karachaevo-Cherkessiya)</td>
</tr>
<tr>
<td>5 companies</td>
<td>1 company</td>
<td>2 companies</td>
<td>1 company</td>
</tr>
<tr>
<td>Sistema’s stake</td>
<td>Sistema’s stake</td>
<td>Sistema’s stake</td>
<td>Sistema’s stake</td>
</tr>
<tr>
<td>85%</td>
<td>85%</td>
<td>85%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Average yields of Steppe Agro’s main crops, t/ha (excluding assets acquired at the end of 2015)

<table>
<thead>
<tr>
<th>Crop</th>
<th>2015</th>
<th>2014</th>
<th>%</th>
<th>Average for Krasnodar region, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sugar beet</td>
<td>50.0</td>
<td>54.1</td>
<td>-7.6%</td>
<td>46.6</td>
</tr>
<tr>
<td>Winter wheat</td>
<td>6.8</td>
<td>6.7</td>
<td>+1.5%</td>
<td>5.6</td>
</tr>
<tr>
<td>Winter barley</td>
<td>6.6</td>
<td>5.9</td>
<td>+11.9%</td>
<td>5.9</td>
</tr>
<tr>
<td>Corn</td>
<td>7.5</td>
<td>7.7</td>
<td>-2.6%</td>
<td>5.6</td>
</tr>
</tbody>
</table>

Gross output, k t (excluding assets acquired at the end of 2015)

<table>
<thead>
<tr>
<th>Crop</th>
<th>2015</th>
<th>2014</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sugar beet</td>
<td>198.6</td>
<td>216.7</td>
<td>-8.4%</td>
</tr>
<tr>
<td>Winter wheat</td>
<td>81.4</td>
<td>81.5</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Winter barley</td>
<td>7.9</td>
<td>9.9</td>
<td>-20.2%</td>
</tr>
<tr>
<td>Corn</td>
<td>23.5</td>
<td>14.6</td>
<td>+61.0%</td>
</tr>
<tr>
<td>Sunflower</td>
<td>7.8</td>
<td>11.6</td>
<td>-32.8%</td>
</tr>
<tr>
<td>Feed crops</td>
<td>49.9</td>
<td>34.5</td>
<td>+44.6%</td>
</tr>
<tr>
<td>Other crops</td>
<td>1.8</td>
<td>4.7</td>
<td>-61.7%</td>
</tr>
<tr>
<td>Total</td>
<td>370.9</td>
<td>373.4</td>
<td>-0.7%</td>
</tr>
</tbody>
</table>
Vegetables

JSC Yuzhny Agricultural Complex
(Ust-Dzheguta, Karachayevo-Cherkessiya)

1. The share of vegetables produced in greenhouses is growing fast. Entering a potentially high-profit agricultural segment.
2. JSC Yuzhny Agricultural Complex is Russia’s biggest producer of protected-ground vegetables, with 144 ha of greenhouses in Karachayevo-Cherkessiya.

It has a developed sales market, greenhouses, most of which are in a good condition, and a qualified management team. In 2015, the company’s revenue was RUB 2.2 bln. Sistema plans to gradually replace the greenhouses with newer ones, which may double the farm’s productivity and reduce costs.

Fruit

OJSC Trudovoye
LLC Sady Kubani
(Leningradsky district, Krasnodar region)

2. OJSC Trudovoye is a fruit orchards owner and a fruit producer. It is one of Russia’s top five apple producers. High-quality table apples account for ca. 97% of the output.

LLC Sady Kubani owns fruit storage and processing infrastructure.

Total land owned: 1,772 ha. The existing intensive orchards and infrastructure occupy 630 ha. Total refrigerator capacity for fruit storage is 16,000 t, with a new module (+7,900 tonnes) under construction. An AWETA sorting and grading conveyor with a capacity of 22,000 t per season. In 2015, the infrastructure was modernised and now allows packaging apples both in 15 kg boxes and in 4-6-piece trays.

Dairy

OJSC Rodina
(Kanevskoy district, Krasnodar region)

2. OJSC Rodina is a leading milk producer in Krasnodar region. Its output in 2015 was 31,100 tonnes. It has Russia’s highest milk yield, with 10.8 tonnes per lactating cow.

Rodina’s land pool totals 9,800 ha, out of which 9,540 ha is farmland, including 1,084 ha of irrigated land.

Farm infrastructure for 8,000 cows, including:
- four state-of-the-art fourth-generation farms with feeding sites, and hay, haylage and manure storage facilities
- the average number of lactating cows per year - 2,973; 1,100 bull calves;
- milk output - min. 30,000 t/year;
- meat output - min. 1,500 t/year;
- possibility to produce pedigree heifers, 1,500 heads/year;
- highly productive cattle with a yield of min. 10,000 litres.

Own stock reproduction capacity. Production of own quality fodder.

The structure of Agroholding Steppe land under cultivation in 2015(1)

<table>
<thead>
<tr>
<th>Crop Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Winter corn</td>
<td>45.9%</td>
</tr>
<tr>
<td>Sunflower</td>
<td>12.0%</td>
</tr>
<tr>
<td>Sugar beet</td>
<td>12.0%</td>
</tr>
<tr>
<td>Maize</td>
<td>15.2%</td>
</tr>
<tr>
<td>Forage crops</td>
<td>4.5%</td>
</tr>
<tr>
<td>Winter barley</td>
<td>6.5%</td>
</tr>
<tr>
<td>Other</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

(1) Excl. the assets acquired at the end of 2015.

Land bank of Agroholding Steppe, ha

- Ownership: 20,536 ha
- Rent: 17,044 ha

www.sistema.ru
**RZ AGRO IN 2015**

In 2015, RZ Agro’s farms had a good harvest, with gross output of 272,000 tonnes (just 9% below the record set in 2014), including 168,000 tonnes of the main crop, wheat. The farms operated in different weather conditions, which influenced their results.

All of the farms strengthened their positions in their respective geographies in terms of both gross production and financial performance.

Farms of the Rostov South cluster (Zernogradsky district, Rostov region) harvested an unprecedented amount of crops. Production targets were outperformed by 13%, and OJSC Donskoye and OJSC 1st Cavalry Army Horse Farm were the district’s leaders for gross grain output. Overall, crop yields in these farms have increased by 36% in the last three years, with output increased by 60%. Production growth required expansion of grain storage facilities, and additional warehouses were commissioned in 2015.

In the eastern part of Rostov region, the farmers encountered problems during the autumn sowing season. Winter crops were sown during a dry period, but after rains started the weather grew colder. On 35%-40% of the sown area, crops did not germinate before the winter, so the grain production target was not achieved. At the same time, the eastern farms reported strong financial results thanks to other crops (flax, coriander). A new crop, safflower, was introduced into the crop rotation of the Rostov East cluster, and its yield exceeded the budget target.

RZ Agro’s sales strategy in the 2015-2016 marketing year, which ends in June 2016, has been developed taking into account the current situation on the global grain market, where prices have come down as a result of the high yields of recent years. Relying on its experience and tools for forecasting global price trends, RZ Agro’s commercial department organised timely sales of the bulk of the harvest to minimise the reduction in margins caused by falling prices. To mitigate risks related to global price fluctuations, the company hedged grain prices on international exchanges.

As of 1 March 2016, RZ Agro had sold 95% of its output.

In 2015, RZ Agro expanded its export geography. Apart from traditional destinations such as Turkey, Egypt and Armenia, the company began exporting to Lebanon, Albania and Africa.

---

**RZ Agro’s operating results**

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total land, ha</td>
<td>100,000</td>
<td>100,000</td>
<td>0%</td>
</tr>
<tr>
<td>Owned land, %</td>
<td>68%</td>
<td>66%</td>
<td>+2%</td>
</tr>
<tr>
<td>Arable land under cultivation, %</td>
<td>91%</td>
<td>91%</td>
<td>0%</td>
</tr>
<tr>
<td>Gross output, k t</td>
<td>272</td>
<td>300</td>
<td>-9%</td>
</tr>
<tr>
<td>Wheat yield, t/ha</td>
<td>4.1</td>
<td>4.5</td>
<td>-9%</td>
</tr>
<tr>
<td>Sunflower yield, t/ha</td>
<td>2.3</td>
<td>2.3</td>
<td>0%</td>
</tr>
<tr>
<td>Corn yield, t/ha</td>
<td>4.7</td>
<td>3.6</td>
<td>+31%</td>
</tr>
</tbody>
</table>

**Sistema agriculture assets (aggregated)**

<table>
<thead>
<tr>
<th></th>
<th>Revenue 2015</th>
<th>OIBDA 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crop production</td>
<td>2.197</td>
<td>0.441</td>
</tr>
<tr>
<td>Milk / livestock farming</td>
<td>0.618</td>
<td>0.172</td>
</tr>
<tr>
<td>Gardening</td>
<td>1.335</td>
<td>0.540</td>
</tr>
<tr>
<td>Vegetable farming</td>
<td>4.380°</td>
<td>1.834°</td>
</tr>
</tbody>
</table>

---

(1) Aggregated FY 2015 results of newly acquired assets and RZ Agro (not consolidated by Sistema).

(2) Revenue of RZ Agro (not consolidated by Sistema) in the amount of RUB 2.5 bln and crop production segment (consolidated by Sistema) in the amount of RUB 1.9 bln.

(3) OIBDA of RZ Agro amounted to RUB 1.1 bln, crop production segment’s OIBDA was RUB 0.7 bln.
In 2015, RZ Agro for the first time participated in a government tender for wheat supply and won, delivering 27,000 tonnes to the intervention fund.

In a ranking of Russian agricultural companies released in September 2015 and based on the 2014 performance, RZ Agro was among the top three companies by EBITDA margin and among the top five by net margin.

RZ AGRO’S STRATEGY

RZ Agro’s operating strategy has been developed in response to present-day challenges. In 2015, the company decided to build a seed plant and develop drip irrigation. The goal of the first stage (2016-2019) is to provide Super Elite and Elite category seeds for the Rostov South cluster to meet 100% of its own demand for winter wheat seeds. The project aims to obtain quality seed material for the company’s own production, increasing crop yields and reducing costs.

Domestic and export sales of RZ Agro

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic sales</td>
<td>86%</td>
<td>82%</td>
<td>78%</td>
<td>69%</td>
<td>50%</td>
</tr>
<tr>
<td>Export</td>
<td>14%</td>
<td>18%</td>
<td>22%</td>
<td>31%</td>
<td>50%</td>
</tr>
</tbody>
</table>
Targin

Targin is a large Russian multi-purpose oilfield services holding. It consists of a management company and four subsidiaries: Targin Drilling, Targin Well Workover, Targin Logistics and Targin Mechanical Services.

Financial results of Targin

<table>
<thead>
<tr>
<th>(RUB mln)</th>
<th>FY 2015</th>
<th>FY 2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>25,538</td>
<td>27,516</td>
<td>(7.2%)</td>
</tr>
<tr>
<td>OIBDA</td>
<td>3,330</td>
<td>3,109</td>
<td>7.1%</td>
</tr>
<tr>
<td>Operating income</td>
<td>1,711</td>
<td>1,786</td>
<td>(4.2%)</td>
</tr>
<tr>
<td>Net income/(loss) attributable to Sistema</td>
<td>1,156</td>
<td>1,032</td>
<td>12.0%</td>
</tr>
</tbody>
</table>
The Russian oilfield services market grew by 8% in 2015 in ruble terms, from RUB 880 bln to RUB 950 bln. Spending on oilfield services is expected to increase further despite conservative oil price expectations. A large portion of the market (40%) is serviced by vertically integrated oil companies.

Reduction of competition through consolidation of service companies with oil producers (e.g., the acquisition of Trican Well Service by Rosneft) is a national trend, primarily driven by the appeal of guaranteed access to service facilities at minimal prices. This restricts competition and leaves less room for the development of the assets acquired.

Other key trends in the oilfield services market in 2015 include production at traditional oilfields; growing extraction volumes; rescheduling of operations at new oilfields (East Siberia); development of hard-to-recover and offshore reserves; price pressure from consumers due to general growth of spending; and restricted access to bank and corporate loans due to sanctions.

The main oilfield service in the Russian market is drilling (30% of total market volume). To maintain production at 530-540 mln tonnes per year, operators will need more wells. Production drilling in Russia in 2015 gained 11.5%, while exploration drilling increased by 8%. Horizontal drilling in Russia is continuing to grow, and reached 30% of total drilling volume in 2015.

The development of the coil tubing segment is primarily driven by growth of fracting and the introduction of new sophisticated fracting technologies, as well as drilling of new wells.

Coil tubing is increasingly used for well completion. Being directly related to fracting and horizontal drilling, the future prospects for the coil-tubing segment are closely linked to progress in those two areas. Coil-tubing operations are growing at an average rate of 10% a year, with a peak expected in 2017.

After the industry was put under sanctions restricting imports of certain types of equipment, the Russian government adopted a special programme to support investment projects with project financing. This programme is designed to boost long-term lending to the real economy on preferential terms.

---

**Key players of Russia’s oilfield services market**

- **Oil companies**: 40.0%
- **Eurasia Drilling Company**: 30.0%
- **Schlumberger**: 9.0%
- **Siberian Service Company**: 9.0%
- **Targin**: 3.0%
- **Baker Hughes**: 2.3%
- **Halliburton**: 2.3%
- **Other**: 2.7%

**Revenue of key business segments**

- **Oil companies**: 25.2 RUB bln
- **Eurasia Drilling Company**: 18,000 employees
- **Schlumberger**: >130 services
- **Baker Hughes**: Targin
- **Siberian Service Company**: SSTL
- **Targin**: ANNUAL REPORT 2015 | Sistema

---

(2) Excluding disposed construction segment.
Targin (continued)

SUSTAINABLE GROWTH OF TARGIN AND KEY EVENTS IN 2015

Targin’s total revenue\(^{(1)}\) in 2015 increased by 7%, to RUB 25.3 bln. OIBDA and net income rose by 23% and 27%, respectively.

Growth in the drilling segment was driven by the commissioning of five new rigs (a 320-ton rig and four 120-ton rigs). A slight increase in the Well Servicing and Workover segment was due to a new customer in Serbia (Naftna Industrija Srbije a.o.). The holding’s customers in 2015 (other than Bashneft) included Gazpromneft, Slavneft-Megionneftegaz, Rosneft and Tatneft.

According to research by RBC, Targin ranks among Russia’s 500 largest companies. Its subsidiary Targin Drilling is viewed by the Industry and Trade Ministry as one of Russia’s most reliable drilling contractors.

RAEX (Expert RA) rated Targin as A+ («Very high level of creditworthiness»), third sub-level, with a stable outlook.

The company operates in Russia’s key oil-and-gas basins: Volga-Urals, West Siberia and Timan-Pechora. To reach out to foreign markets, Targin has started providing well-servicing and workover services to NIS, Serbia’s national oil company. Targin has also signed a memorandum of understanding with Wafrat Al Tawasul of Saudi Arabia with a view to creating a state-of-the-art producer of oilfield equipment in Saudi Arabia. The project was initiated under the aegis of the intergovernmental Russian-Saudi Commission for Trade and Economic Cooperation. Targin also signed MoUs to participate in well construction and maintenance of electrical centrifugal pumps in Iran.

<table>
<thead>
<tr>
<th>Targin’s operating highlights</th>
<th>Units</th>
<th>2015</th>
<th>2014</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drilling</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drilling crews</td>
<td>units</td>
<td>38</td>
<td>37</td>
<td>2%</td>
</tr>
<tr>
<td>Meters drilled</td>
<td>th. m</td>
<td>480</td>
<td>407</td>
<td>18%</td>
</tr>
<tr>
<td>Wells commissioned</td>
<td>units</td>
<td>240</td>
<td>193</td>
<td>24%</td>
</tr>
<tr>
<td>Well Servicing and Workover</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Well servicing and workover crews</td>
<td>units</td>
<td>154</td>
<td>153</td>
<td>1%</td>
</tr>
<tr>
<td>Work plan</td>
<td>th. hours</td>
<td>1,168</td>
<td>1,158</td>
<td>1%</td>
</tr>
<tr>
<td>Transport</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vehicles</td>
<td>units</td>
<td>4,824</td>
<td>5,009</td>
<td>-4%</td>
</tr>
<tr>
<td>Work plan</td>
<td>th. hours</td>
<td>12,482</td>
<td>12,466</td>
<td>0%</td>
</tr>
<tr>
<td>Mechanical services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overhaul of oilfield equipment, coil tubing, and pump rodse</td>
<td>th. units</td>
<td>612</td>
<td>332</td>
<td>15%</td>
</tr>
<tr>
<td>Oilfield equipment maintenance</td>
<td>‘th. units</td>
<td>30</td>
<td>33</td>
<td>-9%</td>
</tr>
<tr>
<td>Polymer coating of pipes</td>
<td>‘th. m</td>
<td>621</td>
<td>579</td>
<td>7%</td>
</tr>
</tbody>
</table>

\(^{(1)}\) Excluding disposed construction segment.

Targin is a member of the Industry and Trade Ministry’s imports substitution group for fracking and well completion. The company also cooperates with the Skolkovo Fund, thereby benefiting from immediate access to new technological ideas as well as to the fund’s infrastructure and financing.
STRATEGY

Targin’s development strategy focuses on upgrading existing equipment and machines to cutting-edge standards while investing in new businesses and partnerships with technology companies. The strategy’s chief focus is on expanding the company’s product portfolio to meet customer expectations. Targin’s investment programme is designed to enhance technical capabilities to match those of its leading peers in the industry.

FINANCIAL RESULTS OF TARGIN

Targin’s revenues decreased year-on-year in the fourth quarter and for the reporting year following disposal of its construction segment. Revenue from key business segments (excluding the construction segment) in 2015 increased by 7.1% largely driven by growth in Targin’s core drilling segment, where drilling volumes were up 18% for the year.

Strong growth in OIBDA and OIBDA margin both for the quarter and the full year were due to an increase in revenues attributable to high-margin services, successful well-workover operations in Serbia and optimisation of the business structure. The ratio of administrative expenses to revenues for the full year 2015 was 1.9%.

Targin continued to modernise and expand its fleet of drilling rigs and specialised equipment during the reporting period.

Results of the drilling business segment

- Growth of OIBDA in 2015: +7.1%
- Growth of net income in 2015: +12%
Sistema Shyam TeleServices Limited (SSTL)

Sistema Shyam TeleServices (SSTL) is a CDMA mobile operator offering telecom services in India under the MTS brand.

Financial results of SSTL

<table>
<thead>
<tr>
<th>(RUB mln)</th>
<th>FY 2015</th>
<th>FY 2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>13,965</td>
<td>8,480</td>
<td>64.7%</td>
</tr>
<tr>
<td>Adjusted OIBDA</td>
<td>(2,395)</td>
<td>(3,112)</td>
<td>-</td>
</tr>
<tr>
<td>Operating loss</td>
<td>(3,227)</td>
<td>(16,592)</td>
<td>-</td>
</tr>
<tr>
<td>Adjusted net loss attributable to Sistema</td>
<td>(7,721)</td>
<td>(10,202)</td>
<td>-</td>
</tr>
<tr>
<td>Net loss attributable to Sistema</td>
<td>(7,721)</td>
<td>(18,460)</td>
<td>-</td>
</tr>
</tbody>
</table>

Management:

Sergey Savchenko (CEO)
Alexander Gorbunov (Chairman of the Board of Directors)

INDUSTRY

In Q4 2015, the Indian telecoms market continued its slow but stable growth, mostly driven by GSM subscribers and accelerated development of the data segment. For the first time ever, the total number of subscribers in India exceeded 1 bln people, with overall services penetration of 78.8%. The active subscriber base rose by 8.9% over the year.

The CDMA subscriber base and market share shrank by 11%. Although several operators left the market in 2012-2013, 12 mobile companies continue to operate, of which eight provide only GSM-based services, three offer both the GSM and CDMA standards and one (SSTL) uses only CDMA. The "big three" Indian operators (Bharti Airtel, Vodafone and Idea) strengthened their positions in 2015, with their total market share by subscribers exceeding 59.7%.

Income from voice services is falling due to a decrease in the average rate per minute (ARPM): at the end of March 2015, the regulator lowered the rate for traffic interconnect by 30% and set the top threshold for roaming rates.

Revenues from data transfer remain the key growth driver across the industry (growth of 36% per annum) thanks to the development of 3G networks (which cover three quarters of the population\(^1\)), reduction of network construction costs (new regulations allow joint use of networks, and as of the end of 2015 also joint use of frequencies in the same spectrum), and an increase in supplies of smartphones (one third of which are 4G-enabled\(^2\)).

In 2015, traffic generated by broadband 2G and 3G services grew by 13% year-on-year, and the number of active 3G/EVDO data subscribers rose by 12%. By December 2015, penetration of data services in India reached 9% (compared with 0.96% in 2010).

\(^1\) Source: GSMA report. The Mobile Economy of India 2015.
\(^2\) Source: CMR.
The current level of smartphone penetration in the Indian market is still quite low (22%), while the share of smartphone supplies in 2015 increased from 36% to 38%. Aggressive growth is supported by active promotion of 3G/4G equipment made by producers such as Asus, Micromax, Samsung, ZTE and Lenovo, while smartphone prices vary from US$ 40 to US$ 150. The price of 4G smartphones was almost the same as 3G smartphones, resulting in a 74% rise in supplies of 4G devices: one smartphone in three was 4G-enabled.

In future, LTE services will dominate the market due to the launch of 4G networks by leading operators (Airtel, Idea, Vodafone) and a single price for 3G/4G tariff plans. In 2016, competition in the telecom market is expected to get tougher, as one more 4G operator (RJio) will enter the market, offering aggressive equipment prices and tariff plans.

In 2015, the process of industry consolidation started. On 2 November 2015, SSTL and Reliance Communications (RCom) completed a merger that will enable RCom to obtain necessary frequencies in nine circles. SSTL will receive a 10% stake in the combined company. In December 2015, the companies started applying for the necessary permits and approvals from Indian state authorities. RCom and RJio have entered into an agreement on a joint use and sharing of frequencies, and are considering adding Aircel to this alliance.

Videocon has sold frequencies in Gujarat and Uttar Pradesh West to Idea; negotiations on selling frequencies in four more circles are under way.

To enhance the efficiency of using limited frequency spectrum, the Indian government has adopted regulations making it possible for operators to buy, sell and share frequencies. In January 2016, the government announced plans to hold a new frequency auction in May-June 2016. An unprecedented number of frequencies (2142MHz) in seven spectrum bands (700, 800, 900, 1800, 2100, 2300 and 2500 MHz) will be put up for auction.

**SSTL’s Development and Key Events of 2015**

In 2015, the company made its most successful in the data segment. EVDO Revision B technology remains competitive with 3G.

The number of mobile data customers increased by 0.3 mln (+18%) and stood at 1.9 mln as of the end of 2015. During the year SSTL renewed its tariff plans, thereby increasing the share of highly profitable data subscribers with prepaid tariffs up to 30%.

SSTL’s total subscriber base fell by 11% year-on-year to 8.1 mln due to higher churn of voice subscribers: the subscriber base shrank by 1.2 mln to 6.2 mln. Measures aimed at retaining voice subscribers (M-Bonus, and the new STV 27/28 voice tariff) reduced subscriber churn to 4% in December 2015 against 6% in Q3 2015.

In 2015, SSTL’s revenue rose by 9% year-on-year in rupee terms, while revenue from data services increased by 60% compared with 40% growth in 2014. The share of data revenue in total revenue increased from 34% to 50%.

An increase in revenues from the mobile data segment in 2015 fully compensated for the decline in profits from voice services. The average monthly growth rate of income from data services exceeded the increase in data traffic consumption by 2.1%.

In 2015, the company tightened its cost-control measures. As a result, costs related to acquisition of new subscribers fell by 20% for voice subs year-on-year. These measures helped reduce the OIBDA loss in rupees by 49% year-on-year.

**Strategy**

SSTL’s key priority in 2016 is inorganic development through the merger with RCom. SSTL’s key objective in terms of organic development in 2016 is to maintain the current CDMA business until the RCom deal is closed.

**Financial Results of SSTL**

SSTL’s revenues increased by 35.6% year-on-year in the fourth quarter and by 64.7% for the full year 2015, mainly driven by rouble depreciation in 2015 and higher data service revenues. In the fourth quarter, total non-voice revenues grew by 28% year-on-year in Indian rupees.

SSTL’s OIBDA loss contracted substantially year-on-year in 2015 due to the increase in data revenues, optimisation of sales and marketing costs and reduction in interconnect charges. In the fourth quarter 2015, SSTL became OIBDA positive in all operating circles in India (profitability of operations was offset by expenses at the holding level). SSTL’s high-speed data services now cover over 1,250 towns across 9 circles.

### Data Services Penetration in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Voice Subscribers</th>
<th>Data Subscribers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>2.10%</td>
<td>1.10%</td>
</tr>
<tr>
<td>2012</td>
<td>2.20%</td>
<td>1.20%</td>
</tr>
<tr>
<td>2013</td>
<td>3.30%</td>
<td>3.30%</td>
</tr>
<tr>
<td>2014</td>
<td>5.60%</td>
<td>5.60%</td>
</tr>
<tr>
<td>2015</td>
<td>9.00%</td>
<td>9.00%</td>
</tr>
</tbody>
</table>

*Based on 6M subscriber activity.*

---

**SSTL subscriber base, mln**

<table>
<thead>
<tr>
<th>Year</th>
<th>Voice Subscribers</th>
<th>Data Subscribers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>7.40</td>
<td>8.46</td>
</tr>
<tr>
<td>2015</td>
<td>7.38</td>
<td>8.22</td>
</tr>
</tbody>
</table>

**Please see table on page 56.**

**ANNUAL REPORT 2015 | Sistema**
Binnopharm

JSC Binnopharm is a pharmaceuticals company and Russia’s largest full-cycle producer of bio-technology drugs certified according to Good Manufacturing Practices (GMP).

Financial results of Binnopharm

<table>
<thead>
<tr>
<th>(RUB mln)</th>
<th>FY 2015</th>
<th>FY 2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>1,660</td>
<td>2,485</td>
<td>(33.2%)</td>
</tr>
<tr>
<td>OIBDA</td>
<td>193</td>
<td>322</td>
<td>(40.0%)</td>
</tr>
<tr>
<td>Operating income / (loss)</td>
<td>21</td>
<td>136</td>
<td>(84.4%)</td>
</tr>
<tr>
<td>Net income/ (loss) attributable to Sistema</td>
<td>(68)</td>
<td>(26)</td>
<td>-</td>
</tr>
</tbody>
</table>

74%

Effective shareholding

Management:

Alexey Chupin
(CEO)

Dmitry Zubov
(Chairman of the Board of Directors)

INDUSTRY

The growth of Russia’s pharma market in 2015 slowed to 8% from a CAGR (in ruble terms) of 14% for 2008-2014. The physical market shrunk by 4.4%, meaning that the growth in money terms is clearly a product of inflation.

The commercial pharma segment grew faster than public pharma (9.4% and 6.4%, respectively), mostly driven by the rapid growth of retail prices. While prices in the commercial segment grew by an average of 16%, those in the corporate segment gained 6%, restricted by a regulatory ceiling imposed on life-saving medications.

The Russian market remains heavily dependent on imported medicines, which account for about 75% of total pharma sales (in money terms). However, import substitution in the pharma market remains a priority for the Russian government.
To support local producers, in 2015 the government issued a decree banning foreign pharma producers from participating in governmental tenders where two or more bids have been received from local producers.

Most experts expect moderate market growth in ruble terms to continue in 2016 as average prices continue to rise despite a reduction in the number of physical packages sold.

The share of imported products in the market is expected to shrink as a result of restricted access to governmental tenders, stimulation of local production, and the significant weakening of the ruble.

**SUSTAINABLE GROWTH OF BINNOPHARM AND KEY EVENTS IN 2015**

Binnopharm’s main priority for 2015 was to formulate a new strategy for 2016-2020 and build a new management team capable of achieving the long-term goals.

Binnopharm also set up an R&D department and shaped a promising product portfolio, with applications for seven marketing authorisations filed at the end of the year.

With a view to delivering on the new strategy, the company created an in-house marketing system comprising a regional chain of medical representatives. As a result, by the end of 2015 the company reported a spike in the sales of Binnopharm/Alium products, while third-party product sales were slashed. The new focus on in-house products pushed profits up.

In October, Binnopharm signed a contract with National Immunobiological Company to supply 6 mln doses of the hepatitis B vaccine (Regevac) (against 4.5 mln in 2014). As a new step towards a foreign partnership, in November the company signed a contract with Fresenius Kabi to localise production of Ketosteril in Russia through 2023.

**STRATEGY**

Binnopharm’s key operating objectives for 2016 include aggressive marketing of Binnopharm products for pulmonology and neurology applications, increase of total sales, and export deliveries to other member states of the Eurasian Economic Union.

Binnopharm plans to maintain its current level of production of hepatitis B vaccines while ramping up R&D expertise.

**FINANCIAL RESULTS OF BINNOPHARM**

Please see table on page 58.

Revenue at Binnopharm declined in 2015 as a result of a planned reduction of the low-margin distribution business and lowered price for the vaccine of its own production.

The reason for OIBDA decline in 2015, apart from the lower revenue, was an increase in SG&A, as well as expenses to set up the sales and marketing function. Binnopharm’s OIBDA was restored in the fourth quarter of 2015, following increased share of sales from its own products. Earlier in 2015, Binnopharm signed a contract with the National Immuno-biological Company for delivery of 6 million doses of the hepatitis B vaccine Regevak B, which tops the vaccine’s entire sales for 2014.

**Russian medicine market, RUB bln**

**Quantity of packs, mln pack**

<table>
<thead>
<tr>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015E</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.580</td>
<td>5.460</td>
<td>5.315</td>
<td>5.081</td>
</tr>
</tbody>
</table>

**Average price of pack, RUB/pack**

<table>
<thead>
<tr>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015E</th>
</tr>
</thead>
<tbody>
<tr>
<td>149</td>
<td>169</td>
<td>183</td>
<td>208</td>
</tr>
</tbody>
</table>

**SSTL  »  Binnopharm  »  MTS Bank**

www.sistema.ru

ANNUAL REPORT 2015  | Sistema
MTS Bank

MTS Bank provides a full range of banking services to private and corporate customers in Russia. It is one of the country’s largest banks (№44 by assets) and a systemically important operator in payments, loans and savings markets.

Management:

Vsevolod Rozanov
(Chairman of the Board of Directors)

Ilya Filatov
(Chairman of the Management Board)

Financial results of MTS Bank

<table>
<thead>
<tr>
<th>(RUB mln)</th>
<th>FY 2015</th>
<th>FY 2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>25,619</td>
<td>26,965</td>
<td>(5.0%)</td>
</tr>
<tr>
<td>OIBDA</td>
<td>(16,969)</td>
<td>(14,571)</td>
<td>-</td>
</tr>
<tr>
<td>Operating loss</td>
<td>(17,658)</td>
<td>(15,252)</td>
<td>-</td>
</tr>
<tr>
<td>Net loss attributable to Sistema</td>
<td>(15,282)</td>
<td>(12,392)</td>
<td>-</td>
</tr>
</tbody>
</table>
Russia’s banking sector was under significant pressure throughout 2015 that weighed on banks’ profitability. These factors include Western sanctions, a decline in GDP of almost 4%, withdrawal of banking licences and the need for additional loan.

As a result of the ruble depreciation, the banking sector suffered from a decline in capital adequacy, which came close to minimum required levels.

Deteriorating loan quality in all segments posed another challenge, with the share of non-performing loans in the lending portfolio increasing. The need to make loan provisions became a significant barrier to profitability for many Russian banks in 2015. On top of that, the year was marked by a general shrinking of lending portfolios and a slowdown in retail lending due to a rise in interest rates, slumping real household earnings and worsening consumer sentiment.

The Central Bank lowered its key interest rate in a series of rate cuts from 17% in December 2014 to 11% by August 2015, thus reducing the cost of liabilities for lending institutions. However, the increasing cost of capital negatively affected the borrowing appetites of end customers. Banks are now more focused on the quality of their retail and corporate customers, and are restricting unsecured lending. This caused a toughening of competition for customers in all sectors of the economy.

Faced with the urgent need to improve efficiency, Russian banks in 2015 focused on strategic cost-cutting, technological innovation and efficient risk management.
**SUSTAINABLE GROWTH OF MTS BANK AND KEY EVENTS IN 2015**

In 2015, MTS Bank suffered from a worsening of borrower quality in all market segments and had to increase its loan reserves. This was the biggest factor weighing on the bank’s profits in 2015.

Despite shrinking its gross loan portfolio, MTS Bank had to maintain a conservative approach to lending given the unfavourable economic environment. Although this conservatism resulted in a reduction in lending in all segments in 2015, it will contribute to a higher-quality loan portfolio in the long term.

To boost profitability, MTS Bank took a series of steps to improve the efficiency of credit scoring, renew its product offering and start cross-sales.

MTS Bank recorded a loss for 2015, mostly due to the sizeable reserves it was obliged to create with respect to major corporate borrowers. The bank’s conservative reserve policy aims to maintain high stability of the business. The bank’s reserves to loans ratio as of the end of 2015 was 38%, up from 24% at the end of 2014. MTS Bank’s capital adequacy ratio remains among the highest in the sector.

In December 2015 the bank received a tier II capital injection of RUB 7.2 bln from the national Deposit Insurance Agency (DIA). The DIA provided the funds on condition that MTS Bank dedicate at least 1% of its monthly lending portfolio to loans for SMEs and businesses in industries deemed strategically important to the Russian economy, as well as mortgage loans.

In December 2015, MTS Bank’s retail lending portfolio reached the pre-crisis level registered in August 2014.

**STRATEGY**

The bank’s operating strategy is to maintain a diverse portfolio and lend to a wide spectrum of private and corporate customers while staying as risk-intolerant as possible. The bank uses a special technological platform enabling close cooperation with mobile operator MTS to offer transactional products. State-of-the-art technologies used in credit risk assessment allow the bank to upscale its transactional and lending services at a solid rate.

<table>
<thead>
<tr>
<th>MTS Bank’s operating highlights</th>
<th>2015</th>
<th>2014</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>MTS Money portfolio, RUB mln</td>
<td>15,583</td>
<td>20,716</td>
<td>(24.7%)</td>
</tr>
<tr>
<td>Retail lending portfolio, RUB mln</td>
<td>59,446</td>
<td>73,169</td>
<td>(18.8%)</td>
</tr>
<tr>
<td>Interest income, RUB mln</td>
<td>20,455</td>
<td>25,102</td>
<td>(18.5%)</td>
</tr>
<tr>
<td>Fee income, RUB mln</td>
<td>5,817</td>
<td>5,444</td>
<td>6.9%</td>
</tr>
<tr>
<td>N1.0 (capital adequacy)</td>
<td>18.3%</td>
<td>16.1%</td>
<td>n/a</td>
</tr>
</tbody>
</table>

**Gross loan portfolio of MTS Bank, RUB bln**

**Retail loans portfolio of MTS Bank, RUB bln**
The funds received from the DIA in 2015 helped the bank intensify corporate lending to businesses in the defence sector, food and chemical industries, heavy engineering, instrumentation technologies and infrastructure, among others.

In 2015, MTS Bank started developing factoring services, which have proved very popular among customers due to restricted access to lending from Russian banks. The bank’s factoring portfolio is growing fast through cooperation with vendors servicing MTS, Detsky Mir, Concept Club and other Sistema companies. The factoring business also thrives on networking with Russian representative offices of leading global FMCG and DIY chains.

In 2016, the bank will stay committed to the cost-cutting programme it launched in 2015.

FINANCIAL RESULTS OF MTS BANK

Please see table on page 60.

For the full year 2015, revenue declined by 3.6% and interest income was down by 18.5%. The bank’s OIBDA loss in 2015 was also impacted by an increase in provisions for the loan portfolio to corporate clients. In 2015, the share of corporate clients in the total provision expense amounted to 62%.

The bank continued to cut costs throughout the year. Administrative expenses declined by 16.2% year-on-year in the fourth quarter and by 9.2% for the year.

MTS Bank’s gross loans decreased by 11.4% in 2015 as the bank continued to manage its balance sheet and reduce risk. MTS Bank’s top priorities in 2016 are improving the quality of its loan book and continuing to optimise administrative expenses.
Real-estate assets

Sistema’s interests in the real-estate sector are represented by a number of companies, the key ones being Leader-Invest, Business Nedvizhimost and Mosdachtrest. Sistema’s strategy in real estate is focused on increasing the value of its portfolio and subsequently monetising it through renting, development and sale.

**Management of Leader-Invest:**
- Evgeny Rubtsov (President)
- Felix Evtushenkov (Chairman of the Board of Directors)

**Management of Mosdachtrest:**
- Igor Kashcheev (CEO) (before September 2015: Sergei Gavrilenko)
- Sergei Shishkin (Chairman of the Board of Directors) (before July 2015: Sergei Drozdov)

**Management of Business Nedvizhimost:**
- Igor Shabdurasulov (CEO)
- Leonid Monosov (Chairman of the Board of Directors)

---

**113.8 th. contracts**
Sale and purchase contracts concluded in 2015(1)

---

**19.6 th. contracts**
Equity participation agreements(1)

---

113.8 th. contracts
Sale and purchase contracts concluded in 2015(1)

---

19.6 th. contracts
Equity participation agreements(1)

---

(1) According to the Federal Service for State Registration, Cadaster and Cartography (Rosreestr).

---

Leader-Invest: A development company that builds housing and commercial real estate projects in Moscow. Its portfolio comprises 30 projects with an aggregate area of over 1.0 mln sqm. The priority segment is housing construction.

Mosdachtrest: Renting and management of cottages in Serebryany Bor, improvement of quality of services offered to tenants.

Business Nedvizhimost: Management, renting and maintenance of commercial real estate.

---

ANNUAL REPORT 2015 | Sistema

www.sistema.ru
Industries

Office real estate

In 2015, the area of commissioned offices dropped by half compared to 2014. Many projects in the early construction stage have been put on hold or are being revised; activity on construction sites has declined. This is due to economic factors and a slowdown in office sales. The overwhelming majority of properties scheduled for completion in 2016 and 2017 were initially due to be put into operation in 2015.

The vacancy rate as of the end of 2015 was the same as the previous year, due to lower demand caused by the economic crisis. In 2015, the share of class A offices grew from 28% to 29%, while the share of class B offices declined from 46% to 45%.

Starting from 2H 2015, net absorption, which reflects changes in rented out office space, left the red zone and grew by 121,000 sqm in the final quarter of the year. This increase was driven first of all by growing demand for additional offices in high-quality buildings. Despite positive dynamics, tenants’ demand for new premises is still seen as weak. Net absorption for the whole of 2015 was 3.5 times lower than in the previous year.

Given tenants’ low activity and an excess of supply, owners were forced to adjust rent rates to meet effective demand. Average rent rates of high-quality offices declined throughout the year. However, after a rapid fall of rental rates in Q4 2014 and Q1 2015, the pace of decline slowed in the second half of the year.

Housing market

Last year saw a substantial increase in supply on the new housing market, to a large extent due to active development of Moscow’s former industrial sites. Most residential developments commissioned in 2015 were large-scale projects on such sites. The total number of apartments on sale rose by 65% over the year, from 15,750 to 26,000.(3)

As competition in 2015 toughened, new projects entered the market with a substantial discount, which resulted in a decline of the average price per sqm in 2H 2015. In addition, the apartment mix of new projects is skewed towards smaller apartments, which resulted in a significant reduction in budgets for housing acquisition. As of the end of the year, the average price per sqm of new business-class housing fell by 5.5%, while prices in the comfort segment remained the same as the previous year.(2)

According to the Federal Service for State Registration, Cadaster and Cartography (Rosreestr), demand for existing housing in Moscow plunged by 30%; the number of sale and purchase contracts concluded in 2015 was 113,769 vs. 162,038 in 2014. The new housing market avoided such a serious decline thanks to the government’s programme to support mortgage interest rates and developers’ response to the changing economic situation in the form of special offers and discounts. As a result, this segment fell by 18%, with 19,611 equity participation agreements vs. 24,029 a year before.(3)

The main trend on the Moscow region’s land market in 2015 was a drop in liquidity.(6) Some owners were willing to offer discounts of up to 20%-30% in order to sell their land plots. There were some changes in the structure of the demand: the share of land plots sold without contracts grew from 72% to 79%. At the same time, demand for the segment fell by about 15%, the first decline in five years. Analysts project that the price of land plots will continue to fall in 2016, possibly by as much as 25%.

**Average level of price in business and comfort class segments, RUB/sqm**

<table>
<thead>
<tr>
<th></th>
<th>1Q'14</th>
<th>2Q'14</th>
<th>3Q'14</th>
<th>4Q'14</th>
<th>1Q'15</th>
<th>2Q'15</th>
<th>3Q'15</th>
<th>4Q'15</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business</strong></td>
<td>235</td>
<td>240</td>
<td>247</td>
<td>244</td>
<td>252</td>
<td>242</td>
<td>234</td>
<td>230</td>
</tr>
<tr>
<td><strong>Comfort</strong></td>
<td>145</td>
<td>139</td>
<td>144</td>
<td>146</td>
<td>158</td>
<td>161</td>
<td>153</td>
<td>148</td>
</tr>
</tbody>
</table>

Sources:
- (1) Source: Metrium Group.
- (2) Source: Metrium Group.
- (3) Source: Rosreestr.
- (4) Source: RBC Real Estate (quoting Savills).
- (5) Source: Savills Russia.
- (6) Source: Pilgrim Development.
PORTFOLIO COMPANIES

Real-estate assets (continued)

SUSTAINABLE GROWTH OF REAL ESTATE BUSINESS AND KEY EVENTS IN 2015

Business Nedvizhimost

Business Nedvizhimost has a unique pool of properties: mansions in the centre of Moscow, office and commercial space, business centres in almost every district of the capital, and manufacturing and storage facilities in Moscow and the Moscow region. Its portfolio as of the end of 2015 totalled 433,000 sqm. In 2015, Business Nedvizhimost rented out 25,653 sqm of properties, sold one property to a third party and transferred 16 properties to Leader-Invest for further development.

Leader-Invest

At the end of 2015, Leader-Invest’s portfolio consisted of 30 projects with a total area of over 1.0 mln sqm. By the end of the year, the company had completed and commissioned three apartment buildings with a total area of 39,000 sqm and a 31,000 sqm office building. The company concluded equity participation agreements for apartments with a total area of 22,650,000 sqm and an aggregate price of RUB 5.8 bln.

Mosdachtrest

The main assets of Mosdachtrest are land plots in Serebryany Bor (19.9 ha) with 187 cottages (total area 38,948 sqm). Most of the properties in Serebryany Bor are in reasonably good condition, but some show signs of obsolescence and deterioration. Mosdachtrest’s main task for this year is to repair and upgrade the cottages. To maintain the rent pool in a good condition, the company is developing a plan of detailed stock-taking of all properties and a schedule for repairs and overhaul, which will help to retain tenants.

In 2015, Mosdachtrest sold non-profitable assets in Moscow region for a total of RUB 367.4 mln, and continued developing its asset base by acquiring land plots in Solnechnogorsk district, Moscow region (58.9 ha). It also completed construction of the first stage of the Klinskoye hunting farm.

Business Nedvizhimost

<table>
<thead>
<tr>
<th>Operating highlights of Business Nedvizhimost</th>
<th>2015</th>
<th>2014</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area under management, thousand sqm</td>
<td>446</td>
<td>569</td>
<td>- 22%</td>
</tr>
<tr>
<td>Rented by MGTS, thousand sqm</td>
<td>141.2</td>
<td>228.8</td>
<td>- 38%</td>
</tr>
<tr>
<td>Rented by external counterparties, thousand sqm</td>
<td>116.3</td>
<td>91.8</td>
<td>+ 27%</td>
</tr>
</tbody>
</table>

Leader-Invest

<table>
<thead>
<tr>
<th>Operating highlights of Leader-Invest</th>
<th>2015</th>
<th>2014</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of projects on sale</td>
<td>8</td>
<td>3</td>
<td>167%</td>
</tr>
<tr>
<td>Equity participation agreements concluded, RUB</td>
<td>5,810,377,103</td>
<td>1,593,409,940</td>
<td>265%</td>
</tr>
<tr>
<td>Apartments sold, sqm</td>
<td>22,649.88</td>
<td>7,283.7</td>
<td>211%</td>
</tr>
<tr>
<td>Apartments sold, pcs</td>
<td>325</td>
<td>113</td>
<td>188%</td>
</tr>
</tbody>
</table>

Vacancy rates

![Vacancy rates graph]

(1) The main reason for the decline was the transfer of some assets (75,900 sqm) to Leader-Invest and contribution of three properties (12,000 sqm) to joint investment projects.
STRATEGY

The restructuring of Business Nedvizhimost, during which it will be merged with Rent Nedvizhimost, will be completed in 1H 2016. Following the consolidation, Business Nedvizhimost will become the owner of about 430,000 sqm of commercial real estate. In 2016, it plans to conduct partial repairs at 33 properties and reconstruct the building at Milyutinsky 5, with total investment planned at RUB 400m. Repairs at other properties will mostly include renovations of entrance lobbies and utility systems. A total of 44 properties will be rented out as is. In accordance with the development strategy, several properties will be sold in 2016.

In accordance with its goals for 2016, Leader-Invest plans to commission five apartment blocks with an area of 87,400 sqm and launch construction of another 17 with a total area of at least 200,000 sqm. Two large-scale projects – Nagatino i-Land and Lobachevskogo 120 – are in the pre-design stage. Sales in 2016 are projected to exceed 70,000 sqm. Apart from construction, Leader-Invest plans to search for tenants for the office building it has built and expects to rent out at least 80% of it by year-end.

The operational strategy of Mosdachtrest envisages asset sales in the Moscow region, including the Barvikha, Zhavoronki and Trudovaya summer communities, and also streamlining of business processes with regard to rental activities, and revision and expansion of the company’s competences, including a new approach to rent price setting and increasing the efficiency of the maintenance department.
SG-trans

SG-trans is a leading railway operator in the oil and petrochemicals shipping market, and a major shipper of liquefied petroleum gas (LPG) and the largest operator of cars designed specifically for this class of freight. Other special rail cars operated by SG-trans include oil-and-gasoline tanks, tank containers, flat cars, and gondolas.

INDUSTRY

Rail freight volumes in Russia in 2015 declined 1.1% year-on-year, to 1,215 bln tonnes (1). Freight volumes in Russia have been declining for three consecutive years, driven by an unfavourable economic situation as well as a downturn in local production volumes. Shippers of construction materials, scrap metals, ferrous metals and oil have been hit hardest. A 2.3% drop in rail shipments of oil and oil products resulted from the “tax manoeuvre” that caused output to fall, as well as the addition of new pipeline capacity. In contrast, shipments of coal, mineral fertilisers, non-ferrous ores and timber all increased from 2014. An upward trend continued in transportation of LPG, SG-trans’s most important business segment, which grew 4.4% over the year. SG-trans’s LPG shipments grew faster than the rest of the market, leading to an increase in the company’s market share from 30% in 2014 to 32% in 2015.

Higher LPG (2) production stabilised demand for gas tanks, which increased utilisation of the company’s gas tanks and meant daily rent rates (3) rose by an average 10% year-on-year.

Although the company’s gondola cars are invariably underutilised, new legislation adopted at the end of 2015 to ban the practice of extending operations of railcars beyond their standard service lives may reverse this trend.

50%
Effective shareholding

Management:

Sergey Kaletin
(President)
(until October 2015: Alexey Taicher)

Ali Uzdenov
(Chairman of the Board of Directors)
SUSTAINABLE GROWTH OF SG-TRANS AND KEY EVENTS IN 2015

As of the end of 2015, SG-trans operated 29,829 freight cars, 12.4% fewer than a year before. To honour its obligations to customers, the company actively leased out cars despite persistent volatility in leasing rates throughout 2015. Leased cars account for 43% of the total fleet operated by SG-trans.

Although shipments by SG-trans declined 4% year-on-year due to a reduction in the number of cars under operation, the company’s overall freight turnover increased due to more efficient operations throughout the year.

To increase its competitiveness, SG-trans expanded its portfolio of services by offering shipments of chemicals and LPG in tank containers. An operator of tank containers since 2013, SG-trans ran 700 tank containers and 350 flat cars in 2015. To date, the new cars have carried freights for Sibur, Ufaorgsintez, Independent Petroleum Company and other customers of SG-trans.

STRATEGY

While the overall economic situation in the rail freight market remains bleak, with traffic volumes falling and cars largely underutilised, SG-trans’s new strategy aims to keep operations profitable. LPG and oil cargo transportation will remain the company’s key business areas.

LPG will be the focus of the company’s organic growth strategy, which envisages an expansion of its market share by providing more cars under existing long-term contracts with key LPG producers.

Oil cargo will undergo logistical improvements to reduce downtime and optimise long-term contractual terms signed with existing customers with the goal of keeping the tank-car business profitable despite the downturn in the market.

---

36.6 bln tonnes/km
JSC SG-trans turnover

<table>
<thead>
<tr>
<th>Year</th>
<th>Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>36.6</td>
</tr>
<tr>
<td>2014</td>
<td>35.7</td>
</tr>
</tbody>
</table>

19.7 thous. tonnes
JSC SG-trans loading volumes

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>19.7</td>
</tr>
<tr>
<td>2014</td>
<td>20.5</td>
</tr>
</tbody>
</table>

19.6 mln tonnes
LPG transportation volumes on the Russian Railways network

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>19.6</td>
</tr>
<tr>
<td>2014</td>
<td>18.7</td>
</tr>
</tbody>
</table>

---

(1) Sistema owns 50% of SG-trans and does not consolidate the Company in Sistema’s finance results.
Other investments

CONCEPT GROUP

Founded in 2005, Concept Group is a fast-growing retailer and a leader in the Russian market for women’s and children’s clothing. The group uses a multi-brand, multi-channel business model that underpins steady revenue growth through product diversification and enhances operational efficiency.

Concept Group’s portfolio includes four brands: children’s clothing brand Acoola, women’s clothing and accessory brands Concept Club and Bestia, and women’s lingerie brand Infinity Lingerie. The group’s products are sold through Acoola and Concept Club retail chains (both branded and franchise outlets), wholesalers and online shops (branded and third-party partner websites). As of the end of 2015, the Acoola chain included 201 stores (142 branded and 59 franchise outlets), while the Concept Group chain had 214 stores (95 branded and 119 franchise outlets).

Fashion collections are prepared by a professional team of designers and produced in partner factories in China, Bangladesh and Uzbekistan under stringent quality control.

The group’s annual revenue in 2015 rose by 35% to RUB 9.8 bln, of which RUB 5.2 bln derived from the retail chain, RUB 2.9 bln from wholesale, RUB 1.5 bln from franchise operations and RUB 196 mln from online sales.

In 2015, the Group opened 73 Acoola stores (54 branded and 19 franchise outlets) and 21 Concept Club stores (eight branded and 13 franchise outlets). In 2015, like-for-like (LFL) sales gained 23% at Acoola and 7% at Concept Club, despite declines in the women’s and children’s clothing markets of 5% and 7% , respectively. Concept Club is headquartered in St Petersburg.

KRONSHTADT GROUP

Kronshtadt Group is a leading designer and manufacturer of high-tech products in several strategic markets: aircraft engineering and operations; navigation and communications; national security; prevention of emergencies; extraction, refining, and transportation of mineral resources; professional technical education; and culture.

Part of Sistema’s portfolio since the end of 2015, Kronshtadt Group comprises several innovative companies that use their intellectual and engineering potential to create high-tech products for both Russian and foreign markets. Sistema acquired Kronshtadt Group as a business complementary to its existing high-tech assets and charged with vast growth potential. The acquisition also allows Sistema to enter new market segments, such as engineering of aircraft and commercial unmanned aerial systems, simulators and training units, as well as on-board controls and navigation tools. The up-and-coming industry of simulation and modelling of technical processes is also seen as very lucrative in the long term.

Kronshtadt Group services 25% to 50% of the Russian aircraft simulators and tools market (depending on simulator type). The company’s strongest suit is helicopter simulators, including simulators equipped with motion systems.

Sistema’s short-term plans for Kronshtadt Group include a demerger and monetisation of non-core assets (such as real estate), once the company’s long-term development strategy is finalised, and an audit of technologies and expertise to identify the target business structure and improve operational efficiency.
OZON HOLDINGS LIMITED

In 2014, Sistema and MTS each acquired 10.8% in Ozon Holdings, which owns Ozon.ru, a leading Russian online retailer, and Ozon Travel, a leading online travel agency.

Ozon.ru offers more than 3.5 mln items, and this number is constantly growing. Ozon’s key product categories are books, electronics, children’s and sports products, and homeware. The website is visited by over 700,000 users daily. Ozon’s delivery chain covers more than 100 mln residents of Russia and allows for overseas deliveries.

The group’s revenue in 2015 increased by 30% to RUB 13.5 bln. Purchases made from mobile devices jumped from 21% to 33% of the total number of transactions. According to research by GFK-Yandex.Market in the autumn of 2015 among Russian online shoppers, 32% of respondents had made purchases from Ozon, with 20% naming Ozon.ru as their preferred online retailer.

INTOURIST

Intourist Management Company has been growing rapidly for many years in the hospitality segment, where it focuses on managing and developing hotels in Russia and abroad.

Intourist currently runs seven hotels with 2,501 rooms, and is a 3*/4* hotel chain diversified across several Russian cities. In Moscow, the company is represented by the Cosmos Group hotel complex. Intourist’s overseas assets are Principe Forte Dei Marmi in Italy (luxe segment), Savoy Westend Hotel 5* in the Czech Republic, and Leopard Lodge in Namibia.

In addition, the group owns the modern Altay Resort northwest of Altai region; the 4* Onego Palace, Karelia’s largest hotel; and the state-of-the-art Intourist Kolomenskoye Hotel 4* in Moscow region, which opened in 2014.

The new operations strategy launched in September 2014 delivered visible improvements at Altay Resort, with revenue in 2015 up more than 40%.

The external factors that most contributed to Intourist’s growth in 2015 were: changes in the guest flow segmentation in Russian hotels, caused by a boost in domestic tourism and replacement of guest flows from Russia and Ukraine that previously dominated overseas Intourist hotels with flows from Europe and the US.
Description of main risk factors

The Group has introduced an integrated enterprise risk management (ERM) system based on international standards, recommendations, and risk management practices. The ERM system is designed to provide a reasonable guarantee that the Group can achieve its strategic goals and to ensure that risks will be kept at a level acceptable to shareholders and management.

The Group may face a variety of risks in the course of its business operations as a result of processes and factors over which Sistema has little or no influence. That said, the Group can take measures to reduce the negative consequences of such factors in the event that a certain risk occurs. This makes efficient assessment of existing risks, the probability of their occurrence and efficient risk management an important part of Sistema’s strategy.

**SISTEMA GROUP’S INTEGRATED ERM SYSTEM**

As part of Sistema’s quarterly ERM procedures, the Group’s risk managers compile individual risk registers for each subsidiary and a consolidated risk register for the Group. As part of this they prioritise risks and aggregate them into portfolios, develop a risk map and analyse its key trends, and analyse the potential impact of material risks on the financial performance of individual subsidiaries and Sistema Group as a whole using simulation and financial modelling methods.

To address the risks listed in the Group’s risk register, the company has developed risk management (mitigation) and response plans covering specific mitigation measures. These plans are modified, adjusted and then approved by Sistema’s Risk Subcommittee.

Risk management reports are submitted for review to relevant collective governance bodies at least once a quarter. Each risk management report contains a revaluation of risks, an assessment of the effectiveness of risk mitigation and response plans, and a list of potential risk areas (areas requiring attention) identified for future periods.
Description of main risk factors  »  External Risks  »  Risks related to activities of Sistema

External Risks

Risks related to changes in the political and economic situation in Russia are material to Sistema, because most of the Group’s business is conducted in the country. In addition, many of its subsidiaries operate in transitional economies including Ukraine, Uzbekistan, Armenia, Belarus, Turkmenistan and India, and therefore are also exposed to material external risks.

**External Risks**

**Risks related to activities of Sistema**

External Risks

- **POLITICAL AND SOCIAL RISKS**
  - The influence of geopolitical risks on the Group and its portfolio companies has significantly intensified over the reporting period, as protectionism and economic sanctions are increasingly being used as a tool for achieving geopolitical goals.
  - The risk of inter-state conflicts has risen significantly since the beginning of 2014, both in terms of probability and in terms of potential effect on various areas of Sistema Group’s activities. For example, insurance companies may set higher insurance premiums for Sistema Group or refuse to insure against specific risks, which may lead to a deterioration of the Group’s financial results.
  - Imposition of sanctions against Russia or Russian companies may result in disruption to international payment systems, which in turn may prevent the Group and its portfolio companies from making settlements and reduce Sistema’s investment appeal.
  - A potential rise in social unrest in the regions where the Group operates may threaten its profits.

**FINANCIAL RISKS**

The business of Sistema is inextricably connected to the state of the global economy and financial markets, and in particular is sensitive to movements in prices of oil, gas and other commodities that Russia exports. Further weakening of the rouble against the US dollar and the euro amid a slump in oil prices, sanctions imposed on Russia and increased capital flight may result in higher costs and lower revenues or may impede Sistema’s subsidiaries in achieving their financial targets and repaying debt.

Foreign investors leaving Russia and downgrades of the sovereign credit rating by international rating agencies, as well as restrictions on foreign companies in Russia as a result of sanctions, may have a negative impact on Sistema Group’s joint ventures (partnerships) and new investment projects.

Growing inflation may result in higher expenses, putting pressure on profit margins, and may also affect domestic demand for products and services provided by Sistema Group companies.

In the medium term, if sanctions are maintained and the access of Russian banks and businesses to foreign debt remains restricted, this may significantly increase the current liquidity deficit in the market and result in further interest rate rises, making it difficult for Sistema Group to raise funding for its operations and to refinance the debt of the Group and its portfolio companies.

An unfavourable macroeconomic environment in many countries where Sistema’s assets operate may make it necessary to re-evaluate goodwill at some of these assets.

Currency control and restrictions on capital repatriation may adversely affect Sistema’s business by posing barriers to capital flows and reduce the value of Sistema’s investments in Russia.

Potential bankruptcy of one or several Russian or foreign banks due to restricted access to financing may result in a reduction in the sources of borrowing for the Group and portfolio companies, and may lead to direct losses of funds deposited in the accounts of such banks.

In the medium term, if sanctions are maintained and the access of Russian banks and businesses to foreign debt remains restricted, this may significantly increase the current liquidity deficit in the market and result in further interest rate rises, making it difficult for Sistema Group to raise funding for its operations and to refinance the debt of the Group and its portfolio companies.

An unfavourable macroeconomic environment in many countries where Sistema’s assets operate may make it necessary to re-evaluate goodwill at some of these assets.

Currency control and restrictions on capital repatriation may adversely affect Sistema’s business by posing barriers to capital flows and reduce the value of Sistema’s investments in Russia.

Potential bankruptcy of one or several Russian or foreign banks due to restricted access to financing may result in a reduction in the sources of borrowing for the Group and portfolio companies, and may lead to direct losses of funds deposited in the accounts of such banks.
LEGAL RISKS

There is a risk of unpredictable court rulings and administrative decisions being passed with respect to the business of Sistema Group, which may have an adverse effect. This risk is caused by numerous factors, including:

1. possible discrepancies and ambiguities in:
   - federal and other laws;
   - bylaws issued by executive authorities of states where Sistema Group operates;
   - regional and local laws, rules and requirements;

2. gaps in legislation and lack of court and administrative guidelines regarding the interpretation of some laws, as well as conflicting court guidelines and rulings;

3. influence of political, social and commercial factors on the judicial system;

4. potential selective or arbitrary actions of government authorities.

Gaps in Russia’s existing corporate and securities legislation may create barriers to raising funds in the future. A lack of clarity regarding the applicability to Sistema’s business of the Federal Law on the Procedure for Foreign Investment in Companies of Strategic Importance to National Defence and State Security and regulations of the Customs Union of Russia, Belarus and Kazakhstan may have a negative impact on the business of Sistema Group, given that the Group has foreign shareholders.

There is a risk of amendments to legislation in countries where Sistema Group companies operate, due to potential changes that may be introduced by foreign states or international organisations to legislation or regulations governing international trade and investments. For example, Russia’s accession to the World Trade Organisation may result in certain unpredictable legislative and other changes in markets where Sistema’s companies operate.

Since Russian corporate law makes shareholders liable for the obligations of their affiliates, Sistema may incur financial losses related to the liabilities of its portfolio companies.

Minority shareholders of Sistema’s subsidiaries may contest or vote against related-party or other transactions, which could limit Sistema’s ability to close investment deals and restructure businesses.

If Russia’s Federal Anti-Monopoly Service concludes that Sistema or one of its material subsidiaries has violated existing anti-monopoly legislation, this may result in serious administrative sanctions involving losses for the Group. The Federal Anti-Monopoly Service may also prevent the Group and its portfolio companies from closing and/or servicing certain transactions, which would also limit Sistema’s capacity to conclude investment deals and restructure businesses.

TAXATION

Tax laws, regulations and practices of jurisdictions where Sistema’s assets operate are intricate, opaque and prone to frequent modifications and ambiguous interpretations. If the Group’s actions are interpreted as being in breach of tax law, this may produce an adverse effect on the business of Sistema Group.

Russia’s law on transfer pricing may make it necessary to introduce adjustments to price-setting practices at Sistema Group’s companies and result in additional tax liabilities related to some transactions.

On 1 January 2015, new rules were introduced relating to taxation of undistributed profits of controlled foreign companies, the concept of a beneficiary owner, and new criteria to establish tax residency of legal entities. These rules were revised several times throughout 2015, with all amendments having retroactive effect. As a result of the need to apply new taxation rules, the Group’s companies may face new tax liabilities due to the uncertainty regarding interpretation of tax law and lack of relevant precedents.

SECURITIES MARKETS

Deterioration of the geopolitical situation, the imposition of sanctions on Russian companies, a worsening of the macroeconomic environment and capital and investor flight from the Russian market led to a reduction in valuations of Russian companies in 2014-2015. In these circumstances, Sistema’s access to investor funding through securities markets may be restricted further as a result of the imposition of sectoral sanctions against Russian companies in segments where Sistema operates and/or due to investors adopting a cautious approach to Russian companies in general. In particular, Sistema’s ability to raise funding via bond issues may be limited, which could lead to a lack of working capital and cash available for investment and affect the Group’s financial performance.
Risks related to activities of Sistema

IMPLEMENTATION OF BUSINESS STRATEGY

The Group’s strategy aims to develop a balanced and diversified asset portfolio in sectors and regions where Sistema has expertise and competitive advantages, while attracting leading international and Russian partners. Although it has a well-formulated strategy, Sistema cannot guarantee achievement of its goals, efficient management of portfolio companies or benefits from new investment opportunities. Failure to achieve the goals set in its strategy may undermine Sistema’s financial results.

The development of Sistema Group companies depends on numerous factors, including receipt of necessary permits from state authorities, sufficient demand from consumers, successful development of technologies, efficient risk and cost management, timely completion of R&D and introduction of new products and services. Weaknesses in any of these areas may have a detrimental effect on the development of Sistema Group companies and the Group’s financial figures.

ACQUISITION, INTEGRATION, DISPOSAL OR RESTRUCTURING OF ASSETS

Sistema implements its strategy via acquisitions, disposals and restructuring of assets. New investment opportunities come with certain risks, including failure to find relevant targets or their not being available for acquisition, inadequate due diligence of the target company’s operations and/or financial situation, and potential overvaluation of assets. These risks can also affect Sistema’s financial performance.

Acquisition of assets may increase pressure on Sistema’s cash position and create a need for raising external funding.

Delays in the implementation of investment deals or failure to close them may obstruct the achievement of Sistema’s strategic goals and affect its performance, financial position and investment appeal.

Sistema may struggle to implement an efficient system for managing and controlling new assets. The main risks in this area include:

- inability to efficiently integrate operating assets and personnel of the acquired company;
- inability to establish and integrate necessary control mechanisms, including those related to logistics and distribution;
- conflicts among shareholders;
- hostility and/or unwillingness to cooperate on the part of the management and personnel of the acquired asset;
- loss of customers by the acquired asset.

If any of the above risks materialise, the relevant asset may lose part of its value and/or report a deterioration in financial performance.

When disposing of its assets the Group may face the following risks:

- delays in closing or failure to close the deal due to inability to obtain corporate or state approvals;
- mistakes in asset valuation;
- assuming excessive obligations towards the buyer;
- loss of synergies with other assets staying in the portfolio.

If one or more of these risks materialise, the Group may lose potential profit and thus report poorer financial performance.
MANAGEMENT AND KEY PERSONNEL

The implementation of Sistema’s strategy in many respects depends on the efforts and professionalism of the management team. Failure to hire a sufficiently competent and motivated management team can jeopardise Sistema’s business, performance, financial position and growth prospects.

CASH FLOWS FROM SUBSIDIARIES AND AFFILIATES

The Group’s financial performance depends on the ability of Sistema Group companies to generate the cash flows needed to service its financial liabilities, including repayment of debt and interest, and to make other investment activities in the future. Such cash-generation capacity may be restricted due to regulatory, tax or any other barriers, which may have an adverse effect on the Corporation’s financial position and liquidity.

BORROWINGS

Cash flows from portfolio companies may be insufficient to fund all of the Group’s investments scheduled for a particular time. This can make it necessary to borrow funds and thus slow down strategy implementation.

OVERDEPENDENCE ON MTS

Sistema’s financial results in many respects depend on the success of its core asset, MTS. Therefore, any deterioration in the financial performance of MTS may lead to a deterioration in Sistema’s financial results. Any events that damage the business of MTS may also negatively influence the current state of Sistema’s business and its future prospects and lead to poorer financial figures.

LOAN COVENANTS

Loan and debt securities agreements signed by Sistema and its portfolio companies contain certain restrictive covenants. These covenants restrict further borrowings, encumbrance of property with pledges, asset sales and transactions with affiliates. They may also restrict certain aspects of Sistema’s operations, such as financing of capital expenses, or limit its capacity to repay debts and service other liabilities. Any breach of covenants, however inadvertent, may entitle creditors of the Group and/or its portfolio companies to demand early repayment of loans, which would threaten the Group’s financial performance.

OVERDEPENDENCE ON MTS

Sistema’s financial results in many respects depend on the success of its core asset, MTS. Therefore, any deterioration in the financial performance of MTS may lead to a deterioration in Sistema’s financial results. Any events that damage the business of MTS may also negatively influence the current state of Sistema’s business and its future prospects and lead to poorer financial figures.

LOAN COVENANTS

Loan and debt securities agreements signed by Sistema and its portfolio companies contain certain restrictive covenants. These covenants restrict further borrowings, encumbrance of property with pledges, asset sales and transactions with affiliates. They may also restrict certain aspects of Sistema’s operations, such as financing of capital expenses, or limit its capacity to repay debts and service other liabilities. Any breach of covenants, however inadvertent, may entitle creditors of the Group and/or its portfolio companies to demand early repayment of loans, which would threaten the Group’s financial performance.

LICENCES AND PERMITS

Operations of Sistema Group’s companies are regulated by different government bodies and agencies issuing and renewing licences, approvals and permits, and also depend on applicable laws, regulations and standards. Regulating authorities to a large extent rely on their own judgment when interpreting and implementing legal requirements, issuing and extending licences, approvals and permits, and monitoring compliance with such licences. There is no guarantee that the existing licences and permits, including those issued to the Group’s companies, will be extended; that new licences and permits will be issued; or that the companies will be able to comply with the terms of such licences. There is no guarantee either that existing or future licences or permits will not be suspended or revoked on some grounds. Any of these circumstances could have material negative consequences for the business of Sistema.
External Risks

Risks related to activities of Sistema

Corporate governance

Sistema’s operations are regulated by anti-corruption legislation in relevant jurisdictions, including Russian law, the UK Bribery Act and/or the US Foreign Corrupt Practices Act (FCPA). Any investigation into potential violations of the FCPA, the UK Bribery Act or other anti-corruption laws of the US, UK or other jurisdictions may affect the reputation, business, financial situation and performance of Sistema.

All business segments where Sistema operates are open to competition. Telecoms, high-tech, banking, retail, media, tourism, private healthcare and pharma markets in Russia and elsewhere are highly competitive. Inability of Sistema Group’s companies to compete efficiently may have a material negative impact on the business, performance, financial situation and growth prospects of the Group.

Developing and maintaining brand awareness for the Group’s companies is crucial to shaping public opinion about their existing and future products and services. Sistema believes that company brand is becoming increasingly vital in highly competitive markets. Successful development and improvement of brand awareness depends in large part on the efficiency of marketing and the ability to provide quality products and services at competitive prices. Effort and money spent on brand development may prove greater than the income they yield, which could mean potential financial losses for Group companies.

Sistema’s portfolio contains several privatised assets including MGTS, Intourist, BPGC, Targin, RTI and several other businesses in the technology sector. Some of Sistema’s subsidiaries own privatised assets. It is also probable that the Group and/or its portfolio companies will take part in privatisations in the future. Since Russia’s privatisation-related legislation remains somewhat unclear and inconsistent, and contradicts some other provisions (e.g., there are contradictions between federal and regional provisions on privatisation), privatisation of companies or assets can potentially be contested, however selectively.

If the legitimacy of a privatisation of a company or an asset is contested and Sistema or its portfolio company is unable to defend its position, it may lose its holdings in the relevant company or its assets, which may have a material negative impact on the business, financial situation, performance and growth prospects of the Group.

Sistema believes that company brand is becoming increasingly vital in highly competitive markets. Successful development and improvement of brand awareness depends in large part on the efficiency of marketing and the ability to provide quality products and services at competitive prices. Effort and money spent on brand development may prove greater than the income they yield, which could mean potential financial losses for Group companies.
Corporate Governance

81  General Meeting of Shareholders
84  Board of Directors
88  Board of Directors committees
92  President
93  Management Board
95  President’s committees
97  Risk management, internal control and internal audit systems
99  Development of corporate governance in 2015
Sistema’s key governing 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 proposed decisions that fall within their respective remits and make recommendations for Sistema’s governing bodies.

As of 31 December 2015.
To achieve these goals, Sistema’s corporate governance policy is based on the following fundamental principles:

- transparency and clarity of all governance processes for investors and partners;
- a transparent dividend policy;
- professionalism of the Board of Directors and its active involvement in strategic planning, management and supervision of business processes;
- development of procedures for making investment decisions and ensuring compliance with such procedures;
- paying particular attention to all related-party transactions;
- continuous development of the individual corporate governance systems within Sistema Group companies.

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

The principles and procedures involved in Sistema’s corporate governance are set out in its Charter and in a number of publicly available by-laws; taken together, these determine the structure and the scope of the Group’s governance and control bodies. The Corporate Governance and Ethics Code sets forth Sistema’s additional commitments in the area of transparency, social responsibility and ethical business principles.

Sistema makes every effort to ensure that its corporate governance practices are in line with the recommendations specified by the Bank of Russia’s Corporate Governance Code (Letter of the Bank of Russia No. 06–52/2463[1] of 10 April 2014) and the guidelines set out in the UK Corporate Governance Code[2].

The conformity of Sistema’s corporate governance practices with the standards set out in the above-mentioned documents is analysed in Annexes 5 and 6 to this report. In cases where Sistema’s corporate governance practices diverge from the standards recommended in the above documents, the Group explains how it ensures that the balance of interests envisaged in the applicable corporate governance standards is observed.

Sistema conducts regular monitoring of its corporate governance system to ensure compliance with the Moscow Exchange Listing Rules, which have been mandatory for the Company since its securities (shares and bonds) were admitted to trading.

---


General Meeting of Shareholders

The General Meeting of Shareholders is Sistema’s supreme governing body. Its activities and powers are governed by the laws of the Russian Federation on joint-stock companies and by the provisions of the Group’s Charter and by-laws, in particular the Terms of Reference of the General Meeting of Shareholders of Sistema JSFC.

PRINCIPLES OF OPERATION

The procedures applied at General Meetings are intended to make sure that the rights of shareholders are safeguarded and that all applicable legal requirements as well as best international practices in corporate governance, are observed.

All materials for General Meetings are made available to shareholders in both Russian and English and are published on Sistema’s website (www.sistema.ru; www.sistema.com).

In addition to a notice regarding an upcoming meeting, shareholders also receive their ballots. The venues for Sistema’s General Meetings of Shareholders are usually located in the vicinity of the Group’s head office and, over the last three years (2013-2015), have been held at Sistema’s head office.

OBSERVANCE OF SHAREHOLDERS’ RIGHTS

Sistema aims to ensure maximum protection of shareholders’ right to take part in the management of the Group by means of participating in General Meetings of Shareholders, voting on agenda items and receiving returns on their investment in the form of dividends.

To secure shareholders’ right to take part in General Meetings in accordance with the Group’s Charter, a notice of an upcoming General Meeting of Shareholders and ballots are sent to all shareholders in advance (at least 30 days prior to the date of the meeting). All materials related to the agenda items to be discussed at a General Meeting of Shareholders are published on the Company’s website in both Russian and English (www.sistema.ru; www.sistema.com) within the same time frame.

The notice for a General Meeting of Shareholders, ballots and all other materials are also sent to nominal shareholders in electronic form.

Ballots may be filled out by shareholders in advance and mailed to Sistema JSFC (to the address specified on the ballot) prior to the meeting. Votes of shareholders that cast their ballots in this way will be taken into account at the time of the vote count. Shareholders are also allowed to vote in electronic form (provided that this service is available with their depositary).

Holders of Sistema global depositary receipts (GDRs) may vote on agenda items at a General Meeting of Shareholders by means of a proxy vote in line with the established procedure via a depositary bank servicing Sistema’s GDR programme. In 2015, Sistema’s depositary bank was Deutsche Bank AG, which the Company is planning to replace in 2016.
The votes of GDR holders – information about such votes is disclosed to the depositary – are collected by the depositary bank via clearing systems and are included in the general ballot with all the votes cast for or against a proposed draft resolution or abstaining.

Every shareholder can also attend General Meetings of Shareholders in person or participate via a representative and vote on agenda items directly at the meeting (if such a meeting is held with the joint presence of shareholders).

The results of voting on the agenda items of a General Meeting of Shareholders conducted in the form of joint presence must be announced before the meeting closes. The results of voting are also made available to the shareholders on the Group’s website one day after the minutes of the General Meeting of Shareholders have been drawn up.

An important guarantee of shareholders’ right to participate in running the Company is their right to access documents that the Group is obliged to keep in line with the provisions of the Federal Law on Joint-Stock Companies. To exercise this right, a shareholder must send a written request to Sistema’s Corporate Secretary asking for access to specific documents. Once a time frame for provision of the documents is agreed upon, the shareholder will be granted access to the requested documents. In the case of confidential documents, shareholders must sign a written non-disclosure agreement, thus providing a guarantee that the rights of all the Group’s shareholders will be protected.

If a shareholder requires copies of documents, he or she shall bear the costs incurred by the Group (RUB 10 per page).

Holders of material blocks of shares (at least 2% of the authorised capital) are entitled to make proposals for the agenda of a General Meeting of Shareholders and to nominate candidates for the Group’s governing and oversight bodies. (1) Proposals made in respect of the agenda of the Annual General Meeting (AGM) of Sistema Shareholders, including any notes attached thereto in accordance with the Terms of Reference of the General Meeting of Shareholders of Sistema JSFC and the Group’s other internal regulations, shall be accepted in writing within 100 days after the end of the respective financial year. (2) The candidates nominated by shareholders for the Group’s governing and oversight bodies shall be provisionally reviewed by the Nomination, Remuneration and Corporate Governance Committee of Sistema’s Board of Directors.

In order to ensure shareholders’ right to receive a share of the Group’s profits in the form of dividends, the Group announces the amount of dividends recommended by the Board of Directors in advance along with the date on which the shareholder register is to be determined for payment purposes. Therefore, shareholders always have the opportunity to take expected dividend payments into account when disposing of their shares.

DIVIDEND POLICY

To determine the recommended amount of dividends that will be payable, the Group’s Board of Directors abides by the dividend policy approved in October 2011.

In compliance with this policy, the amount of dividends payable shall be at least 10% of Sistema Group’s net income generated during the preceding financial year as per its financial statements prepared in compliance with International Financial Reporting Standards and at least 10% of the net cash income generated by the Group’s investment transactions over the same period (special dividend).

This approach enables the Group to pay a predictable amount of dividends, thus ensuring the transparency of the procedure for determining the amount of the dividend payout and improving Sistema’s investment appeal.

A more detailed report on the amount of allocated and paid dividends for the period from 2010 to 2015 is provided in Section 3.6. of this annual report. The new dividend policy was approved in 2016.

---

(1) Holders of 10% or more of the Group’s voting shares also have the right to request that an Extraordinary General Meeting of Shareholders be convened.

(2) In the event the agenda of an Extraordinary General Meeting of Shareholders includes an item on the election of the Board of Directors, holders of sufficient blocks of shares have the right to nominate candidates to the Board of Directors. Proposals to this effect must be received by the Group no later than 30 days before the date of such a meeting.
GENERAL MEETINGS
OF SHAREHOLDERS HELD
IN 2015 AND THEIR RESULTS

An Extraordinary General Meeting of Shareholders was scheduled to be held by absentee vote on 17 February 2015. The agenda of the meeting included the following items:

- approval of the revised Terms of Reference of the General Meeting of Shareholders of Open Joint-Stock Company Sistema JSFC;
- approval of the revised Terms of Reference of the Board of Directors of Open Joint-Stock Company Sistema JSFC.

The meeting was cancelled due to a lack of a quorum and was not reconvened.

Sistema’s Annual General Meeting of Shareholders was held on 27 June 2015. The meeting’s agenda included the following items:

- approval of meeting procedures;
- approval of the annual report and annual financial statements, including the Group’s profit and loss account for 2014;
- distribution of income, approval of the amount of dividends payable on the Group’s shares, the form and procedure for the dividend payment, the date for determining the shareholders entitled to dividends;
- election of members of the Group’s Audit Commission;
- election of members of the Board of Directors;
- approval of the Company’s auditors;
- approval of the revised Terms of Reference of the General Meeting of Shareholders of Sistema JSFC;
- approval of the revised Terms of Reference of the Board of Directors of Sistema JSFC;
- approval of the revised Terms of Reference of the General Meeting of Shareholders of Sistema JSFC;
- approval of the revised Terms of Reference of the Board of Directors of Sistema JSFC;
- approval of the revised Policy on Remuneration and Compensation payable to members of the Board of Directors of Sistema JSFC;
- determination of the number of members of the Board of Directors of Sistema JSFC.

The Annual General Meeting of Shareholders was attended by shareholders that together held 81.57% of votes, including GDR holders with 9.47% of votes.

The Annual General Meeting of Shareholders:

- Approved the Annual report and financial statements for 2014
- Allocated RUB 4,535,500 mln for dividend payout, which amounted to RUB 0.47 per ordinary share of Sistema JSFC
- Elected the Audit Commission and the Board of Directors
- Approved the appointment of auditors
- Took a decision to approve the revised versions of the Terms of Reference of the General Meeting of Shareholders, the Terms of Reference of the Board of Directors and the Policy on Remuneration and Compensation payable to members of the Board of Directors of Sistema JSFC
Board of Directors

Sistema’s Board of Directors is responsible for the Group’s strategic governance: it formulates strategic and financial development plans, establishes the principles and criteria for investing, conducts assessments of executive performance and risks, approves principles for corporate governance procedures, approves specific transactions and supervises the Group’s work in general. The Terms of Reference of the Board of Directors are set out in the Charter of Sistema JSFC.

Membership of Sistema’s Board of Directors elected on 27 June 2015\(^{(1)}\)

![Vladimir Evtushenkov](Chairman of the Board)
![Sergey Boev](Deputy Chairman of the Board)
![Brian Dickie\(^{(2)}\)](Executive Director)
![Andrey Dubovskov](Executive Director)
![Felix Evtushenkov](Executive Director)
![Jeannot Krecké\(^{(1)}\)](Non-Executive Director)
![David Iakobachvili\(^{(1)}\)](Non-Executive Director)
![Dmitry Zubov](Non-Executive Director)
![Peter Mandelson\(^{(1)}\)](Non-Executive Director)
![Patrick Clanwilliam\(^{(1)}\)](Non-Executive Director)
![Roger Munnings\(^{(1)}\)](Non-Executive Director)
![Mikhail Shamolin](Non-Executive Director)
![Robert Kocharyan\(^{(1)}\)](Non-Executive Director)

MEMBERSHIP OF THE BOARD OF DIRECTORS

Sistema’s Board of Directors as of 31 December 2015 was elected at the Annual General Meeting of the Company’s Shareholders held on 27 June 2015. Independent members of the Board of Directors form a majority (54%).

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

\(^{(1)}\) Short biographies of the members of the Board of Directors and information about their shareholdings in Sistema JSFC are available in Annex 1.
\(^{(2)}\) Independent directors meeting the independence criteria established by the Moscow Exchange Listing Rules.
CHANGES TO THE MEMBERSHIP OF THE BOARD OF DIRECTORS

Aleksandr Goncharuk, Marc Holtzman and Serge Tchuruk, who had been members of the Board of Directors in the 2014-2015 corporate year, left the Board. New members elected at the General Meeting of Shareholders on 27 June 2015 included the President of PJSC MTS, Andrey Dubovskov, independent director Patrick Clanwilliam and member of the Management Board and Investment Portfolio Manager of Sistema JSFC Felix Evtushenkov.

MEETINGS OF THE BOARD OF DIRECTORS

Meetings of Sistema’s Board of Directors are held regularly in compliance with the approved work schedule for the year. The Board’s work schedule is determined on the basis of Sistema’s strategic planning and reporting cycle. Additional matters (such as approval of transactions) are included on the agendas of scheduled Board meetings in the ordinary course of business. Extraordinary Board meetings are organised whenever an urgent matter needs to be considered. It is the Board Chairman’s responsibility to determine the Board’s work plan and to include additional items in the plan.

During the reporting period, the Board of Directors considered the following key items:

1. Sistema’s development strategy.
2. Sistema’s asset portfolio structure.
3. Sistema Group’s strategic planning cycle.
5. Sistema’s strategy for development and value creation for its key portfolio assets:
   - telecoms;
   - oilfield services;
   - banking;
   - transport;
   - high-tech;
   - real estate;
   - healthcare;
   - pharmaceuticals;
   - power grid;
   - agriculture;
   - hotels;
   - timber processing and pulp and paper;
   - consumer (retail), including e-commerce.

7. Sistema’s budget planning, approval of its consolidated budget and key performance indicators for management for 2016.
10. Risk and opportunity management within the Group.
12. HR issues, HR management and personnel motivation.
13. Investor and public relations functional strategy.
14. Reduction of Sistema’s discount.
15. Functional strategy on corporate security.
16. Assessment of corporate governance, including the self-assessment results of Sistema’s Board of Directors and Board Committees.
17. Corporate social responsibility.
18. Mandatory corporate procedures, including the calling of the Annual General Meeting of Shareholders and developing the work plan for the Board of Directors.
19. Membership of Board Committees.
20. Approval of internal regulations.
21. Approval of transactions.
22. Holdings in investment funds.

In 2015, the Board of Directors held 11 sessions: eight scheduled in-person meetings and three unscheduled meetings in the form of absentee voting. The Board reviewed a total of 91 agenda items during the year.

| 2015 | 8 meetings |
| 2014 | 9 meetings |

| 2015 | 3 meetings |
| 2014 | 1 meetings |

| 2015 | 40 items |
| 2014 | 39 items |

| 2015 | 91 items |
| 2014 | 100 items |
Most of the items included on the agenda of Sistema’s Board of Directors in 2015 were related to the Company’s business strategies and its portfolio companies, approval of transactions (including equity holdings in the companies of Sistema Group) and corporate governance. The prevalence of such items reflects the Group’s focus on investment activities. The Board of Directors places a particular emphasis on reviewing investment projects and formulating a portfolio strategy against the backdrop of sluggish economic growth, as well as developing portfolio companies and their corporate governance systems.
PREPARATION FOR MEETINGS AND QUORUM OF THE BOARD OF DIRECTORS

The procedures for meetings of the Board of Directors are aimed at ensuring efficient use of the time and experience of the Board members in order to enable them to take important decisions on the Group’s strategic development. Materials on the agenda are provided to Board members at least 10 days before the meeting, which gives members sufficient time to formulate an informed opinion about the items on the agenda.

Most agenda items (including approval of transactions) have to be provisionally discussed at meetings of the Board Committees. Members of the Board routinely meet those scheduled to speak at meetings and also members of the management at a business dinner the evening before a meeting. In the course of these meetings, Board members have an opportunity to receive additional explanations on each agenda item and clarify the provisional voting positions of the parties.

Sessions of the Board of Directors normally take place with good attendance by Board members. The average quorum of meetings in 2015 was 86.7%.

Participation of Sistema Board members in meetings of the Board of Directors and its Committees in 2015:

<table>
<thead>
<tr>
<th>Board of Directors</th>
<th>Strategy Committee</th>
<th>Audit, Finance and Risk Committee</th>
<th>Nomination, Remuneration and Corporate Governance Committee</th>
<th>Ethics and Control Committee</th>
<th>Investor Relations and Dividend Policy Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vladimir Evtushenkov.</td>
<td>10/11(1)</td>
<td>11/11</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Sergey Boev</td>
<td>9/11</td>
<td>7/11</td>
<td>12/12</td>
<td>–</td>
<td>5/7</td>
</tr>
<tr>
<td>Aleksandr Goncharuk(2)</td>
<td>0/4</td>
<td>0/6</td>
<td>–</td>
<td>0/5</td>
<td>0/4</td>
</tr>
<tr>
<td>Brian Dickie</td>
<td>11/11</td>
<td>–</td>
<td>–</td>
<td>8/8</td>
<td>6/7</td>
</tr>
<tr>
<td>Andrey Dubovskov(3)</td>
<td>6/7</td>
<td>4/5</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Felix Evtushenkov(3)</td>
<td>6/7</td>
<td>4/5</td>
<td>–</td>
<td>–</td>
<td>1/3</td>
</tr>
<tr>
<td>Dmitry Zubov</td>
<td>11/11</td>
<td>–</td>
<td>–</td>
<td>5/8</td>
<td>–</td>
</tr>
<tr>
<td>Patrick Clanwilliam(3)</td>
<td>7/7</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Robert Kocharyan</td>
<td>11/11</td>
<td>5/11</td>
<td>–</td>
<td>8/8</td>
<td>6/7</td>
</tr>
<tr>
<td>Jeannot Krecké</td>
<td>11/11</td>
<td>–</td>
<td>6/6</td>
<td>4/5</td>
<td>–</td>
</tr>
<tr>
<td>Peter Mandelson</td>
<td>9/11</td>
<td>–</td>
<td>7/12</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Roger Munnings</td>
<td>11/11</td>
<td>–</td>
<td>12/12</td>
<td>8/8</td>
<td>7/7</td>
</tr>
<tr>
<td>Marc Holtzman(2)</td>
<td>0/4</td>
<td>–</td>
<td>0/6</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Serge Tchuruk(2)</td>
<td>3/4</td>
<td>–</td>
<td>1/6</td>
<td>–</td>
<td>1/4</td>
</tr>
<tr>
<td>Mikhail Shamolin</td>
<td>11/11</td>
<td>10/11</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>David Iakobachvili</td>
<td>11/11</td>
<td>10/11</td>
<td>11/12</td>
<td>2/3</td>
<td>–</td>
</tr>
</tbody>
</table>

1 The first number denotes the number of meetings attended by the Board member, while the second number is the total number of meetings the member could have participated in.
2 This member left the Board of Directors on 27 June 2015.
3 This member joined the Board of Directors on 27 June 2015.
Committees of the Board of Directors

Starting from 2011, only members of the Board of Directors may be elected to the Board’s Committees, with some rare exceptions. When forming the Committees, the Company primarily takes into account the expertise of Board members in relevant fields.

Sistema’s Board of Directors has five committees:
- Strategy Committee;
- Audit, Finance and Risk Committee;
- Nomination, Remuneration and Corporate Governance Committee;
- Ethics and Control Committee;
- Investor Relations and Dividend Policy Committee.

The main role of the Committees is to provide assistance to the Board in preparing and adopting decisions in its respective functional areas, as well as to ensure that matters brought for consideration by the Board of Directors are scrutinised prior to Board meetings. The meetings of the Committees (except the Strategy Committee) usually take place on the day preceding the day of a Board meeting.

Board Committees have broad procedural powers, may engage independent external experts, obtain any information from the Company’s executive management that falls within their remit and may use any other Company resources, as well as set tasks for the Company’s management.

### STRATEGY COMMITTEE

The Strategy Committee comprises seven Sistema Board members and one external business strategy expert: Vladimir Evtushenkov (Committee Chairman), Sergey Boev, Andrey Dubovskov, Felix Evtushenkov, Robert Kocharyan, Mikhail Shamolin, David Iakobachvili and Vladimir Chirakhov (CEO of Detsky Mir).

The Committee discusses and analyses strategic issues related to the management of Sistema Group, and monitors the strategic planning cycles of Sistema JSFC and its subsidiaries, including:
- reviewing the strategy planning methodology;
- preliminary approval of the Group’s strategy and strategic goals;
- consideration of M&A transactions and large investment projects.

The Committee is responsible for a provisional review of:
- all M&A transactions within Sistema Group with a value exceeding US$ 100 mln;
- all Sistema Group projects related to entering new regions or industries;
- all Sistema Group projects with significant government participation.

In 2015, the Committee held 11 meetings at which 16 items related to the development of Sistema’s portfolio companies were considered.

### AUDIT, FINANCE AND RISK COMMITTEE

The Audit, Finance and Risk Committee includes five Board members: Roger Munnings (Committee Chairman), Sergey Boev, Jeannot Krecké, Peter Mandelson and David Iakobachvili.

The Committee discusses and analyses strategic issues related to the management of Sistema Group, and monitors the strategic planning cycles of Sistema JSFC and its subsidiaries, including:
- preparation and audit of the Company’s financial statements;
- interaction with external auditors;
- assessment of the risk management system and compliance with the applicable legal requirements in financial reporting, audit and planning;
- budgeting and financial modelling;
- internal audit;

### Share of Independent Directors in the Committee

- Independent Director: 29%
- Non-Executive Director: 29%
- Management (including Executive Directors): 42%

### Share of Independent Directors in the Committee

- Independent Director: 20%
- Non-Executive Director: 80%
• functioning of a whistle-blowing system aimed at reporting potential instances of wrongdoing;
• provisional appraisal of transactions submitted to the Board of Directors.

In 2015, the Audit, Finance and Risk Committee held 16 meetings (including three joint meetings with the Ethics and Control Committee) and reviewed 66 items, including:

• 32 items related to appraisal of individual transactions submitted for consideration by the Sistema Board of Directors;
• 13 items related to the preparation and audit of financial statements and supervision of these processes;
• 7 items related to financial planning and risk management;
• 6 items related to interaction with external auditors, their selection and assessment of their work;
• 5 items related to internal control and audit processes and the whistle-blowing system;
• 3 housekeeping matters.

The Audit, Finance and Risk Committee of Sistema’s Board of Directors conducts an appraisal of the quality of audit services based on the audit of Sistema’s financial statements and gives preliminary recommendations in respect of selecting auditors for the Group and determining the fee for their services. Based on the Committee’s opinion, the Board of Directors gives recommendations to the General Meeting of Shareholders with respect to nominating a candidate for the position of the Group’s external auditor.

The Audit, Finance and Risk Committee held 16 meetings (including three joint meetings with the Ethics and Control Committee) and reviewed 66 items, including:

• 32 items related to appraisal of individual transactions submitted for consideration by the Sistema Board of Directors;
• 13 items related to the preparation and audit of financial statements and supervision of these processes;
• 7 items related to financial planning and risk management;
• 6 items related to interaction with external auditors, their selection and assessment of their work;
• 5 items related to internal control and audit processes and the whistle-blowing system;
• 3 housekeeping matters.

The purpose of the Committee is to facilitate the preparation and implementation of the Group’s HR policy, to support and develop an efficient corporate governance system that meets international standards and to improve the quality of the Group’s decisions. The Committee performs in-depth reviews and analyses of issues related to managing Sistema in the following areas:

1. preliminary review of candidates:
   • for the Board of Directors;
   • for top management positions at Sistema and its portfolio companies;

2. incentive and remuneration policy for the Group’s employees;
3. assessment of the management’s performance and setting parameters for remunerating the Group’s employees;
4. the Group’s corporate governance system and those of its portfolio companies, protection of shareholders’ interests and rights.

In 2015, the Nomination, Remuneration and Corporate Governance Committee held eight meetings (including one joint meeting with the Ethics and Control Committee) and reviewed 28 items, including:

• 10 items related to corporate governance at Sistema JSFC;
• 9 items related to HR processes and preliminary review of candidates for top management positions at Sistema JSFC and nominees to the Boards of Directors and CEO positions at portfolio companies;
• 7 items related to the effectiveness of the incentive scheme, performance assessment and remuneration systems for Sistema’s employees;
• 2 items related to provisional reviews of the Company’s draft internal regulations.

The Audit, Finance and Risk Committee of Sistema’s Board of Directors conducts an appraisal of the quality of audit services based on the audit of Sistema’s financial statements and gives preliminary recommendations in respect of selecting auditors for the Group and determining the fee for their services. Based on the Committee’s opinion, the Board of Directors gives recommendations to the General Meeting of Shareholders with respect to nominating a candidate for the position of the Group’s external auditor.

The Nomination, Remuneration and Corporate Governance Committee includes five Board members: Robert Kocharyan (Committee Chairman), Brian Dickie, Dmitry Zubov, Roger Munnings and David Iakobachvili. The President of Sistema JSFC, Mikhail Shamolin, attends Committee meetings as a permanent invitee but does not take part in voting on matters submitted for the Committee’s consideration.

Share of Independent Directors in the Committee

The purpose of the Committee is to facilitate the preparation and implementation of the Group’s HR policy, to support and develop an efficient corporate governance system that meets international standards and to improve the quality of the Group’s decisions. The Committee performs in-depth reviews and analyses of issues related to managing Sistema in the following areas:

1. preliminary review of candidates:
   • for the Board of Directors;
   • for top management positions at Sistema and its portfolio companies;

2. incentive and remuneration policy for the Group’s employees;
3. assessment of the management’s performance and setting parameters for remunerating the Group’s employees;
4. the Group’s corporate governance system and those of its portfolio companies, protection of shareholders’ interests and rights.

In 2015, the Nomination, Remuneration and Corporate Governance Committee held eight meetings (including one joint meeting with the Ethics and Control Committee) and reviewed 28 items, including:

• 10 items related to corporate governance at Sistema JSFC;
• 9 items related to HR processes and preliminary review of candidates for top management positions at Sistema JSFC and nominees to the Boards of Directors and CEO positions at portfolio companies;
• 7 items related to the effectiveness of the incentive scheme, performance assessment and remuneration systems for Sistema’s employees;
• 2 items related to provisional reviews of the Company’s draft internal regulations.
The most recent assessment of the Board of Directors’ work was performed in May 2015. The Board’s performance was rated as 4.02 (compared to 4.19 in 2014) on a five-point scale.

Based on this assessment of the Board’s performance, the work plan to improve corporate governance systems in 2016 reflects the following areas:

- amending the Group’s internal regulations to add a requirement that material transactions (both for the Group and for Sistema Group as a whole) should be submitted for the consideration of the Board of Directors;
- implementing measures aimed at ensuring greater involvement of Board members in the assessment of the top management’s performance at the companies that make up Sistema Group. These activities are to be completed by the end of 2016.

In 2015, the Committee’s role in nominating candidates for the Group’s Board of Directors was redefined. The Committee performs a preliminary assessment of candidates in terms of their independence and capacity to contribute to the work of the Board of Directors and Sistema JSFC as a whole. Therefore, it is recommended that shareholders nominating new Board members make sure that such nominees are interviewed by the Committee within a reasonable time frame. To form an opinion about a candidate, the Committee may take into account various factors, including professional experience, expert knowledge and/or functional skills, business and professional reputation, independence and ability to form independent opinions, as well as whether the Board is in need of the candidate’s skills, expertise and experience and whether the candidate will be able to devote sufficient time and energy to the performance of his/her duties as a Board member. The Committee then provides its opinion(s) about the nominee to the person who made the nomination. This opinion or assessment may include the Committee’s recommendation with regard to election of the candidate to the Company’s Board.

The Committee conducts regular monitoring of Sistema’s potential HR needs and succession pool.
ETHICS AND CONTROL COMMITTEE

The Ethics and Control Committee includes five Board members: Sergey Boev (Committee Chairman), Brian Dickie, Felix Evtushenkov, Robert Kocharyan and Roger Munnings.

In 2015, the Ethics and Control Committee held seven meetings at which 21 items were reviewed, including the following:

- 5 items related to internal audits conducted at Sistema Group companies, as well as the quality of the internal control environment;
- 4 items related to the functional strategy in the area of internal control;
- 4 items related to the system of corruption prevention;
- 2 items related to corporate security and fraud prevention;
- 6 housekeeping matters.

INVESTOR RELATIONS AND DIVIDEND POLICY COMMITTEE

The Investor Relations and Dividend Policy Committee includes five Board members: David Iakobachvili (Committee Chairman), Patrick Clanwilliam, Jeannot Krecké, Roger Munnings and Mikhail Shamolin.

The Committee performs in-depth reviews and analyses of issues related to managing Sistema in the following areas:

- maintaining effective relations with the financial community and government agencies, as well as increasing Sistema’s investment appeal;
- Sistema’s dividend policy, including the development of recommendations for the Group’s Board of Directors with respect to the amount of payable dividends;
- protection of the rights and interests of Sistema’s shareholders.

In 2015, eight meetings of the Investor Relations and Dividend Policy Committee were held at which 11 items were considered, including:

- 6 items related to market monitoring and measures aimed at capitalisation growth;
- 3 items related to interaction with the investment community and recommendations for the amount of dividends payable;
- 1 item related to corporate social responsibility;
- 1 housekeeping matter.
The President of Sistema JSFC is a permanent chief executive officer whose main tasks are executive management and settlement of matters outside the remit of the General Meeting of Shareholders, the Board of Directors and the Management Board for the purposes of ensuring the Group’s profitability, as well as safeguarding shareholders’ rights and legitimate interests. The President reports to Sistema’s Board of Directors and the General Meeting of Shareholders.

President

Mikhail Shamolin has been Sistema’s President since 10 March 2011. On 15 March 2014, the Board of Directors passed a resolution to extend his appointment as the Company’s President for three more years.

Mr Mikhail Shamolin
President of Sistema JSFC, Chairman of the Management Board

Mr Mikhail Shamolin was born in 1970 in Moscow. In 1992, he graduated from the Moscow Automobile and Road Technical Institute. In 1993, from the Russian Presidential Academy of Public Administration. In 1996-1997, he took a finance and management course for senior executives at the Wharton School of Business. In 1998-2004, he worked for McKinsey&Co, an international consultancy company. In 2004-2005, he was Managing Director for Ferroalloys at Interpipe Corp (Ukraine). In 2005-2011, he was Vice President for Sales and Customer Service, then Vice President, Head of MTS Russia and President of MTS.

Mikhail Shamolin was appointed President of Sistema JSFC on 10 March 2011. On 15 March 2014, the Board of Directors reappointed him to a new three-year term. Mr Mikhail Shamolin sits on the Board of Trustees of the Sistema Charitable Foundation.
Management Board

Sistema’s Management Board determines the methods for implementing the Group’s development strategy, formulates development plans, determines investment mechanisms and monitors compliance therewith, appraises the performance of staff and previews reports to be submitted to the Group’s Board of Directors.

Members of the Management Board of Sistema JSFC(1)

In September 2015, the Board of Directors re-elected the Management Board upon expiry of the term of the previous Management Board. Sistema’s current Management Board comprises 14 members.

---

(1) As of 31 December 2015. Short biographies of the members and information about their shareholdings in Sistema JSFC are available in Annex 1.

(2) Mr. Nikolay Vasilkov’s membership on the Board was terminated after the reporting period, in March 2016.
CHANGES MADE TO SISTEMA’S MANAGEMENT BOARD IN 2015

The Management Board went through a number of changes throughout 2015:

<table>
<thead>
<tr>
<th>Name</th>
<th>Date</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nikolay Vasilkov</td>
<td>7 February 2015</td>
<td>Elected as a Board member. Appointed Vice President, Head of the Strategy Function of Sistema JFSC.</td>
</tr>
<tr>
<td>Michael Hecker</td>
<td>10 February 2015</td>
<td>Membership terminated.</td>
</tr>
<tr>
<td>Anton Abugov</td>
<td>27 June 2015</td>
<td>Membership terminated.</td>
</tr>
<tr>
<td>Christopher Baxter</td>
<td>27 June 2015</td>
<td>Membership terminated.</td>
</tr>
<tr>
<td>Andrey Terebenin</td>
<td>13 September 2015</td>
<td>Membership terminated.</td>
</tr>
<tr>
<td>Evgeny Chuikov</td>
<td>13 September 2015</td>
<td>Elected as a Board member. Appointed Vice President, Head of the Corporate Communications Function of Sistema JFSC.</td>
</tr>
<tr>
<td>Vladimir Shukshin</td>
<td>13 September 2015</td>
<td>Elected as a Board member.</td>
</tr>
<tr>
<td>Alexander Gorbunov</td>
<td>11 December 2015</td>
<td>Elected as a Board member. Appointed Vice President of Sistema JFSC.</td>
</tr>
<tr>
<td>Valentin Korchnov</td>
<td>11 December 2015</td>
<td>Elected as a Board member. Appointed Vice President, Investment Portfolio Manager of Sistema JFSC.</td>
</tr>
<tr>
<td>Mikhail Cherny</td>
<td>11 December 2015</td>
<td>Elected as a Board member. Appointed Vice President, Investment Portfolio Manager of Sistema JFSC.</td>
</tr>
<tr>
<td>Sergey Shishkin</td>
<td>11 December 2015</td>
<td>Elected as a Board member. Appointed Vice President, Head of the Corporate Governance Function of Sistema JFSC.</td>
</tr>
<tr>
<td>Sergey Drozdov</td>
<td>11 December 2015</td>
<td>Membership terminated.</td>
</tr>
</tbody>
</table>
The President’s committees are permanent consultative collective bodies tasked with producing detailed analyses of current affairs and processes within their remit and assisting the President in decision-making.

The following President’s committees contribute to managerial decision-making at Sistema:

- Finance and Investment Committee;
- Tender Committee;
- HR Committee;
- Security Committee;
- Internal Control Committee;
- Discipline Committee.

FINANCE AND INVESTMENT COMMITTEE

The Finance and Investment Committee performs the following tasks:

- review of all of the Group’s investment projects and isolated projects on the part of portfolio companies at different stages from project idea to completion;
- approval of financial models, business plans and key performance indicators related to investment projects;
- making recommendations regarding the viability of projects, exit scenarios and sources of financing;
- analysing credit terms for the Group and portfolio companies.

The Committee consists of seven members. The Chairman of the Committee is the Group’s President, Mikhail Shamolin, and the Deputy Chair is Senior Vice President and Head of the Finance and Investment Function Vsevolod Rozanov.

In 2015, the Committee met 56 times.

The Committee has a Risk Subcommittee that is responsible for assessing the risks facing Sistema and its subsidiaries and monitoring performance against risk management action plans.

The Risk Subcommittee consists of nine members, chaired by Sistema’s Managing Director for Risks and Procurement, Nadezhda Nosova.

In 2015, the Risk Subcommittee met 10 times.

TENDER COMMITTEE

The Tender Committee performs the following tasks:

- organising tenders for goods, works and services;
- ensuring the acquisition of goods, works and services on the best terms available;
- ensuring the transparency of purchasing procedures;
- facilitating the prevention of corruption and other wrongdoing in the area of purchasing.

The Committee consists of eight members. The Chairman of the Committee is Senior Vice President and Head of Sistema’s Finance and Investment Function Vsevolod Rozanov. The Deputy Chair is Managing Director for Risks and Procurement Nadezhda Nosova.

In 2015, the Tender Committee met 36 times.
HR COMMITTEE

The HR Committee performs the following tasks:

- reviewing and making proposals with regard to HR policies and internal regulations at the Group and its portfolio companies;
- coordinating the activities of the Group’s HR units and those of its portfolio companies;
- assessing candidates seeking executive positions;
- assessing the efficiency and performance of the Group’s employees.

The Committee consists of eight members. The Chairman of the Committee is Sistema’s President, Mikhail Shamolin. The Deputy Chair is Senior Vice President and Head of the HR Department Elena Vitchak.

In 2015, the Committee met 18 times.

SECURITY COMMITTEE

The Security Committee reviews matters pertaining to security at the Group and its subsidiaries.

The Committee consists of 31 members. The Chairman of the Committee is Vice President and Head of the Sistema’s Security and IT Department Vladimir Shukshin.

In 2015, the Committee met 4 times.

INTERNAL CONTROL COMMITTEE

The Internal Control Committee reviews matters pertaining to the coordination of the Group’s internal control units and those of its portfolio companies.

The Committee consists of 24 members. The Chairman of the Committee is Vice President and Head of Sistema’s Internal Control and Audit Department Alexey Guryev.

In 2015, the Committee met 6 times.

DISCIPLINE COMMITTEE

The Discipline Committee reviews matters pertaining to compliance with labour law, internal regulations and instructions from governing bodies. The Committee is also tasked with issuing opinions on whether there is cause for disciplinary penalties in specific cases where wrongdoing is suspected.

The Committee consists of six members. The Chairman of the Committee is the Group’s President, Mikhail Shamolin, and the Deputy Chair is Vice President and Head of the Sistema’s Internal Control and Audit Department Alexey Guryev.

In 2015, the Committee met 3 times.
Risk management, internal control and internal audit systems

RISK MANAGEMENT

Sistema’s risk management system uses a two-tier approach where specific risks identified in the Group and its portfolio companies are further integrated to assess their impact on Sistema Group as a whole.

The integrated risk management system (ERM) used within the Group addresses the following tasks:

- identification of risks at all levels of the management (from top management to line managers), which includes finding risk owners and making risk passports;
- primary assessment of the materiality of identified risks and their analysis (VaR methodology);
- ranging risks by management levels;
- assessment of the aggregate influence of material risks on the Group’s key financial indicators (Monte Carlo modelling);
- development of plans to mitigate identified risks at all management levels;
- regular monitoring of performance against mitigation plans and assessment of their effectiveness;
- risk monitoring, quarterly reports about risks facing the Group.

Sistema’s senior executives make regular reports on risk management within the Group to the Audit, Finance and Risk Committee and annual reports to Sistema’s Board of Directors.

INTERNAL CONTROL SYSTEM

Internal control procedures employed by the Group involve all levels of governance, including the Board of Directors, its Committees and Management of the Group, as well as the Internal Control and Audit Department.

In February 2015, Sistema’s Board of Directors approved the Policy on the Internal Control System, a top-level document designed to formalise the organisation of internal control as a continuous integrated process involving all of the Group’s subdivisions and governance bodies.

The key objectives of the internal control system are:

- creating control mechanisms that will ensure the efficiency of business processes and the implementation of the Group’s investment projects;
- ensuring the safety of the Group’s assets and efficient use of its resources;
- protecting the interests of the Group’s shareholders and preventing and resolving conflicts of interest;
- creating conditions for timely preparation and submission of reliable reports and other information that is legally required to be publicly disclosed;
- ensuring the Group’s compliance with applicable laws and requirements of regulators.

In accordance with the ‘three lines of defence’ principle, the efficiency of the Group’s internal control system is ensured at three levels (in addition to the Board of Directors and the Group’s top management):

- Level 1: Heads of Functions and employees of the Group are responsible for assessing and managing risks and for building an efficient internal control system;
- Level 2: The Risk Subcommittee, Financial Control Unit, Procurement Control Unit, Security Service, Compliance Control Unit (project support, execution discipline) are responsible for overseeing the implementation of efficient risk management and internal control procedures and for ensuring compliance with standards and regulations;
- Level 3: The Internal Control and Audit Department conducts independent assessments of the efficiency of the internal control system, the risk management procedures and the corporate governance system.

All of the Group’s employees who are responsible for various control procedures bear responsibility for the efficiency of such controls and risk management steps as outlined in their job descriptions and internal regulations.
INTERNAL AUDIT

The body in charge of internal control at the Group and its S/As is the Internal Control and Audit Department, which reports to the Board of Directors (functionally) and Sistema’s President (administratively). The Head of the Department is appointed and dismissed by the President based on resolutions passed by the Group’s Board of Directors after preliminary approval by the Board’s Ethics and Control Committee. The Head of the Department is a certified internal auditor with 15+ years of experience in the field.

The main objectives of the Internal Control and Audit Department are:

- helping shareholders and management improve the internal control system by performing regular audits of the efficiency of the Group’s internal control, risk management and corporate governance systems;
- contributing to the achievement of the Group’s strategic goals in the most efficient ways possible;
- supplying the Group’s management and shareholders with objective information on existing internal risks and their probability;
- enhancing the awareness of the Group’s management about the performance of Sistema Group companies;
- monitoring the achievement of the goals of the shareholders of the Group and Sistema Group companies.

To meet these objectives, the Internal Control and Audit Department carries out the following functions:

- performing independent audits of individual operations, processes and units;
- assessing the efficiency of the internal control system;
- assessing the efficiency of the risk management system;
- assessing the efficiency of the corporate governance system, preventing violation of the law and the Group’s regulations, ensuring observance of professional and ethical standards and preparing recommendations for the improvement thereof;
- developing recommendations to remedy deficiencies identified and monitoring remediation thereof;
- examining and evaluating documents provided with regard to specific investment projects for compliance with current regulations; performing scheduled and unscheduled monitoring of performance against project targets;
- ensuring uninterrupted functioning of the hotline for whistle-blowers;
- administering investigations, including internal ones;
- monitoring compliance with the Group’s internal regulations;
- monitoring the execution of assignments issued by the Management Board and the President of the Group;
- monitoring and investigating instances potentially qualifying as disciplinary violations and/or violations of execution discipline and/or conflict within the Group or Sistema Group companies.

The Internal Control and Audit Department has all the resources and authority required to perform the above functions.

In 2015, the Internal Control and Audit Department conducted 34 scheduled and unscheduled audits to assess the efficiency of internal control and risk management systems. These audits did not uncover any weaknesses or risks that could affect the sustainability of the Group’s business as a whole.

Reports on the results of the activities performed by the Internal Control and Audit Department in H1 2015 and FY2015 were submitted to the Audit, Finance and Risk Committee and to the Ethics and Control Committee of Sistema’s Board of Directors10. A report on the work performed by the Internal Control and Audit Committee in 2015 was made to Sistema’s Board of Directors on 12 March 2016.

EXTERNAL AUDIT

In compliance with the decision of the Audit, Finance and Risk Committee, the Group uses the following procedures to appoint independent auditors for Sistema’s financial and accounting reports. The Committee performs annual assessments of the quality of the audit services provided. If the quality of the services provided by the current auditor is deemed insufficient, the Audit Committee arranges a tender to hire a new auditor. If the quality is deemed sufficient, Sistema reaches out to the current auditor to negotiate a fee for the services to be provided for the next audit period. To ensure the auditor’s impartiality and objectivity, however, Sistema’s Audit, Finance and Risk Committee has decided that a tender for auditing services must be held at least once every five years.

---

10 At a joint meeting of the two committees.
Development of the corporate governance in 2015

In 2015, 13 members were elected to the Group’s Board of Directors, seven of whom qualify as independent directors according to the rules of Moscow Exchange and the Russian Corporate Governance Code.

In 2015, Sistema issued formal regulations to govern the nomination of candidates for the Board of Directors, containing, in particular, a detailed description of the role of the Nomination, Remuneration and Corporate Governance Committee in the process. The Committee is tasked with preliminary assessment of candidates in terms of their independence and capacity to contribute to the work of the Board of Directors. We recommend that shareholders nominating new Board members make sure that such nominees are interviewed by the Committee within a reasonable time frame. The Committee then provides the person having made the nomination with its opinion(s) about the nominee, which may include the Committee’s recommendation as to whether to elect the candidate to the Board.

The Group has broadened the requirements to be imposed on its employees, especially senior management, with regard to observance of ethical business standards and prevention of conflicts of interest. The new mandatory ethics assessment procedure, effective October 2015, requires employees to fill in special Ethics and Conflict of Interest Declarations.

The current Board comprises the following independent directors:

1. Brian Dickie;
2. Patrick Clanwilliam;
3. Robert Kocharyan;
4. Jeannot Krecké;
5. Peter Mandelson;
6. Roger Munnings;
7. David Iakobachvili.

All of the Group’s independent directors have vast experience in managing large organisations and possess strong professional reputations. Independent directors make up the majority of the Board, which ensures the objectivity of their judgments and freedom from the influence of the Group’s management and shareholders when making important decisions.

One of the independent directors, Patrick Clanwilliam, was nominated by a group of minority shareholders of the Group. Upon his introduction to the Nomination, Remuneration and Corporate Governance Committee, the Board of Directors put him on the list of Board candidates for voting by the General Meeting of Shareholders.

In 2015, the Group distributed dividends in accordance with its current Dividend Policy. The dividends totalled RUB 4,535.5 mln, or RUB 0.47 per ordinary share in Sistema JSFC (RUB 9.40 per GDR). The dividend yield as of the dividend decision (27 June 2015) totalled 2.36%.

The Group aligned its corporate governance system with current legal requirements and the new Moscow Exchange Listing Rules. In particular, it modified the definition of «independent director» in the Terms of Reference of Sistema’s Board of Directors and introduced numerous procedural and substantive amendments to the powers of Sistema’s Board committees.
Remuneration policy applied to Board members and senior Management

REMUNERATION POLICY REGARDING MEMBERS OF THE BOARD OF DIRECTORS

Remuneration and compensation payable to members of Sistema’s Board of Directors for the first half of 2015 were calculated in accordance with the Policy on Remuneration and Compensation Payable to Members of the Board of Directors of the Group approved by the General Meeting of shareholders on 30 June 2006 (Minutes No.1-06), as amended by the General Meeting of shareholders on 16 February 2009 (Minutes No.1-09). The Policy provided for the following forms of remuneration:

1. Remuneration for participation in meetings of the Board of Directors and its Committees, including reimbursement of expenses related to participation in Board meetings;
2. Remuneration for acting as Chairman or Deputy Chairman of the Board of Directors, and for chairing Board Committees;
3. Remuneration based on performance during the year (US$ 250,000 or US$ 325,000 depending on whether a director is a tax resident of Russia), half of which was paid in shares;
4. Additional remuneration if the Group’s market capitalisation increased over the year, amounting to 0.1% of the incremental capitalisation.

On 27 June 2015, the General Meeting of shareholders approved a new version of the Policy on Remuneration and Compensation Payable to Members of the Board of Directors of the Group.

Under the updated Policy, a new system of Board compensation comes into effect from corporate year 2015-2016 onward, and comprises the following elements:

1. Basic remuneration of RUB 13.7 mln or RUB 17.8 mln (depending on whether a director is a tax resident of Russia). Basic remuneration is paid to Board members in cash in equal quarterly installments.
2. Remuneration for acting as Chairman (RUB 350,000 per quarter) or Deputy Chairman of the Board of Directors (RUB 140,000 per quarter) and for chairing Board Committees (RUB 70,000 per quarter). Remuneration for additional duties is paid to Board members in cash on a quarterly basis.
3. Additional remuneration of RUB 13.7 mln or RUB 17.8 mln (depending on whether a director is a tax resident of Russia), payable if one of the following investment targets is met:
   • the arithmetic mean of TSR and iTSR exceeds or equals CoE(1);
   • TSR exceeds or equals the change in the Morgan Stanley Capital International Russia Standard index (ΔMSCI); and at the same time iTSR exceeds or equals CoE.

Members of the Board of Directors are reimbursed for expenses associated with performance of their duties, including participation in meetings of the Board of Directors and Board Committees.

The Policy on Remuneration and Compensation Payable to Members of the Board of Directors of Sistema JSFC also includes liability insurance for Board members.

The Group does not grant loans to members of the Board of Directors.

REMUNERATION POLICY REGARDING MANAGEMENT

In 2015, the short-term (up to one year) incentive scheme for senior managers of Sistema JSFC consisted of:

- a fixed monthly salary determined in line with the internal system of job categories (grades);
- bonuses paid for project implementation and generation of cash income. Remuneration is paid based on employees’ individual performance and positive cash flow generated by projects of Sistema’s Investment Portfolios and Functions and Departments. Payments may amount to up to 20% of cash income generated in excess of the target.

In 2015, the long-term (more than one year) incentive scheme for senior managers of Sistema JSFC was part of a three-year incentive programme (2015-2017). The programme is aimed at increasing Sistema’s shareholder value and creating additional incentives for long-term employment and good corporate relations between the Group and its management.

(1) This target was met in 2015, since the arithmetic mean of TSR and iTSR for the year is 26.9% and CoE is 14.6%. CoE stands for the minimum rate of return that a company ought to provide to its shareholders for the risk they take. CoE is calculated as the sum of a risk-free rate of return (e.g. the return on government bonds) and a premium for the risk related to investing in the stock market, taking into account the capital structure of the asset and country-specific risks.
Participants are assigned a certain number of phantom shares that are transferred to them in installments, upon achievement of targets set by Sistema’s shareholders. Share transfers take place annually over the course of five years from the launch of the programme. No extra compensation above the level stipulated by Russian labour legislation is paid to the President or other senior executives in case of termination of employment. Sistema does not pay remuneration to members of executive bodies for serving on the Management Board. The Group does not grant loans to senior executives.

**REMUNERATION PAID TO SISTEMA’S BOARD AND MANAGEMENT IN 2015(1)**

**Members of Sistema’s Board of Directors** received the following remuneration for 2015:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash remuneration</td>
<td>RUB 630,769,427(2)</td>
</tr>
<tr>
<td>Remuneration in the form of Sistema’s ordinary shares</td>
<td>RUB 187,381,041</td>
</tr>
<tr>
<td>Reimbursement of expenses incurred by Board members in connection with their duties</td>
<td>RUB 2,771,634</td>
</tr>
</tbody>
</table>

**Members of Sistema’s Management Board** received the following remuneration for 2015(5):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash remuneration</td>
<td>RUB 2,639,907,058</td>
</tr>
<tr>
<td>Remuneration in the form of Sistema’s ordinary shares</td>
<td>RUB 632,975,030</td>
</tr>
</tbody>
</table>

---

1. All figures in this section are given before applicable income tax.
2. The amount represents total remuneration paid to all members of the board for the 2014-2015 corporate year, being the ruble equivalent of fixed amounts in US$, calculated at the Russian Central Bank’s exchange rate on the date of payment (see above in this section).
3. Excluding members of Sistema’s Board of Directors who were also members of its Management Board.
4. The ruble equivalent of fixed amounts in US dollars, calculated at the Russian Central Bank’s exchange rate on the date of payment (see above in this section).
5. Including the President of Sistema JSFC.
6. Bonuses for 2015 were paid to Sistema’s employees in January 2016.
Social responsibility

Because of the significant impact it has on the development of a number of Russian industries, as well as society and the environment more broadly, Sistema JSFC sees corporate social responsibility (CSR) as a strategic platform for sustainable development that enables it to combine doing business successfully in its market sectors and geographical regions of operation with basic human values and needs.

1.35 RUB bln
Sistema’s social investments

TOP-5 ranking
Leaders of Corporate Charity

RESPONSIBLE INVESTOR
In its investment activities Sistema is guided not only by financial and economic parameters but also by environmental, social and governance (ESG) factors to ensure that the interests of all stakeholders are protected: shareholders and investors, government, employees, consumers, partners and suppliers, local communities and NGOs.

Sistema’s CSR principles include:

Making efficient investments in the development of manufacturing facilities aimed at enhancing Sistema’s competitiveness to benefit both its business and Russia’s economy as a whole

Building mutually beneficial relationships with interested parties based on business ethics

Contributing to the development of local communities by building mutually beneficial partnerships in regions where the Group operates

Ensuring occupational safety and investing in human potential

Improving living standards through innovative business development and the adoption of new technologies

Openness and transparency, and development of social reporting

Protecting the environment
As a signatory to the UN Global Compact, Sistema fully abides by the Compact’s principles of responsible business practices in the areas of human rights, employment relations, environmental protection and zero tolerance to corruption. Sistema’s contributions towards achieving the global sustainable development goals adopted by the 70th UN General Assembly in September 2015 focus on the following key areas:

<table>
<thead>
<tr>
<th>UN sustainable development goal</th>
<th>Contribution of Sistema JSFC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.</td>
<td>Investing in human capital and education, and supporting and providing vocational training to young people are among Sistema’s top priorities. Sistema’s flagship CSR programme Lift to the Future is a long-term project aimed at creating a pool of future talent for high-tech and knowledge-based industries.</td>
</tr>
<tr>
<td>Ensure healthy lives and promote well-being for all at all ages.</td>
<td>Sistema Group includes Russia’s biggest private chain of clinics, Medsi, which uses modern diagnostic and treatment methods aimed at promoting a healthy lifestyle, including the flagship project Be Healthy with Medsi!</td>
</tr>
<tr>
<td>Ensure access to affordable, reliable, sustainable and modern energy for all.</td>
<td>Sistema’s subsidiary Bashkir Power Grid Company (BPGC) is implementing a unique project to upgrade the Ufa city power grid infrastructure using Smart Grid technologies. The use of the latest technologies, including the creation of highly integrated smart next-generation power grids, is designed to enhance reliability and efficiency of energy transportation and to reduce power losses.</td>
</tr>
<tr>
<td>Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.</td>
<td>Sistema and its subsidiaries provide jobs for about 0.2% of Russia’s total workforce by creating favourable conditions for employment and providing professional development for employees. The Group focuses on improving management competences in high-tech and knowledge-based industries by working with the Moscow State University’s Higher School of Management and Innovation, whose graduates go on to work in the global market of innovative products and services.</td>
</tr>
</tbody>
</table>
Responsible investor

Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.

Sistema Group includes a number of high-tech companies implementing telecoms and electricity infrastructure projects, and developing and manufacturing knowledge-based products in segments such as microelectronics and radio technology. To help drive the modernisation of the Russian economy, Sistema joined efforts with Rosatom, the Russian Federal Nuclear Centre VNIEF and RUSNANO to develop the Sarov Technopark project. The project is implementing a unique public-private financing programme and serves as a platform for Innovation Technology Center Sistema Sarov, a Sistema R&D centre. In 2015, the number of Technopark residents reached 60, with total staff numbers exceeding 730 and total revenue of RUB 1.2 bln. Sarov Technopark mostly specialises in information technologies, energy efficiency, sensors and automation, and new materials.

Make cities and human settlements inclusive, safe, resilient and sustainable.

Sistema and its subsidiaries are developing and implementing high-tech solutions aimed at creating a smart and safe environment across Russia. For example, Sitronics KASU has developed a comprehensive automated security system and intelligent transport systems for the city of Moscow.

Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

Sistema Group includes Segezha Group, one of the largest forest users in the European part of Russia, which pursues an active reforestation policy in its regions of operation. More than 94% of the forest leased by Segezha has been certified under the international environmental standards adopted by the Forest Stewardship Council (FSC).

To support biological diversity Sistema is participating in a project to research and conserve the population of Amur leopards, one of the rarest leopard subspecies on our planet and classified as critically endangered.

In 2015 Sistema won the Investment Angel 2015 global investment award in the category For contributions to achieving the UN Sustainable Development Goals. The award was established in 2011 by the World Organisation for Development, an international non-governmental organisation that has special consultative status with the UN Economic and Social Council.

Sistema JSFC is one of the largest taxpayers in Russia, paying RUB 88.4 bln into federal and regional budgets in 2015. As part of its activities in Russia’s regions, Sistema entered into new agreements on social and economic cooperation with the local governments of the Arkhangelsk, Vologda, Irkutsk and Kirov regions to implement joint initiatives and projects based on public-private partnerships aimed at facilitating economic and social development and promote investments.

The Group 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). Reports on corporate social responsibility and charitable activities are regularly reviewed by Sistema’s Board of Directors, which determines strategic goals and assesses the efficiency of the Group’s social investments. Overall guidelines for responsible business practices are determined by the Code of Ethics, which was revised by the Group’s Board of Directors on 31 October 2015. Sistema’s social responsibility and charity policies were also amended to include anticorruption procedures.

To improve CSR activities and sustainable development, strengthen integration between subsidiaries and implement best CSR practices, in July 2015 Sistema and MTS conducted a joint seminar on CSR as a platform for sustainable business development, which was attended by more than 50 representatives of Sistema subsidiaries. During the seminar Sistema presented the results of the CSR audit of Sistema Group conducted in 2015, and named the best CSR projects of its subsidiaries.
In 2003, Sistema JSFC established Sistema Charitable Foundation (SCF), which today is one of the 10 biggest charitable organisations in Russia and which serves as Sistema’s main social investment tool. The key objective of SCF is to ensure maximum efficiency of the Group’s social and charitable investment. SCF develops a social investment policy; organises large-scale corporate programmes; raises necessary funds; forms a portfolio of projects encompassing science and education, culture and art, conservation of cultural heritage, healthcare and social support, fitness and sports; and oversees the implementation of such projects. The Foundation gives priority to large-scale infrastructure projects that are implemented across Russia and deliver significant improvements in the social sphere.

In 2015 SCF invested more than RUB 540 mln in charity projects; Sistema Group’s total social investments reached RUB 1.35 bln.

In 2015, Sistema ranked fifth in the Leaders of corporate charity rating published by Vedomosti, Russia’s leading business newspaper, the Donors Forum and PwC, while two projects were nominated in the best charity programme awards: a project to support the State Russian Museum in St Petersburg came second in the category Best programme aimed at supporting modern arts and culture, while Sistema Charitable Foundation took third place in the category Best programme promoting the development of volunteering in Russia.
Lift to the Future: innovations and talents for high-tech industries

One of Sistema’s social investment priorities is the development of science, education and culture. For five years the Group has been running a flagship CSR programme Lift to the Future designed to help talented young people choose a profession, undertake research and implement pilot projects.

By providing support to talented young people and their mentors carrying out research projects in natural sciences, engineering and technology, Lift to the Future facilitates the development of high technologies in Russia and helps to build a pool of future talent for high-tech Russian companies, including Sistema Group subsidiaries. The nationwide programme was launched in 2011 in partnership with Moscow State University; the following year it secured the backing of Russian President Vladimir Putin as part of cooperation between Lift to the Future and the Agency for Strategic Initiatives (ASI). Today the project enjoys the support of regional governments in 11 regions of Russia, and accepts entries from school children and university students from across the country.

Fourteen Sistema subsidiaries were among the key partners of Lift to the Future in 2015. Representatives of Sistema, RTI, Sarov Technopark, NIIME and Mikron, MTS, BPGC, Business Nedvizhimost, Detsky Mir, Binnopharm, Medsi, Targin, Stream, MGTS and Leader-Invest took part in events organised as part of the programme, including lectures, master classes and appraisal of projects in areas including information and communication technologies, healthcare and biotechnologies, transport, manufacturing technologies and new materials, the living environment and energy.

The System of Priorities annual national contest of youth projects attracted entries from more than 1,000 high school and college students across over 40 regions of Russia. The winners received grants to help them attend training events organised by Lift to the Future schools. In 2015, project leaders organised three training programmes in national youth camps located in Anapa, Stupino and Crimea that attracted 750 participants from all over Russia. Several other contests were organised as part of Lift to the Future, including:

• an award for the best teaching methodology (13 winners);
• a contest for students, young researchers and post-graduates (58 award-winning projects);
• a contest of student start-ups (four projects were granted access to the Business Incubator at Plekhanov Russian Economics University);
• the Step to Success programme of work placements for young professionals.

The best projects were presented at the nationwide Future Intellectual Leadership of Russia forum in Yaroslavl.

In February 2015, SCF and the non-profit partnership Chess in Schools signed an agreement on facilitating the inclusion of chess in Russian school curriculums, developing school books and teaching materials and organising chess tournaments for young people. In July SCF became a partner of International Chess Day in Moscow under the patronage of FIDE President Kirsan Ilyumzhinov.

For several years SCF has been working with the European University at St Petersburg, one of Russia’s leading private post-graduate institutions. In 2015, SCF supported the University’s programme aimed at facilitating promising educational initiatives and helping Russia’s leading research and education centres.

Sistema’s subsidiaries are also implementing large-scale youth vocational training initiatives, and supporting education and innovations. MTS, Medsi, Detsky Mir and Kronshltdt Group became partners of KidZania, Europe’s largest training project for children, launched in Moscow in December 2015. The companies established interactive training zones that enable young visitors to acquire real professional skills.

MTS Group joined forces with some Sistema subsidiaries (MTS Bank, Medsi, Stream, etc.) to develop Telecom Idea, a cross-functional platform aimed at finding and supporting talented young people working on ICT projects for the private and public sectors of the Russian economy.
Since 2011, about 900 teams have taken part in a youth innovations contest organised by Telecom Idea, and more than a dozen of projects have been granted support. Telecom Idea’s geographical footprint and partner network continues to grow. In 2015, Telecom Idea organised an IT start-up competition in Belarus, while the Russian competition was integrated with the national GenerationS technology start-up accelerator sponsored by Russian Venture Company (RVC). Projects selected after a multi-stage appraisal were granted considerable fundraising opportunities.

In March 2015, Sistema, MTS and SSTL in cooperation with the Higher School of Economics and Moscow Skolkovo School of Management held an International Youth Innovations Summit to discuss state-of-the-art technologies and prospects for collaboration on telecom innovations. The summit was attended by the winners of the Telecom Idea India competition, Russian participants of previous Telecom Idea contests, college students and teachers and employees of R&D centres, young developers of breakthrough technologies and entrepreneurs from the two countries. The winners of the Indian competition of 2014 were invited to Moscow to take part in an educational telecom tour, while the Russian winners of the fifth Telecom Idea competition went on an educational tour to Israel. MTS also ran the Telecom Idea junior competition for 7th-to-11th-grade schoolchildren for the second time. Participants from Moscow, the Moscow and Samara regions, Chita, Nizhny Novgorod, Barnaul, Taganrog, Pyatigorsk and Osninsk created models of a city of the future using modern information and communication technologies to make the city environment more comfortable, convenient, safe and environmentally friendly. The winners of the competition were enrolled on the Lift to the Future school programme enabling them to finalise their projects under the guidance of experienced mentors.

For many years RTI Group has been running a project aimed at creating a pre-university training system to prepare highly qualified specialists. A comprehensive programme for schoolchildren, students and young specialists runs in cooperation with specialised training facilities is designed to provide participants with vocational training under the auspices of RTI, to involve schoolchildren in projects, to create and support school classes specialising in engineering, and to provide tutoring to students entering technical universities (Moscow Institute of Physics and Technology, Moscow Aviation Institute, Moscow State Technical University and Moscow Institute of Radiotechnics and Electronics). The Intellectual Information and Radiophysical Systems Department of the National Research Institute (Moscow Institute of Physics and Technology) has become a leader in providing R&D, training and HR support for all subsidiaries of RTI. To stimulate the R&D work of its employees, the company grants an annual award for outstanding achievements in theoretical and applied research. RTI’s subsidiary NIIME and Mikron provides vocational training to young people in Zelenograd and elsewhere in Russia on a regular basis. As part of the vocational training programme the company conducted 25 educational tours for more than 500 young people during 2015.

In 2015, oil services holding Targin and BPGC signed an agreement with Ufa State Oil Technology University to work together on education, research and innovations, vocational training and career guidance for graduates. Targin also signed an agreement with the Skolkovo Foundation on establishing an R&D centre. To find promising innovative solutions and develop the skills of start-up teams implementing high-tech projects, Targin also became a partner of the Russian Startup Tour (RST) organised by the Skolkovo Foundation, the Federal Agency for Youth Affairs, the Foundation for Assistance to Small Innovative Enterprises in Science and Technology, the Association of Innovative Regions of Russia, the Agency for Strategic Initiatives, RVC and the Rusnano Fund for Infrastructure and Educational Programmes. Medsi Group was a key partner in the Digital Health open discussion panel organised by the Higher School of Marketing and Business Development at the Higher School of Economics to stimulate the digital medicine market in Russia by exchanging knowledge and by involving the expert medical community, innovators and investors in the search for new ideas.

As part of its partnership with the Smile Foundation, SSTL provides support to the Mission Education programme by granting access to mobile broadband Internet services to underprivileged children from 23 educational facilities in India. This unique project was launched in 2012 and had provided support to more than 16,800 children by the end of 2015.
Taking Care of Veterans - social partnership and preserving the memory of the Second World War

Sistema’s social policy aims to improve the quality of life of and provide support to underprivileged social groups. To mark the 70th anniversary of the end of the Second World War, Sistema launched a comprehensive programme to support war veterans and preserve the historical memory of the bravery of the Russian people.

In May 2015, a trilateral agreement was signed by the Moscow Government, the Moscow City Council of War, Labour, Armed Forces and Law-Enforcement veterans and Sistema JSFC. The signing of the agreement paved the way for a comprehensive social partnership between the government, the business community and NGOs to support war veterans and provide patriotic education for young people in Russia.

An important area of cooperation is the Taking Care of Veterans programme launched by SCF, the Moscow Social Security Department, the War Veterans Council and Medsi Group. Under the programme, more than 500 war veterans received free healthcare services at Medsi clinics and a special two-week rehabilitation course at the Medsi Otradnoye sanatorium in Moscow region.

Ahead of the Victory Day celebrations marking the end of the Second World War on May 9, the Group organised another volunteer campaign, Aid to Veterans. More than 200 Sistema employees volunteered to visit over 100 veterans in Moscow, Khimki, Mytishchi, Shchelkovo, Noginsk, Krasnoarmeysk, Egoryevsk and Tomilino to deliver special food baskets, help around the house and record the veterans’ war stories for future generations. MTS Group then published a collection of more than 300 such stories in The Book of Memory. Several printed copies of the book were given to the library of the State Historical Museum.

As part of the Live History educational project, more than 1,000 children from orphanages in Moscow and the Moscow, Vladimir and Tver regions were taken on free excursions organised by SCF and Sistema volunteers at the Central Museum of the Great Patriotic War of 1941-1945, the Central Army Museum and the Central State Museum of Modern History.

Large-scale celebrations were organised for war veterans around Victory Day. On 28 April, veterans were invited to Sistema’s traditional reception at the Palace of Scientists, which this year for the first time included a gifting ceremony.

The veterans received personal certificates from SCF towards much-needed household appliances of their choice. On 16 May, Sistema and MTS together with the War Veterans Council organised a charitable concert, Victory Fireworks, at the Central Museum of the Great Patriotic War at Poklonnaya Hill that was attended by more than 250 veterans from 12 administrative districts around Moscow. Sistema was also a partner of the Wings of Victory programme that honoured air and space veterans during the official opening ceremony of the MAKS-2015 International Aviation and Space Salon in the Moscow region town of Zhukovsky. As part of another campaign, Victory Garden, volunteers of the Group helped to clean up the grounds of four orphanages in Moscow and the Moscow and Tver regions and organised meetings between children and war veterans.

More than 400 employees of Sistema Group’s companies took part in these and other activities devoted to Victory Day.
For many years, Sistema and SCF have taken part in large-scale projects aimed at promoting Russian culture, preserving historical monuments and art, and developing inter-cultural relations. SCF supports leading Russian museums, musical bands and theatres, finances restoration of architectural monuments, and helps children’s cinema.

Since 2003, the bulk of Sistema’s social investment in the cultural sector has gone to the State Russian Museum in St Petersburg, one of the country’s most prominent art centres with an outstanding collection of Russian decorative arts. The Group annually provides up to RUB 30 mln to the Museum, in accordance with a long-term agreement that runs through 2023. The partnership has helped the Museum create a unique chain of virtual branches that serve as information and education centres, and a state-of-the-art Multimedia Centre in the Western wing of St Michael’s Castle. The goal of the project, which has been supported by SCF and MTS, is to acquaint a broader audience with Russia’s cultural values and history by offering free access to digital materials and to create a single cultural and information space by using the latest computer technologies. In 2015, the Russian Museum opened 20 new virtual branches in Russia and abroad (Chile, Romania, Spain and Cuba), bringing the total number to 177.

Yet another outstanding joint project between SCF and the Russian Museum is the annual international Imperial Gardens of Russia festival of garden art. In 2015, the festival was devoted to the countries of the Great Silk Road. Expositions created at St Michael’s Garden in July represented Asian Pacific countries, Central Asia, the CIS and Russia. On 5 September, the International Day of Charity, the Russian Museum and Sistema’s volunteers organised an educational game for St Petersburg residents in the famous Summer Garden.

From 23 April to 6 July 2015, the Russian Museum hosted an exhibition called The Sacred War. Art of 1941-1945 to showcase works created by Soviet artists during WWII. The exhibition was organised with support from Sistema and SCF. On the day of the official opening of the exhibition, Sistema and volunteers from MTS and Stream organised a reception for war and home-front veterans and survivors of the Siege of Leningrad. The first to visit the exhibition were residents of War Veterans Nursing Home No. 2 and the M.A. Savina Nursing Home for Retired Actors, who were given a personal tour, received gifts and had the opportunity to make free calls to their war comrades and relatives in other cities.

The Group contributes significantly to the preservation and restoration of sites of historical and cultural heritage in Russia’s regions. Since 2014, SCF has supported the Valaam Museum and Reserve of Church Archaeology, and has helped to restore one of Russia’s oldest architectural monuments and religious centres, the Transfiguration Cathedral of the Valaam monastery in Karelia. Donations collected over the two years totalled RUB 25 mln. The money has been used mainly to refurbish the central estate and territory of the monastery. SCF also assisted in organising in 2015 the first St Vladimir the Enlightener Valaam Festival of Orthodox Singing, devoted to the 1,000th anniversary of the death of Prince Vladimir, who brought Christianity to Rus’ in the 10th century.
Corporate volunteer movement

Sistema’s corporate volunteer movement has gained prominence across the Group as an important activity platform for HR and CSR purposes, a tool for social and charity projects, and a powerful non-financial motivator. For many subsidiaries, corporate volunteering has become part and parcel of corporate culture, with the average rate of engagement in voluntary activities increasing by half, to roughly 7% of total headcount, which matches the maximum rate of volunteering among Russians (according to data from the Public Opinion Foundation)(1).

The rapid proliferation of volunteering is primarily due to the hard work of SCF’s Volunteer Centre, established in June 2014 as an integrator and coordinator of general corporate volunteer projects. The Centre ran 55 volunteer campaigns in 2015, attracting more than 500 volunteers from Sistema and 11 subsidiaries and associates, and serving 8,200 beneficiaries, while also bringing in 16 social partners.

Sistema’s largest volunteer event of the year was a major clean-up at Medsi’s Otradnoye Sanatorium on 30 May 2015, dubbed Sistema’s Energy and dedicated to the 70th anniversary of the end of the Second World War. More than 2,000 participants – families of employees of Sistema and its 27 subsidiaries and associates – came to freshen up and landscape the garden around the sanatorium, which is known for its care programmes for war veterans. Sistema senior executives teamed up with representatives of the War Veterans Council to lay the memorial Victory Alley. Volunteers organised a celebratory concert for veterans of the front line, and arranged master classes, sports games, a puppet show (by the Detsky Mir volunteer puppet theatre) and other healthy open-air activities for children.

In addition to support for war veterans and the Victory Day campaigns, the Group’s volunteers traditionally have a heavy focus on helping underprivileged children and providing socialisation and career guidance to children in orphanages sponsored by Sistema. Fundraising by the Group’s volunteers and donations by MGTs, MTS, Medsi and SCF helped Zhuravushka, a care home for disabled children in Moscow region surrounded by 4 ha of untended garden land, to acquire a much-needed but costly mini-tractor (RUB 500 th.). To help the children further, SCF invited Paralympic champions to Zhuravushka to arrange a sports event called Equal Abilities Day.

To give career guidance to children from seven orphanages that it supports, SCF joined forces with Stroganov Moscow State University of Arts and Industry, RT and the National News Agency to conduct 10 special events offering lectures, master classes and tours, with dozens of children being given a wonderful opportunity to undertake internships at a radio station and a news agency.

Among the largest charity campaigns of 2015 were Backpack for a First-Grader and The Wishing Tree. To help orphans start off the new school year, corporate volunteers organised a giving campaign and collected more than RUB 1 mln worth of school supplies (more than 50,000 items) for children from 25 orphanages in and around Moscow and in the Central and Northwestern Federal Districts. For a true New Year’s experience, donors from Sistema companies collected and delivered more than 800 gifts for children at eight orphanages in Moscow, Tver, Vladimir, and Yaroslavl.

To celebrate Children’s Day, SCF in concert with Medsi and Hospital Clowns staged a performance of Doctor Aybolit at the Moscow International House of Music for 300 mentored orphans as well as children from large and disadvantaged families and children suffering from hard-to-manage ailments. During the autumn school break (15 October), SCF provided orphans with tickets to Generation Mowgli, a musical staged at the Grand Kremlin Palace as a joint project by MTS and Konstantin Khabensky’s Charitable Foundation.

(1) Source: The Public Opinion Foundation
The campaign had a double social effect: proceeds from ticket sales to third-party guests went towards treating cancer in children, while 500 tickets worth more than RUB 700 thousand were distributed among orphanages in and around Moscow. In December, SCF arranged an annual charity New Year party at the Maly Theatre for 700 children from 12 care institutions in Moscow and Tver. In addition, SCF’s Volunteer Centre teamed up with the Hospital Clowns non-profit to deliver New Year greetings to 90 children with cancer and other grave conditions forced to spend the festive season at the Moscow Region Cancer Treatment Centre, and in clinics and hospitals.

The Volunteer Centre was awarded the 2015 Good Cause Champions national prize established by the Managers’ Association and the National Council for Corporate Volunteering (supported by the Economic Development Ministry) to encourage corporate volunteering.

Sistema’s subsidiaries also have their own regular volunteer campaigns. For example, MTS Bank and Detsky Mir ran a special New Year party for underprivileged children at the Moscow Railwaymen’s Concert Hall. The event was visited by about 450 children from care institutions from Moscow and Smolensk, including disabled children. MTS volunteers staged a show, while Detsky Mir provided gifts. Medsi’s volunteers had a busy year, taking part in various events aiming at social inclusion of children with special needs, including Galafest, Russia’s only arts festival for children promoting inclusion and disability rights, organised by Galchonok, a charitable foundation.

Support of junior disability sport is an important area of focus of the Group’s social citizenship programmes. SCF is a long-standing sponsor of Olympro, a unique football team of disabled adults that achieved strong results in major championships during 2015 including the 19th National Championship, the Caucasus Cup and the European Cup (qualification games).

MTS and Detsky Mir teamed up with the Perspektiva regional union for the disabled to set up Solidarity Cup, Russia’s first charity futsal tournament, to promote employment of young disabled people. Held at the prestigious Locomotive soccer club, the tournament brought together teams from specialised schools and big business.

During a visit to Karelia in February 2015, Chairman of the Board of Directors of Sistema Vladimir Evtushenkov donated a RUB 500,000 gift voucher to a sports school in the town of Sortavala to purchase skiing equipment.

In May 2015, SCF signed an agreement with the National Sambo Federation to cooperate in organising a National Sambo Day. Events to promote this national sport took place on 15-18 November 2015 in more than 100 towns and cities across Russia. The Foundation was also a general partner of the President’s Sambo Cup in Manchester.
Sistema’s strategic approach to CSR is based on the principles of synergy and shared values, and aims to involve as many subsidiaries as possible to help causes that address social issues while also helping develop the Group’s businesses.

Clear examples of clever “social marketing” helping to expand the customer base and to boost client loyalty include MTS’s signature projects launched several years ago to promote internet literacy among the younger and older generations. Children and the Internet, interactive exhibitions promoting internet safety, have toured Novosibirsk, Penza, and Kaliningrad, reaching a total audience for web-themed events over the past five years (exhibitions, elementary school classes, master classes for teachers, and public teacher-parent meetings) of more than 320,000 children, parents and teachers. As part of All Ages are Online, a project designed to help elderly people learn to use modern information technologies and useful online services, MTS designed a special learning course dubbed Mobile Academy to promote mobile and online services among potential smartphone users aged 50+. The course attracted more than 15,000 learners over three years.

In August 2015, BPGC and the Bashkortostan Ministry of Education signed a new agreement to cooperate in preventing electrical injuries in children in the upcoming academic year. In 2015 alone, company officers taught more than 350 extracurricular power safety classes at secondary schools across Bashkortostan, reaching out to roughly 5,250 students. BPGC commissioned a six-episode educational cartoon mini-series addressing power safety, which in turn later inspired a theatre play that toured Ufa, Kumertau, Belebei, Neftekamsk, Sibai and Beloretsk. Called Safe Childhood, the project has had an outstanding effect, with not a single child suffering an injury on BPGC’s power lines in the entire year 2015.

Medsi launched its Be Healthy with Medsi project to promote healthy lifestyles among corporate customers and partners, with leading doctors and fitness coaches delivering free lectures, master classes and consultations to employees of companies who care about the health of their staff. In 2015 the project was rolled out across Sistema Group companies: MTS, MGTS, MTS Bank, Stream, NVision Group, SG-trans, Detsky Mir, and OZON Group. Far from being Medsi’s only social project, Be Healthy with Medsi is complemented by numerous efforts to raise public awareness of healthy living and prevention of dangerous ailments, such as School for Mums and School for Happy Parents, which offer free consultations and lectures on how to keep kids healthy and nurture wholesome habits. For example, in May 2015, Medsi Group teamed up with La Roche-Posay in a campaign dedicated to Global Melanoma Prevention Day, inviting people for free screening examinations for skin cancer and consultations with dermatologists.

>335 th. people
of MTS educational campaigns within 5 years

145 RUB mln
Donated Detskiy Mir to charity
Meds’s Blagoveshchensky paediatric clinic organised an unusual sports event, an infant swimming championship, to mark National Children’s Day. The event involved more than 20 children aged from 4 months to 3.5 years, including from pre-schools and child development centres in and around Moscow. The company also took part in a Christmas charity event, Heartwarming Bazaar, with Medsi’s best cardiologists, neurologists, breast physicians, paediatric ophthalmologists and paediatric exercise therapists providing free instant screenings and consultations for everyone, and volunteers offering master classes in arts.

As a programme evolving its remote banking system while also promoting charitable giving, MTS Bank now offers users of its online banking system and mobile app a feature that enables online fee-free contributions to Sistema Charitable Foundation. The first fundraising project promoted via remote banking channels was Backpack for a First-Grader. In addition, MTS Bank continued its efforts to raise financial literacy nationwide, conducting a series of learning events on digital technology in banking and personal finance management at NAUKA 0+, a national science festival organised with support from the Ministry of Education, and acting as a partner for a national knowledge competition among high school students on the topic of financial markets and basic consumer rights.

A company undergoing massive regional expansion, Detsky Mir designed a large-scale charity giving campaign, Participate!, whereby customers are invited to donate Detsky Mir goods to help underprivileged children. The company has also opened numerous game rooms at paediatric hospitals. In 2015, Detsky Mir donated RUB 145 mln (in cash and goods) to charity and relief efforts. Detsky Mir sponsors 450 social institutions in more than 150 cities and towns in Russia and Kazakhstan. Over 2015, it opened 58 game rooms in 20 hospitals and social institutions in 12 cities: St Petersburg, Kaliningrad, Kazan, Smolensk, Tula, Rostov-on-Don, Perm, Ivanovo, Nalchik, Pskov, Yaroslavl and Tomsk. Previously, game rooms had been set up in paediatric hospitals in Moscow, Bryansk, Kurgan, Petrozavodsk, Ryazan, the Vladimir region, Tver, and Dzerzhinsk.

Detsky Mir also supports Russian producers, encouraging them to market affordable, high-quality Russian-made products. The company has a partnership with the Ministry of Industry and Trade to run a nationwide contest for the best school uniform designs. The winner will be offered to sign delivery contracts with the chain.
Green economy and environmental protection

Sistema boosted its environmental activity in 2015, introducing a number of new shared value projects. In line with the Group’s aim of promoting green lifestyles and mitigating environmental impact, Sistema’s companies pursue numerous environmental initiatives that benefit nature and business alike.

Sokol WP, a Segezha Group company, started producing a new type of bioenergetic fuel: the wood brick. It is free from toxic contaminants, leaves less than 1% ash when burnt, and is superior to brown coal and regular wood in terms of calorific capacity (nearing that of black coal). The company’s immediate plans include an energy-saving project to produce fuelwood pellets, potentially for export to Europe.

Segezha’s investment in modernisation and business expansion also pursues the good cause of forest care. An environmentally minded timber producer, Segezha invests considerable resources into regenerating logged forest areas. In 2015, it regenerated more than 12,000 ha of forestland, spending over RUB 96 mln on restoration and fire safety. The company’s rented forest reserves and supply chains are certified by Forest Stewardship Council (FSC), an international non-commercial and non-governmental organisation that promotes responsible management of the world’s forests. As of year-end 2015, Segezha held 16 certificates (nine in forest management and seven in supply chains) covering 99.5% of the company’s forest reserves.

Other Sistema companies also use Segezha’s eco-friendly products. Detsky Mir stores now offer shoppers eco-friendly paper bags that decompose organically and are easily disposable. The project started as a pilot in December 2015, with 358,000 bags distributed among Detsky Mir stores in and around Moscow. Part of the proceeds from sales will go to the Detsky Mir Charitable Foundation.

MGTS, an MTS Group company, is slashing paper consumption and developing remote service channels. The company launched a joint project with the World Wide Fund for Nature to encourage Muscovites to help reduce tree-felling by switching from paper to electronic billing and making donations to finance forest restorations. Every 100 rubles donated will help WWF Russia plant 10 trees. MGTS plans to transfer 1% of its printing savings to the Fund. More than 500,000 MGTS subscribers have already switched to electronic billing.

Sistema, MTS and RTI for the first time took part in the environmental campaign Recycle to Save Forests, promoting responsible forest management by organising waste paper collection at their offices (in an effort dubbed FSC Friday). Sistema Group won this year’s competition among commercial organisations, collecting 1,650 kg of paper, enough to save 28 trees, 11,500 litres of water and 6,600 kW of electrical energy, and to prevent emissions of 2,805 kg of carbon dioxide. MTS collected most paper among individual companies.

Far from being an environmental newcomer, MTS has spent years promoting its own Eco Office programme to promote rational utilisation of electrical power and consumables for office equipment, separate waste collection, green waste-disposal methods, and more broadly environmental friendliness. In 2015 MTS was named in the top-five companies in Green Offices of Russia, a ranking published by Greens Eco Bureau in collaboration with WWF Russia.

MTS consistently introduces alternative energy sources to supply power across its national network. In May 2015, the company commissioned a solar-powered base station in Primorye (Far East), followed by Russia’s first-ever hydrogen/air powered LTE base station in Noginsk (Moscow region), launched in December. The new power system is eco-friendly and compact, and has five times the service life of standard solutions. Windmills are used to supply power to MTS’s base stations on the shores of the Barents Sea and Onega Lake in the Northwest, the Lago Naki plateau in the Western Caucasus, the Kitovoye Rebro mountain pass on the coast of the Sea of Japan, in the Urals, and in the Yamalo-Nenets Autonomous District. Base stations in the Chekhovsky district of the Moscow region are powered by generators using hydrogen fuel cells, while those in southern Russia use solar batteries.

Resources used in 2015
(Corporate Centre data)

<table>
<thead>
<tr>
<th>Resources</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>RUB th. (VAT incl.)</td>
</tr>
<tr>
<td>Heating, Gcal</td>
<td>3,465.44</td>
<td>5,256.47</td>
</tr>
<tr>
<td>Electricity, th. Kw</td>
<td>2,684</td>
<td>9,069.52</td>
</tr>
<tr>
<td>Total:</td>
<td><strong>14,325.99</strong></td>
<td><strong>17,012.59</strong></td>
</tr>
</tbody>
</table>
NIIME & Mikron, an RTI Group company, implemented a comprehensive energy management system certified according to ISO 50001:2011, an international energy management standard. Mikron was among the first Russian businesses to adhere to the standard and has by now been re-certified based on a favourable audit opinion from Bureau Veritas Certification. Over four years of use, the system has allowed Mikron to cut electric power consumption by 27.2%, heat power consumption by 15.5%, and installed electrical load by 27.3%. Another area of the company’s conservation focus is production of cutting-edge energy-saving microelectronic products (such as LED drivers) meeting the highest environmental standards.

Mikron was among the leading organisers of Bike to Work, a social campaign to encourage staff of large companies in Zelenograd (Mikron’s home town) and other town residents to swap their cars and public transport routes for bikes, if only for a day. The idea was to prove that bicycles could be an efficient alternative to other means of transport, along with their obvious benefits such as improvement of physical fitness, eco friendliness and avoiding traffic jams. The event attracted 400 people, including 73 employees of Mikron.

OZON Green is another project within Sistema Group that promotes responsible consumption. The online marketplace Ozon.ru offers shoppers a range of energy-saving and eco-friendly products along with a special page of useful daily tips on how to live green, a feature that attracted over 6,000 new customers in 2015 alone. The company not only promotes environmentally friendly lifestyles, but also supports social entrepreneurship through partnership with a project titled Naive?Very, an online marketplace for products made by disabled artists.

Since 2012, Sistema has supported the non-profit organisation Far Eastern Leopards, making yearly donations to preserve and restore the population of this rare species in Primorye, carry out biotechnical interventions, purchase new materials and build necessary infrastructure in The Leopard Land national park.

Another beneficiary of Sistema’s relief effort is the Russian Geographic Society (RGS), one of Russia’s oldest civic organisations, tasked with research and preservation of the country’s natural riches and Sistema’s partner of five years. In 2015 alone, Sistema donated RUB 10 mln to RGS. The money went towards several research projects, such as integral environmental assessment of communities and regions of Russia and assessment of the environmental, geological and chemical condition of the mouth of the River Don.

By participating in RGS’s 2015 grant scheme, Sistema financed the publishing of the first-ever electronic atlas of Karelia and a handbook and audio lectures on the geography of the Chuvashia region for the visually challenged, a large-scale student research expedition in Bashkortostan From the Ik to the Jayiq, a youth ecology and geography expedition in Karachay-Cherkessia, and environmental learning events for students in the Altaiskiy State Nature Biosphere Reserve and on Lake Teletskoye.
Responsibility towards employees

Sistema JSFC is one of the largest employers in Russia, providing jobs for more than 155,000 people in numerous regions and countries. The Group provides its staff with competitive pay, additional social guarantees, and extensive professional and career growth opportunities.

Sistema’s financial incentive system is geared towards maximum return on investment, monetisation of assets, value creation, and financial self-sufficiency of project teams. Compensation is directly linked to investment projects, meaning that management’s interests are fully aligned with those of shareholders. The long-term incentive programme now in place is based on movements in Sistema’s share prices and total shareholder return (TSR), and provides for stock awards to the management based on market cap growth.

On top of the standard benefits provided to the Group’s employees, including private health insurance, the Group spent roughly RUB 320 mln in 2015 on additional support to employees and their families as well as Sistema retirees.

HR potential, skill levels, professionalism and a responsible tone at the top are crucial competitive advantages in a post-industrial economy. The heaviest focus of the HR strategy in 2015 was on HR programmes and projects designed to improve the personal efficiency of executives, promote a culture of professional development, build an internal corporate pool of highly competent executives, and manage human resources through an efficient system of internal communications.

Sistema’s succession pool in 2015 was expanded to 2,000 employees from various subsidiaries (2% of the total headcount), with 22% of talents from the pool getting promotions in 2015. Early in 2015, the Group started its new project dubbed Sistema Academy to create a pool of efficient corporate coaches to develop basic business skills and competencies in junior and middle management leveraging the expertise of Sistema’s highest achievers. This model allows employees to manage their own professional development, makes training available to all companies of the Group, and enables Sistema to save up to 70% on coaching costs (compared to market-based coaching fees) while guaranteeing sustainably high quality of learning focused on industry-specific issues. Sistema coaches designed more than 12 learning programmes addressing key management skills and personal efficiency habits. Sistema’s first Knowledge Week announced in the autumn of 2015 offered master classes, trainings, and interactive lectures by leading coaches in the Russian business training market.

More than 400 employees of Sistema and its subsidiaries had a chance to improve their business skills in leadership, time management, negotiating, and change management.

In October 2015, Sistema’s Corporate University launched a professional advanced training programme, Leadership in Development, for executives of Leader-Invest at Moscow State University’s Higher School of Management and Innovation. Sistema has also developed new education programmes in innovation studies (management in engineering systems) to be deployed in partnership with other departments of Moscow State University (Physics, Chemistry, Biology, Computational Mathematics & Cybernetics and the Mechanics Research Institute) that will make their labs and equipment available for practical training.
The Group also gave a new impetus to the tried-and-trusted Strategic Management and Innovation master’s programme, with a new modular format that provides managers from Sistema’s subsidiaries an opportunity to study at Moscow State University. Last but not least, Sistema’s employees are offered various advanced training courses at Moscow State University’s Higher School of Management and Innovation free of charge.

Other effective tools of non-financial motivation and employee engagement promotion include corporate volunteering and sports movements. As was the case every summer for the previous 12 years, Sistema’s 2015 Summer Games, a central sports event, brought together families of corporate employees (4,000 people in total) in a fun festive atmosphere.

Sistema and MTS traditionally attain leading positions in employer ratings. Last year’s Top 1,000 Russian Managers, an annual rating by Kommersant, listed 39 senior executives from various companies in Sistema Group, more than any other corporation in Russia.

MTS received its third crop of prizes from HR Brand, another annual contest, with a Career Starter prize as the best employer of young people, a special award For HR Branding Development acknowledging the company’s extensive efforts in the HR sphere, and a Heart of Gold prize for the Generation M charity project. The company was also named among the five best employers in Russia, and the best among telecoms companies.

>2 th. employees
Sistema’s succession pool in 2015

in TOP-5 ranking
HR Brand in Russia (MTS)
Disclaimer

Certain statements in this report may contain assumptions or forecasts in respect to forthcoming events within Sistema. The words “expect”, “estimate”, “intend”, “will”, “could” and similar expressions identify forward-looking statements. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. We do not intend to update these statements to reflect events and circumstances occurring after the above-mentioned date or to reflect the occurrence of unanticipated events.

Many factors could cause Sistema’s actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, deteriorating economic and credit conditions, our competitive environment, risks associated with operating in Russia, rapid technological and market change in our industries, as well as many other risks specifically related to Sistema and its operations.
Contacts

INVESTOR RELATIONS DEPARTMENT
+7 495 730-66-00
+7 495 692-22-88

PRESS CENTER
+7 495 730-71-88

INQUIRY DESK
+7 495 737-01-01

ADDRESS
13, Mokhovaya Str., Moscow 125009