

ANNUAL REPORT
of Open Joint-Stock Company
Sistema Joint-Stock Financial Corporation
for 2014

This report was compiled pursuant to the requirements of the Federal Law *On the Securities Market*.

Financial information provided in this Annual Report is based on statutory accounts prepared in compliance with Russian law and contains elements of consolidated financial reports prepared according to international standards.



Moscow, 2015

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WORD OF ADDRESS FROM THE PRESIDENT OF SISTEMA JSFC

Sistema faced multiple challenges in 2014, some of them specific to the corporation, and some stemming from the macroeconomic situation in general. Our performance results were affected both by deconsolidation of Bashneft and significant market volatility observed last year. In light of these challenges, our operating and financial figures testify to the merits of our business model which proved sustainable even in times of economic turmoil. In 2014 ten out of our thirteen biggest assets increased their revenues; eleven out of thirteen achieved positive adjusted OIBDAs; nine companies showed positive net income, and nine contributed to the growing dividend flow.

The share of revenue generated by developing assets in Sistema's consolidated revenue grew from 32% (in 2013) to 41%.

Our consolidated revenue gained 7.2% YoY, reaching RUB 632bn. MTS contributed RUB 12bn to the revenue increase, while developing assets provided another RUB 31bn.

Despite economic adversity, the Group in general and individual portfolio companies demonstrated impressive performance results. Our retailer Detsky Mir Group boosted its market share from 8% to 10% in 2014 and plans to open 40 new stores in 2015.

Detsky Mir's aggressive chain expansion strategy comes hand in hand with significant efficiency improvements.

These factors combined with other competitive advantages are expected to facilitate further growth of the company's market share.

Another business Sistema expanded in 2014 is agriculture. RZ Agro achieved an all-time high crop yield and almost tripled its revenue. At the end of 2014 our subsidiary Krasnodar Agro acquired Steppe Group comprising five agricultural entities in the Krasnodar region with a total land bank of 26,000 ha.

Our Indian asset SSTL met its 2014 financial targets. In spite of considerable difficulties related to telecom regulations in India, a recent licence auction showed great demand among local operators for the spectrum SSTL operates in. This encourages optimism and can mean substantial benefits for SSTL in the future as operators embrace 4G technology.

In 2014, Sistema developed and embarked on a plan to restructure its high-tech assets within the RTI Group in an effort to enhance efficiency and profitability. It enabled us to reduce NVision Group's OIBDA loss from RUB 2.5bn to 0.8bn, shut down loss-making business units, and focus on the most promising microelectronic projects and hi-tech products. Sistema sees a vast growth potential in the knowledge-intensive sector of the Russian economy to be derived both from increasing the share of internally generated smart technologies in the end product and from state support and import substitution programmes.

We stayed committed to proactive management of our investment portfolio in the reporting period. Sistema entered the e-commerce and fashion retail markets by acquiring minority stakes in OZON Holdings Limited and Concept Group.

We also made investments in the forest, pulp & paper, and wood processing industries. LesInvest, Russia's biggest producer of sack paper and paper sacks and Europe's second biggest paper sack maker, holds a great growth potential. Vast felling area, low production costs, and proximity of export markets make this asset highly attractive from an investment perspective. We intend to further enhance the company's shareholder value by optimising business processes and improving management efficiency. Thus, we managed to respond to the challenges of 2014.

The Bashneft incident is behind us now. Sistema was recognised as a bona fide purchaser and received RUB 42bn (minus our social investment) as compensation from the seller. The Bashneft situation prompted us to improve our investment discipline both at the corporate level and at individual assets.

Our investment strategy remains unchanged. After buying undervalued assets Sistema contributes its competences, knowledge and experience, improves efficiency, forms superior management teams, and proceeds to turn these assets into market leaders.

Sistema has repeatedly proven its ability to implement this strategy and create high shareholder value.

Our asset portfolio remains highly diversified. We continue looking for new investment ideas in the core segments of the Russian economy to create value and build efficient businesses.

We are optimistic about the Russian market's prospects and committed to developing our portfolio both organically and through M&A, staying keenly focused on high profitability and steady growth in shareholder value.

Mikhail Shamolin
President of Sistema JSFC

1. SISTEMA'S INDUSTRIAL POSITION

1.1. Profile of Sistema JSFC

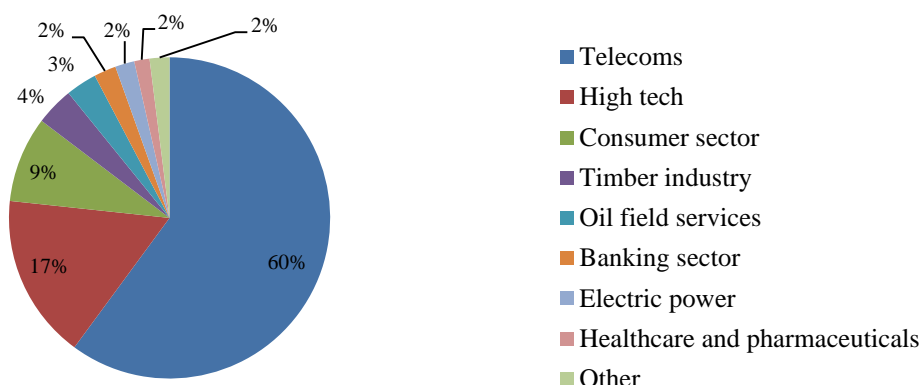
Overview

Founded in 1993, Sistema is currently the largest private investor in Russia's real economy. The Corporation's current investment portfolio mostly comprises Russian companies active in various market sectors, including telecoms, energy, the consumer sector, hi-tech, pharma, the forest industry, and others. Sistema holds controlling interests in most of its portfolio companies. The Corporation's competences are in improving the operating efficiency of assets through restructuring and cooperation with industrial partners for enhancing expertise and mitigating financial risks.

Value creation model

Sistema's investment company model involves creating value for shareholders who monetise their investments through dividends and sales of stakes in portfolio companies and re-invest proceeds in attractive projects to generate profit. Some of the profit thus generated is distributed to Sistema shareholders as dividends.

Share of the Corporation's business segments in the 2014 revenue¹



1.2. Structure of shareholder's equity

Sistema JSFC has 9,650,000,000 ordinary shares issued and outstanding, with a face value of RUB 0.09 per share. Its shareholders' equity equals RUB 868,500,000.

Sistema conducted an initial public offering in February 2005. The Corporation's global depository receipts are listed on the London Stock Exchange under the stock symbol "SSA". One GDR represents 20 ordinary shares. Sistema's ordinary shares are listed on the Moscow Stock Exchange under the stock symbol "AFKS". About 19% of shares are traded as GDRs on the London Stock Exchange, and 16.8% are traded on the Moscow Stock Exchange.

The Moscow Stock Exchange includes Sistema's share prices in the basis of its key indices (MICEX and RTS), as well as its bank and finance indices.

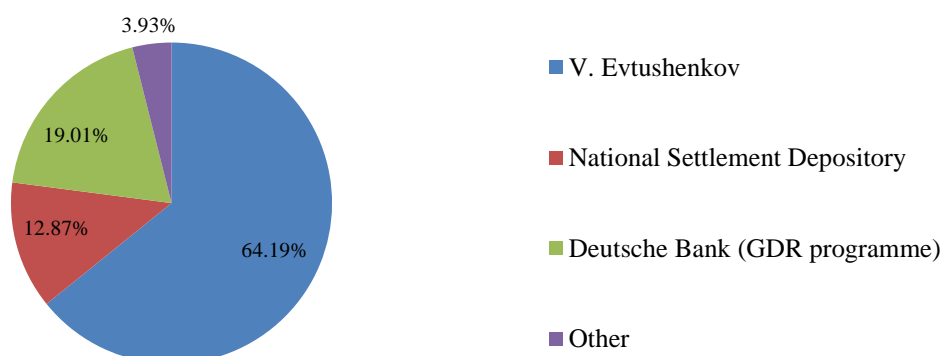
¹ Net of divested assets.

Sistema's GDRs are included in the MSCI Russia index, one of the MSCI Emerging Markets indices. Being included in the MSCI indices is a sign of international recognition. It contributes to the enhancement of the positive reputation of issuers with major institutional investors worldwide.

Sistema's portfolio includes a public company. MTS' American depositary receipts (ADRs) are listed on the New York Stock Exchange (NYSE) under the stock symbol "MBT", and its ordinary shares are listed on NYSE under "MTSS".

Sistema's principal shareholder is its Board Chairman Vladimir Evtushenkov, who owns 64.19% of equity.

Sistema JSFC's shareholders' equity ¹



² As of 31 December 2014.

2. PRIORITY BUSINESS AREAS AND DEVELOPMENT STRATEGY

2.1. Sistema's mission and strategy

The Corporation's mission is to ensure a long-term growth of shareholder value through efficient management of the asset portfolio and achievement of high returns on investment.

Investment strategy

The Corporation mostly buys assets in sectors that are complementary to the ones it already operates in and allow for using available competences and unlocking synergies. In particular, the Corporation sees a lot of potential in affordable private healthcare, children's retail, fashion, e-commerce, as well as core industries with export potential where Russia has structural advantages (low production costs, availability of resources and sales markets).

Sistema mostly invests in Russia and the CIS and focuses on large and mid-size assets where leadership is obtainable through synergies, industry consolidation, and operational and structural improvements. LBO (leveraged buy-out) is Sistema's preferred model for deal structuring.

Sistema's mid-term objectives as an investment company include:

- Generation of a significant cash flow at the corporate level from monetisation of the portfolio and growth of dividends from portfolio companies, including those obtained by finding and carrying out unique investment opportunities in Russia arising from market volatility;
- The Corporation's asset portfolio is well balanced thanks to acquisition of big and medium-sized export-oriented industrial companies in Russia capable of generating revenues in foreign currencies;
- Using Sistema's current key assets to create new industry leaders, including in private healthcare, hi-tech & microelectronics, and woodworking, in order to maximise returns on equity;
- Restructuring and supporting portfolio companies operating in segments that are most vulnerable to changes in the economic situation and having difficulties implementing the strategy envisaged.

Business	Work principles	Strategy	Efficiency
<ul style="list-style-type: none">▪ Assessment and elaboration of development strategies for assets without involvement in operations.▪ Monitoring of M&A opportunities in current and new sectors.▪ Development and implementation of asset monetisation plans.▪ Finding efficient management for portfolio companies.▪ Providing assets with all-round support in financing and other resources.▪ Increasing operational efficiency of acquired assets through restructuring and cooperation with industrial partners to enhance expertise and mitigate financial risks.	<ul style="list-style-type: none">▪ The Corporation runs 8 investment portfolios managing assets based on the principles of deal origination and industrial expertise of portfolio managers.▪ The team comprises strategic experts, macroeconomists, and communication professionals.	<ul style="list-style-type: none">▪ Generation of returns on investment above the long-term cost of capital ($IRR > WACC$) on a 5-7-year investment horizon.▪ Focus on investment with positive net cash flow.▪ Acquiring assets with acceptable debt levels ($Debt/OIBDA < 3.0x$) for maintaining the Group's financial stability.▪ Maintaining consolidated debt to EBITDA at 2.0.▪ Distribution of up to 30% of profit to shareholders.	<ul style="list-style-type: none">▪ Compensations paid to investment managers entirely depend on how much cash their respective portfolios have generated for Sistema.▪ Cash may be received via dividends or asset monetisation.▪ Current dividends from MTS are not included in the compensation base.▪ Compensation is payable after deduction of the portfolio's costs.

2.2 Sistema's investment portfolio



MTS is Russia's largest telecom operator.



LesInvest Group is a forest industry holding with full cycle logging and deep wood processing.



BPGC is one of the largest regional power grid companies in Russia.



Targin is the management company of a large oil field service holding.



Sistema Mass Media is a leading media company in Russia.



MTS Bank is one of the biggest commercial banks in Russia.



Detsky Mir is the largest children's goods retailer in Russia and the CIS.



VAO Intourist is one of the largest Russian companies operating in the tourism market.



Medsi Group is the largest Russian federal chain of commercial healthcare facilities.



RTI is the largest Russian technological company in defence, comprehensive communication and security systems and microelectronics.



Binnopharm is a pharmaceutical company managing one of the largest biotech production facilities in Russia.



RZ Agro Holding is a major grain manufacturer.



SG-trans is one of the largest independent Russian liquefied gas railcar operators.



Sistema Shyam TeleServices Limited (MTS India) is a mobile operator in India.

Sistema's investment vision

Industry	Key aspects	Sistema's investment vision
Telecommunications in Russia	<ul style="list-style-type: none"> Slowdown in the mobile communications market. Growing penetration of data services. Growth of OTT services 	<p>Sistema views MTS as a strategic asset generating high dividend yield.</p> <p>In order to meet its dividend targets, MTS will continue to actively develop data and accompanying services, will take marketing efforts to maintain its leading positions in Russia and will consider potential synergies with other businesses of Sistema Group, notably, PJSC MTS Bank and Ozon Holdings, to obtain competitive advantages on the market.</p>
Children's goods retail	<ul style="list-style-type: none"> Resistance to deteriorating macroeconomic conditions. Low market concentration and opportunities for consolidation. Growing spending on children's goods due to the demographic situation. 	<p>Sistema views Detsky Mir as a promising asset that has already achieved significant results and may secure high returns on investment in the form of dividends or partial monetisation.</p> <p>Since the sector of children's goods retail is resistant to economic recessions, Sistema plans to actively develop the Detsky Mir chain in 2015.</p>
Private healthcare	<ul style="list-style-type: none"> High market growth rates in Russia. Government support to the sector. Low market concentration and opportunities for consolidation. 	<p>Sistema sees high potential in the Russian private healthcare services market and is building a federal chain to provide quality healthcare services to all people in the country.</p> <p>In the next two years, the company will focus on increasing the business scale by building new medical centres, implementing new medical technologies, and further improving the quality of its services.</p>
Timber industry	<ul style="list-style-type: none"> Weakened competitiveness of importers due to the weakening rouble and long transportation distances. Total allowable cut in Russia exceeding actual logging output by 3x; It is an export-oriented industry with a high share of foreign currency revenues. 	<p>Sistema bought the LesInvest assets at the end of 2014 in line with its strategy towards foreign currency diversification (61% of LesInvest's revenue comes from exports).</p> <p>Sistema plans to ensure solid returns on investment by optimising the current business, improving its manageability and transparency, and subsequently increasing its output (notably, of paper sacks and plywood).</p>
Power grid business	<ul style="list-style-type: none"> Steady but moderate growth of power consumption in 2014 (by 0.4%). "Freeze" on natural monopolies' tariffs for 2014. Tariff growth cap at 3.8% in 2014. 	<p>The Corporation's strategy in power grids focuses on growing the business through modernisation of the equipment, building state-of-the-art grids using Smart Grid components and developing the infrastructure of the region BPGC operates in.</p> <p>By migrating to the 10-year regulated asset base (RAB), BPGC will be able to efficiently plan the long-term development of its business and is meant to increase its investment appeal. The company expects to invest over RUB 29bn in Bashkortostan's power grid sector in the next ten years.</p>
Transport	<ul style="list-style-type: none"> The greatest stability is obtained in railway liquefied petroleum gas (LPG) shipments. LPG shipment volume growth by 8% in 2014. 	<p>In 2015, Sistema will focus on supporting SG-trans' current business and achieving its operational targets. Profitability will be maintained through efficient management of the car fleet and optimisation of leasing agreements.</p>
Pharma	<ul style="list-style-type: none"> In 2014 the market grew by 9.3% in value terms. Foreign producers supply over 70% of the Russian market. Russia has launched a programme for imports substitution. 	<p>Sistema plans to develop the pharmaceutical business by implementing large-scale projects to launch new production lines and acquire third-party medications. By expanding its product portfolio through partnerships with international companies, Binnopharm will increase its capacity utilisation. Binnopharm also plans to ramp up its production by participating in the import substitution programme.</p>

High technologies	<ul style="list-style-type: none"> ▪ Growing demand of the government for high-tech products. ▪ Growing demand for intelligent transport systems. ▪ The import substitution programme contributes to the development of the microelectronic industry. 	Sistema has begun restructuring OJSC RTI's high-tech assets in order to improve the economics of the business and ensure a stable dividend flow in the medium term. The heaviest development focus will be on defence, microelectronics, and smart IT systems. RTI plans to boost its profitability by increasing the share of intellectual property in end products, to expand production of microchips through broader cooperation with the government and to focus on new products in the air & space industry.
Oilfield services	<ul style="list-style-type: none"> ▪ Industry consolidation by the biggest players. ▪ Growing volumes of horizontal drilling. ▪ Demand for hi-tech oilfield services. 	Investment in Targin is associated with a significant growth potential due to modernisation of equipment for improving profitability, implementing new technologies for diversification of services, and optimising the business and its structure. Sistema plans to find an industry partner to expand Targin's expertise.
Banking sector	<ul style="list-style-type: none"> ▪ Growing cost of funding. ▪ Tougher regulation of retail lending. ▪ Corporate lending growth outstripping that of retail lending. 	Sistema's investment strategy in the banking business envisages increased returns on equity and high financial stability of MTS Bank. Under current economic circumstances, Sistema is focusing on improving MTS Bank's risk management system and boosting its deposit portfolio. Sistema also sees growth potential for the banking business in a synergy with MTS.
Real estate	<ul style="list-style-type: none"> ▪ A surplus in the office property market results from a record-high volume of new properties commissioned in 2014. ▪ Support to the real estate market by means of mortgage interest rate subsidisation. ▪ 	Sistema plans to build and monetise several residential properties, aggregate office properties, and increase its management and rental proceeds as a way to support new projects and enable the portfolio to pay dividends.
Telecoms in India	<ul style="list-style-type: none"> ▪ High concentration: 58% of the market is serviced by 3 biggest players. ▪ Stronger competition in the data segment. 	In 2015, we plan to continue with financial rehabilitation of the Indian business in order to significantly reduce its dependence on financing from Sistema. If regulatory issues regarding spectrum use are resolved, Sistema may consider partnership opportunities with an industry expert.
Media	<ul style="list-style-type: none"> ▪ General decline in growth rates. ▪ Shareholding of foreign companies in any Russian mass media has been limited to 20%. ▪ The government is encouraging distribution of Russian content. ▪ 	Sistema's investment strategy with regard to SMM's media assets envisages creating conditions for entering emerging markets in the new digital environment, developing new digital services and digital media. The strategy is to be made successful through maximum use of existing competitive advantages of Sistema in general.
Agriculture	<ul style="list-style-type: none"> ▪ It is an export-oriented industry with a high share of foreign currency revenues. ▪ Russia's wheat output grew by 13% from 2013, the global output growing by 1%. 	The strategy of agricultural business development envisages further expansion of the land pool through strategic acquisitions. Target regions for further growth are the Rostov region, the Stavropol territory and the Krasnodar territory. Sistema also plans to develop export channels and such segments as seeds production and sale and contracted harvest work.

3. BOARD REPORT ON THE DEVELOPMENT STATUS IN PRIORITY BUSINESS AREAS

3.1. Highlights of 2014

Investments and M&A transactions

Increasing the shareholding in NVision Group

In January 2014, Sistema Telecom Assets, a 100% subsidiary of Sistema JSFC, signed a legally binding agreement to buy 38.75% shares of NVision Group from CJSC RegionCapital (a Marshall Group company) and other shareholders (individuals). The total transaction amount equaled USD 82.5m. The consideration for NVision Group shares was paid in cash totaling USD 37.5m and Sistema shares worth a total of USD 45m. Once the transaction was closed, Sistema became the owner of a 88.75% interest in NVision Group. In December 2014, the Group acquired another 11.25% of the shares. After these transactions the Group's equity holding in NVision totaled 100%.

Bringing the shareholding in Business Nedvizhimost to 100%

In April 2014, Sistema JSFC acquired 49% of ordinary shares of Business Nedvizhimost from CJSC MGTS Nedvizhimost for RUB 3.1bn. As a result, Sistema's shareholding in CJSC Business-Nedvizhimost reached 100%.

Business Nedvizhimost owns 76 properties in Moscow with the total area of 178,000 sq m, which had been used by MGTS as automated branch exchanges prior to the launch of GPON technology.

Looking for partnerships in the pharmaceutical industry

In April 2014, Sistema signed a legally binding agreement for setting up a pharmaceutical joint venture with a German pharmaceutical company Fresenius Kabi and LLC Zenitco Finance Management, a minority shareholder of Binnopharm. 100% of Binnopharm shares and Fresenius Kabi's entire business in Russia and the CIS were to be contributed to the joint venture. However, in the autumn of 2014, the parties announced their withdrawal from the transaction and agreed to proceed with commercial collaboration.

Investments in OZON

In April 2014, Sistema JSFC acquired 10.8% of Ozon Holdings for USD 75m. MTS also acquired a 10.8% share for the same price. According to the transaction terms, a representative of Sistema and a representative of MTS became members of the Ozon Holdings Board of Directors.

The Ozon Group comprises five Russian e-commerce enterprises: OZON.RU, the largest online store with a broad range of merchandise in various categories with over 750,000 unique visitors per day; Sapato.ru, a leading online store of clothes and footwear; OZON.travel, a popular online traveling service; O-Courrier, an in-house logistic service with over 2,200 pick-up points delivering packages across the territory of Russia and Kazakhstan; OZON Solutions, a B2B consultancy agency for e-commerce.

Investments in forest, wood processing and pulp and paper industry

In September 2014, LesInvest (a subsidiary of Sistema Group) closed the transaction with the Bank of Moscow for acquisition of a 100% stake in Segezha Pulp&Paper Mill and a 100% stake in Derevoobrabotka-Proekt (hereinafter – LesInvest Group) along with all of LesInvest's debt owed to the Bank of Moscow. The net external debt of the acquired assets is zero.

LesInvest Group is the largest producer of sack paper and paper sacks in Russia and the second largest producer of paper sacks in Europe, as well as one of the leading producers and exporters of wood boards and sawn timber in Russia. In 2013, according to the management accounts, the projected revenue and EBITDA of LesInvest Group were ca. RUB 20.9bn and RUB 2.4bn, respectively. The share of export in LesInvest Group's revenue is 54%.

Investments in Concept Group

In October 2014, Sistema JSFC acquired 40% of shares of the holding company that owns the assets of Concept Group, a leader of the Russian fashion retail market in terms of revenue growth. The value of the transaction is ca. RUB 1bn. The transaction terms provide Sistema with an option to increase its shareholding in Concept Club to a controlling stake within 3 years.

Concept Club creates collections and sells women's clothes, accessories, lingerie and children's clothes via a chain of its own stores, franchisees, online platforms, and wholesale under the brands of Concept Club, Bestia, Infinity Lingerie and Acoola. As of the end of 2013, Concept Club's retail chain comprised 287 stores in 103 towns and cities of Russia. The average size of the stores is 100-250 sq.m. Concept Club's revenue in 2013 exceeded RUB 5bn, almost 40% higher than in 2012.

Additional issue of MTS Bank's shares

In October 2014, Sistema JSFC signed legally binding agreements for the acquisition of the newly issued 2,474,818 ordinary shares of MTS Bank worth RUB 9,460,684,754.

Transfer of Bashneft shares to the state

On 24 September 2014, First Deputy Prosecutor General of the Russian Federation filed a civil lawsuit demanding a return of Bashneft shares held then by Sistema JSFC and CJSC Sistema Invest to the Russian Federation.

On 7 November 2014, the Arbitration Court of Moscow ruled for the Bashneft shares to be transferred from Sistema JSFC and CJSC Sistema Invest to the Russian Federation. On 12 November 2014, after careful deliberation, the Board of Directors of Sistema JSFC decided not to appeal against the ruling of the Arbitration Court of Moscow and to file a lawsuit for recovering damages from the counterparties that had sold Bashneft shares to Sistema.

In December 2014, the Corporation and CJSC Sistema Invest transferred all the Bashneft shares they held to the state.

Corporate events

In July 2014, Sistema JSFC distributed RUB 19.9bn in dividends. At the time of payment, dividend yield was ca. 5%.

In Q2 2014, the ordinary shares of Sistema JSFC were included in the top-tier quotation list of the Moscow stock exchange.

In September 2014, Sistema pulled out of the deal to acquire a 98% stake in United Petrochemical Company from Bashneft.

Material events after the end of the reporting period

Sistema's claim against LLC Ural-Invest was upheld

In December 2014, in accordance with the resolution of the Board of Directors, Sistema JSFC filed a lawsuit with the Arbitration Court of Moscow against LLC Ural-Invest to recover damages resulting from the loss of Bashneft shares. In February 2015, the Arbitration Court of Moscow upheld the claim and ruled to charge damages from the defendant in favour of Sistema in the amount of RUB 70.7bn.

In March 2015, Sistema JSFC and LLC Ural-Invest signed a Settlement Agreement. Under the terms of the Settlement Agreement LLC Ural-Invest shall transfer to Sistema all its property, namely, monetary assets totalling ca. RUB 46.5bn. According to the Settlement Agreement, the Corporation shall invest a portion of the received funds in the amount of RUB 4.6bn into the Ural Charity Fund.

Placement of exchange-traded bonds

In February 2015, Sistema completed the placement of documentary interest-bearing inconvertible exchange-traded bonds series BO-01 with a nominal value of RUB 1,000 each, total value RUB 10bn, coupon rate 17% p.a. Coupon yield shall be paid out twice a year. The maturity period of the exchange-traded bonds is 15 years.

3.2. Financial results

Financial results according to Russian Accounting Standards (RAS)

<i>(RUB thous.)</i>	2014	2013
Revenue, RUB thous.	59,553,440	47,238,145
Income from sales, RUB thous.	50,824,355	36,022,581
Net income (loss) in the reporting period, RUB thous.	(307,202,105)	133,893,543

Revenue structure

<i>(RUB thous.)</i>	2014	2013
Equity holdings in other companies	59,425,402	47,112,485
Other sales (property rent, agency services and sureties)	128,038	125,660
TOTAL	59,553,440	47,238,145

The core business of Sistema JSFC is managing interests and stakes in commercial organisations.

Structure of other earnings and expenses

<i>(RUB thous.)</i>	2014	2013
Interest receivable	3,349,784	2,453,277
Interest payable	(5,829,656)	(4,805,748)
Other income	22,535,760	138,700,920
Other expenses	(387,677,417)	(31,270,215)
TOTAL	(367,621,529)	105,078,233

Performance indicators

	2014	2013
Productivity, thous. RUB/person	197,196.8	217,687.3
Debt to equity ratio	0.310	0.130
Long-term debt to the sum of long-term debt and equity	0.191	0.058
Coverage of debt with current income (profit) ratio	0.31	0.86
Overdue debt, %	0	0.0

Financial stability indicators

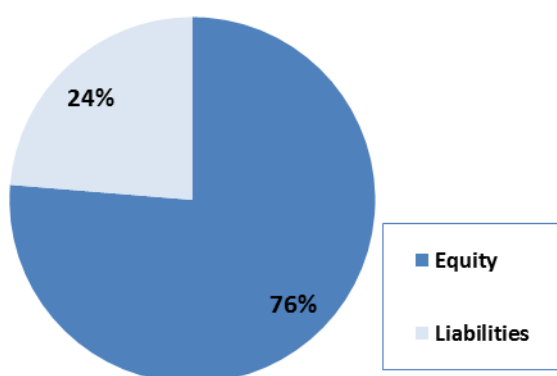
	2014	2013
Net working capital, RUB thous.	31,944,852	25,553,733
Current liquidity ratio	2.64	1.63
Quick liquidity ratio	2.63	1.62

Analysis of the issuer's creditworthiness and credit risk level shows that the issuer generally possesses considerable amounts of liquidity along with the capacity to raise additional credit resources without the risk of its ability to repay debt being called into question.

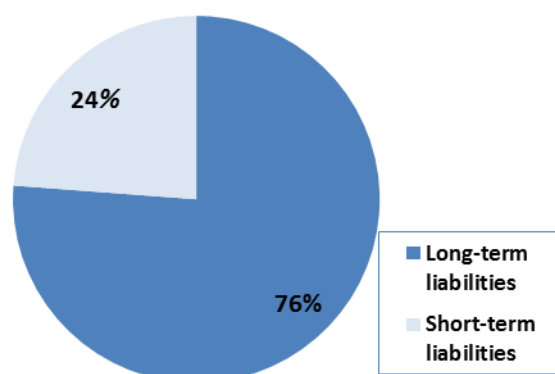
As of 31 December 2014, the Corporation's current assets amounted to RUB 51,467,261,000, the volume of its short-term liabilities as of the specified date amounted to RUB 19,522,409,000, production costs in 2014 amounted to RUB 37,195,000.

The short-term liabilities represent a smaller share of the Corporation's liabilities (24%). Accounts payable and receivable are included in the current liabilities.

Equity and liabilities



Liabilities' structure



Consolidated financial results in accordance with US GAAP³

(USD m)	2014	2013	Change over the year
Revenue	16,585.0	18,502.0	(10.4%)
Adjusted OIBDA	4,438.3	5,570.2	(20.3%)

³ Here and hereafter, the financial information was prepared in line with the Generally Accepted Accounting Principles of the United States of America, or US GAAP, and also includes other financial indicators not relating to US GAAP. The financial indicators not relating to US GAAP should be deemed to complement the indicators calculated according to US GAAP, not supersede them.

Operating (loss)/ income	1,738.4	3,566.6	(51.3%)
<i>Adjusted operating income</i>	2,146.1	2,936.7	(26.9%)
Net (loss)/ income attributable to Sistema	(4,087.6)	2,257.5	-
<i>Adjusted net (loss)/ income attributable to Sistema</i>	1,194.9	1,623.5	(26.4%)

<i>(RUB m)</i>	2014	2013	Change over the year
Revenue	631,865	589,251	7.2%
Adjusted OIBDA	165,171	177,400	(6.9%)
Operating (loss)/ income	60,876	113,588	(46.4%)
<i>Adjusted operating income</i>	78,353	93,527	(16.2%)
Net (loss)/ income attributable to Sistema	(232,556)	71,898	-
<i>Adjusted net (loss)/ income attributable to Sistema</i>	44,194	51,706	(14.5%)

The reduction in Sistema's USD revenues was driven by the depreciation of average rouble exchange rate vs. the US dollar by 20.8% in 2014.

In 2014, the financial results of Sistema JSFC were considerably impacted by one-off losses. The biggest losses originated from the disposal of Bashneft totalling USD 5.0bn, the impairment of SSTL's PPE in India totalling USD 290.0m, provisions for cash and deposits with Delta Bank, etc.

Despite the adverse economic situation, Sistema's consolidated revenue in roubles grew by 7.2% in 2014. The increase of revenue was driven by a considerable contribution from all the portfolio companies of Sistema Group, in particular, MTS and Detsky Mir, and the consolidation of Targin (assets acquired in Q3 2013) and LesInvest's forest assets (acquired in Q3 2014). Ten of thirteen largest assets of Sistema JSFC demonstrated a growth of revenue in 2014.

The results of LesInvest were consolidated in Sistema's accounts from Q4 2014. LesInvest contributed RUB 7.2bn and RUB 1.2bn to the Group's Revenue and OIBDA respectively. Consolidation of Targin's full-year results contributed RUB 16bn to the Group's revenue in 2014.

In 2014, the sales, general and administrative expenses (SG&As) in roubles went up 6.2% vs. 2013, which is lower than inflation figures. The company's depreciation and amortisation expenses in 2014 grew by 5.0% YoY.

The Group's adjusted OIBDA went down by 6.9% YoY in roubles, mostly as a consequence of one-off accrual of reserve provisions at MTS Bank, most of which were attributable to the retail credit portfolio. Eleven of thirteen main subsidiaries of the Group demonstrated positive adjusted OIBDA in the reporting year.

Adjusted consolidated net income attributable to Sistema in 2014 shrank by 14.5% YoY, mainly because of the currency exchange losses totalling USD 548.6m (RUB 21.1bn). Nine of thirteen main portfolio companies demonstrated positive net income in the reporting year. Consolidated net income of the Sistema Group comprises Sistema's share of Bashneft's net income for the holding period: USD 1.2bn in 2014 and USD 1.1bn in 2013.

3.3. Operating results⁴

MTS

(USD m)	2014	2013	Change over the year
Revenue	10,865.6	12,510.8	(13.1%)
Adjusted OIBDA	4,611.1	5,535.7	(16.7%)
Operating income	2,722.8	3,606.7	(24.5%)
Net income attributable to Sistema	787.1	1,264.6	(37.8%)

(RUB m)	2014	2013	Change over the year
Revenue	410,758	398,443	3.1%
Adjusted OIBDA	171,812	176,299	(2.5%)
Operating income	98,698	114,866	(14.1%)
Net income attributable to Sistema	27,725	42,270	(34.4%)

In 2014, OJSC Mobile TeleSystems (MTS) retained leadership in terms of revenue and OIBDA margin among the Big Three operators in Russia. MTS revenue in roubles went up 3.1% in 2014 YoY. The revenue growth was propelled by the development of the data segment and the increase of the subscriber base.

As of 31 December 2014, MTS subscriber base grew by 4.1% YoY, reaching 104.1m subscribers⁵. In 2014, MTS OIBDA in roubles dropped by 2.5% YoY, mostly due to the impairment of MTS investments in MTS Bank. The net income of MTS attributable to Sistema went down in 2014 mainly due to material losses from currency differences totaling RUB 18.0bn.

In 2014, revenues from data transfer in Russia grew by 35.9% YoY (in roubles). This growth was secured by continuous investment in the development of 3G/LTE networks and one of the best price offers for subscribers available in the market. Average revenues per user (ARPU) in Russia grew in 2014 to 339 roubles, owing to higher utilisation of data transfer services. The MOU indicator (Minutes of Usage) in Russia went up 3.6% YoY, and in 2014 equaled 372 minutes. In the fixed broad-band access segment the number of households increased by 2.2% in the reporting year vs. 2013, reaching 12.5m subscribers.

In the reporting year, MTS launched commercial operation of the fourth-generation network in 76 regions of Russia and installed a record number of 3G/4G base stations – over 15,000.

In December 2014, Universal Mobile Systems LLC, a subsidiary of MTS, launched commercial operation of the mobile network in Uzbekistan. Earlier, in November, ICSID (International Center for Settlement of Investment Disputes) discontinued the litigation process between MTS and Uzbekistan, proceeding from the joint petition submitted by the parties.

In December 2014, MTS closed the transaction for acquisition of three regional assets of the SMARTS Group: Pensa-GSM, SMARTS-Ivanovo and SMARTS-Ufa. The transaction amount equaled RUB 3.13bn, including the net debt.

In December 2014, MTS bought rouble bonds (Series 03) for a total amount of RUB 3.71bn. The Series 03 bonds maturing on 12 June 2018 with a two-year offer were issued on 24 June 2008 for a total amount of RUB 10bn. MTS also set a new coupon rate of 12% per annum.

⁴ Here and hereinafter the period-on-period comparison of revenues is shown on an aggregated basis, net of revenues from transactions within a segment (between companies in one segment) but before elimination of turnovers between the segments (companies in different segments) unless the word "consolidated" is present. Amounts attributable to specific companies are shown as necessary before the elimination of turnover within and between segments, and they may differ from the respective stand-alone indicators of companies as some adjustments may be made.

⁵ Net of subscribers in the Republic of Belarus.

In December 2014, MTS and Vimpel-Communications signed an agreement on providing comprehensive planning, joint development and operation services for LTE networks, under which during 2014-2016 MTS is to build jointly operated networks for 4th-generation mobile Internet in 19 regions, and Vimpel-Communications is to build base stations in 17 regions of Russia.

In November 2014, MTS fully paid out the dividends for H1 2014. In total, MTS paid RUB 12.8bn in dividends for H1 2014 (RUB 6.2 per ordinary MTS share, RUB 12.4 per ADR). In July 2014, MTS paid RUB 38.4bn in dividends for 2013 (RUB 18.6 per ordinary share, RUB 37.2 per ADR).

In December 2014, MTS acquired 952,000 additionally issued ordinary shares of MTS Bank worth RUB 3.64bn.

Bashkir Power Grid Company

<i>(USD m)</i>	2014	2013	Change over the year
Revenue	358.6	416.7	(13.9%)
OIBDA	137.1	177.4	(22.7%)
Operating income	89.6	123.4	(27.4%)
Net income attributable to Sistema	70.3	87.5	(19.7%)

<i>(RUB m)</i>	2014	2013	Change over the year
Revenue	13,778	13,271	3.8%
OIBDA	5,267	5,651	(6.8%)
Operating income	3,444	3,981	(13.5%)
Net income attributable to Sistema	2,701	2,786	(3.1%)

The revenues of Bashkir Power Grid Company (BPGC) went up 3.8% YoY, mostly owing to natural growth of power consumption and the number of connections to the power grid. The boiler tariff rise initially scheduled for 2014 was put on hold.

BPGC's OIBDA in roubles shrank by 6.8% YoY. The main reasons for lower OIBDA were higher operating costs and one-off transactions, including sale of fixed assets and income from accrual of penalty for delayed payment in 2013.

Power consumption in the full year 2014 grew by 3.2% due to the higher number of new consumers. In 2014, a total of 19,790 new consumers were connected to BPGC's distribution grid, which is a 15.2% increase from 2013.

In 2014, total power losses in distribution networks increased from 8.27% to 8.46%, among other reasons, because in H2 2014 BPGC took over operation of the power grids previously owned by OJSC Rosenergoatom Concern and LLC Teploelektroset.

In 2014, Bashkirenergo (a subsidiary of BPGC) became the first company in Russia that switched to ten-year RAB-based tariff regulation, while the tariffs for other energy enterprises in the country are set for 5 years maximum. RAB-based regulation has a number of advantages for the power grid company, the consumers and for the Republic in general, including stimulation of cost cutting, major investments combined with a moderate tariff, an opportunity to make long-term development plans for power grid companies, improving the grid companies' services and predictability of power supply tariffs. The

unprecedented regulation period will enable both energy consumers and suppliers to develop efficient long-term plans for business development and will enhance its investment appeal. The company expects to invest over RUB 29bn in the republic's power grid sector over the course of the next ten years.

In September 2014, Sistema Invest received a notice from OJSC Reyestr disallowing that its shares of BPGC be written off from its account.

Targin

<i>(USD m)</i>	2014
Revenue	612.9
OIBDA	78.3
Operating income	45.1
Net income attributable to Sistema	26.9

<i>(RUB m)</i>	2014
Revenue	23,549
OIBDA	3,008
Operating income	1,731
Net income attributable to Sistema	1,032

LLC Targin is an oilfield services group that specialises in drilling services, well servicing and workover, production of oilfield equipment, mechanical services, as well as transportation and construction services. Sistema JSFC acquired Targin (previously called LLC Bashneft Service Assets) at the end of 2013. In 2014, Targin's revenue and OIBDA totalled RUB 23.5bn and RUB 3.0bn respectively. Contracts with OJSC Bashneft account for 77% of the company's revenue.

Throughout 2014, Targin worked to modernise its equipment and restructure the business. Total capital expenses in 2014 amounted to RUB 3.7bn. Notably, the company set up five well workover teams, acquired five mobile drilling rigs (160 tn), one drilling rig (320 tn), modernised five drilling rigs (250 tn), bought over 290 units of special-purpose equipment and over 100 units of technological equipment. About 40% of investment in 2014 went into developing the production, with the drilling segment accounting for ca. 63% of total expenses.

In 2015, Targin's biggest projects will be acquisition of 4 drilling rigs, 2 plugging fleets and 2 fleets of coil tubing units with nitrogen pumps, modernisation of one drilling rig, acquisition of over 150 units of special-purpose equipment and creating new product ranges.

Detsky Mir

<i>(USD m)</i>	2014	2013	Change over the year
Revenue	1,182.8	1,130.4	4.6%
OIBDA	127.8	87.0	46.9%
Operating income	108.5	67.1	61.7%

Net income attributable to Sistema	53.2	40.8	30.3%
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<i>(RUB m)</i>	2014	2013	Change over the year
Revenue	45,446	36,001	26.2%
OIBDA	4,910	2,771	77.2%
Operating income	4,170	2,137	95.1%
Net income attributable to Sistema	2,043	1,299	57.2%

Detsky Mir's rouble revenue grew by 26.2% in 2014 vs 2013 and amounted to RUB 45.4bn, thanks to a two-digit growth of like-for-like sales and increased turnover of stores that opened in 2012 and 2013. LFL sales in roubles grew by 13.6% in the reporting year.

In 2014, OJSC Detsky Mir opened 72 stores, including 56 Detsky Mir stores and 16 ELC stores. The chain's market share grew from 8.2% in 2013 to 10.0% in 2014. Growth in the reporting year was driven mainly by the toys and baby goods segments, with the Detsky Mir's market share increasing from 13.2% to 16.3% and from 9.2% to 11.9% respectively⁶.

Detsky Mir's OIBDA in roubles rose by 77.2% for the full year 2014. The OIBDA margin increased from 7.7% in 2013 to 10.8% in 2014 thanks to improved operating efficiency. The SG&A to revenue ratio fell from 31.8% to 29.4%.

Key projects of 2014 included the construction of a warehouse in the Moscow region, introduction of the single SAP IT platform and launch of the flagship Detsky Mir store in the centre of Moscow, which became Russia's biggest children's goods store with a floor space of 7,000 sq m.

In December 2014, Detsky Mir's CEO Vladimir Chirakhov became its minority shareholder with a stake of 1.08%, which he received as part of the long-term incentive programme.

In August and December 2014, Detsky Mir paid out dividends in the amount of RUB 2.5bn

Meds i Group

<i>(USD m)</i>	2014	2013	Change over the year
Revenue	254.2	294.0	(13.5%)
OIBDA	22.5	44.2	(49.0%)
Operating (loss) / income	9.9	30.4	(67.4%)
Net income attributable to Sistema	13.9	31.8	(56.3%)

<i>(RUB m)</i>	2014	2013	Change over the year
Revenue	9,767	9,362	4.3%
OIBDA	866	1,408	(38.5%)
Operating (loss)/ income	382	970	(60.6%)
Net income attributable to Sistema	533	1,011	(47.3%)

⁶ According to Synovate Comcon

In 2014, rouble revenues of CJSC Medsi Group (Meds) grew by 4.3% vs 2013 thanks to growth of the volume of provided services by 4.0% and growth of the average cheque by 4.0% to RUB 1,618.

Customer traffic grew by 0.4% to 6,035,500 people. At the same time, the increase was offset by the shutdown of inefficient regional clinics and a temporary shutdown of a number of assets in Moscow and the Moscow region for renovation and repair. Revenue per sq m grew by 13.6%. The share of individual contracts in the company's revenue was down 2.0 p.p. to 22%, while the share of insurance companies and legal entities increased to 42% and 11% respectively. By the end of 2014, the revenue of Medsi's key asset, the CDC at Belorusskaya, grew by 12.9% YoY, with its OIBDA margin totalling 45.9%.

In 2014, Medsi's SG&A expenses grew by 22.5% YoY due to increased spending on marketing and personnel in the fourth quarter of 2014 under a new programme for increasing the utilisation rate of the existing and new assets and improving brand recognition. OIBDA in roubles fell by 38.5% in 2014.

The total area of Medsi's medical assets was down 8.1% YoY to 228,700 sq m due to the shutdown of inefficient regional assets and of the first unit of the Otradnoye sanatorium for renovation. As of 31 December 2014, the Medsi chain consisted of 17 clinics in Moscow (including specialised children's clinics and big clinical and diagnostic centres), 7 clinics in Russian regions, 55 medical stations across the country, 2 clinical hospitals, an ambulance service, a home care service, wellness clubs and 3 sanatoriums.

In 2014, Medsi launched three investment projects, including the construction of a new CDC at Krasnaya Presnya that will include an adult and children's polyclinics and an in-patient department. The CDC is scheduled to open in the second quarter of 2015. The group also began modernisation of the polyclinic at Khoroshevskoye highway to be reformatted as a specialised children's CDC. Simultaneously, it is upgrading the clinical hospital in Otradnoye.

Binnopharm

<i>(USD m)</i>	2014	2013	Change over the year
Revenue	64.7	104.3	(38.0%)
OIBDA	8.4	20.5	(59.1%)
Operating (loss) / income	3.5	13.4	(73.5%)
Net (loss)/ income attributable to Sistema	0.1	8.9	(98.7%)

<i>(RUB m)</i>	2014	2013	Change over the year
Revenue	2,485	3,321	(25.2%)
OIBDA	322	652	(50.7%)
Operating (loss) / income	136	425	(68.1%)
Net (loss) / income attributable to Sistema	4	285	(98.5%)

Binnopharm's rouble revenue fell by 25.2% over the full year 2014. The company's 2014 results were affected by the shift of government procurement to regional budgets. As the law came into force, regional procurement of medications virtually ceased, which reduced Binnopharm's revenue from distribution by more than 45% in the first half of 2014. In 2015, the amount of government procurement of medications is expected to grow. Besides, Binnopharm as a local manufacturer will participate in the Russian government's programmes for substitution of imported drugs.

Binnopharm's OIBDA 2014 fell following the decline of revenue and gross income. The decline was expected, given the structural changes in the sector, and was supported by corresponding optimisation moves – Binnopharm's SG&A expenses were cut by RUB 70m, so the expenses to revenue ratio remained the same as in 2013.

In 2014, Binnopharm continued supplying Regevac, a unique Hepatitis B vaccine, and also won a government contract for 5.4m doses. It also supplied erythropoietin α substance under another government contract.

MTS Bank

<i>(USD m)</i>	2014	2013	Change over the year
Revenue	691.4	903.1	(23.4%)
OIBDA	(379.2)	38.1	-
Operating (loss) / income	(397.0)	19.0	-
Net (loss) / income attributable to Sistema	(291.8)	18.8	-

<i>(RUB m)</i>	2014	2013	Change over the year
Revenue	26,565	28,763	(7.6%)
OIBDA	(14,571)	1,214	-
Operating (loss) / income	(15,252)	604	-
Net (loss)/ income attributable to Sistema	(11,212)	598	-

In 2014, MTS Bank's rouble revenue fell by 7.6% vs 2013, mainly due to a shortfall in revenue in the fourth quarter caused by the unfavourable market situation. The bank reported a net loss for 2014 due to a one-off accrual of reserve provisions, most of which were made for the retail loans portfolio.

The bank's equity capital grew from RUB 12bn at the end of 2012 to RUB 28bn at the end of 2014. Equity to total capital ratio reached 65% at the end of 2014. In the reporting year, the bank cut its expenses and optimised its retail chain.

In December 2014, MTS Bank successfully placed an additional issue of shares, raising RUB 13.1bn. Capital adequacy ratio N1 grew from 19% at the end of 2013 to 25% at the end of 2014. Sistema acquired 2,474,818 ordinary shares of MTS Bank for RUB 9.5bn.

The bank was also included in the government's list of candidates for receiving a capital increase on favourable terms from the Deposit Insurance Agency.

Sistema Shyam TeleServices Ltd.

<i>(USD m)</i>	2014	2013	Change over the year
Revenue	220.7	209.4	5.4%
OIBDA	(81.5)	(146.5)	-
Operating loss	(141.8)	(210.2)	-
Net loss attributable to Sistema JSFC	(129.7)	(225.1)	-

SSTL's revenue grew by 5.4% for the full year 2014, mainly due to the development of the data segment. Revenue from non-voice services – both data transmission and additional services (VAS) – accounted for 46.9% of the total revenue in Q4 2014 vs. 34.5% in the same period of the previous year. Accelerated development of data services was achieved through a number of measures aimed at improving the efficiency of the sales structure, including the implementation of a pilot project of own distribution sales model in Gurgaon and New Delhi, a pilot project of lending money to distributors for purchasing voice and data devices in Kerala and a model for sharing revenue with distributors in the Delhi circle.

In 2014, the OIBDA loss was significantly reduced, despite the growth of marketing expenses in the last quarter of 2014.

As of 31 December 2014, SSTL's total subscriber base for wireless services (mobile communication and data transmission) equalled 9.0m people. The subscriber base for data services increased by 23.0% year-on-year and reached 1.6m people. ARPU was up 26% YoY to INR 122.

In order to develop the data services segment, in March 2014 SSTL launched India's most aggressive bundle plans for data transmission and also presented its own online cinema MTS Movies, where subscribers can watch movies free of charge. A marketing campaign titled MTS Internet Baby set a new record in India for the number of views of a video ad on Youtube – 25m people.

RTI⁷

<i>(USD m)</i>	2014	2013	Change over the year
Revenue	1,845.1	2,195.5	<i>(16.0%)</i>
OIBDA adj	118.8	122.7	<i>(3.2%)</i>
Adjusted operating income	33.0	26.4	<i>25.2%</i>
Adjusted net loss attributable to Sistema	(114.9)	(21.0)	-

<i>(RUB m)</i>	2014	2013	Change over the year
Revenue	70,892	69,923	<i>1.4%</i>
OIBDA adj	4,564	3,908	<i>16.8%</i>
Adjusted operating income	1,267	839	<i>51.1%</i>
Adjusted net loss attributable to Sistema	(4,416)	(670)	-

In 2014, RTI's rouble revenue grew by 1.4% vs 2013, mainly thanks to growth of revenue in the Defence Solutions and Microelectronics segments. The revenue of Defence Solutions grew by 29.0% in rouble terms in the reporting year due to active execution of contracts for construction of radar stations that were tested and put on combat alert duty. The rouble revenue of Microelectronics increased by 4.1% in 2014, due to increased sales of integrated circuits on the back of higher demand for domestic developments in the current economic situation. As a result, the Mikron plant manufactured more than 2.8m chips for foreign passports, delivered 300m travel tickets and exported 713m chips in the reporting year. At the same time, the growth of Defence Solutions and Microelectronics was offset by declining revenue in Information and Communication Technology.

The adjusted rouble-denominated OIBDA grew by 16.8% YoY thanks to growing revenue. The adjusted OIBDA margin of the Defence Solutions division exceeded 15% and that of Microelectronics – 11%. The

⁷ OJSC RTI consolidates OJSC RTI Systems Concern, NVision Group and Mikron Group and consists of four larger business units: BU Defence Solutions, BU Comprehensive Security Systems, BU Microelectronics and BU Information and Communication Technologies.

OIBDA loss of Information and Communication Technologies fell from RUB 2.5bn in 2013 to RUB 0.8bn in 2014.

In December 2014, Mikron manufactured the first Elbrus-2SM processors based on the 90nm technology, which will be used by CJSC MCST for producing compact motherboards.

In February 2014, Mikron completed the development of its proprietary technology for creating integral circuits using the 65nm topology and is now actively engaged in R&D work for the 45nm technology.

Sistema Mass-Media

<i>(USD m)</i>	2014	2013	Change over the year
Revenue	87.6	109.8	<i>(20.2%)</i>
OIBDA	25.4	45.7	<i>(44.3%)</i>
Operating income	8.0	6.2	28.3%
Net income attributable to Sistema	2.5	0.5	442.1%

<i>(RUB m)</i>	2014	2013	Change over the year
Revenue	3,366	3,498	<i>(3.8%)</i>
OIBDA	977	1,454	<i>(32.8%)</i>
Operating income	308	199	54.7%
Net income attributable to Sistema	95	15	554.0%

The rouble revenue of OJSC Sistema Mass Media (SMM) dropped by 3.8% in 2014. OIBDA in roubles was down 32.8% vs 2013. The decline of revenue and OIBDA was due to the general deterioration of the situation in the segment (cuts of advertising budgets resulted in lower demand for TV series production) and loss of the Ukrainian market for a resale of TV series and distribution of TV channels.

In the reporting period, Stream continued to actively promote its GOOD'OK and MTS Info services and launched a new service, MTS Pulse. In 2014, GOOD'OK was launched for the subscribers of MTS Ukraine and MTS Belarus. Stream's initial sales of RBT for the subscribers of MTS Russia grew by 31% YoY, while revenue from the service increased by approximately 60% to RUB 1.3bn and OIBDA reached RUB 330m.

In 2014, TVC Stream continued growing its subscriber base in the Russian market and in the CIS, increasing it by 10.3% to 11.8m people.

Intourist

<i>(USD m)</i>	2014	2013	Change over the year
Revenue	75.7	88.4	<i>(14.3%)</i>
OIBDA	(1.4)	18.0	-
Operating (loss) / income	(6.6)	12.3	-
Net loss attributable to Sistema	(11.3)	(0.9)	-

<i>(RUB m)</i>	2014	2013	Change over the year
Revenue	2,910	2,815	3.4%
OIBDA	(56)	573	-
Operating (loss) / income	(252)	391	-
Net loss attributable to Sistema	(436)	(27)	-

The rouble revenue of OJSC VAO Intourist (Intourist) grew by 3.4% in 2014 thanks to the operational success of its hotels abroad and the positive influence of foreign exchange rates. Intourist's OIBDA dropped in the reporting period due to the making of impairment provisions for some of the company's assets. Net of provisions, Intourist's OIBDA grew along with its revenue.

As of 31 December 2014, Intourist operated 10 hotels in ownership and under management in Russia, Italy, the Czech Republic and Namibia with a total of 2,617 rooms.

Corporate Centre

<i>(USD m)</i>	2014	2013	Change over the year
OIBDA adj ⁸	(322.2)	(330.0)	-
Adjusted net loss	(314.4)	(441.9)	-
Debt	1,223.1	1,574.5	(22.3%)

<i>(RUB m)</i>	2014	2013	Change over the year
OIBDA adj	(322.2)	(330.0)	-
Adjusted net loss	(314.4)	(441.9)	-
Debt	1,223.1	1,574.5	(22.3%)

The Corporate Centre includes companies that control the Group's stakes in its portfolio companies and manage them.

The Corporate Centre's SG&A expenses grew by 4.9% YoY in 2014, mainly due to one-off expenses on the cost-cutting programme implemented in the fourth quarter of 2014, including severance payments. The Corporate Centre's interest expenses grew by 2.1% in 2014 to RUB 5.1bn.

3.4. Financial overview

Net cash flow from ongoing operations net of Bashneft grew by 2.2% in 2014 vs 2013 and amounted to USD 4,292.4m due to changes in the working capital.

Net cash used in investment activities net of Bashneft grew by 52.0% in 2014 vs 2013 to USD 2,632.8m due to the increase of investment for acquisition of subsidiaries and affiliates by USD 495.6m and of the amount allocated for long-term financial investment by USD 731.9m vs previous year.

Sistema Group's capital expenses were reduced by 3.1% in 2014 to USD 2,902.6m.

⁸ Hereinafter OIBDA and net income (loss) of the Corporate Centre and Other segments are shown net of intra-group dividends.

In 2014, net cash-out for ongoing financial activities was reduced by 53.5% to USD 1,164.3m as a result of a net increase of obtained loans and credit facilities in the amount of USD 761.7m and reduced investment in the capital of existing subsidiaries by USD 231.5m. Also, the USD 308.7m drop in the amount of dividends received from subsidiaries in 2014 was partially offset by an increase of dividends paid to Sistema's shareholders by USD 281.3m.

The Group's cash balance as of 31 December 2014 was USD 2,132.4m, including USD 843.7m for the Group's bank activities, as compared to USD 2,669.9m on 31 December 2013, including USD 1,132.4m for bank activities, net of Bashneft's cash and cash equivalents. The Group's net debt calculated as a sum of short-term and long-term debt minus cash and cash equivalents and highly liquid financial tools totalled USD 6,974.0m as of 31 December 2014 vs USD 8,981.4m as of 31 December 2013, net of Bashneft.

Operating income before depreciation and amortisation (OIBDA) and OIBDA margin

OIBDA is an indicator showing operating income before the depreciation and amortisation of intangible assets. OIBDA margin is OIBDA shown as a percentage of net income. The interpretation of the OIBDA indicator used by the Corporation may differ from its use by other companies; this is not an US GAAP parameter and it should be viewed as an addition to the information included in consolidated accounts under US GAAP, but not as a substitute. The Corporation believes that OIBDA is useful for investors because it indicates the Corporation's stability and efficiency, including its ability to finance capital expenses, acquisition of businesses and other investments, and also the ability to borrow funds and service debt. Even though depreciation and amortisation are viewed as operating expenses under US GAAP, these expenses mainly point to spending not related to cash expenses attributable to long-term assets that were acquired or created in previous periods. The method used by Sistema for calculating OIBDA is broadly used by investors, analysts and rating agencies to assess companies' current and future operations and value.

Adjusted OIBDA, operating income and net income attributable to Sistema

The Corporation uses *adjusted OIBDA*, *operating income* and *net income attributable to Sistema* as indicators reflecting Sistema's financial performance. These financial indicators are used to assess the companies' operating performance and represent results net of one-off income or losses that are not related to the business operations. The Corporation believes that adjusted indicators enable investors to assess financial performance, notably, comparable data by periods, since these indicators do not include one-off income or loss.

Calculation of adjusted OIBDA and operating income correlates with consolidated operating results as follows:

<i>(USD m)</i>	2014	2013
Operating income	1,738.4	3,566.6
Depreciation of SSTL's fixed assets in India	290.0	-
Income from MTS' resumed operations in Uzbekistan	(181.3)	-
Reserves for MTS' cash and deposits with Delta Bank	92.5	-
Depreciation of RTI's goodwill and fixed assets	-	810.9
Income from sale of the stake in OJSC RussNeft	-	(1,200.0)
Income to MTS from settlement of the LLC Bitel dispute	-	(371.1)
Impairment of financial assets	206.5	-
Other	-	86.8

Adjusted operating income	2,146.1	2,936.7
Depreciation	2,292.1	2,633.5
OIBDA adj	4,438.3	5,570.2
<i>(RUB m)</i>	2014	2013
Operating income	60,876	113,588
Depreciation of SSTL's fixed assets in India	11,142	-
Income from MTS' resumed operations in Uzbekistan	(6,734)	-
Reserves for MTS' cash and deposits with Delta Bank	5,138	-
Depreciation of RTI's goodwill and fixed assets	-	25,789
Income from sale of the stake in OJSC RussNeft	-	37,932
Income to MTS from settlement of the LLC Bitel dispute	-	(11,512)
Impairment of financial assets	7,932	-
Other	-	2,434
Adjusted operating income	78,353	93,527
Depreciation	88,067	83,873
OIBDA adj	165,171	177,400

Adjusted net income attributable to Sistema is calculated as net income attributable to Sistema minus one-off adjustments described above, attributable to Sistema.

The Corporate Centre's net debt

The Corporation defines net debt as debt minus cash and cash equivalents, highly liquid deposits and investments in financial instruments. Debt is defined as long-term liabilities, including their short-term part, and short-term debt. The Corporation believes that information on the Corporate Centre's net debt is useful for investors since Sistema's management views this indicator as part of managing liquidity, financial flexibility, capital and its structure. The US GAAP indicator that is closest to the Corporate Centre's net debt is the Corporate Centre's debt. The Corporate Centre's net debt correlates with the Corporate Centre's debt as follows:

<i>(USD m)</i>	2014	2013
Debt	1,223.1	1,574.5
Cash and cash equivalents	(327.5)	(362.0)
Liquid financial tools	(184.6)	(915.7)
Net debt	711.0	296.8
<i>(RUB m)</i>	2014	2013
Debt	68,807	51,533

Cash and cash equivalents	(18,424)	(11,849)
Liquid financial tools	(10,389)	(29,970)
Net debt	39,994	9,714

3.5. Sistema's credit ratings

<i>Rating agency</i>	<i>Date of most recent update of the rating</i>	<i>Long-term credit rating</i>	<i>Forecast</i>
Standard & Poor's	07 November 2014	BB	Negative
Moody's	19 February 2015	B1	Negative
Fitch	18 March 2015	BB-	Stable

3.6. Report on dividends declared (accrued) with respect to Sistema shares

Sistema's dividend policy is aimed at paying a predictable amount of dividends, while at the same time giving the company the possibility to reinvest the generated profit in order to take advantage of attractive investment opportunities.

The amount of dividends is determined on the basis of the performance in the previous financial period and equals at least 10% of Sistema Group's net income under US GAAP (net of paid-out special dividends). Sistema also plans to pay special dividends in the minimum amount of 10% of net income from such transactions as sale of assets, to be determined by the Board of Directors. According to the Russian law, the aggregate amount of dividends payable is limited to the amount of non-consolidated net income under the Russian Accounting Standards (RAS).

On 28 June 2014, the Annual General Meeting of shareholders of Sistema JSFC (Minutes No.1-14) decided to pay dividends for 2013 in the amount of RUB 19.879bn, i.e. RUB 2.06 per ordinary share (RUB 41.20 per GDR). The amount of dividends was determined as a percentage of net profit under US GAAP for 2013 and of net profit from transactions concluded in 2013.

As of 31 December 2014, the total amount of paid out dividends equalled RUB 19,878,948,085.94. The amount of withheld tax on dividend income paid to foreign individuals and legal entities totalled RUB 7,318,503.00. As of the specified date, the total sum of unpaid dividends was RUB 515,335.86, with unpaid dividends for 2013 accounting for RUB 51,914.06. The announced dividends were not paid due to the absence of information about the recipients for transferring the money.

4. PROSPECTS AND DEVELOPMENT STRATEGIES OF SISTEMA GROUP COMPANIES

4.1. MTS

OJSC MTS is a leading telecom operator in Russia and the CIS. Together with its subsidiaries, MTS services ca. 104m mobile subscribers in Russia, Armenia, Ukraine, Turkmenistan and Uzbekistan. The company also provides fixed telephony and cable TV services in Moscow (MGTS), all federal districts of Russia and Ukraine. MTS is one of the world's top 10 mobile operators for the subscriber base.

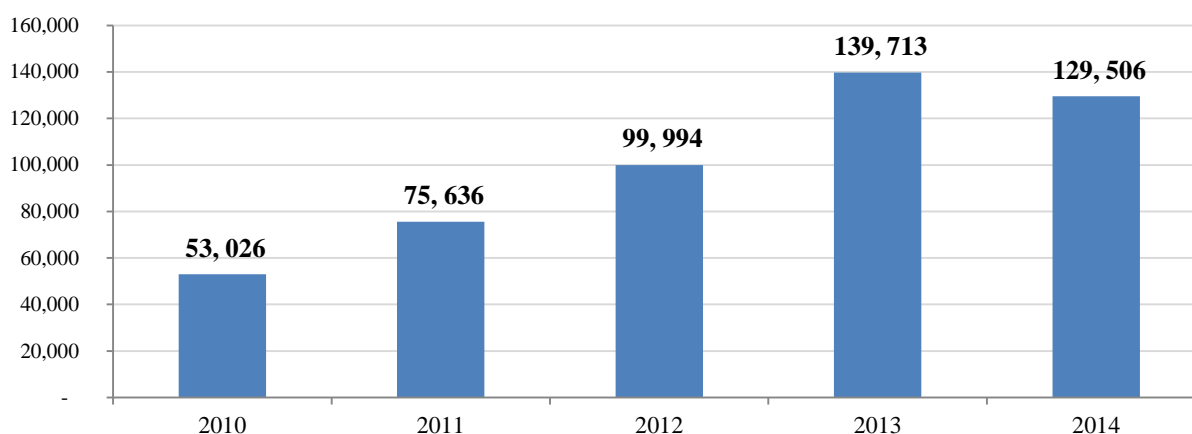
Sistema's effective shareholding in MTS is 53%.

President of MTS – A. Dubovskov, Chairman of the Board of Directors – R. Sommer.

Industry

Growth of the Russian telecom market slowed down from 5% in 2013 to 2.7% in 2014, mainly due to the slower growth rate of the mobile communications market, 3% vs 5%. Current penetration of OTT services (Skype, WhatsApp, Viber, etc.) continues growing and has already reached ca. 13% in Moscow. It is expected to bring a further decline to the market of voice services due to their ongoing partial replacement with voice over IP services (VoIP). SMS services are also being partially replaced with messengers.

Operators' revenue from data services in Russia, RUB m

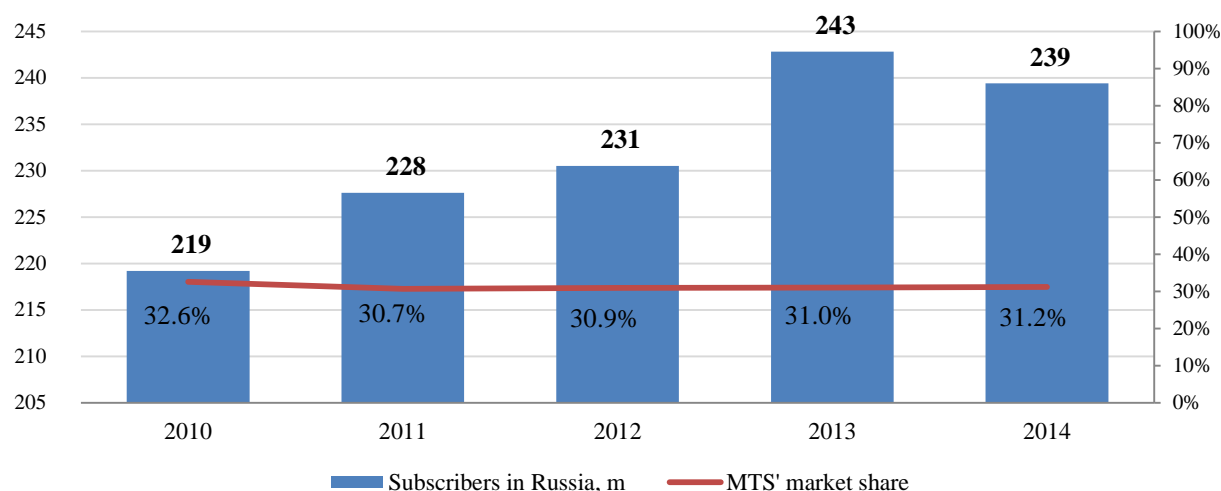


Thanks to encouraging further penetration of smartphones and tablets, promotion of voice&data tariff bundles, development of data transmission networks and distribution channels, data services remain the driver of the mobile business' growth. Penetration of data services in Russia reached 60% in 2014. Russia's data traffic grew 7-fold in the last three years; the share of LTE in total traffic was 12% as of December 2014.

Experts estimate that the Russian subscriber base of broadband access (BBA) amounted to 28.9m households. The market of fixed BBA services grew by 5.1% in 2014. In 2015, the BBA and pay TV markets will remain highly competitive (with 3 to 4 players in every big Russian city). The BBA subscriber base in big cities will grow mainly due to the cross flows of customers. The number of BBA subscribers is projected to grow by 3.7% to 29.96m households in 2015.

The Russian pay TV market grew by 6.1% in 2014 to RUB 57bn, with the number of pay TV subscribers increasing by 8.3% to 37.8m. The TV market remains a fast-growing one thanks to the development of hybrid and satellite television. According to forecasts, the growth rate of the Russian pay TV market will slow down to 4.2% in 2015, and of the pay TV subscriber base to 3.8%. Penetration of services will exceed 70%.

Mobile subscribers in Russia



Sales of phones and smartphones in Russia grew by 6% to 44m in 2014, with smartphones accounting for 64% of all phone sales. The market is characterised by a decline of the average price of a smartphone and increase of the share of cheaper models to 60%-65% of the total. Growth of tablet sales in quantitative terms also slowed down in 2014, 33% against 125% in 2013, but turnover in monetary terms remained the same as in the previous year.

Due to the saturation of the tablet and smartphone markets, sales of equipment are expected to slow down by 19% in 2015; sales of tablets in quantitative terms may drop by 7% due to the demand shifting towards phablets.

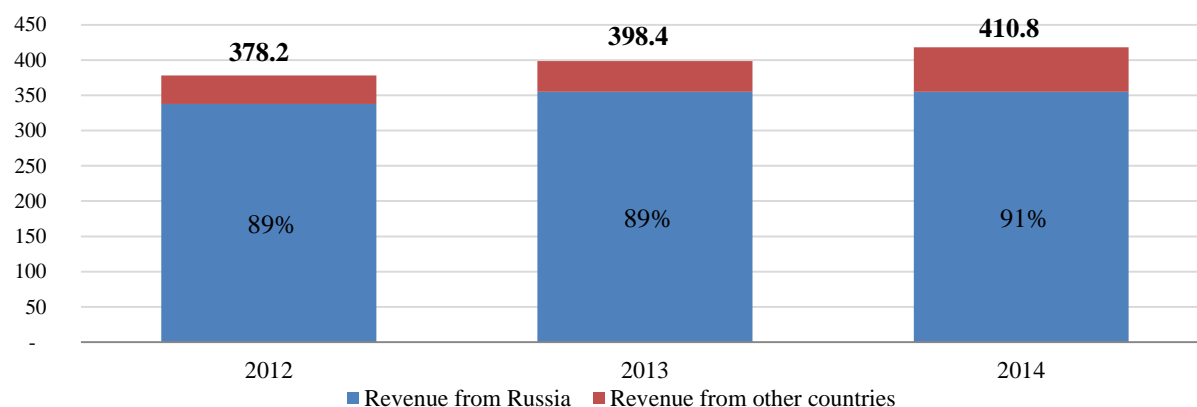
In Q4 2014, financial results of telecommunications companies were affected by FX fluctuations and slowed-down growth rates of retail lending. As a result, the cost of purchase of imported telecom equipment and current spending on international roaming and interconnect for operators grew. Because of this, tariffs for premium international roaming and international calls are expected to rise as well.

Foreign exchange risks will continue affecting most of the markets where MTS operates in 2015. There is a risk of a drop in consumption of telecom services, especially international roaming services.

MTS' business in 2014

MTS remains a leader for revenue and OIBDA in absolute terms among the Russian Big Three operators. In 2014, MTS' active mobile subscriber base grew by 7.5% vs 2013. Outflow of mobile subscribers in 2014 remained the lowest among the Big Three. MTS was a leader for revenue from mobile data services: its market share as of the end of 2014 was 38.8% among the Big Three. The growth rate of revenue from data services grew by 35.9% compared to 2013.

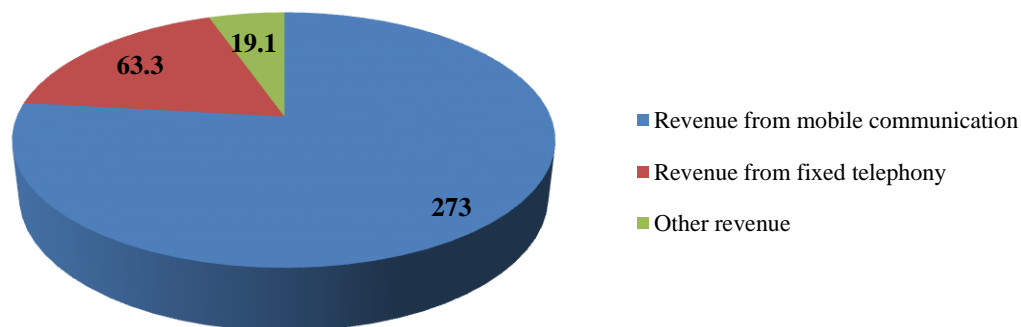
MTS' revenue by geography, RUB bn



In 2014, MTS continued actively investing in construction of 3G/4G data transmission networks and in modernisation of 3G networks as part of the projects to increase capacity and coverage in strategic regions. In 2014-2015, the company will carry out projects to improve the quality of communications in Moscow and St Petersburg. According to Speedtest, MTS has the best results in Russia for data download speed and network delay. In Moscow, according to tests conducted by Speedtest users, MTS' LTE networks demonstrate the highest speed of data transmission to subscribers among the Big Three operators thanks to large-scale construction of networks in 2013-2014.

In 2014, 4G networks were put into commercial operation in 76 regions of Russia vs. 15 regions at the end of 2013. MTS was the leader among the Big Three for the number of Russian regions with LTE coverage.

MTS' revenue in Russia by sources, RUB bn



In Moscow, MTS focused on the quality of its data transmission network, which resulted in a 10-fold surge of LTE traffic. LTE users generated more than half of the total web traffic from smartphones.

The launch of a project to deploy small cells networks in big Russian cities will allow MTS to increase the speed and capacity of the LTE network and improve coverage in places of active mobile Internet consumption. At the initial stage, MTS will implement this project in Moscow (200 cells) and St Petersburg.

In 2014, fixed BBA was the main growth driver for the subscriber base and revenue of the fixed line business thanks to new connections and increase of monthly ARPU.

MGTS' passive optical network (GPON) with digital TV and home Internet (with a speed of up to 1 Gb/second) became available to 3.5m apartments in Moscow (90% of households). The number of users of MTS' GPON-based services reached 1.1m people. The number of subscribers of fixed BBA and GPON interactive digital television in the corporate segment increased by more than 50%. The aggregate web traffic in MGTS' network grew by 45% over the year.

In 2014, MGTS executed several contracts with the Moscow city administration for connecting the city's transport hubs, university hostels and traffic lights to high-speed communication channels. OJSC MGTS also successfully implemented the project for developing a video surveillance system at the election to the Moscow city legislature in September 2014.

One of the biggest projects of 2014 was the launch of mobile communication services using the MVNO model (mobile virtual network operator – use of other operators' infrastructure) in the MTS network: subscribers now have access to service packages including fixed web access, telephony, TV (pay channels), mobile Internet and mobile telephony, mobile television. The company completed the implementation of the IMS (IP Multimedia Subsystem) platform in Moscow, which will allow it to introduce own OTT services.

Aggravation of the macroeconomic and political situation in Ukraine in the second quarter of 2014 resulted in lower consumption of communication services by the subscribers of MTS Ukraine, especially

data and content services. In August 2014, MTS Ukraine ceased providing communication services in the Crimea due to lack of technical capability.

Operational strategy

MTS will continue developing the most promising segment of data services. It plans to build multi-range LTE networks with subsequent frequency aggregation. In 2015, MTS expects to cover all regions of Russia with 4G network. It will continue building microcells in places of mass web consumption and indoor base stations in big cities. Since 2014, it has been implementing the concept of self-organising networks (SON) in Moscow, which will later be spread to other regions. As regards construction and modernisation of fixed networks using target technologies, MTS plans to connect over 90% of households using FTTB (fiber-to-building) technology.

In response to market trends of OTT services development, it intends to launch its own services of IP telephony and web texting using the Rich Communication Suite standard (an analog of Skype, Viber, WhatsApp) from the middle of 2015. It will continue working on the Big Data project, namely, looking for sources of additional revenue and increasing operating efficiency by using information assets, i.e. MTS' data storages.

In accordance with the M2M services strategy for 2015-2017, the company will be active in the following five areas: monitoring and dispatching of vehicles, insurance telematics, security and tracking systems, monitoring of housing and commercial real estate and infrastructure and non-vehicle monitoring (e.g. warnings of alarming events).

New formats of sales channels will be developed on the basis of OZON Holdings - the biggest multi-brand Internet player for sale of operator products. In 2015, real-time offers of MTS services and products relevant to orders of Ozon's customers will be launched, as well as sales of SIM cards and equipment. It will become possible to pay for Ozon's goods and services from a user's MTS account.

The strategy of development of financial services of MTS and MTS Bank for 2015-2018 envisages an increase of the share of MTS' subscribers in the bank's customer portfolio from 2% to 7%. The main segments of financial services to be developed in 2015 are increased penetration of traditional bank products (MTS Money cards, POS loans); launch of a single e-wallet for MTS customers, development of NFC services, launch of new products (digital signature on the SIM card, a virtual card, money transfer services), expansion of the range of pay financial services (insurance, sale of railway and airplane tickets).

MTS' strategy in its foreign markets is aimed at preserving and reinforcing its leadership in the mobile BBA segment, constructing and modernising networks, improving efficiency, expanding spectrum and developing new growth points: mobile advertising, mobile commerce, M2M, Big Data.

2014 Performance

Financial indicators

<i>(RUB m)</i>	2014	2013	Change over the year
Revenue	410,758	398,443	3.1%
OIBDA adj	171,812	176,299	(2.5%)
Operating income	98,698	114,866	(14.1%)
Net income attributable to Sistema	27,725	42,270	(34.4%)
CAPEX	92,599	81,575	13.5%
Net debt	230,651	188,086	22.6%

Operating indicators

	2014	2013	Change over the year
Mobile subscribers (m)	74.6	69.4	7.5%
ARPU in Russia (RUB)	339.1	338.6	0.15%
MOU in Russia (min.)	372	359	3.6%

Key events in 2014

In April 2014, MTS acquired 10.82% of shares of Ozon Holdings, a leading Russian company on the e-commerce market, for USD 75m. Simultaneously, a similar stake was acquired by Sistema JSFC. In September 2014, joint projects with Ozon were launched.

In May 2014, MTS' brand became Russia's only telecom brand to make it to BRANDZ™ top 100 global brands for the 7th time. It was ranked 9th among the top 10 biggest international telecom brands. The brand's value grew by 14.5% over the year to USD 12.18bn.

In July 2014, MTS and the Republic of Uzbekistan signed a settlement agreement, under which MTS received 50.01% of shares of UMS in Uzbekistan. The network was launched on 1 December 2014.

In November 2014, MTS in partnership with OJSC Sistema Mass Media announced its plans to launch digital TV under the MTS brand. The service will be available to 95% of the country's population.

In December 2014, MTS signed a partnership agreement with OJSC Vimpel Communications for 7 years. The document envisages joint construction and management of a network in 36 regions of Russia in 2014-2016.

4.2. LesInvest

LesInvest Group manufactures pulp and paper products, paper sacks, birch plywood and other woodboards. It is a forest industry holding with a full cycle of timber harvesting and advanced wood processing.

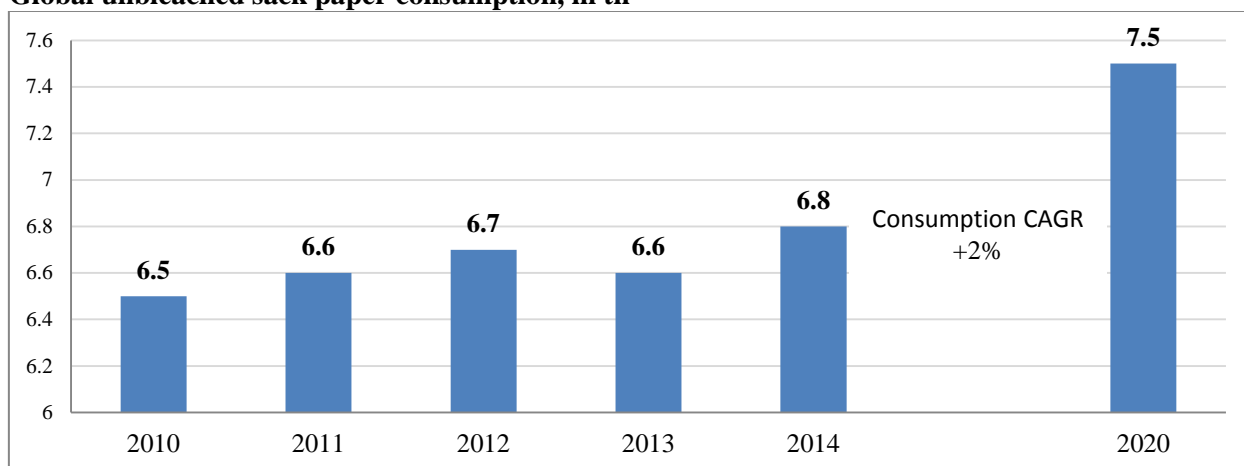
Sistema's effective shareholding in LLC LesInvest is 100%.

President of LesInvest – S. Pomelov, Chairman of the Board of Directors – A. Uzenov.

Industry: sack paper

The share of sack paper in global consumption of paper packaging is 3% (USD 6bn). Unbleached sack paper accounts for 87% of the global sack paper market. The global unbleached paper market is expected to grow by 2% a year on average in the next 5 years, with Asia, Latin America and the Middle East being the main drivers of consumption growth.

Global unbleached sack paper consumption, m tn



Paper quality depends on the availability of soft timber. Only 21% of the world's paper output (Europe, Russia, and North America) is of high quality, has the highest margin and is in the biggest demand among consumers. China accounts for 41% of the global output of unbleached paper, but this paper is of low quality due to an insufficient resource base.

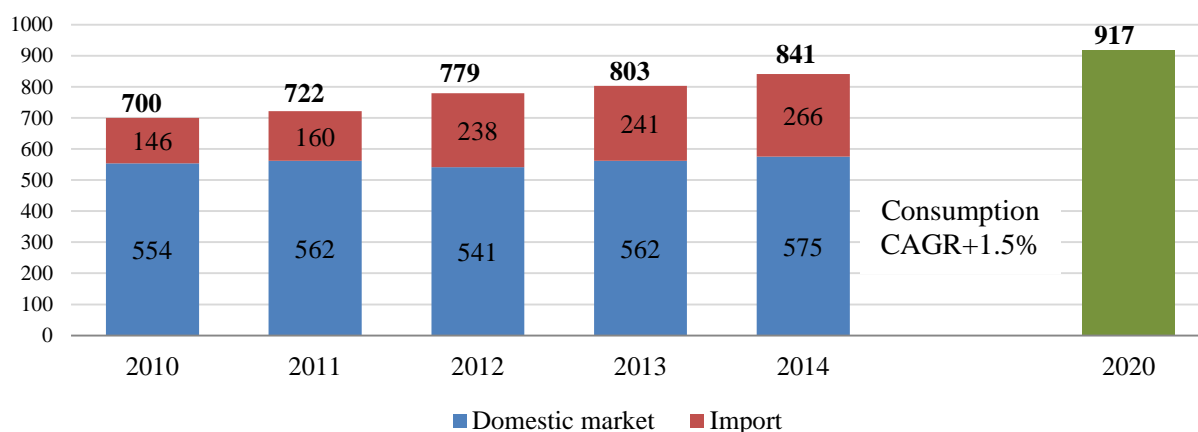
Segezha PPM is Russia's only producer and main exporter of high quality sack paper and is one of the few global leaders for production of high-quality paper.

Industry: paper sacks

The capacity of the Russian paper sacks market is 800m pcs, with imports (mainly from Ukraine, Poland and Germany) accounting for 31% of it. Consumption of paper sacks in Russia will grow by 1.5% per year on average till 2020.

The Russian paper sacks market is local, i.e. it is limited to the producing country, due to the timelines for order execution and the minimal transportation leg; producers of construction materials (cement and dry construction mixes) account for 86% of the market.

Consumption of paper sacks in Russia, m pcs



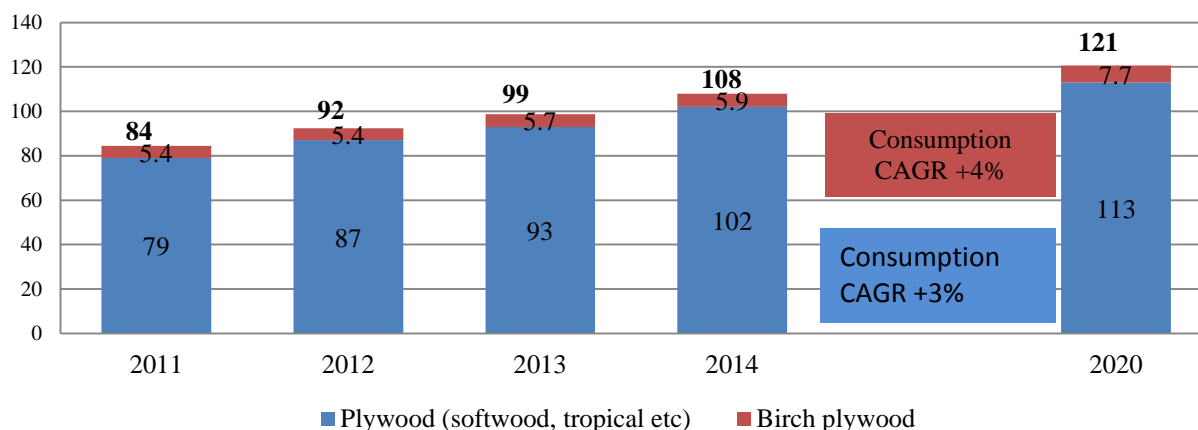
LLC Segezha Packaging is Russia's biggest producer of paper sacks. Besides the transportation leg, the company will get an additional advantage over importers in 2015, namely, more attractive prices thanks to the rouble depreciation.

Industry: birch plywood

The global output of birch plywood is 5.9m cu m. The biggest available reserves of raw materials (birch veneer logs) for plywood production are situated in Russia, which accounts for 53% of the global output.

Birch plywood is a premium segment of the global plywood market, with an annual growth rate of 4%: its best consumer characteristics ensure the steady growth of demand and prices.

Global plywood consumption, m cu m



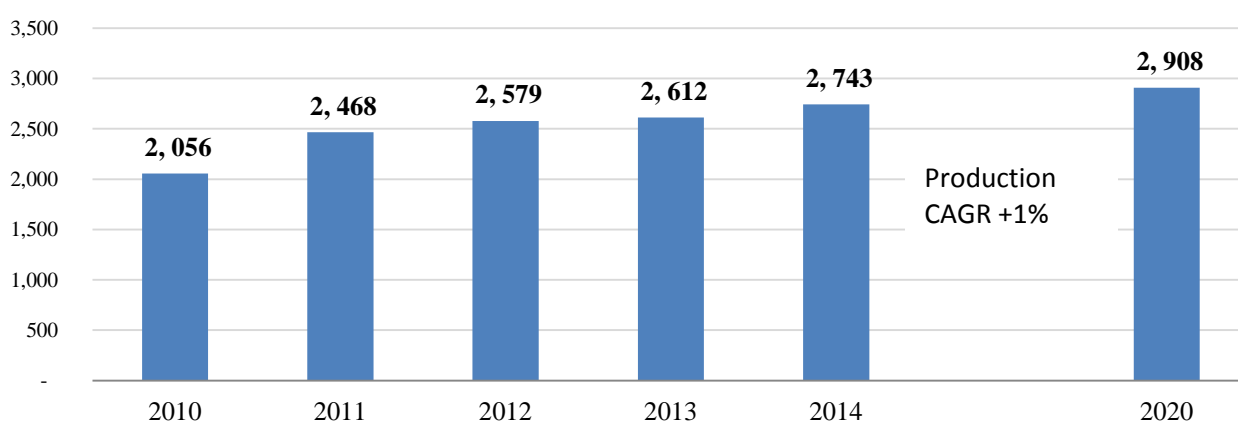
The world's biggest consumers of birch plywood are Europe (36%), Russia (27%) and Asia (25%). The key drivers of the birch plywood market are shipbuilding, construction and machine-building, since it is difficult to replace birch plywood in these segments.

Strong growth in consumption of birch plywood is forecast both in the mature markets of Europe and North America and in the growing markets of Asia and the Middle East.

Industry: fiberboards

Fiberboards consumption in Russia, including MDF (medium density fiberboards) and HDF (high density fiberboards) is 3,438,000 cu m, with imports accounting for 24%. The share of export in the output is 5%. The Russian market is undersaturated, there is unmet demand for high quality boards in the amount of 500,000 cu m. Russia still has a high share (21%) of low quality boards produced at morally and physically obsolete facilities. The main consumers of fiberboards, MDF and HDF are furniture and door manufacturers (57%) and the construction industry (39%).

Consumption of fiberboards, MDF and HDF in Russia, thous. cu m



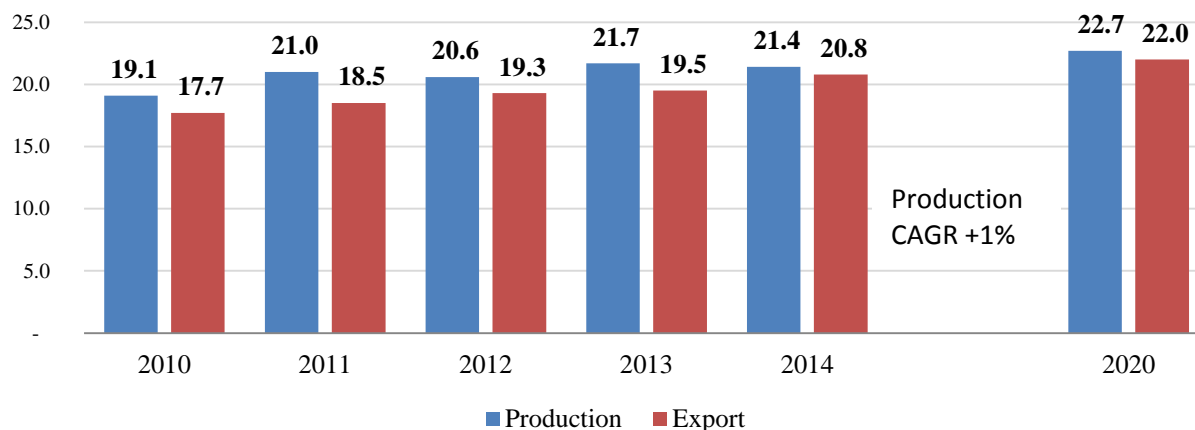
Industry: sawn timber

Out of 21.4m cu m of soft timber produced in Russia, about 1m cu m is consumed domestically, and over 90% is exported, mostly to China (32%)

The timber market is underconcentrated: the top 5 players account for 10% of the market in Europe and 7% of the market in Russia. The main consumption growth is expected in China, the United States and Russia and is estimated at 1.2% p.a. on average.

Stagnation in the European market will result in a decline of timber prices in the short term, while prices in Asia are projected to grow thanks to increasing construction rates and positive GDP trends. The main consumer is the construction industry.

Sawn timber production and export in Russia, m cu m

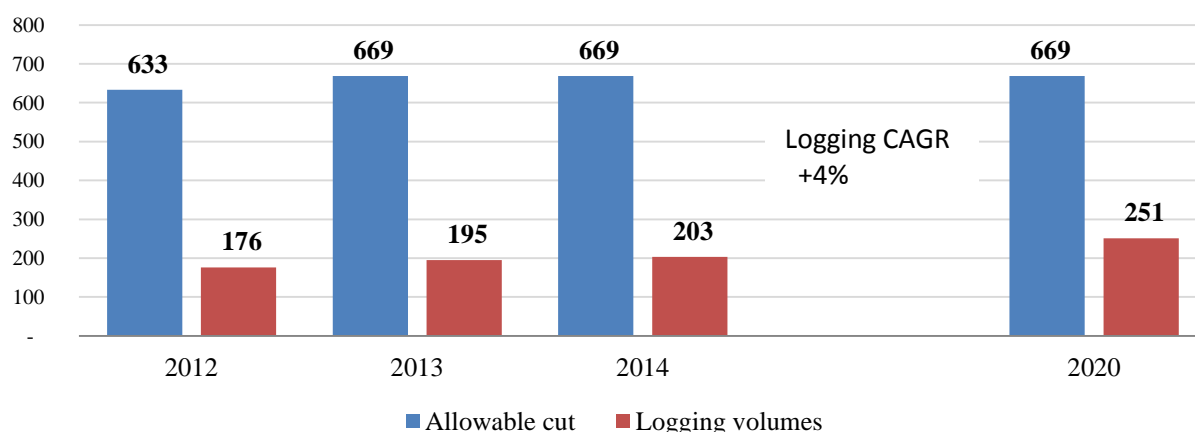


Russia's biggest timber-producing regions are the Irkutsk region, the Krasnoyarsk territory and the Arkhangelsk region.

Industry: wood resources

Global wood reserves total 527bn cu m, with Russia's share estimated at 16%. Russia has the world's biggest coniferous forests with wood reserves of 46.3bn cu m. Russia has the biggest growth potential with regard to utilisation of allowable cut, since this parameter is currently among the lowest in the world: the annual allowable cut is 669m cu m, three times the current logging volumes.

Changes in Russia's allowable cut and logging volumes, m cu m



India and China have a deficit of wood resources, while Russia, Brazil and Finland have a potential for increasing logging volumes.

LesInvest Group's business in 2014

On 29 September 2014, LesInvest completed the acquisition of 100% of OJSC Segezha PPM and 100% of LLC Derevoobrabotka.

In 2014, the company organised tenders and talks with key customers on guaranteed product supply in 2015, and it managed to maintain stable supply amounts and attract new customers. The company reorganised its procurement management and logistical systems, worked to enhance the efficiency of own rolling stock, thereby reducing the cost of own logging and optimising the parameters of current timber supply contracts.

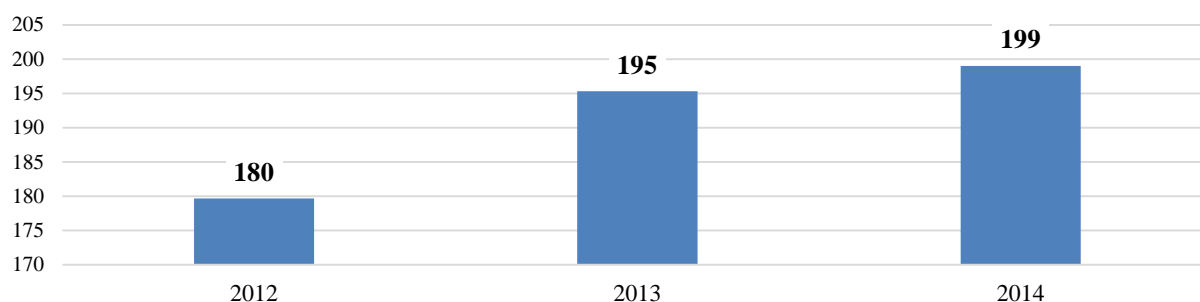
The company implemented a new efficient business model, introduced changes to the organisational structure and built a new team of top managers, hiring professionals with industry expertise.

The share of the Group's foreign currency revenue is 61%. The rouble depreciation created significant advantages for Russian companies that export their products and have expenses in roubles. In 2H 2014, growth of foreign currency revenue and the weakening rouble significantly increased LesInvest Group's competitive advantages compared to its key rivals both in Russia and abroad.

JSC Segezha PPM - sack paper

Sack paper accounts for 17% of LesInvest's total revenue and for ca. 25% of its foreign currency revenue. Segezha PPM ranks No.4 in the world and No.1 in Russia for the output of unbleached high quality sack paper. As much as 45% of the paper output is delivered to the Group's conversion capacities that produce paper sacks in Russia, Europe and Turkey. Segezha PPM's share in Russia's unbleached paper output is 70%. It is the country's leading exporter, supplying paper to Egypt, Indonesia, Pakistan, Mexico, Malaysia and Vietnam.

Segezha Pulp and Paper Mill: sack paper exports, thous. tn



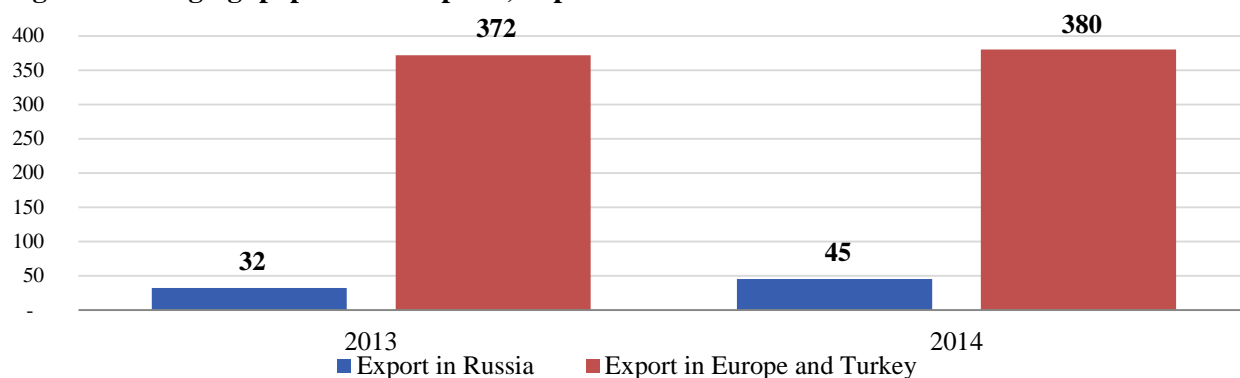
In 2015, LesInvest Group plans to carry out an investment project to modernise Segezha PPM. By 2017, the enterprise will increase its sack paper output by 44% and produce up to 366,000 tn of high-tech sack paper per year.

Segezha Packaging - paper sacks

Segezha Packaging is a producer of high quality sacks that has one factory in Russia, six in Europe (the Netherlands, Germany, Denmark, the Czech Republic, Romania, Italy) and two in Turkey.

Segezha Packaging is No.1 in Russia and No.2 in Europe for the output of high-tech paper sacks. Sufficient self-supplied quality raw materials allow Segezha Packaging to control the production costs of paper sacks. As much as 11% of sacks produced in Russia is exported to Kazakhstan, Uzbekistan and Kyrgyzstan. 49.6% of sacks produced in Europe and Turkey is exported to Spain, Belgium, France, Hungary, Georgia, the US and Iraq.

Segezha Packaging: paper sacks exports, m pcs

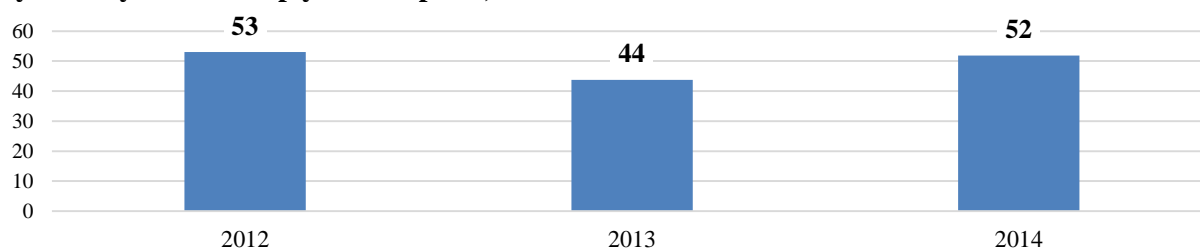


In 2015, LesInvest Group has launched an investment project to increase its conversion capacity producing paper sacks in Russia. It expects its output and sales to grow by 28% in 2016 due to import substitution. The company also plans to carry out a programme of maintenance investment at its facilities in Europe and Turkey.

Vyatka Plywood Mill - birch plywood, fiberboards

Vyatka Plywood Mill (VPM) is Russia's 4th biggest producer of birch plywood. Its favourable location in the northwest of the Volga federal district allows it to supply its products all over the world. The mill uses FSC⁹ certified raw materials. The share of export is 56%; birch plywood is supplied to Turkey, Germany, the Netherlands, France and the United States.

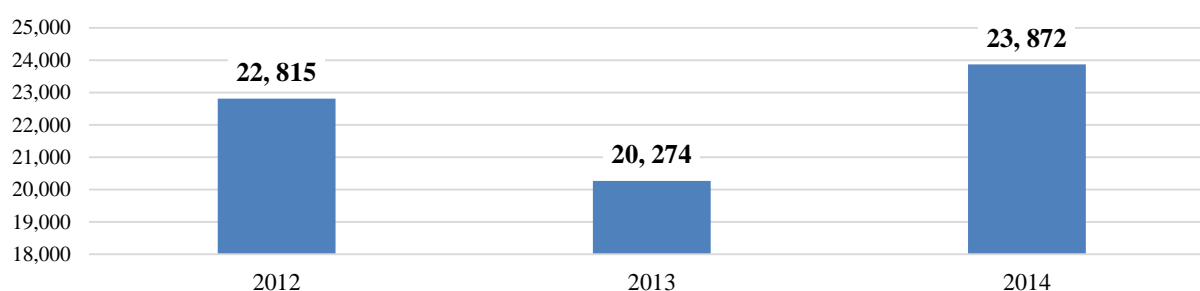
Vyatka Plywood Mill: plywood exports, thous. cu m



In 2015, LesInvest Group plans to start the first stage of the investment project to build new production facilities in the Vologda and Kirov regions. The company intends to increase its birch plywood output threefold by 2020.

Fiberboard is a complementary product of plywood production for VPM, which allows for efficient recycling of production waste. VPM's share of the Russian fiberboard market is 5%. All of its FB output is sold on the domestic market.

Vyatka Plywood Mill: fiberboard production, thous. sq m



⁹ *FSC (Forest Stewardship Council) is an independent international organisation that has created a certification system for environmentally and socially responsible forest management.

Sawn timber

Being a vertically integrated producer of pulp and paper, LesInvest Group has its own sawmills to unlock synergies from efficient utilization of wood resources.

The 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.

The bulk of the Group's sawn timber is produced at the Sokol Woodworking Plant, the Segezha Woodworking Plant and the Onega Woodworking Plant. The share of exports is 95% of the output; the products are supplied to Britain, Egypt, France and Belgium.

In 2015, LesInvest Group will invest in the construction of a new boiler house at the Onega WP in order to generate own heat, reduce gas consumption and gain an economic effect from cost reduction.

Prefabricated houses

The Sokol WP is Russia's only producer of high-quality laminated logs and prefabricated houses. Its share of the Russian laminated logs market is 15%.

The Sokol WP is the country's No.1 producer of prefabricated houses and laminated beams, which are exported to Italy, Germany, France, Slovenia and Japan. The market of prefabricated houses is local (Moscow and the Moscow region) and is expected to grow by 4.5% a year on average until 2020.

In 2015, LesInvest Group will invest in the construction of a new boiler house at the Sokol WP in order to use bark waste to generate heat, reduce gas consumption and get economic effect from cost reduction.

Wood resources

Wood resources account for the main share of LesInvest's production costs (from 30% to 60%). Availability of own high-quality raw materials enables the Group to both control its production costs and ensure its raw materials security. The Group comprises 15 logging enterprises situated in the Republic of Karelia and in the Kirov, Vologda and Arkhangelsk regions.

In 2015, LesInvest will continue implementing the investment project to modernise its fleet of logging, transportation and auxiliary equipment. It also plans to invest in the construction of forest roads. These steps will make it possible to significantly increase the utilisation of the allowable cut.

2014 Performance

Financial indicators

<i>(RUB m)</i>	Q4 2014
Revenue	7,172
OIBDA	1,077
Operating income	661
Net income attributable to Sistema	498
Net debt	303

Operating indicators

	2014	2013	Change over the year
Sack paper production, thous. tn	253	250	<i>1.1%</i>

Paper sacks production, m pcs	1,184	1,164	1.7%
Plywood production, thous. cu m	94	95	-0.9%
Fiberboard production, thous. sq m	24,067	20,526	17.3%

Key events in 2014

On 29 September 2014, LesInvest completed the acquisition of 100% of OJSC Segezha PPM and 100% of LLC Derevoobrabotka.

In 2014, it launched the Wood Supply project, taking steps to modernise its logging and auxiliary equipment.

The Group's headquarters moved from Moscow to Petrozavodsk, Karelia, which will significantly reduce its administrative expenses.

In 2014, Segezha Packaging signed a contract with IKEA for the supply of consumer paper packaging (carrier bags). In 2015, the supply volume under the contract is expected to grow by 30%.

In 2014, the Sokol WP won a diploma of the National Golden Mercury Award as the Best Exporter of Consumer Products.

In 2014, Vyatka Plywood Mill made the first supplies of birch plywood to Saudi Arabia, the UAE and Australia.

4.3. Bashkir Power Grid Company

OJSC Bashkir Power Grid Company (BPGC) provides power transmission services and is a leader by a number of industrial indicators. The company's assets comprise distribution and transmission assets located in Bashkortostan.

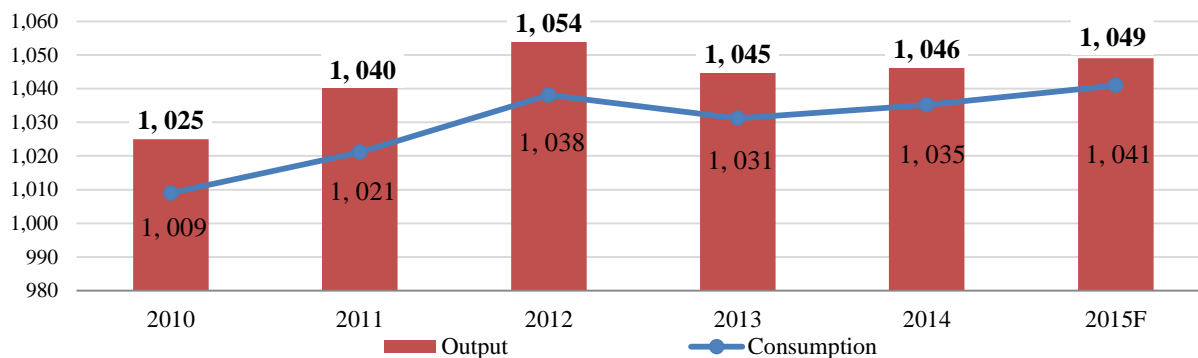
Sistema's effective shareholding in BPGC equals 90.5%.

CEO of BPGC – A. Makarov, Chairman of the Board of Directors – F. Evtushenkov.

Industry

One of the key development trends in the energy segment is a moderate growth of demand for electric power, due to higher energy efficiency of Russian consumers. In 2014, power consumption in Russia grew by 0.4% to 1,035.2bn kWh, power generation – by 0.1% to 1,046.3bn kWh.

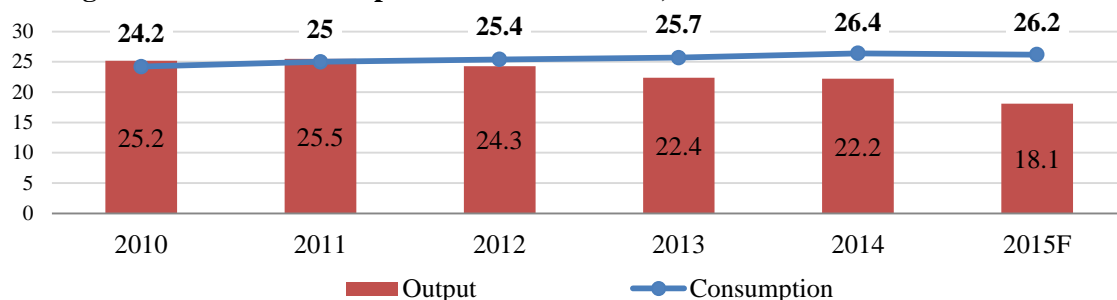
Power generation and consumption in Russia, bn kWh



The demand for power supply has been redistributed between urban and rural areas: it decreased in the latter and rose considerably in the cities. In turn, in towns and cities, lower power consumption in industrial zones is compensated for by a higher consumption in the office, commercial and residential

areas. The alterations in the geography of power demand are shaping the need to maintain underutilised electrical networks and to make investments into power supply networks at new locations.

Power generation and consumption in Bashkortostan, bn. kWh



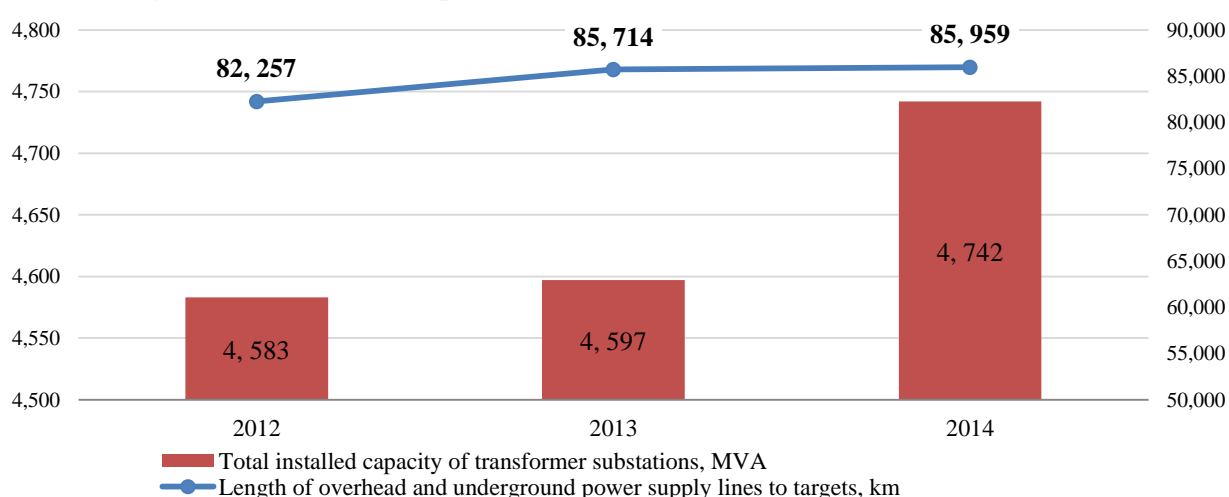
Since the power grid business is subject to government regulation, it is exposed to frequent changes in the legislation. In the autumn of 2013, the Russian Government decided to freeze the tariffs of natural monopolies for 2014, which was primarily expected to curb inflation and have a positive impact on the production of construction materials, the wood processing, metals and chemical industries. In 2014, tariff growth for 2015 was restricted to 3.8%.

At present, approximately 50% of Russian distribution networks are overaged. The general wear of power supply equipment in the industry equals 60-70%, which is considerably higher than in other large countries, where it equals 27-44%. Modern equipment ensuring high reliability and lower operating expenses is not yet broadly used in the industry.

BPGC's business in 2014

In terms of capacity, BPGC is a top-ten largest power grid company in Russia. It is a leader among territorial grid operators in terms of total length of operated power supply lines and the number of substations, transformer substations and distribution substations.

Network length and transformer capacity

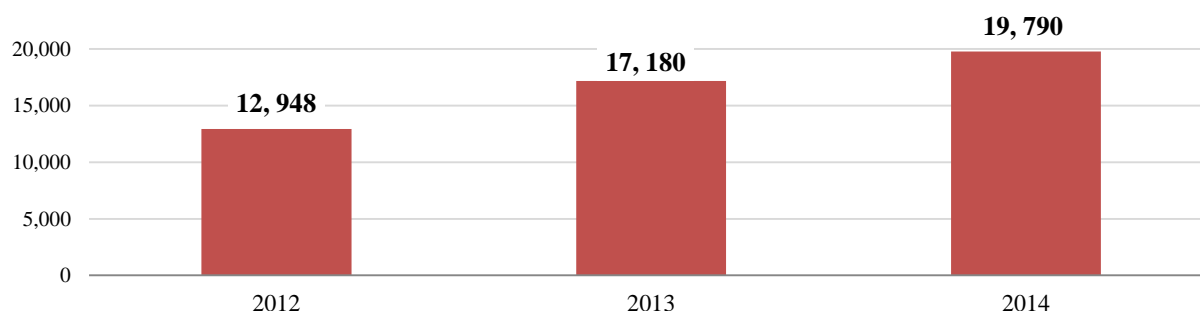


In line with the programme for improvement of the operating efficiency of existing power grid assets, the company continues to install power metering units. Over 88 thousand units were installed since the launch of the project, which helped to reduce effective power losses. Execution of projects aimed at optimising business processes in IT ensured automation of report generation and follow-up of project completion, efficiency and transparency of business processes. Construction of Data Centre is in progress.

In 2014, as part of development of unregulated activities, the company launched operations of LLC BPGC Engineering which acted as the General Contractor for 23 investment targets of Bashkirenergo, projects worth a total of RUB 638.8m (24% of the investment programme). The company is working on potential cooperation between BPGC Engineering and LLC Siemens on design and construction of power grid infrastructure.

BPGC's priorities include consolidation of power grid assets in Bashkortostan. In 2014, it began to acquire ownerless networks and rent municipal networks. In particular, it performed comprehensive preparatory activities to privatise the power grid assets rented by BPGC in the cities of Ufa and Kumertau.

Number of connections



The executed investment programme of BPGC and its subsidiaries and affiliates in 2014 totaled RUB 3.79bn. Capital expenditures in 2014 were aimed at developing Bashkortostan's network infrastructure, improving the energy efficiency of production facilities and securing satisfaction of demand for power supply and capacity in the long term and the mid-term, as well as creating the conditions to ensure future balance between power output and consumption in Bashkortostan's energy system and with the aim of securing uninterrupted power supply for the consumers while reducing the negative effect on the environment.

Operational strategy

BPGC's key objectives are to ensure reliable power supply to consumers and to improve the business's operating efficiency.

BPGC's strategy for 2015 envisages further work on the programme targeting higher operating efficiency with respect to reducing the losses and creating a Data Centre and a Network Control Centre. One of the key strategic priorities is to carry out a long-term programme for equipment upgrade, which would enhance the operating efficiency of the business. The company also intends to complete the main part of the Smart Grid project in Ufa and consolidate the territorial grid operators. As far as development of unregulated activities is concerned, there are plans in place for the engineering company to roll out the Smart Grid technologies at BPGC assets and to provide IT and communication services.

2014 Performance

Financial indicators

(RUB m)	2014	2013	Change over the year
Revenue	13,778	13,271	3.8%
OIBDA	5,267	5,651	(6.8%)
Operating income	3,444	3,981	(13.5%)
Net income attributable to Sistema	2,701	2,786	(3.1%)
CAPEX	3,262	3,054	6.8%

Operating results

	2014	2013	Change over the year
Power to consumers in distribution grids, MWh	19,683	19,075	3.2%
Losses in distribution grids, %	8.46%	8.27%	2.3%
Power to consumers in transmission grids, MWh	20,680	20,936	-1.2%
Losses in transmission grids, %	1.49%	1.37%	8.8%

Key events in 2014

Last year, Bashkirenergo (a subsidiary of BPGC) became the first company in Russia that switched to ten-year RAB-based tariff regulation, while the tariffs for other energy enterprises in the country are set for 5 years maximum. RAB-based regulation has a number of advantages for the power grid company, the consumers and for the Republic in general, including stimulation of cost cutting, major investments combined with a moderate tariff, an opportunity to make long-term development plans for power grid companies, improving the grid companies' services, and predictability of power supply tariffs, which is important for the consumers. The long regulation period would provide for efficient long-term planning and enhance its investment appeal. The total investment envisaged in the region's power supply complex exceeds RUB 29bn.

In 2014, the preliminary feasibility study of a comprehensive upgrade of Ufa's power supply infrastructure with Smart Grid elements was completed. The pilot part of this project (1.5% of its total volume) for the network that requires a maximum level of automation and monitoring will be completed in April-May 2015. The main part of the project should be completed by the end of 2020.

4.4. Targin

LLC Targin (Targin) is a large Russian oil field service holding, operating in Bashkortostan, the Nenets Autonomous District and the West and East Siberia. The Targin Group comprises the management company and subsidiaries providing the services of well drilling and workover, mechanical maintenance and transportation.

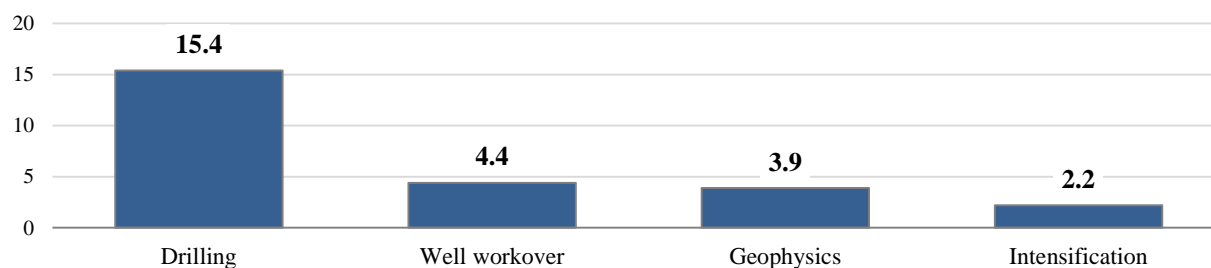
Sistema's effective shareholding in Targin is 100%.

CEO of Targin – K. Zakirov; Chairman of the Board of Directors– F. Evtushenkov.

Industry

The global oil field service market in 2014 is estimated at nearly USD 150bn, with Russia accounting for 17%. According to expert forecast, the market may expand by 33% in the next 5 years. Foreign companies' share in the Russian oil field service market is nearly 18%, over half of that is the French company Schlumberger. Targin's share of the Russian market is approximately 2.7%.

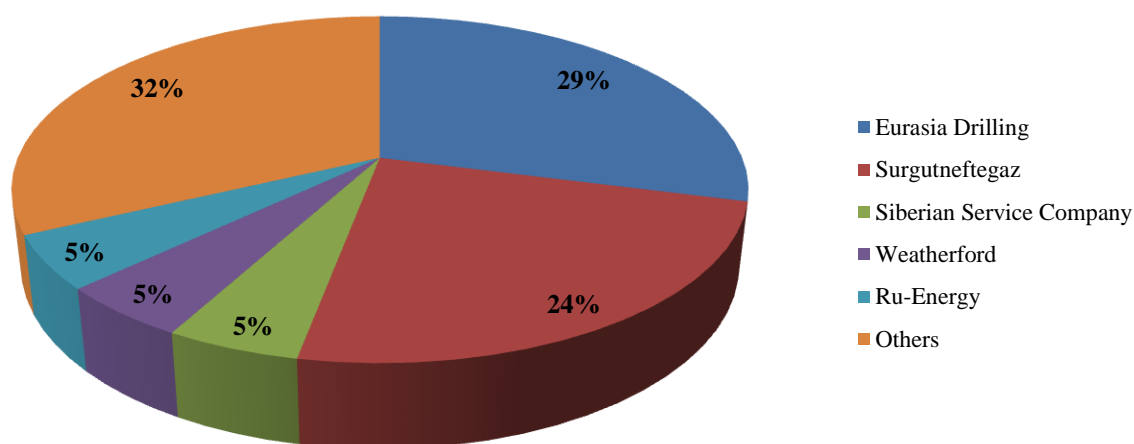
Revenues of oil field service companies in Russia, 2014, USD m



Drilling accounts for over half of the Russian oil field service market. In 2014, the European countries, the USA and Canada introduced sanctions limiting the access of largest Russian oil companies to drilling

and production technologies for the Arctic, offshore and shale oil projects. Withdrawal of foreign players from the market due to the sanctions might lead to deceleration of new projects. These events prompted Russian oil companies to relaunch the development of in-house oil field services, which is considered less efficient due to the challenge of ensuring their full capacity utilisation and in view of their operations being restricted to the scope of the respective oil company. Acquisition of the Orenburg Drilling Company and Weatherford's drilling facilities by Rosneft will considerably increase the market share of in-house service divisions.

Key players of the Russian drilling market, 2014



The year 2014 also observed trends of active market consolidation. The closure of the asset swap transaction between Schlumberger, the largest player of the global oil field service market, and Eurasia Drilling Company, a leader of the Russian drilling industry, will increase concentration of players in the short term.

In the first half of 2014, well drilling in Russia shrank by 7%, for the first time since the crisis of 2008-2009. However, this decline was also a consequence of the migration into horizontal drilling which grew by a record-breaking 63%. Since 2011, the share of horizontal drilling in Russia has grown from 10% to 25%. Today, around 20% of oil is produced from tertiary reserves – with the help of fracturing or construction of sophisticated wells.

The Russian market is demonstrating a growing demand for high-tech oil and gas services, the competitiveness of independent service companies operating in the market hinges on their mastery of advanced technologies and highly productive multifunctional equipment.

Targin's business in 2014

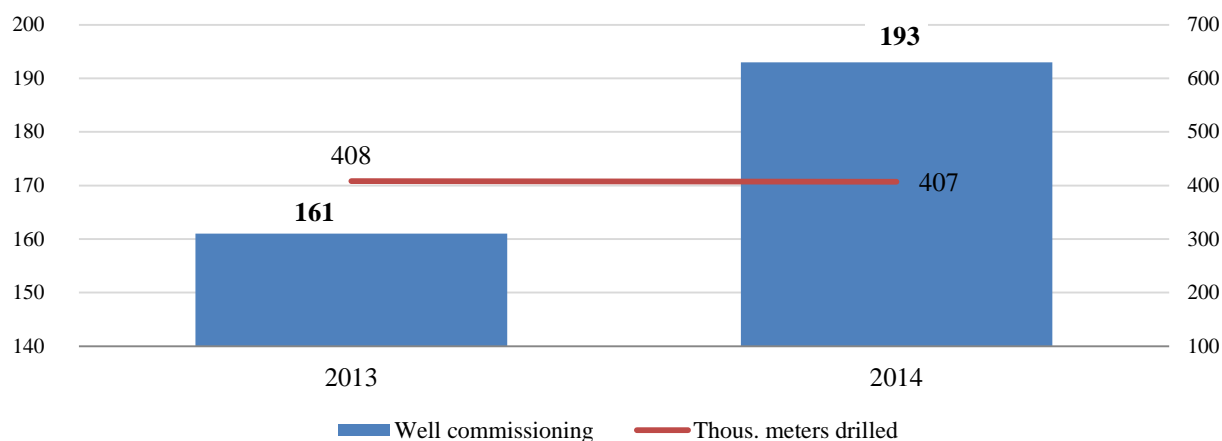
Sistema acquired Targin in 2013, and performed an upgrade of its equipment and conducted business restructuring in 2014. The merger of the Group's entities was completed in accordance with the "one segment – one company" principle, which should help to cut the costs going forward.

The approved investment programme would bring the company's technological equipment to the level of best industry practices. About 40% of investment in 2014 went into developing core operations, with the drilling segment accounting for ca. 63% of total expenses. In 2014, Targin's capital expenditures totaled ca. RUB 3.7bn. The company set up four well workover teams, acquired five mobile drilling rigs (160 tonnes), one drilling rig (320 tonnes), modernised five drilling rigs (250 tonnes each), bought over 290 units of special-purpose equipment, over 100 units of technological equipment, 161 mobile housing units, over 700 tonnes of piping materials and high-tech machines equipped with numeric control. The projects are financed from own (32%) and borrowed (68%) funds. Rouble-denominated loans to finance the investment programme were obtained from the largest Russian banks on attractive terms.

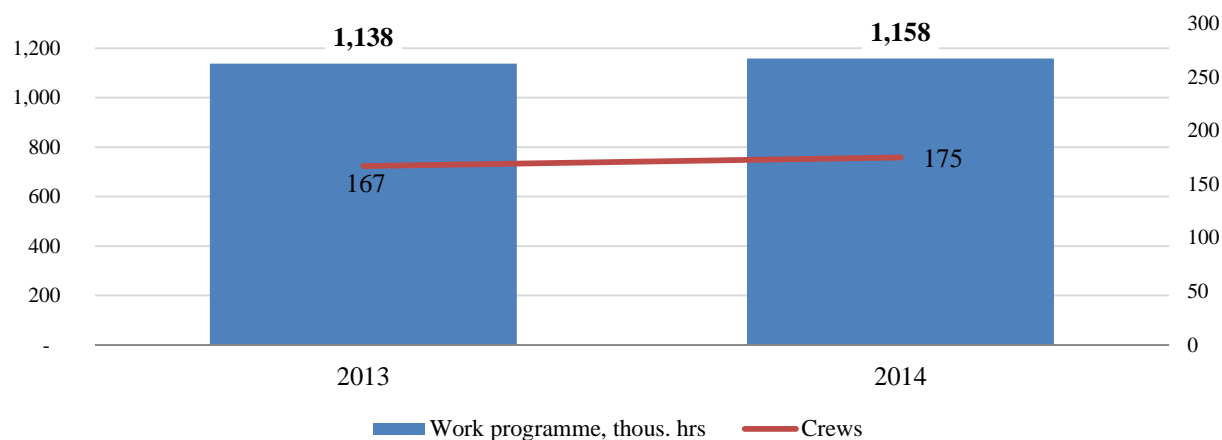
Targin's objectives include diversification of customer base, after the company ceased to be an in-house oil field service division of Bashneft. In 2014, apart from Bashneft, the company rendered services to Rosneft and its subsidiaries, Gazpromneft, Slavneft-Megionneftegaz, etc. In 2014, Bashneft accounted for ca. 77% of the company's revenue.

The crews have begun operations in Serbia on the Gazpromneft project, under a well workover contract. Subject to proper performance of the work scope, the number of crews could be increased. Plans include provision of drilling services in the future.

Operating results of the Drilling segment



Operating results of the Well Workover segment



In 2014, Targin launched a project of comprehensive preparation of wells for hydraulic fracturing.

Operational strategy

Targin's strategy focuses on expansion of the market share and diversification of the customer base by providing high-tech full-cycle services.

The plans for 2015 envisage maintaining the rate of upgrading and expanding the production facilities. 60% of the investment programme will be channeled to development of core operations. Targin's biggest projects are acquisition of 4 drilling rigs, 2 plugging fleets and 2 fleets of coil tubing units with nitrogen pumps, modernisation of one drilling rig, acquisition of over 150 units of special-purpose equipment and creating new product ranges.

The Drilling segment is going to develop the turn-key services of well construction and new areas of services in alignment with the development of the Russian oil and gas industry.

The Well Workover Segment needs to implement new technologies and breakdown elimination services, to develop oil yield boosting technologies, etc.

The main goal of the Logistic segment is to maintain the fleet age in line with the key customers' requirements. The segment's strategy focuses on migration from the conventional scheme of transportation services to logistic services.

Targin's investment programme is aimed at efficient execution of its strategy and provides for renewal of its equipment, introduction of new technologies and establishment of technological partnerships.

2014 Performance

Financial indicators

<i>(RUB m)</i>	2014	2013	Change over the year
Revenue	23,549	24,435	-3.6%
OIBDA	3,008	1,901	58.3%
Operating income	1,731	1,136	52.3%
Net income attributable to Sistema	1,032	357	189.1%

Operating results

	2014	2013	Change over the year
Drilling: meters drilled, thous. m	407	408	(0.2%)
Drilling: wells commissioned, ea.	193	161	19.8%
Well servicing and workover: work programme, thous. hr.	1,158	1,138	1.8%
Well servicing and workover: number of crews, ea.	175	167	4.8%

4.5. Detsky Mir

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 brand of ELC (Early Learning Center) in Russia, and online stores detmir.ru and elc-russia.ru.

Sistema's effective shareholding in OJSC Detsky Mir (Detsky Mir) is 99%.

CEO of Detsky Mir – V. Chirakhov, Chairman of the Board of Directors – C. Baxter.

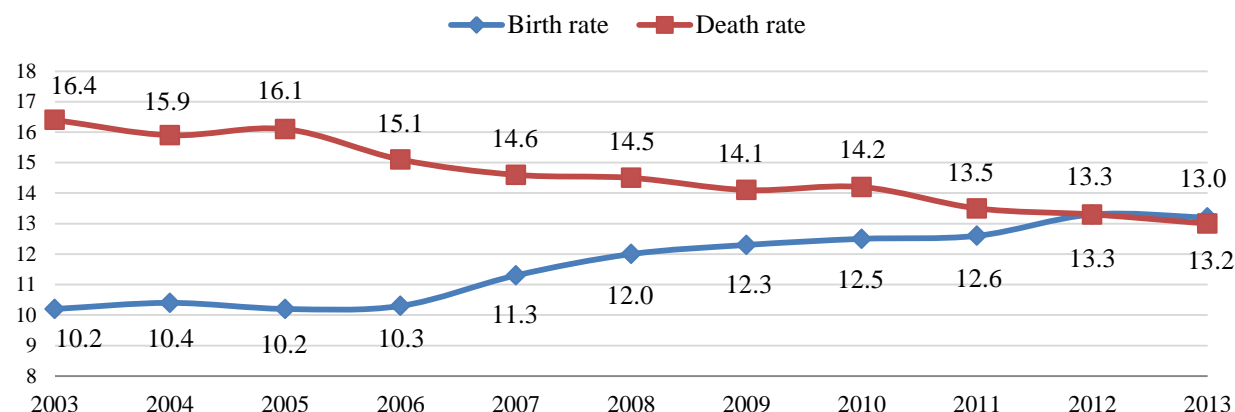
Industry

The children's goods retail market continued to grow in 2014, regardless of the downturn in the Russian economy. Along with food retail, the children's goods retail market is resilient to the macroeconomic crises, which was clearly demonstrated in 2008-2009, when spending on children's goods grew by 9% (food was the only category that grew faster than that, at 11%). In 2014, modern format continued to squeeze out the so-called "unorganised" retail (open markets, kiosks, fairs), and larger players proceeded to consolidate the market. Thus, at the end of 2014, Detsky Mir retained its leadership, its share went up from 8.1% in 2013 to 10% in 2014.

In 2014, the market of children's goods grew by 3.2% in rouble terms. In 2015, we expect a slight deceleration of growth to 2.7%, however, the demographic situation will keep driving up spending on children's goods. State support for families and mothers, including the Maternity Capital programme, makes a sizable contribution to higher birth rates. Thus, according to the Federal State Statistics Service, the number of babies born in Russia in 2014 broke previous records, reaching a total of 1 million 947

thousand. The Russian Government decreed to extend the Maternal Capital programme through 2017, which will probably have a positive effect on the birth rates in 2015 and 2016.

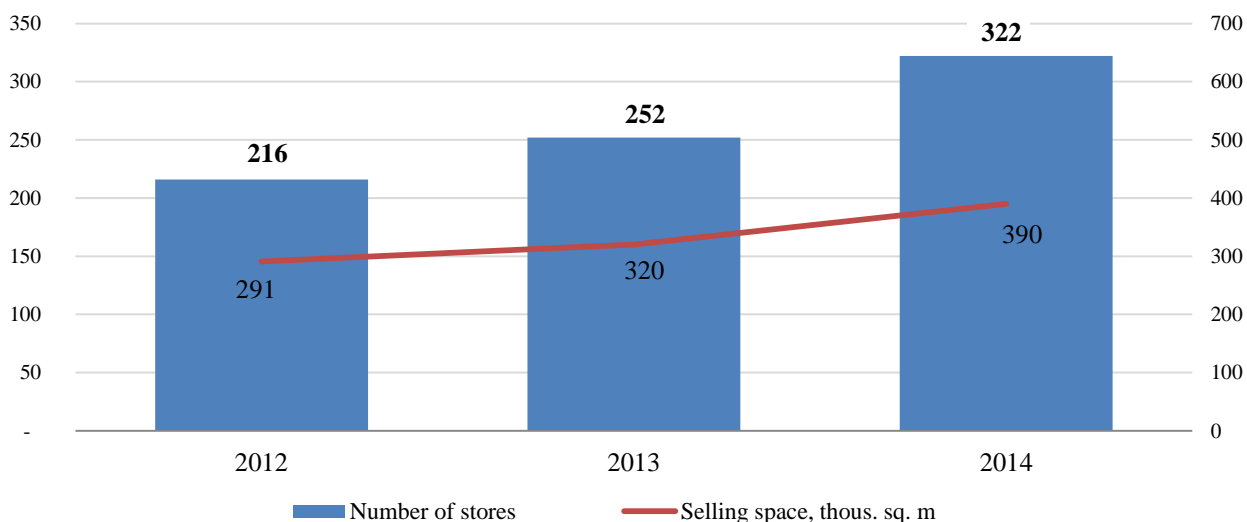
Demographic situation in Russia (per one thousand people)



Detsky Mir's business in 2014

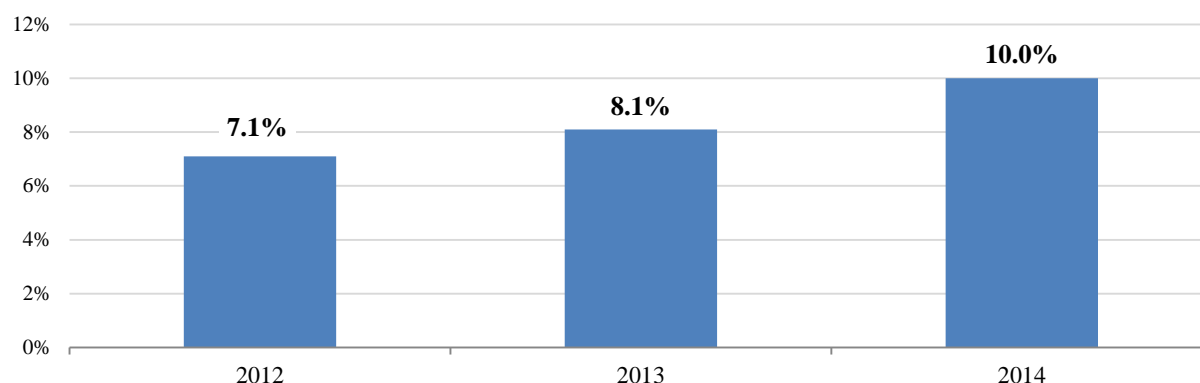
In 2014, Detsky Mir proceeded with improving its operating efficiency. The key projects include the start of construction of its own warehouse in Bekasovo (Moscow region), the implementation of SAP platform, the launch of Russia's largest Detsky Mir store in the centre of Moscow (at Vozdvizhenka St.). The company opened 56 new Detsky Mir stores and 16 ELC stores.

Detsky Mir stores and selling space



The total selling space of Detsky Mir grew by 22% YoY, from 320 to 390 thous. sq.m. All the new stores of Detsky Mir opened within the new concept providing more play zones (presented for the first time in Mega Belaya Dacha in December 2013). Ten largest stores of the retail chain were fully refurbished in adherence to the new concept.

Detsky Mir's share in the Russian children's goods retail market



Growth in 2014 was driven mainly by the toys and baby goods segments, with Detsky Mir's market share up from 13.2% to 16.3% and from 9.2% to 11.9% respectively. In 2015, these categories are expected to remain the key growth drivers. Thus, according to Synovate Compton forecast, Detsky Mir's share in the toys segment will reach 19.7%, and 13.1% in the baby goods segment.

Operational strategy

In 2015, we expect to see the first results of the efficiency improvement programme of Detsky Mir, which includes launching the combined SAP platform, upgrading PoS services, opening a new warehouse in Bekasovo, and implementing a new store concept.

In July 2015, Detsky Mir is launching its own warehouse designed for 70,000 pallets. It should enable the company to enhance centralisation of deliveries, boosting the turnover and improving stock management. Detsky Mir is planning to open new stores in towns with the population of 50 thousand people and more, benefiting from the reduction of other chains' development programmes caused by the macroeconomic downturn.

The plan for 2015 envisages the opening of 30-40 new Detsky Mir stores. The policy of affordable pricing will remain the retailer's priority for 2015 and the subsequent years, which should ensure arrival of new customers and loyalty of existing ones. Online sales will remain the main vector of Detsky Mir's development as a multi-channel retailer. All the initiatives launched under the pilot project, in particular, electronic kiosks at the stores, online apps for smartphones, and in-store pick-up for online purchases will be actively used to improve interactions with the customers. Profit growth is an essential component of Detsky Mir online store's strategy. In 2014, the online store broke even for the first time, while the financial indicators of most competitors are still in the red zone.

2014 Performance

Financial indicators

<i>(RUB m)</i>	2014	2013	Change over the year
Revenue	45,446	36,001	26.2%
OIBDA	4,910	2,771	77.2%
Operating income	4,170	2,137	95.1%
Net income attributable to Sistema	2,043	1,299	57.2%
Net debt	7,866	5,062	55.4%

Operating results

	2014	2013	Change over the
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			year
Selling space (thous. sq. m)	390	320	21.9%
Number of stores, ea.	322	252	27.8%

Key events in 2014

In August 2014, Detsky Mir opened its flagship store in the centre of Moscow, at Vozdvizhenka St. The 7,000 sq.m hypermarket is now the biggest children's goods store in the CIS, and in two months it has become a leader in the Detsky Mir chain by customer traffic and goods turnover.

In December 2014, the CEO of Detsky Mir V. Chirakhov became its minority shareholder, receiving 1.08% under his long-term incentive programme.

In August and December 2014, Detsky Mir paid dividends for 2013 and 9 months of 2014, respectively. The total amount of dividends equaled RUB 2.5bn.

4.6. Medsi Group

Meds Group is Russia's largest privately owned network of healthcare facilities that offer a full range of preventive, diagnostic and treatment services, including rehabilitation services for children and adults.

Sistema's effective shareholding in Medsi is 75% – 1 share.

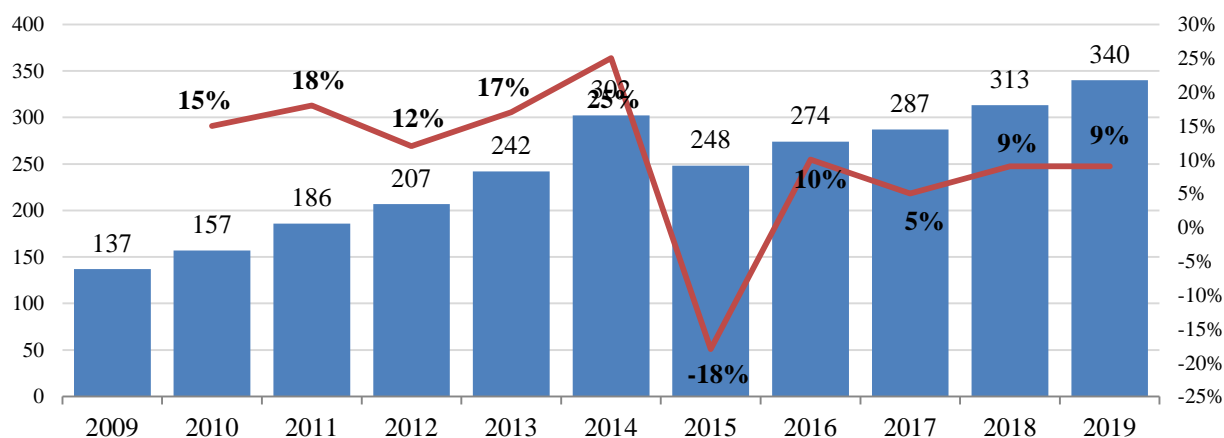
President of Medsi – E. Brusilova, Chairman of the Board of Directors – M. Shamolin.

Industry

In 2014, the Russian market of healthcare services demonstrated two-digit growth rates, reaching the volume of RUB 530bn. The effect from structural changes in the market and the government's actions continues to facilitate growth of commercial healthcare. Taking into account the macroeconomic situation, the market is expected to slump in the nearest few years, and then show moderate growth. The consolidation trends observed in 2013, with reduction of public, free-of-charge healthcare facilities will continue in 2015.

In 2014, the volume of legal commercial healthcare segment exceeded RUB 300bn, with the Moscow market accounting for 28% of the total, which is primarily due to the better situation with voluntary insurance policies in the capital. Over the past 5 years, the total market volume more than doubled. The main reason was a substantial increase of the number of private clinics and migration of patients to the segment offering a quality alternative to the public and shadow medical care.

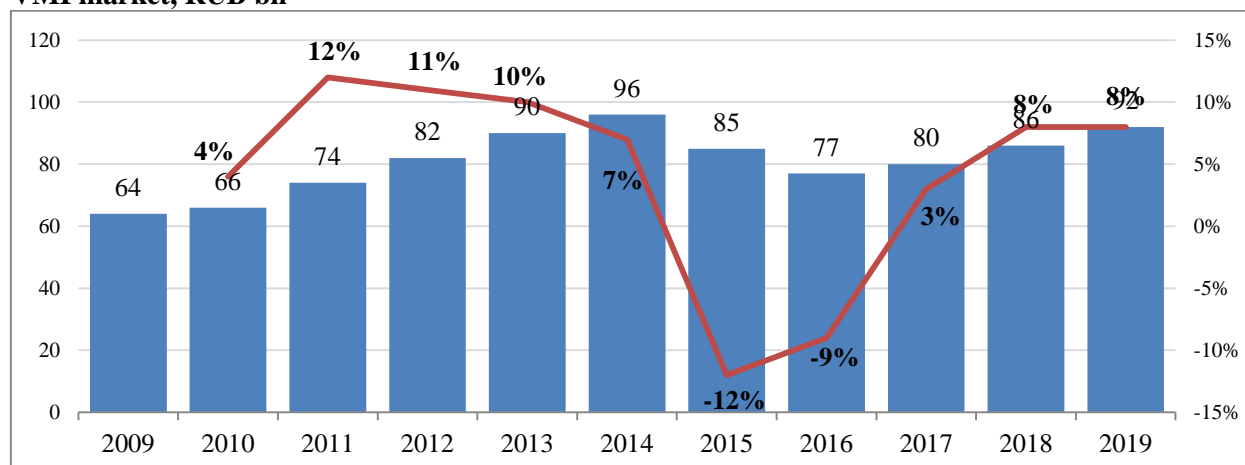
Moscow market of commercial healthcare, RUB bn



The voluntary medical insurance (VMI) segment has historically demonstrated high growth rates. In 2014, the market volume approached RUB 100bn, up 50% from 2009. The Moscow market that accounts for over 60% of the whole VMI market has a higher concentration of large corporations that are the main consumers of insurance services.

The VMI segment is highly correlated with economic factors and the business in the country. The economic downturn leads to shrinkage of options offered by the programmes, in some situations – complete cancellation of VMI for certain employees.

VMI market, RUB bn



The cornerstone of the industry's evolution in the coming year will be further reforms that would facilitate the combination of public and private segments' efforts focusing on development of the country's healthcare market. There is a tendency for private clinics to be engaged under Obligatory Medical Insurance (OMI) programmes, initiatives have been announced for the customers to be able to cover the gap between OMI and the clinics' prices from their own funds or at the expense of VMI.

The Government continues to apply efforts to abate shadow payments that account for ca. 25% of the entire commercial healthcare market, which should attract the patients to the legal segment.

Medsi's business in 2014

Medsi is the largest private chain of clinics by revenue: the company's share in Russia is 2%, and exceeds 6% in Moscow. Medsi clinics receive over 6 million visitors in 12 Russian cities every year.

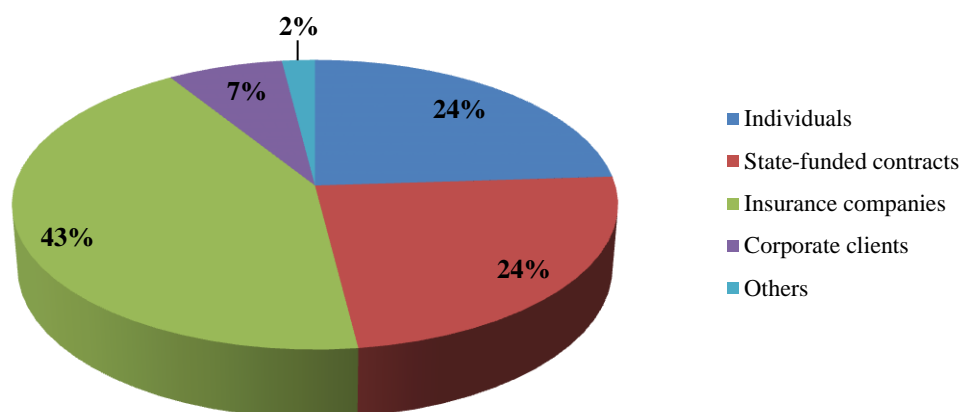
In 2014, the company launched the construction of the second flagship clinical and diagnostic centre at Krasnaya Presnya with a total area of 22,000 sq.m. This centre offers a full range of out-patient treatment and diagnostic services, as well as in-patient treatment and rehabilitation services.

In the reporting year the company shut down four inefficient loss-making clinics in the regions, however proceeding with development in Moscow, opening a new primary care clinic.

After completion of GUP Medical Centre's integration with Medsi, it launched a large-scale investment programme aimed at upgrading the facilities and re-equipment of the assets, introducing new healthcare services and modern treatment methods, creating cross-links within the group in order to offer a full range of healthcare services.

The company launched the first phase of the reconstruction project in Otradnoye based on designs prepared jointly with Royal Phillips, and transformation of a polyclinic into a modern children's clinic in cooperation with Vamed.

Medsi revenue by customers

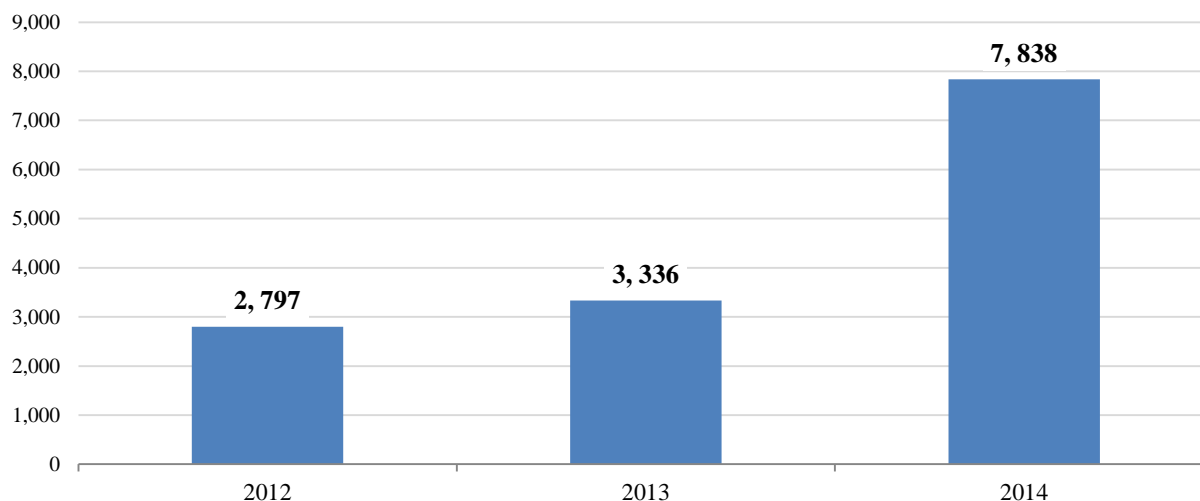


Apart from fulfillment of the investment programme, Medsi proceeded with improving the business's efficiency. The management company was reorganised: responsibilities were partly delegated to the assets, with the aim of improving the company's manageability. Implementation of a modern unified IT system is underway, along with expansion of operating premises in two existing clinics.

Introduction of new precision diagnostic equipment and modern surgical equipment brought about significant changes in the quantity, quality and volumes of medical services.

Higher efficiency of clinical hospitals is driven by modern technologies: in particular, the company has gradually moved to using laparoscopic techniques for most surgeries, increasing the patient throughput and reducing the stay time. This increased the total number of surgeries by 135%, and the utilisation rate of clinical hospitals at Otradnoye and Botkinsky reached 43% and 65% respectively. In the nearest time, the company is planning to introduce invasive arrhythmology services and launch a full-cycle clinic.

Number of surgeries performed in Medsi clinics



Medsi has upgraded its facilities, which enabled the company to obtain licences and quotas for high-tech medical care under government programmes starting with 2015.

Operational strategy

Medsi's strategy focuses on organic growth. Selective investments may be made in acquisition of successful and efficient medical assets. The main points of long-term growth are the investment projects carried out in 2015, such as the clinical and diagnostic centre at Krasnaya Presnya, completion of upgrade

at the surgical, intensive care and sterilisation units in the clinical hospital in Otradnoye, setting up a radiology unit in Otradnoye and reconstruction of the Polyclinic at Khoroshovsky proezd with its transformation into a specialised children's clinic.

Along with its investment programme, the company keeps working on increasing the patient flow and boosting the operational efficiency. Considerable efforts will be made to attract individuals: the marketing promotion campaign launched in Q4 2014 will continue through 2015. Medsi is currently working with all the largest insurance companies. Its priorities include retention and increase of the patient flow by offering new products and flexible pricing. The quotas for high-tech medical care and in-patient services under OMI policies with an acceptable level of tariffs would become additional opportunities for the company.

The optimising programme provides for construction of an efficient chain of business processes. A new unified IT system will be implemented in 2015-2016, making it possible to streamline the management company's costs. An incentive system for medical and administrative personnel was updated and implemented in 2014. It comprised a variable part of remuneration tied to achievement of financial and functional KPIs and to the company's performance in general.

Lower purchasing power resulting from the crisis is naturally affecting the commercial healthcare segment. The most noticeable impact should be expected in the regions with the lowest average income per capita.

2014 Performance

Financial indicators

<i>(RUB m)</i>	2014	2013	Change over the year
Revenue	9,767	9,362	4.3%
OIBDA	866	1,408	(38.5%)
Operating income	382	970	(60.6%)
Net income attributable to Sistema	533	1,011	(47.3%)
Net debt	1,003	383	162.1%

Operating results

	2014	2013	Delta
Number of visits (K)	6,035	5,993	0.7%
Number of services rendered (K)	13,239	12,745	3.9%
Average cheque (RUB)	1,618	1,562	3.6%

Key events in 2014

In November 2014, E. Brusilova was appointed President of Medsi.

An announcement about further cooperation with Royal Philips which helped to set up a unique training centre at the premises of Medsi facilities was made at the World Economic Forum in Davos that took place after the closure of the reporting year in 2015.

4.7. Binnopharm

JSC Binnopharm (Binnopharm) is a pharmaceutical company operating one of Russia's largest full-cycle facilities manufacturing biotechnological drugs in line with the international quality standards of GMP (Good Manufacturing Practice). The company's priorities are development and mass manufacturing of

drugs for treatment of socially important diseases (oncology, hematology, infectious and respiratory diseases).

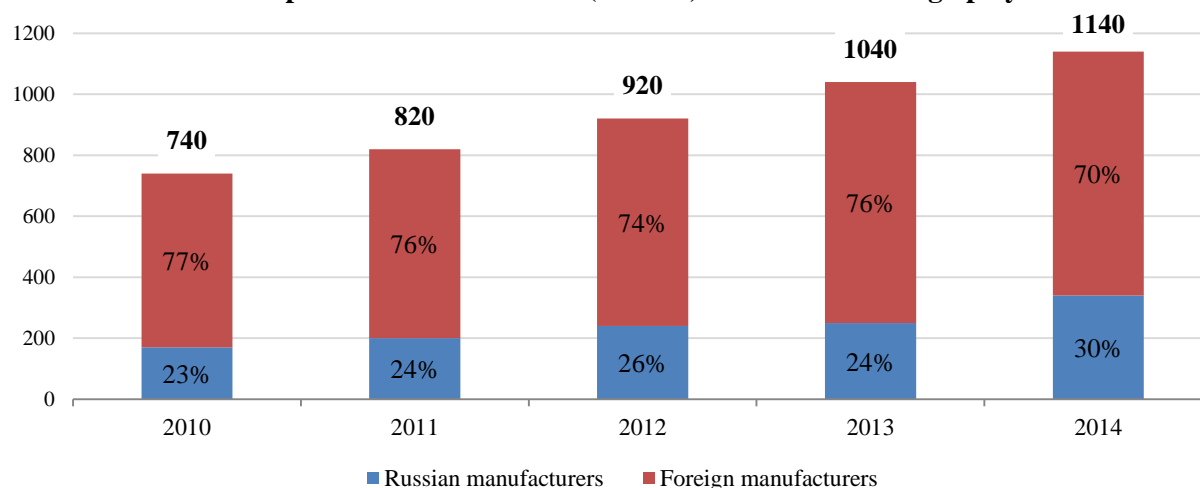
Sistema's effective shareholding in Binnopharm is 74%.

CEO of Binnopharm – A. Chupin, Chairman of the Board of Directors – D. Zubov.

Industry

The Russian pharmaceutical market remains one of the fastest growing pharmaceutical markets in the world. In 2014, its overall volume grew by 9.3% in terms of value, totaling RUB 1.14tn, while the commercial segment increased by 10.8% in monetary terms, hospitals – up by 10.0%.

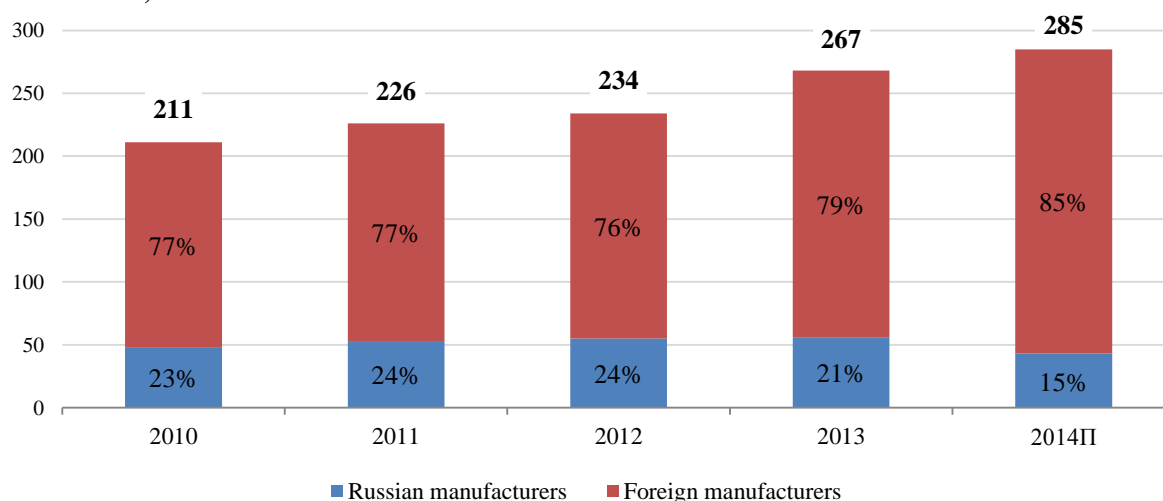
Volume of the Russian pharmaceutical market (RUB m) and share of foreign players



The bulk of the Russian market's growth YoY was secured by an increase of retail prices, while in physical terms, its volume shrank by 3.6%. According to the Russian ministry of healthcare, the share of foreign manufacturers in the Russian market in 2014 exceeded 70% in monetary terms.

State regulation of the Russian pharmaceutical market remains high. The import replacement programme is currently in the pipeline. This programme would pay special attention to increasing the share of domestic manufacturers in the pharmaceutical industry. As regards government control over the industry, the most important event in 2014 was the innovation in state procurement procedures, according to which the state can restrict participation of foreign companies in state-funded tenders with the aim of encouraging Russian manufacturers.

Volume of state-funded procurement of pharmaceutical products and share of Russian manufacturers, RUB m



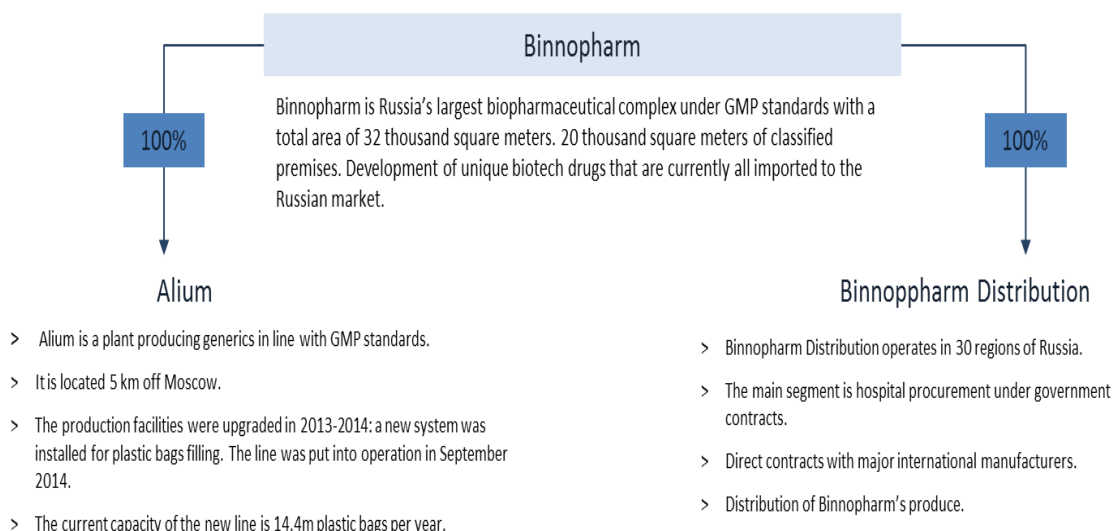
Another important event in the industry in 2014 was the transfer of financing from the federal budget to regional budgets under the Federal Law *On Obligatory Medical Insurance*. In H1 2014, it led to a short-term shrinkage of procurement volumes.

Most experts share a positive outlook on the development prospects of the Russian pharmaceutical market. According to the latest forecasts of DSM Group, market growth in 2015 will be 9% vs. 2014. Growth in the commercial segment is expected at the level of 10%, and 6% in the public segment. Meanwhile, the bulk of this growth will stem from sales of domestic products driven by the import substitution programme. According to analysts, the share of Russian produce in the public procurement segment should grow by a factor of ca. 2.5 in the short term.

Binnopharm's business in 2014

The design capacity of the pharmaceutical production facility is sufficient for full coverage of the Russian hospital segment's demand for prescription generic drugs in the main dosage forms.

Binnopharm Group



The company's results in 2014 were affected by the shift to financing from regional budgets. As the law came into force, regional procurement of medications virtually ceased, which reduced Binnopharm's revenue from distribution by more than 45% in the first half of 2014.

However, reduction of income from structural changes was compensated for by the following measures: commercial, administrative and management costs were cut by RUB 80m, and the gross and operating profit margins of 2014 were kept at the previous level.

Manufacturing capacity of Binnopharm, m units per year

Tablets	Up to 1,400
Capsules	Up to 45
Ampules	Up to 80
Aerosols	Up to 20
Syringes	Up to 18

In 2014, Binnopharm delivered 5.4m doses of Regevak B, a unique vaccine for hepatitis B, under a government contract. It also supplied Erythropoietin α substance under a government contract.

Binnopharm is actively cooperating with foreign manufacturers, and in Q1 2015 the company will proceed with contract-based production under the existing agreements while signing new ones (with partners such as ViiV Healthcare, GlaxoSmithKline, Fresenius Kabi). Towards the end of the year it may launch a full-cycle production. Along with Ketosteril, the parties are discussing potential localisation of certain intra-venous generics and starches of Fresenius Kabi on the premises of Alium, a factory in the Binnopharm Group.

In 2014, the company registered a new product, Beclometasone – an aerosol for lung treatment. The market for this product in Russia would be worth ca. RUB 500m per year.

Operational strategy

One of the key priorities of the operating strategy is maintaining and reinforcing Binnopharm's position in the vaccine market. In 2015, the company is planning to start delivering under government contracts the Regevac B vaccine in a new dosage form (pre-filled syringe). The company is considering potential penetration into the children's vaccine market for hepatitis B, working on partnerships with such manufacturers as Panacea Biotech and Microgen.

Binnopharm engaged new researchers and production experts to develop a portfolio of generics and biosimilar drugs in 2014. The company is planning to expedite registration of generics, and the biosimilar drugs will be developed and registered in the medium term.

The company's priorities for 2015 will still include 2-3 stages of clinical trials of its proprietary biotech drugs: Interferon $\alpha 2\beta$ and Erythropoietin α . Their commercialisation is expected to commence in 2016.

The company is planning to develop industry partnerships: negotiations are underway with major international pharmaceutical companies that are interested in localising the manufacturing of their products in Russia. Furthermore, in 2015 the company will also continue contract-based production for ViiV under the existing agreement.

2014 Performance

Financial indicators

<i>(RUB m)</i>	2014	2013	Change over the year
Revenue	20,429	20,119	1.5%
OIBDA	6,253	6,016	3.9%
Net income attributable to Sistema	261	439	(40.5%)
Net debt	21,700	28,010	(22.5%)

Operating performance

	2014	2013	Change over the year
Sales of Regevac B vaccine, RUB m	350	538	(34.9%)
Delivery of Regavac B vaccine, K packages	600	970	(38.1%)

Key events in 2014

In March 2014, Binnopharm signed an agreement with ViiV Healthcare Trading to continue production of ViiV's drugs on the premises of Binnopharm through the end of 2016.

In September 2014, after completion of the upgrading project, Alium launched production of infusion solutions on the Bottlepack line.

In December 2014, it registered the syringe dosage form of Regavac B.

In December 2014, Alexey Chupin was appointed CEO of Binnopharm.

4.8. MTS Bank

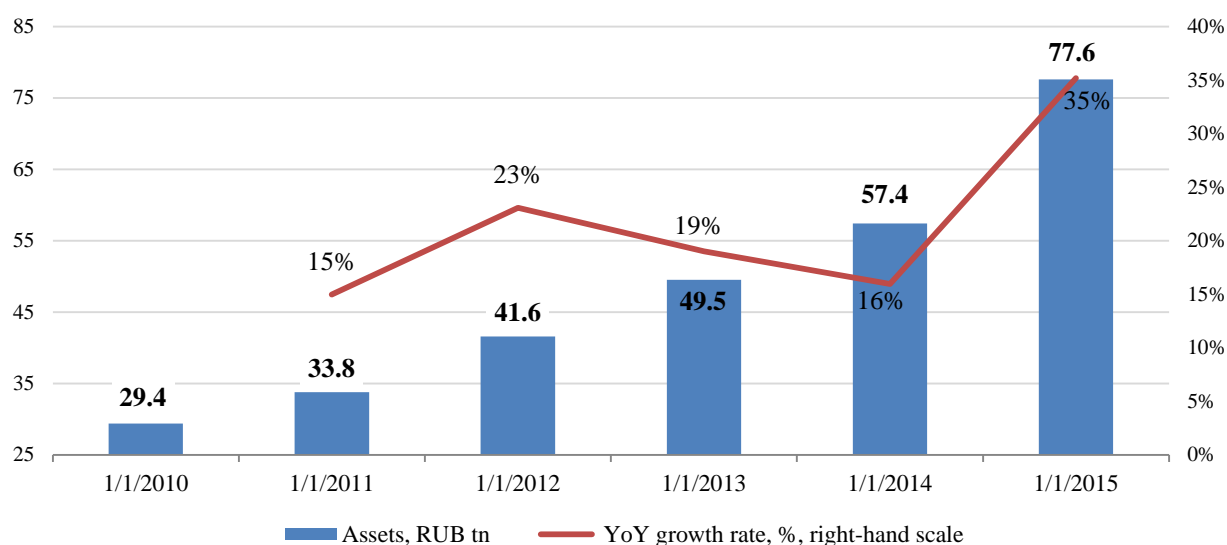
PJSC MTS Bank (MTS Bank) is a banking business operating in the Russian Federation and offering a full range of financial services to individual and corporate clients. The Bank holds a strong position among Russia's largest banks, being a systemically important operator in the payments, lending and savings market.

Sistema's effective shareholding in MTS Bank is 87%.

Chairman of MTS Bank's Management Board – I. Filatov (M. Chaikin until March 2015), Chairman of the Board of Directors – A. A. Abugov.

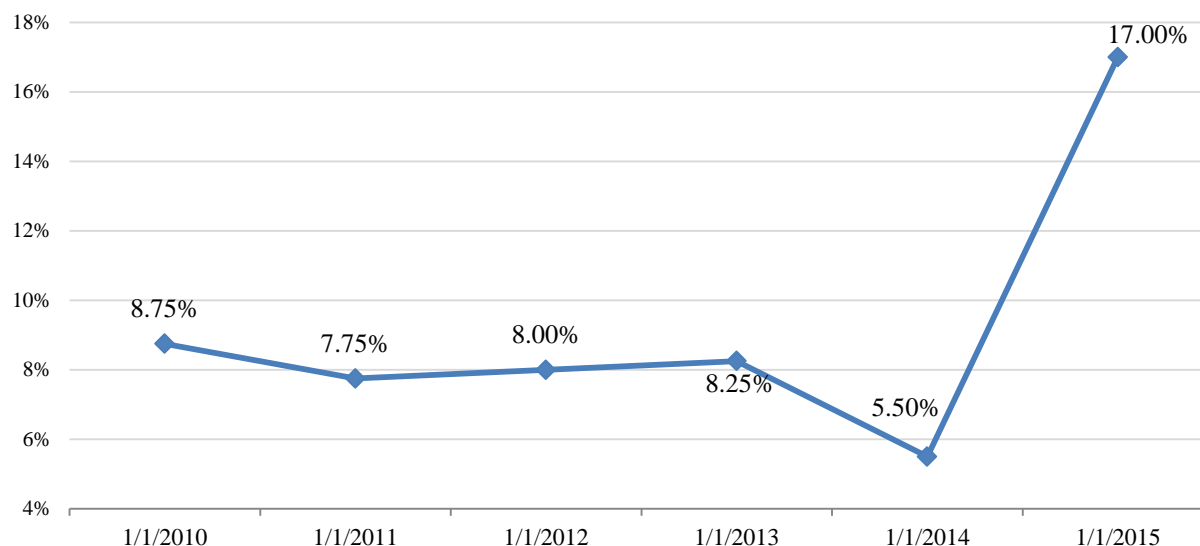
Industry

Growth of assets in the banking segment



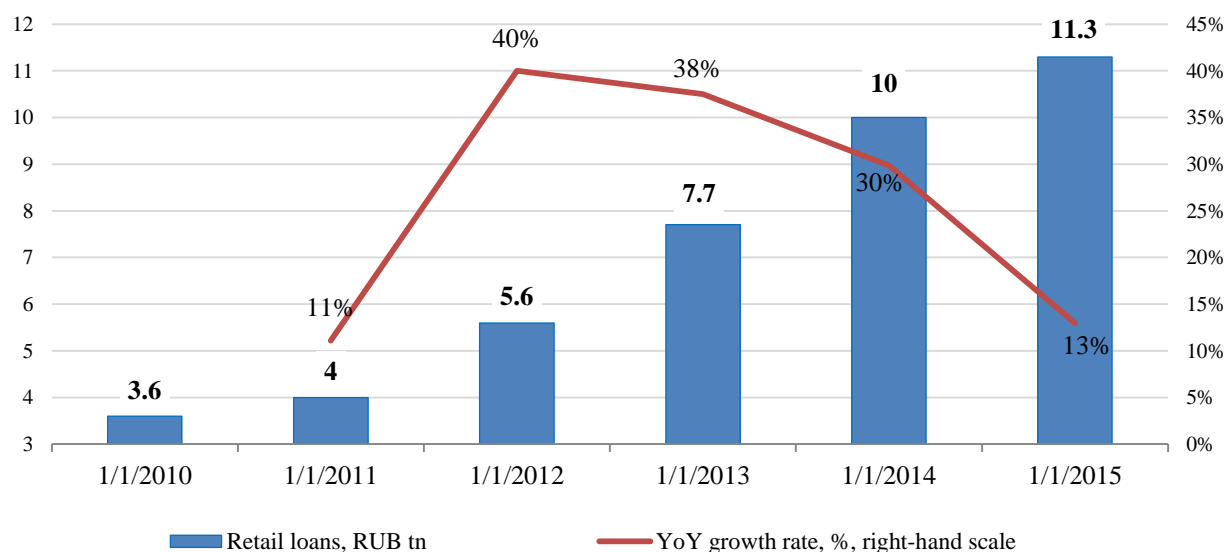
2014 was a challenging year for the financial segment. The raising of Russian Central Bank's key interest rate from 5.5% p.a. to 17.0% p.a. and the skyrocketing growth of interest rates offered by other sources of funding sharply increased the cost of lending institutions' liabilities. Deceleration of the economic growth prevented compensation of these developments with active operations, which caused considerable pressure on the net income and equity of Russian banks.

Russian Central Bank's key interest rate



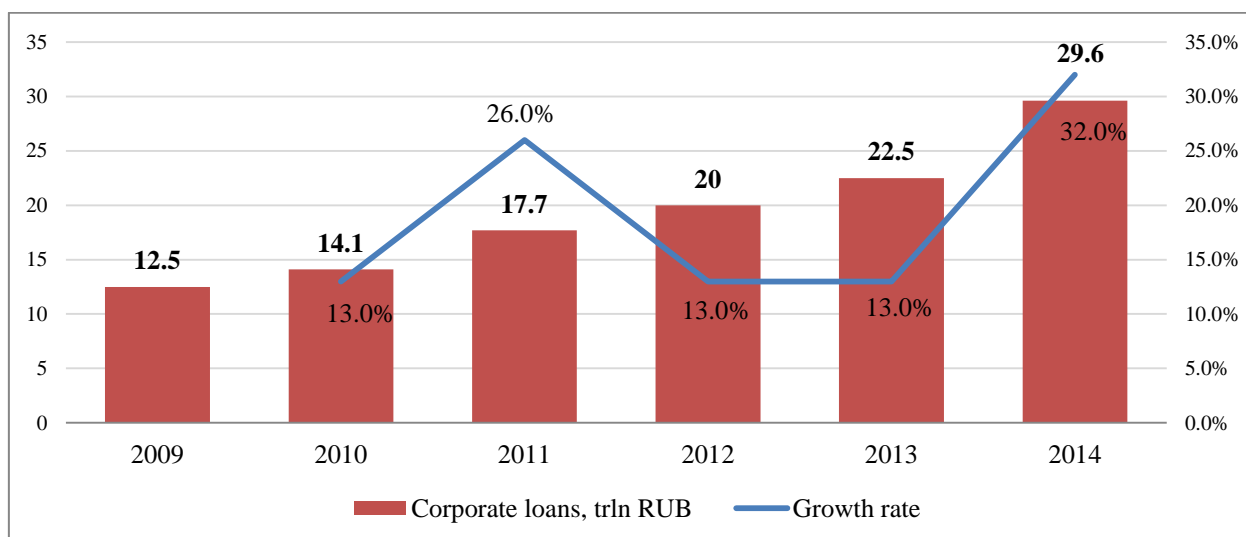
In 2014, consumer lending was more moderate than in the previous years. The reasons include higher interest rates and slowed-down economic growth, as well as toughening of retail lending regulations imposed by the Bank of Russia, shrinkage of people's actual income and deterioration of consumer sentiment. The combination of these factors led to the growth rate of retail lending falling by half vs. 2013, while operational risks towards the end of the year ran high in all segments.

Consumer lending growth rate, RUB tn



The restrictions imposed on foreign financing forced Russian companies to borrow more actively from the domestic market. As a result, corporate lending grew faster than retail lending for the first time in several years.

Corporate lending growth rate, RUB tn



In 2015, the Russian economy may fall into recession, which will have a detrimental effect on the financial segment. The growing competition with microfinance organisations and the deficit of quality borrowers will make the banks unable to demonstrate two-digit growth of assets in the retail business. State support for mortgage programmes will enable the most efficient banks to slightly increase their credit portfolio in this segment.

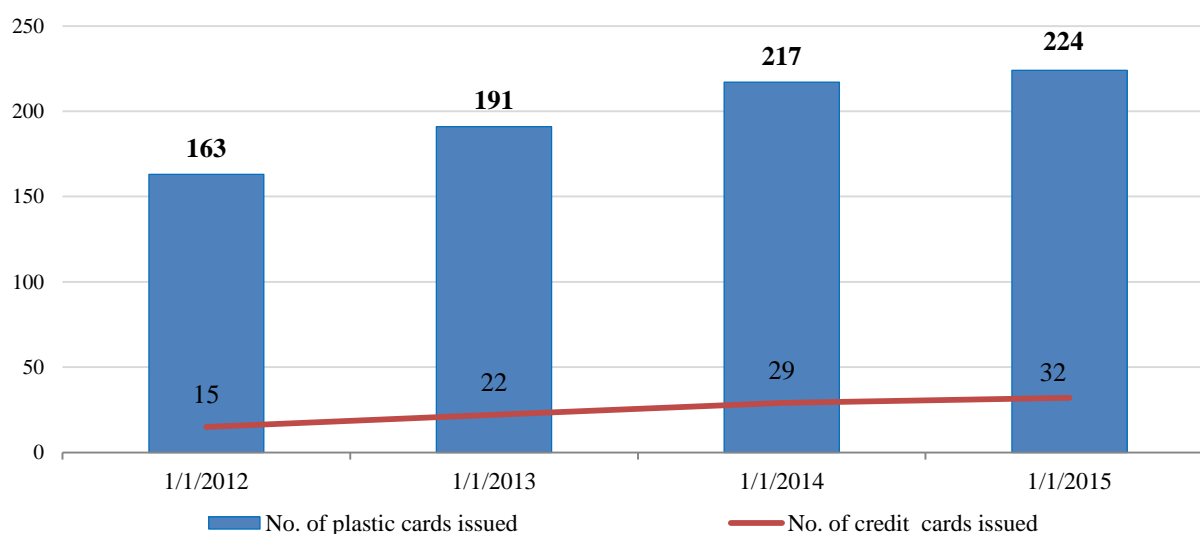
Corporate lending, even with state support, will not maintain the growth rates of 2013 due to suspension or curtailing of investment projects, shrinkage of foreign trade and deceleration of import-dependent industries.

MTS Bank's business in 2014

In 2014, MTS Bank recorded sizable losses as a result of one-off accrual of reserve provisions, most of them attributed to the retail credit portfolio which totals RUB 73bn or 39% of the bank's total credit portfolio (including interbank lending).

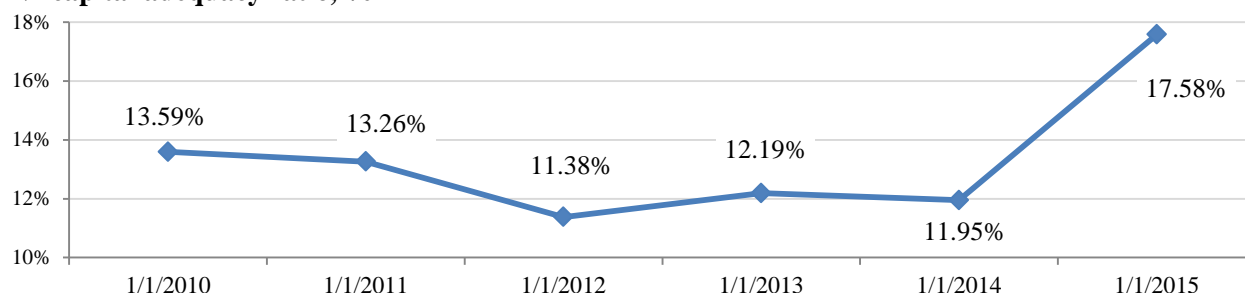
As the regional network of MTS Bank's representative offices has expanded in the past three years, the retail lending portfolio grew by 23% in average annual figures.

Number of cards issued by MTS Bank, m



In 2014, MTS Bank more than doubled its capital, and at the beginning of 2015 the bank's equity totaled RUB 27bn, cf. RUB 12bn in early 2012. The bulk of this growth (RUB 13.1bn) occurred in 2014 in connection with the issue of shares that were bought by MTS and Sistema.

N1 capital adequacy ratio, %



In response to deterioration of the macroeconomic situation, MTS Bank adjusted its lending policy for retail and corporate clients with the aim of reducing its credit risks. In 2014, MTS Bank adhered to a conservative policy of reserve accumulation, and it continues to uphold it in 2015.

The Bank of Russia granted MTS Bank with a letter of accreditation for financial services to enterprises operating in priority and strategic industries. In 2014, the bank cut its expenses and optimised its retail chain.

MTS Bank was included in the list of candidates for recapitalisation from the Deposit Insurance Agency approved by the Russian Government. Participation in this programme would enable MTS Bank to raise over RUB 7bn to second-tier capital on attractive terms for over 3 years. This funding would be provided on the condition that it is used for targeted lending to the industries that are strategically important for the Russian economy, mortgage borrowers and small and medium business in the amount not less than 1% of the bank's portfolio per month.

The bank began to issue cards using the China Union Pay payment system. Joining this system would minimise the bank's payment processing risks and help to prepare a lucrative offer for self-employed entrepreneurs and individuals at the Russian Far East that has active trade links with Chinese suppliers.

Operational strategy

MTS Bank has made a commitment to translate the values of MTS brand to the sphere of retail finances, and has started to implement a strategy based on synergies with MTS.

Restructuring of MTS Bank's business model boosted the growth of retail assets portfolio, and the credit card segment was selected as the main priority. In 2012-2014, the retail credit portfolio more than tripled, exhibiting notable rates of average annual growth of 62%.

Development of MTS Bank is aimed at attaining leadership in retail lending and transactional services for individuals. The bank however does not intend to turn into a retail monoliner, maintaining moderate growth rates in the target corporate segments. Remaining a universal bank, MTS Bank has maintained a corporate credit portfolio at an acceptable level of RUB 50bn.

The bank's operating strategy includes buildup of collaboration with the mobile operator MTS. MTS Bank is broadly using the operator's retail outlet chain and its IT infrastructure. In the future, MTS Bank and MTS plan to use the Big Data platform together with a view of optimising risks and sales and expanding the product range.

2014 Performance

Financial indicators

(RUB m)	2014	2013	Change over the
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			year
Revenue	26,565	28,763	(7.6%)
Operating (loss)/ income	(15,252)	604	-
Net (loss)/ income attributable to Sistema	(11,212)	598	-

Operating performance

(RUB bn)	2014	2013	Change over the year
Assets	220.7	220.4	0.1%
Credit portfolio	189.5	183.8	3.1%

Key events in 2014

In 2014, MTS Bank implemented the 3D Secure technology which helps to considerably improve the security of payments made with the help of cards issued by the bank.

In March 2014, the Fitch Ratings agency set MTS Bank's Long-Term Issuer Default Rating at B+.

MTS Bank ranked the 8th in the 2014 ranking of plastic card issuers.

In December 2014, MTS Bank placed an additional issue of shares, raising RUB 13.1bn.

4.9. SG-trans

SG-trans is one of the leading railway rolling stock operators in Russia and the biggest liquefied petroleum gas (LPG) railcar operator. The company controls 40% of Russia's specialized LPG railcar tanks. SG-trans owns a diversified railcar fleet, in 2014 the operator had more than 35.6K railcars under management, including LPG and oil railcar tanks, gondolas, etc. Sistema has been developing the transportation business in collaboration with its industry partner Unirail since late 2012.

Sistema's effective shareholding in SG-trans equals 50%.

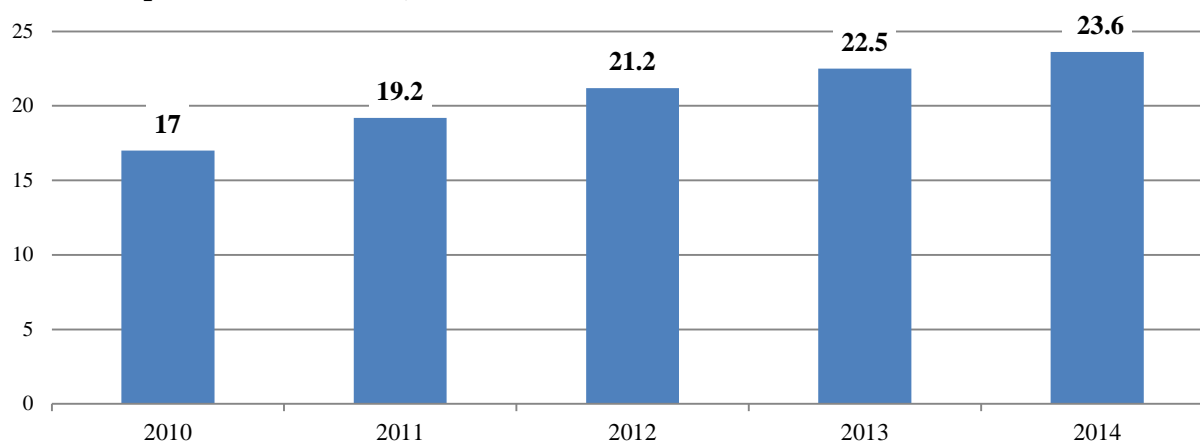
President of SG-trans – A. Taicher, Chairman of the Board of Directors – A. Uzdenov.

Industry

The fall in railway transportation volumes in 2014 was 0.8% compared to a decrease of 2.8% in the previous year. The negative trend continued due to the unfavourable market environment in 2014.

As in 2013, open-car shipments of building materials, ferrous and non-ferrous metal ore demonstrated the largest decrease. Transportation of fertilizers, grains and timber rose considerably, reflecting increased attractiveness of exports due to the rouble depreciating against the US dollar and favourable export prices. Freight volumes of liquefied gases (LPG) – one of the main segments of ST-trans – grew by 8% in 2014, while oil cargo volumes rose by 2% over the year. The share of SG-trans in the LPG transportation market in 2014 was 30%.

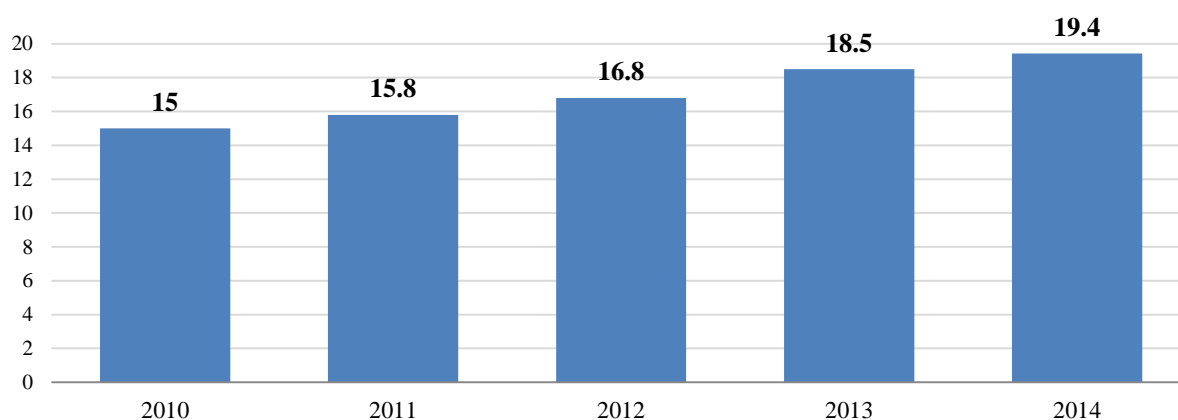
Gross LPG production in Russia, m tonnes



Despite stagnation in certain segments of the transportation market, there is still a surplus of railcar fleet in the market, mainly attributable to state-owned railcar manufacturers, which is partially offset by a gradual replacement of old fleet by private carriers. The daily leasing rate for open railcars in December 2014 dropped by approximately 25% year-on-year to RUB 425-450. For oil & petroleum tank cars it fell by 30% to RUB 600 per day, while the rate for LPG tanks lowered only by 5% to RUB 1,400 per day.

In 2015 the LPG transport segment is expected to grow more than the freight market overall, driven by the increasing demand for petrochemical products and launch of new production facilities. However, the growth rate will slow down as the appeal of LPG export will decrease amid falling prices and reduced investments in the oil and gas sector.

LPG transportation by Russian Railways, m tonnes

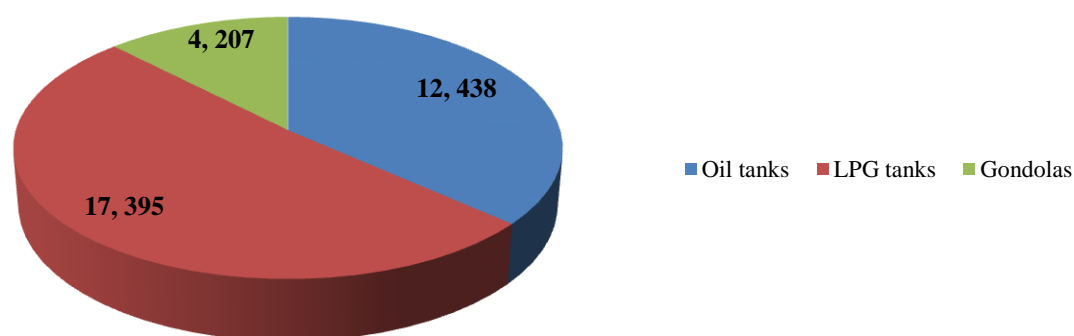


SG-trans' business in 2014

In 2014 the management's efforts were aimed at streamlining operational processes and improving the rolling stock to meet the demands of customers and to respond to the current market conditions. For example, the leasing portfolio was streamlined and some of the oil and petrol railcars were returned to the leasing companies earlier than planned, which made it possible to reduce cash outflows caused by a drop in leasing rates and to decrease debt.

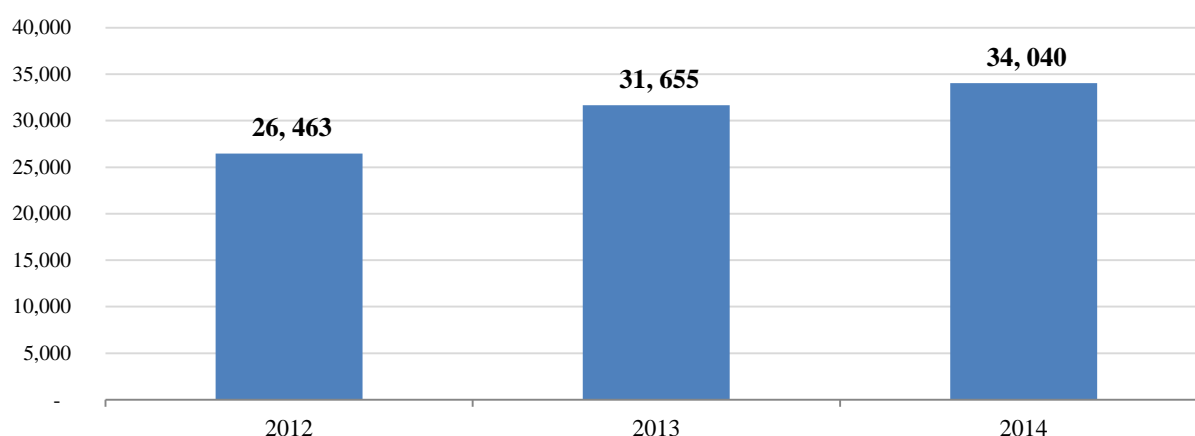
The company continued to expand its own fleet of LPG tanks to meet its obligations under existing long-term contracts. About 60% of SG-trans' contracts are long-term, which helps secure a strong market position for the Group, whose customer base includes more than 100 clients. Among the Group's clients are such major oil and gas market players as SIBUR, Bashneft, SANORS, NOVATEK, Rosneft. In 2014, SG-trans started cooperating with the enterprises of Tatneft Group.

Structure of railcar fleet controlled by SG-trans



SG-trans successfully operates in the sector of loose and bulk cargo, providing services to metal and mining companies. In order to meet its obligations under the long-term contracts the company is actively leasing railway rolling stock. The share of leased cars in the total fleet rose from 12% as of the end of 2013 to 24% as of the end of 2014.

Structure of railcar fleet controlled by SG-trans



In 2014, the company established a repair management business segment. The company concluded railcar repair contracts with five companies and repaired ca. 4,000 railcars. As part of an effort to cut costs the company purchases the most expensive components directly from producers.

Operational strategy

In September 2014, Sistema approved an updated development strategy for SG-trans. The new strategy is focused on cost cutting and debt reduction. Oil and liquefied gas transportation will remain the company's target segment. Special attention will be given to financial discipline and cash management efficiency. In 2015, management will focus on maintaining and expanding contracts with the current customers.

In 2015, SG-trans may purchase new rail cars, provided that favourable opportunities are presented and the demand for such cars is guaranteed. Key investments will be made in the company's own railway infrastructure and IT to reduce operating expenses.

2014 Performance

Financial indicators

(RUB m)	2014	2013	Change over the
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			year
Revenue	20,429	20,119	1.5%
OIBDA	6,253	6,016	3.9%
Net income attributable to Sistema	261	439	(40.5%)
Net debt	21,700	28,010	(22.5%)

Operating performance

	2014	2013	Change over the year
Freight turnover, m tonne-km	35,674	31,941	11.7%
Freight volumes, K tonnes	20,536	18,771	9.4%

Key events in 2014

In January 2014, the consolidation of SG-trans, Financial Alliance and Bashneft-trans was successfully completed under the SG-trans brand.

4.10. Sistema Shyam TeleServices Ltd.

Sistema Shyam TeleServices Ltd. (SSTL) is a CDMA mobile operator in India.

Sistema's effective shareholding in SSTL is 56.7%.

CEO of SSTL – D. Shukov, Chairman of the Board of Directors – R. Sommer.

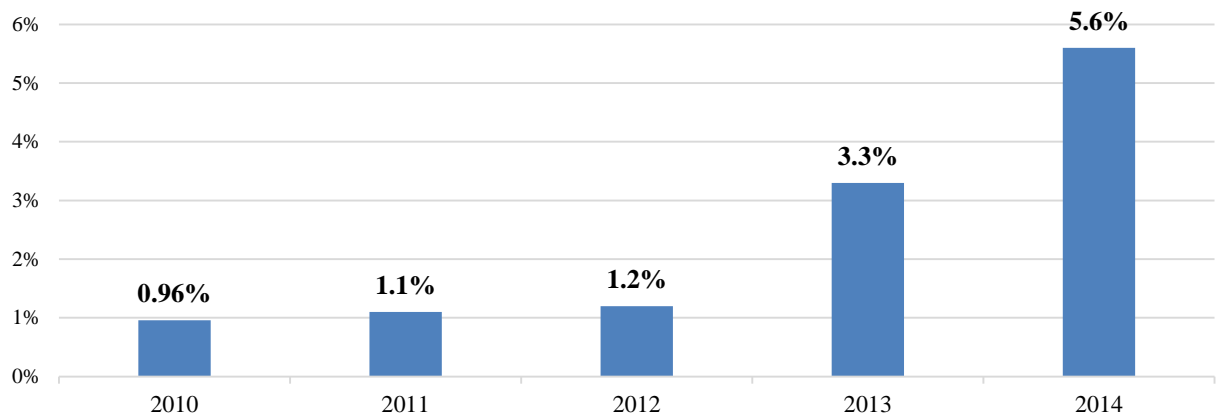
Industry

In 2014 India's telecom industry continued to demonstrate stable growth, mostly driven by GSM mobile subscribers and accelerated development of the data segment. By December 2014 India's total subscriber base reached a historic high of 971m subscribers with general penetration of 77.6%. Active subscriber base rose by 9.2% over the year.

CDMA subscriber base and market share shrank by 1.1%. Although several operators left the market in 2012-2013, 12 mobile companies continue their operations in the country, of which 8 operators provide only GSM-based services, 3 operators work with both GSM and CDMA standard and one (SSTL) has only the CDMA technology. Three major Indian operators, Bharti Airtel, Vodafone and Idea have strengthened their positions – their aggregate market share by subscribers exceeded 58% as the market shares of Reliance, BSNL and Telewings diminished.

The data segment is the key driver of the industry. In 2014, traffic generated by broadband mobile 2G and 3G services increased by 74%, while the 3G traffic rose by 114%, and 2G traffic only by 41%. Over the year the consumption of data services via 3G networks increased from 42% to 52% of total services consumption.

Penetration of data services in India

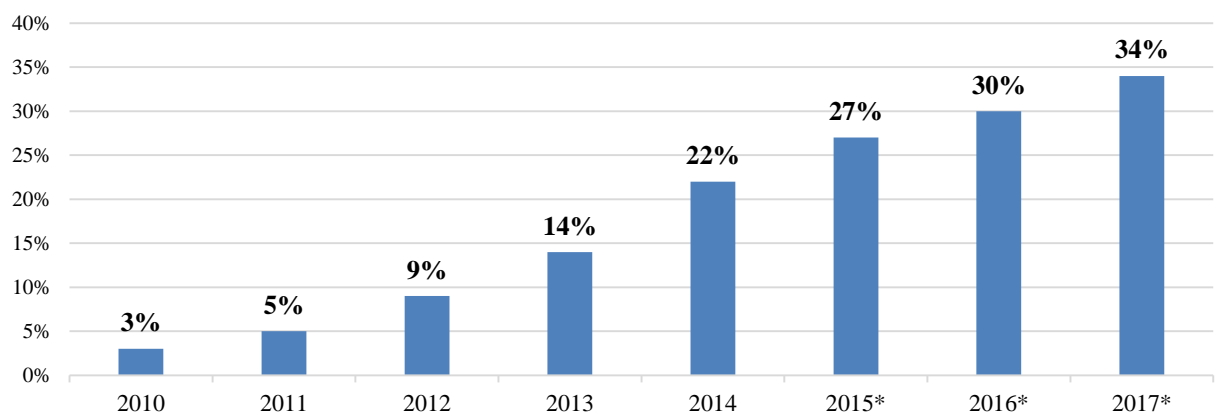


Today the penetration level of smartphones in India is merely 22%, though it grows by 15% each quarter, supplies of smartphones increased by 68.5% compared to 2013. Cheap smartphones will soon become much more accessible due to aggressive promotion of low-price devices.

The development of 4G (LTE) networks and data services has been started, but this project is at its initial stage. About 5.5m 4G subscriber terminals were purchased in India, but only 85,000 owners are active 4G users.

Competition in the data segment is expected to increase even further due to the launch of LTE operator RJIO and more aggressive strategies of 3G operators.

Penetration of smartphones in India¹⁰

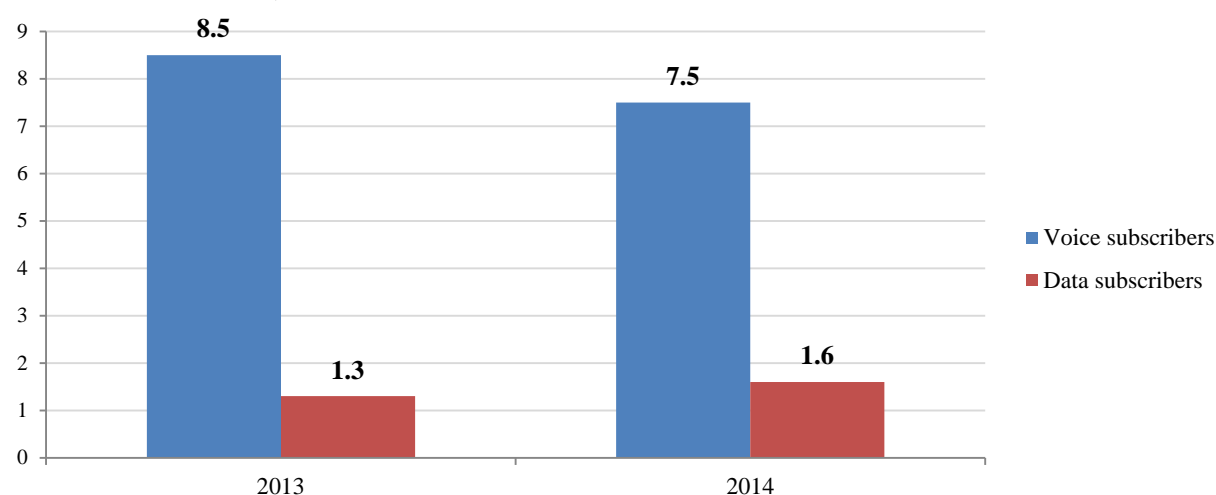


SSTL's business in 2014

In 2014 SSTL's revenue went up by 10% compared to 2013 and amounted to INR 13.47bn, while revenue from data services, the main development segment of the company, rose by 33.6%. Share of data revenue in the total revenue of the company increased from 27% to 47%.

¹⁰ Statista.com data and forecast

SSTL subscriber base, m



In order to develop the data services segment, in March 2014 SSTL launched India's most aggressive bundle plans for data transmission and also presented its own online cinema MTS Movies where subscribers can watch movies free. Active marketing campaigns were conducted: an advertising campaign entitled 'MTS Internet Baby' set a new record in India for the number of views of the video ad on Youtube - 25m people.

Accelerated development of data services was achieved by introducing a new sales structure via the consolidation of indirect sales channels (mass retail, brand stores and IT sales channels) and implementation of the pilot project of a proprietary distribution model in Gurgaon and New Delhi (as a result, the subscriber growth rate in the data segment increased by 70%) and a pilot project in Kerala for lending money to distributors for purchasing voice and data transmitting devices (as a result, sales increased by 45%). A model was implemented for sharing revenue with distributors in the Delhi circle, as a result, repeated connections of subscribers increased by 3%.

From 1 January 2015, a new incentive scheme for SSTL's sales personnel was introduced: the remuneration linked to sales was increased from 10% to 42%.

Operational strategy

SSTL's key strategic goal in 2015 is to reach a break-even point in terms of OIBDA. Three priority tasks were set in order to achieve this goal: growth of the data segment, active monetisation of voice services and cost cutting (primarily at the head office).

The long-term strategic goal of SSTL is to create a 4G (LTE) telecom operator, which can be achieved by obtaining an uninterrupted 5 MHz frequency band in the 800 MHz spectrum

2014 Performance

Financial indicators

(\$ m) million)	2014	2013	Change over the year
Revenue	220.7	209.4	5.4%
Adjusted OIBDA	(81.5)	(146.5)	-
Adjusted operating loss	(141.8)	(210.2)	-
Adjusted net loss attributable to Sistema	(129.7)	(225.1)	-
Net debt	544.0	568.6	(4.3%)

Operating performance

<i>(m)</i>	2014	2013	Change over the year
Mobile subscriber base	7.4	8.5	(12.9%)
Data subscriber base	1.6	1.3	23.0%

Key events in 2014

In July 2014, SSTL launched the sales of the innovative device Mblaze PowerWifi – a mobile Wi-Fi router with a high-capacity accumulator and a smartphone recharge function.

In October 2014, the company launched a new advertising campaign 'GB Festival' and started promoting its new tariff plans for the data segment, thus strengthening its leadership in pricing.

In 2014, for the third year running the MTS brand was included in the Brand Equity rating published by the Economic Times and ranking the top 50 Indian brands most trusted by consumers. The brand has also been recognized as one of the most innovative telecom brands in India and was included in the top 3 most recognizable mobile Internet supplier brands.

4.11. RTI

OJSC RTI is the largest holding operating in the segment of defence, comprehensive communication and security systems, system integration and microelectronics, the leading integrator of high-tech science and manufacturing companies. The facilities of RTI have their own R&D base and implement projects in the area of radio and space technologies that are unique in terms of their scale and complexity. RTI Group combines the assets of RTI Systems Concern (defence industry), NIIME and Mikron (microelectronics), and NVision Group (systems integration).

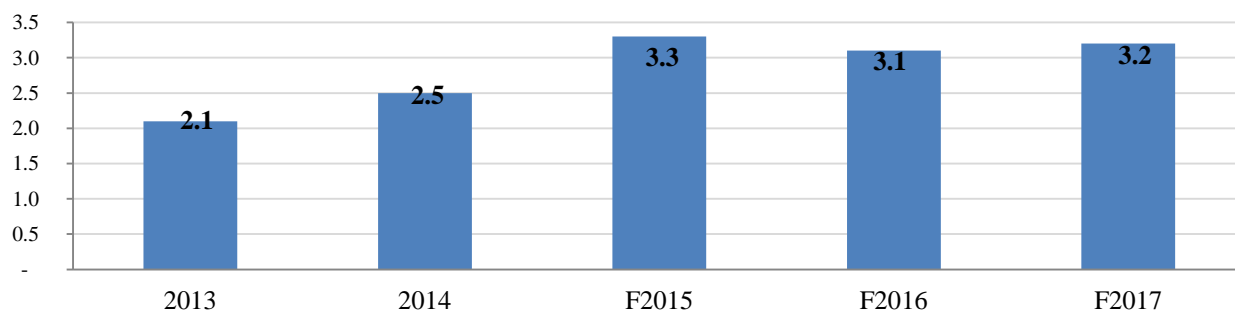
Sistema's effective shareholding in RTI is 84.7%.

CEO of RTI – S. Boev, Chairman of the Board of Directors – E. Primakov

Industry

The defence segment is expected to see a considerable growth in demand for high-tech products. In accordance with the approved National Arms Programme through 2020, state defence spending will total ca. RUB 20tn. Up to 70% of this amount is expected to be invested in the procurement of new defence systems and equipment.

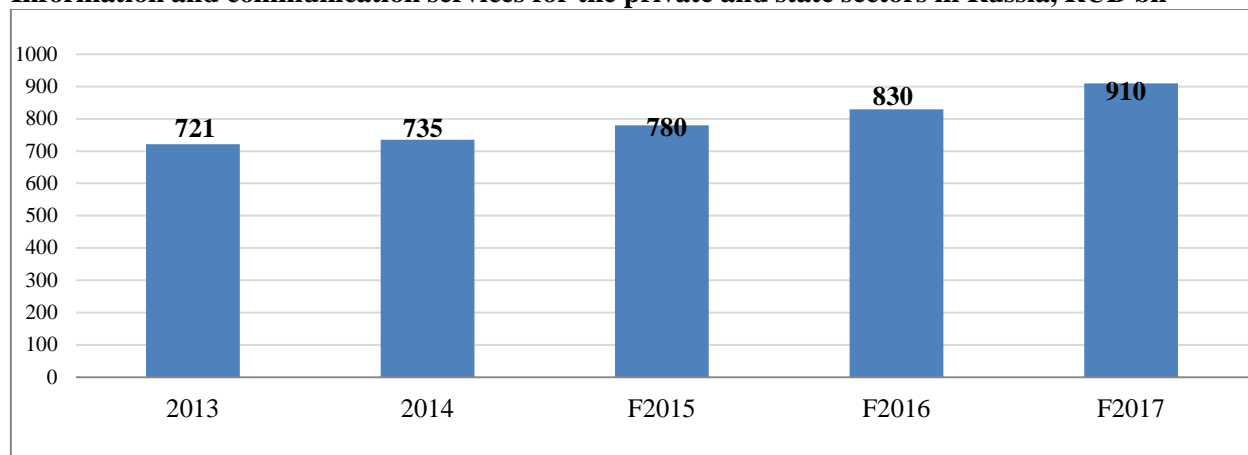
Defence spending in Russia, RUB tn



The Russian microelectronics market in 2014 is estimated at over USD 2bn, which is only 1% of the global market. Mass civil market segments in Russia are dominated by foreign companies. Russian microelectronics companies mainly manufacture products for military and special applications, which account for about 40% of the domestic microelectronics market. In the future, the microelectronics industry will be supported by the growing demand for RFID-based solutions, including orders from the

government. The main demand drivers are the semiconductor segment and the telecom sector, which, given the import substitution programme, the imposed sanctions and devaluation of the national currency, is likely to boost the demand for Russian microelectronic products.

Information and communication services for the private and state sectors in Russia, RUB bn



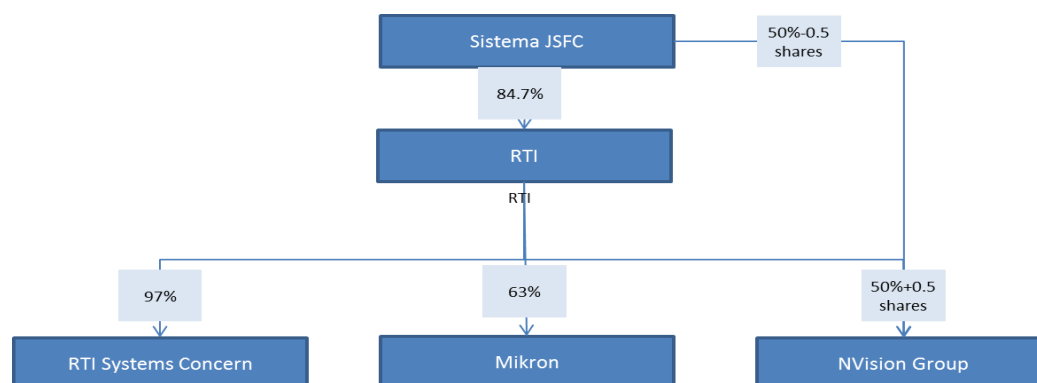
The Russian market of information and communication technologies in general showed strong growth with the main consumers being the top 20 largest Russian companies. The average annual growth rate in this market is forecast to stand at 10% until 2017, with the segment of comprehensive security systems being the most attractive one.

RTI's business in 2014

RTI develops assets in the defence industry, microelectronics and system integration.

In 2014, Sistema developed and started implementing a restructuring plan for RTI's high-tech assets to improve its operating efficiency and profitability.

Structure of RTI Group



In particular, RTI Group completed the transaction to purchase the shares of NVision Group ("NVision") and became the sole shareholder of this company. NVision is now headed by a new management team. The system integration segment was severely hit by the economic downturn in Russia in 2014, which affected the financial results of the business and made it necessary to develop a business overhaul and cost-cutting plan. Nevertheless, NVision managed to retain its position in its traditional markets and maintained relationships with such anchor customers as MTS, VimpelCom, FGC (UES). Besides, the company increased its customer base by adding such major clients as the Moscow Department of Information Technologies, Transneft, Severstal, Special Economic Zones, regional governments, etc.

RTI's Defence Solutions segment demonstrated the highest growth rates with revenues rising by almost 30% in 2014. This growth was driven by active implementation of contracts for construction of radar

stations in the Kaliningrad region and the Siberia Federal District, which started operating in test and alert modes in 2014.

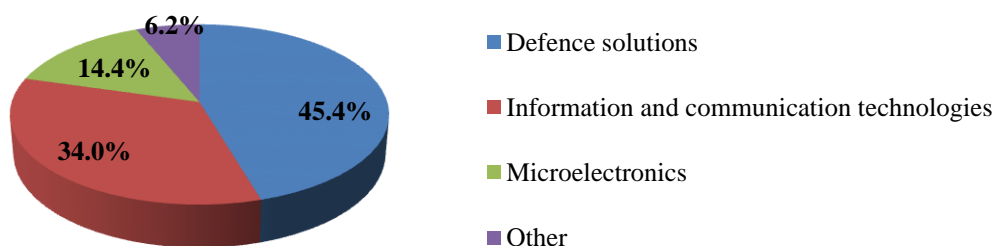
RTI has a big portfolio of state defence orders and the defence segment generates the highest profit margins for the RTI Group.

Moreover, RTI develops its own R&D competencies and pays a lot of attention to the development of R&D initiatives. In 2014, RTI started pre-project research and development of proprietary aerospace systems, which will enable the company to enter new promising markets. A programme of cooperation between RTI and the Russian Academy of Sciences provides for a broad range of joint activities in a number of promising areas, including the development of complex robotised energy and transportation systems, including unmanned vehicles.

The head company in RTI's Microelectronics Solutions segment is NIIME and Mikron ("Mikron"). Mikron is the largest microelectronics manufacturer in Russia. Mikron's products are supplied to all regions of Russia and the CIS, up to 50m of its microchips per month are exported to Europe, USA and South-East Asia.

Currently, Mikron is implementing ca. 40 R&D projects aimed at developing and launching 91 new products. All R&D products undergo tests at manufacturing facilities. As a result, new real solutions will be taken to the market in the nearest future.

Revenue structure of RTI Group



In February 2014, Mikron completed development of its proprietary technology for creating integral circuits using the 65 nm topology and is now engaged in R&D works aimed at developing the 45 nm technology. Micron Group has set up a complete production chain from chip development to the final product, which allows it to produce the entire range of high-tech products for the mass market: intelligent chip cards – smart cards, transport and other RFID cards (using Radio Frequency Identification technology), SIM cards, chip bank cards, social cards and other identification documents, new products for industrial electronics. The company supplies products to 400 customers in Russia and 100 customers in other countries. Moscow Metro, State Company Transport Operator from Saint Petersburg, state transportation companies in Kazan, Magnitogorsk, Tyumen, Nizhny Novgorod and other Russian cities are among Mikron Group's customers.

In March 2014 Mikron obtained from Cadence Design Systems, a global leader in electronic design innovations, a licence for software for optimisation of integral circuits in the 90nm technology.

In 2014 Mikron supplied over 2m chips for previous-generation travel passports and 800,000 chips for biometric travel passports. Mikron developed 32 types of integrated circuits for industrial and commercial applications and launched production of 51 integrated circuits for various applications. The plant supplied 300m transport tickets and 713m chips.

In 2014, RUSNANO acquired a 25.1% stake in Mikron as a result of conversion of its share in Sitronics-Nano – a joint project between RUSNANO and Mikron to set up the manufacturing of 90 nm microchips.

Operational strategy

The strategy of the Defence Solutions segment focuses on the development of complex information systems for aerospace defence and OTH radiolocation of areal, marine and ground objects. Mid-term priorities include subsequent conversion of R&D projects into civil and export products.

RTI actively develops comprehensive security systems. The main objective for the next several years is to become the biggest supplier of comprehensive solutions in lighting, threat monitoring and control, as well as decision-making support systems based on technologies and products of 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.

The strategy of the Microelectronic Solutions division aims at integrating the development and production of microelectronic components with the processes of supply and technical support of ready-to-use sensor equipment. The key objective is to provide a technological platform for Russia's microelectronics solutions for the industry. The division's technological leadership will be maintained through development of proprietary key integrated circuit topologies, UHF semiconductor devices and technologies for a special electronic component base. The division will continue integration of the ecosystem of R&D organisations and design centres in order to ensure that key technologies and equipment are not dependent on imports and to develop globally competitive products and solutions.

2014 Performance

<i>(RUB m)</i>	2014	2013	Change over the year
Revenue	70,892	69,923	1.4%
Adjusted OIBDA	4,564	3,908	16.8%
Adjusted operating income	1,267	839	51.1%
Adjusted net loss attributable to Sistema	(4,416)	(670)	-
Net Debt	37,907	29,748	27.4%

Key events in 2014

In February Mikron became a member of the OSPT (Open Standard for Public Transport) Alliance, which had been created in 2010 by the leaders of the payment industry in order to develop new-generation fare payment systems.

In May 2014 Mikron became a partner of the international marketing strategy 'Silicon Trust', which numbers more than 20 companies, including global microelectronics leaders – Gemalto, Giesecke & Devrient and Infineon Technologies.

In August 2014 RTI improved its standing in the international ranking of the world's biggest defence companies Defence News Top 100, and moved up from the 80th to the 78th place.

In December 2014, Mikron manufactured the first Elbrus-2SM processors based on the 90 nm technology, which will be used by CJSC MCST for producing compact motherboards 'Monokub-M'.

4.12. Sistema Mass Media

Sistema Mass-Media (SMM) is one of Russia's leading media holdings that manages media assets in pay TV, movie and TV content production, advertising, digital content distribution and VAS for telecom operators. SMM owns and manages CJSC TV Company STREAM (TVC Stream), OJSC United Russian Studios (URS), OJSC Maxima advertising agency (Maxima), LLC TsTV (TsTV) and LLC Stream (Stream).

Sistema's effective shareholding in SMM is 96.4%.

President of SMM – G. Khasyanova, Chairman of the Board of Directors – A. Abugov.

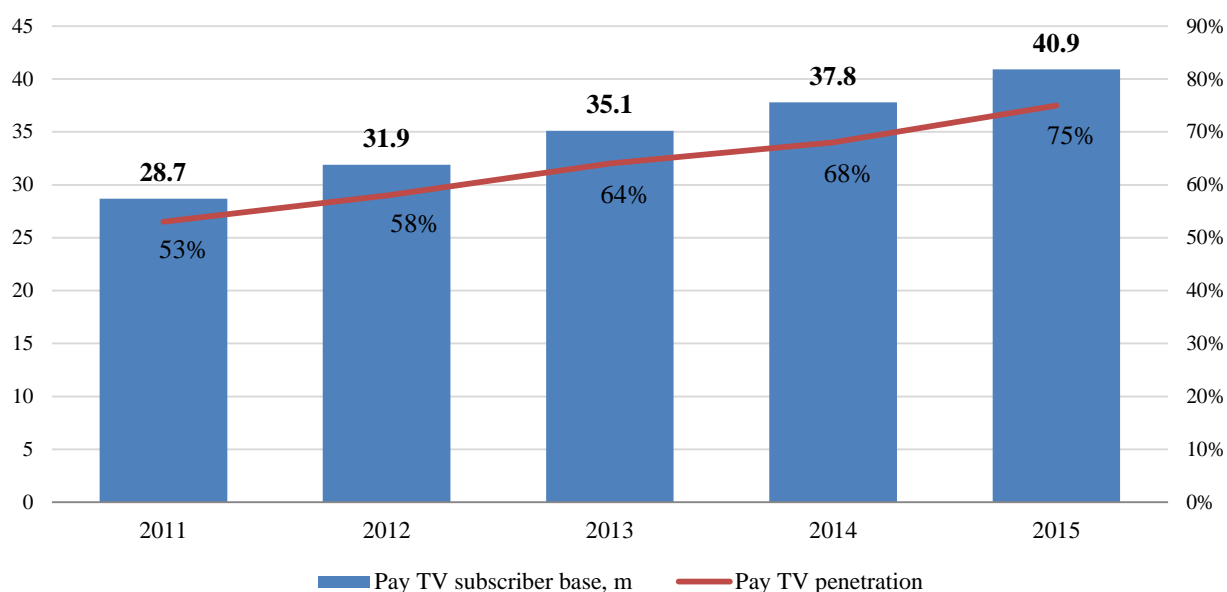
Industry

In 2014 Russia's media market was influenced by the general economic downturn and the changes in the geopolitical environment. Over 9 months of 2014 the advertising market increased by 5% and reached RUB 242bn in volumes, while the general market growth rate for the year did not exceed 1.4%.

In the TV content production segment the geopolitical changes resulted in a slump in the sales of Russia-produced content in Ukraine and a fall in the profit margins of Russian producers. This negative trend was partially offset by the growth of the Russian pay TV segment. On the back of rapid growth of digital technologies the market structure changed significantly in terms of subscribers: the share of cable TV subscribers (81% is analogue TV) fell from 52% to 49%.

In 2014 the Federal Law "On mass media" was amended to introduce a 20% cap on foreign ownership in Russian media companies. As a result, such majors as BBC, CNN, NBC Universal announced their departure from the Russian market.

Pay TV market in Russia



From 1 January 2015 a ban was imposed on broadcasting ads by pay TV channels, however, in February 2015 the pay channels broadcasting not more than 25% of foreign content got this right back.

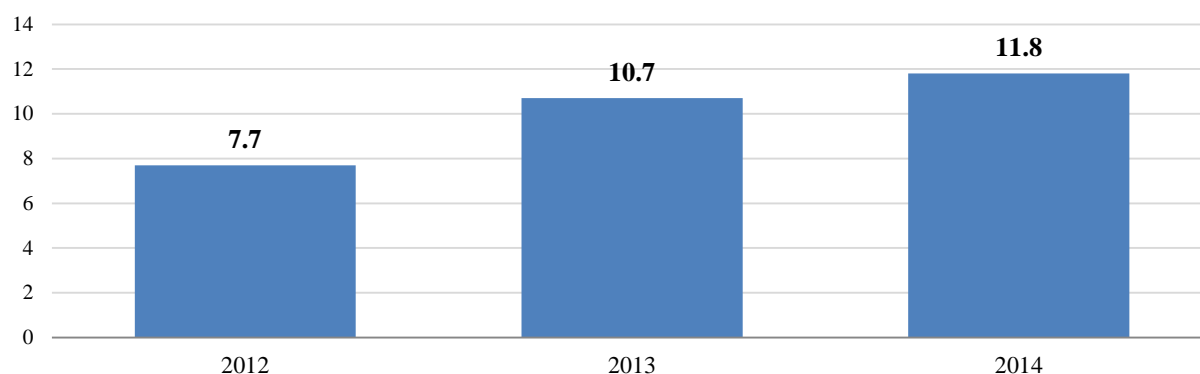
Given the current conditions, the most promising segments of the industry are digital media and Internet advertising based on new targeting and audience measuring tools and technologies.

SMM's business in 2014

In 2014 SMM continued improving the efficiency of Sistema's media assets making it possible to ensure net income growth at SMM despite the general deterioration of the market.

TVC Stream's channels keep their leadership in terms of annual average audience coverage in most of the niche groups. In 2014 the company continued to expand its subscriber base in the Russian and CIS markets, which made it possible to increase subscriber numbers by 10.3% up to 11.8m people.

TVC Stream's subscriber base, m



In 2014 Stream in partnership with MTS continued to actively develop the GOOD'OK services launched in 2013 (a ring-back tone service, RBT) and MTS-Info service (informational services for MTS subscribers) and started providing a new MTS-Pulse service (an entertainment application for mobile phones). In 2014, GOOD'OK was also launched for the subscribers of MTS Ukraine and MTS Belarus. Primary sales of RBT services for MTS subscribers in Russia increased by 31% compared to 2013.

In 2014 Stream launched a new business segment – mobile advertising and sending out informational and service messages on the basis of a proprietary technology (A2P). Successful strategy implementation ensured revenue and OIBDA growth. Revenue rose by 60% up to RUB 1.3bn, OIBDA reached RUB 330m thus demonstrating a profitability increase from 7% in 2013 up to 26% in 2014.

Operational strategy

In 2015 SMM will continue improving the efficiency and profitability of its traditional business segments and will launch new businesses in the area of digital media and Internet advertising.

Taking into account the changes in the market environment TVC Stream will focus on retaining its position in Russia and expanding distribution in the CIS markets. The company is planning to launch and promote an international version of the Hunting and fishing channel and dedicated channels for audiences abroad.

Stream's strategy provides for further development of value-added services (VAS) for MTS and development of A2P services in cooperation with MTS.

2014 Performance

Financial indicators

(RUB m)	2014	2013	Change over the year
Revenue	3,366	3,498	(3.8%)
OIBDA	977	1,454	(32.8%)
Operating income	308	199	54.7%
Net income attributable to Sistema	95	15	554.0%
Net debt	292	204	43.1%

Operating results

	2014	2013	Change over the year
TVC Stream's subscriber base, m	11.8	10.7	10.3%

Key events in 2014

In March 2014 Gulnara Khasyanova was appointed President of SMM.

In April 2014 URS signed a contract with the Rossiya channel for a full-cycle movie production project.

In October 2014 TVC Stream's Hunting and fishing channel won in the "Best life style channel" nomination of the "Golden ray" award.

In December 2014 SMM took control over Stream.

4.13. Real estate assets

Several subsidiaries of Sistema operate in the real estate segment: CJSC Leader-Invest, CJSC Business-Nedvizhimost and OJSC Mosdachtrest. In 2014 the implementation of an updated real estate asset strategy was launched, the main goals being an increase in portfolio value and gradual monetisation of assets via development and sale of properties.

Sistema's effective shareholding in Leader-Invest, Business Nedvizhimost and Mosdachtrest is 100%.

CEO of Leader-Invest – E. Makarov, Chairman of the Board of Directors – F. Evtushenkov

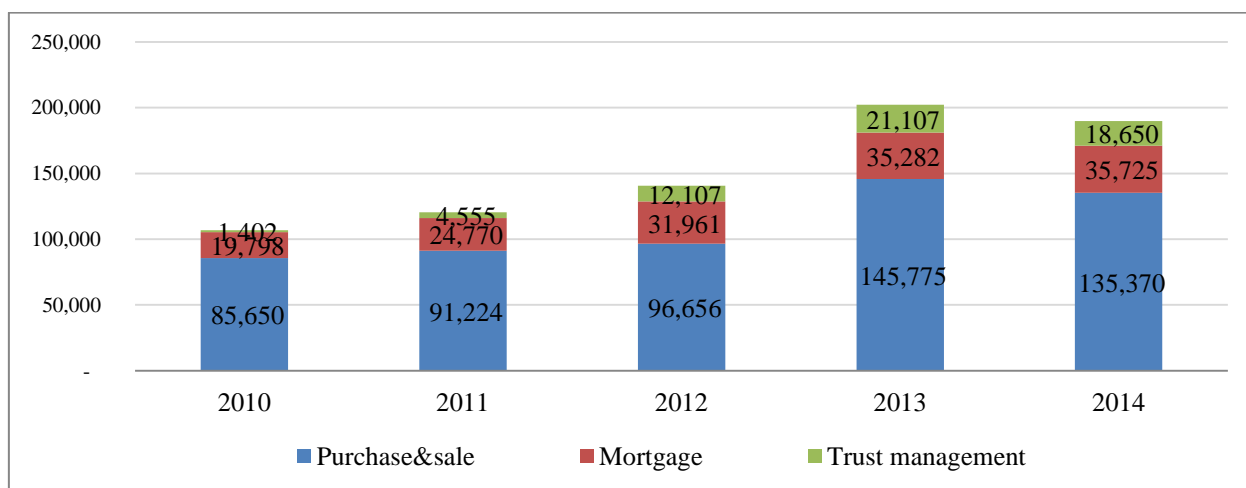
CEO of Business Nedvizhimost – E. Shabdurasulov, Chairman of the Board of Directors – A. Monosov.

CEO of Mosdachtrest – S. Gavrilenko, Chairman of the Board of Directors – S. Drozdov

Industry

In 2014 the real estate market of Moscow demonstrated growth in terms of the volumes of new properties commissioned: up to 3.2m sq m compared to 3.1m sq m in 2013. However, as of October 2014, the number of new deals in the property market reached only 135,370 which is 7% lower than in 2013.

Deals in the residential property market of Moscow



In 2015 consumer activity in the housing market is likely to decline due to the increase in mortgage rates and tightening of requirements to the borrowers. The market downturn will have the greatest impact on the comfort-class housing segment where the share of mortgage deals is ca. 60%. However, the anti-crisis measures introduced by the Government and providing for mortgage interest rate subsidies (RUB 20bn were allocated for this purpose) will help reduce interest rates down to 13% and will support the mortgage market in the second half of 2015.

In 2015 competition among developers is likely to increase and the market will be dominated by the buyer, which will result in a higher quality of properties in the primary market and a greater number of special offers designed to attract the customer.

In 2014 the market saw the commissioning of a record number of office properties (1.4m sq m), almost twice the level of 2013. In conditions of an economic crisis and shrinking customer demand vacant property volumes increased up to 29% in class A and up to 17% in class B. Dollar-denominated rent rates plummeted by more than 10% in all classes of office space.

In 2014 about 1.29m sq m of office properties were purchased or rented. A fall of more than 15% year-on-year brought the market to the level of 2010. By the end of 2014 the activity of tenants and investors slowed down even further. In 2015 the demand for office properties may continue to fall.

High volatility of the currency markets and rouble depreciation at the end of 2014 resulted in an aggregate 10-15% drop in average rent rates depending on the class of properties. In the future this downward trend in rent rates may continue if the economic situation remains unfavourable.

Expected increase in the number of properties commissioned in 2014-2016 (almost 3m sq m) on the back of modest demand growth may lead to further growth in the share of vacant properties (down to 30% on average), a reduction in rent rates down to 10% and strengthened competition among landlords.

In 2014 the demand for property lease in the premium segment dropped by 9% compared to 2013. The main reasons behind the drop in demand for property in this segment are the general economic environment and the market practice of setting rental rates in foreign currencies, which created an unfavourable market situation for leaseholders after the rouble depreciation and led to a shrinking demand.

In 2015 the premium segment rental market of Moscow will be driven by two key factors: geopolitical situation and foreign currency rates.

Real estate business in 2014

Leader-Invest is a developer that invests in construction of serviced apartment buildings and housing (comfort, business, premium and deluxe classes in Moscow) and in commercial real estate. As of the end of 2014 the portfolio of Leader-Invest's development projects consisted of 13 properties with the total area of 388,000 sq m, of which 6 properties with the total area of 103,000 sq m are currently under construction. Besides, Leader-Invest continues the Nagatino iLand project providing for the construction of an office building with the total area of 31,000 sq m. In 2014 the company sold 25% of the total apartment pool with the area of 101,000 sq m in the Lobachevsky housing complex.

Works on the renovation of 3 ATS buildings with the total area of 28,000 sq m were completed and contracts were signed for co-funded construction of apartments worth RUB 1.4bn with the total area of 6.6K sq m.

Business Nedvizhimost provides services of professional and effective management of both proprietary and partner commercial properties, including real estate sales and lease services. In April 2014, Sistema JSFC acquired 49% of Business Nedvizhimost for RUB 3.1bn. As a result, Sistema's shareholding in CJSC Business-Nedvizhimost reached 100%.

Business Nedvizhimost has a unique pool of properties: mansions in the centre of Moscow, office and commercial space, business centres located almost in each district of the capital, manufacturing and storage facilities in Moscow and the Moscow region. Business Nedvizhimost also owns 76 properties in Moscow which had been used by MGTS as automated telephone stations prior to the launch of GPON technology. The total area of these properties is 178,000 sq m. The total portfolio of assets under the management of Business Nedvizhimost exceeded 442,000 sq m as of the end of 2014.

In 2014 the company developed a work plan providing for the commercial use of each property released by MGTS. Partial renovation was conducted at 6 properties freed up by MGTS in the centre of Moscow with the total area above 22,000 sq m.

Business Nedvizhimost signed a deal with a co-investor for construction of a residential complex with the total area of 13,000 sq m and the apartment pool area of 6,300 sq m to be commissioned in Q1 2016. The building located in Bolshaya Gruzinskaya St was sold to an external buyer.

Mosdachrest is a managing company whose operations are mostly related to the lease and maintenance of cottages (in Serebryany Bor, Barvikha, Zhavoronki, Trudovaya) and office buildings in Moscow. The total cottage pool as of the end of 2014 exceeds 60,100 sq m.

Throughout 2014 Mosdachrest managed land assets, sold land plots located in the Moscow region and managed properties in Serebryany Bor. In 2014 the company conducted marketing research and approved an architectural concept of the project for renovating the Serebryany Bor assets.

Operational strategy

In 2015 Leader-Invest expects to commission three properties with the total area of 11,300 sq m and start development of four properties with the total area of 41,800 sq m. Besides, in 2015 the company will transfer 16 properties with the total area of 176,000 sq m from Business Nedvizhimost to Leader Invest for further development.

In the commercial property segment the company is expected to finalise deals for transferring some real estate assets of Sistema under the management of Business Nedvizhimost for subsequent monetisation. Moreover, in 2015 the company is planning to close a deal for taking control over a 51% stake in CJSC Rent Nedvizhimost, an owner of 77 former MGTS properties with the total area of 326, 200 sq m.

Mosdachrest's operating strategy in 2015 is aimed at selling land plots located in the Moscow region and managing cottages in Serebryany Bor. In 2015 the company will consider launching an overhaul programme at Serebryany Bor in order to maintain cash flow levels and indexation of rental rates.

Key events in 2014

In April 2014 Sistema acquired a 49% stake in CJSC Business Nedvizhimost. The price of the deal was RUB 3,088m.

An agreement was signed for CJSC Business Nedvizhimost to acquire 51% of CJSC Rent Nedvizhimost. Deal price was RUB 3,788m.

4.14. RZ Agro Holding Ltd.

RZ Agro Holding ("RZ Agro") is one of the largest producers of grain and oil-bearing crops in the south of Russia with a land bank of 99 thousand ha. The company is jointly controlled by Sistema JSFC and members of the Louis-Dreyfus family. Currently it comprises six farms grouped into three regional clusters in the Rostov Region and the Stavropol Territory.

Sistema's effective shareholding in RZ Agro is 50%.

President of RZ Agro – S. MacFarlane, Chairman of the Board of Directors – T. Schultz.

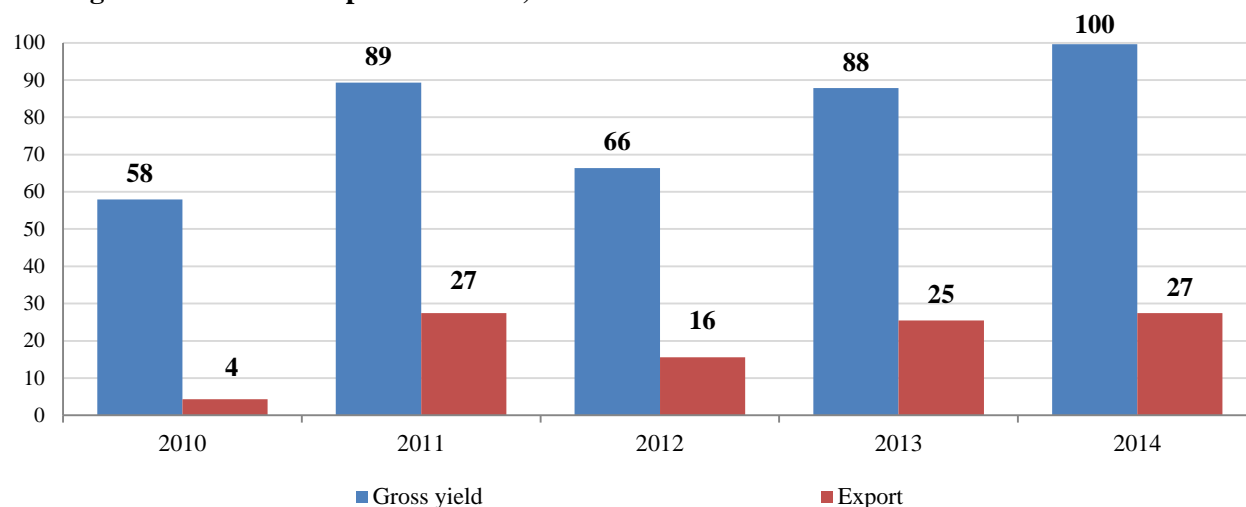
Industry

In 2014, grain exports from Russia totalled 27m tonnes, including 20m tonnes of wheat, or 12% of global wheat exports. In 2014, owing to favourable weather conditions in Russia, gross production of main crops – grain, oil-bearing plants, sugar beet, vegetables and fruit – grew considerably.

The 100m tonne grain harvest became one of the largest in the last 20 years. Wheat production amounted to 59m tonnes, placing Russia among the three largest global producers (after China and India) with a 9%

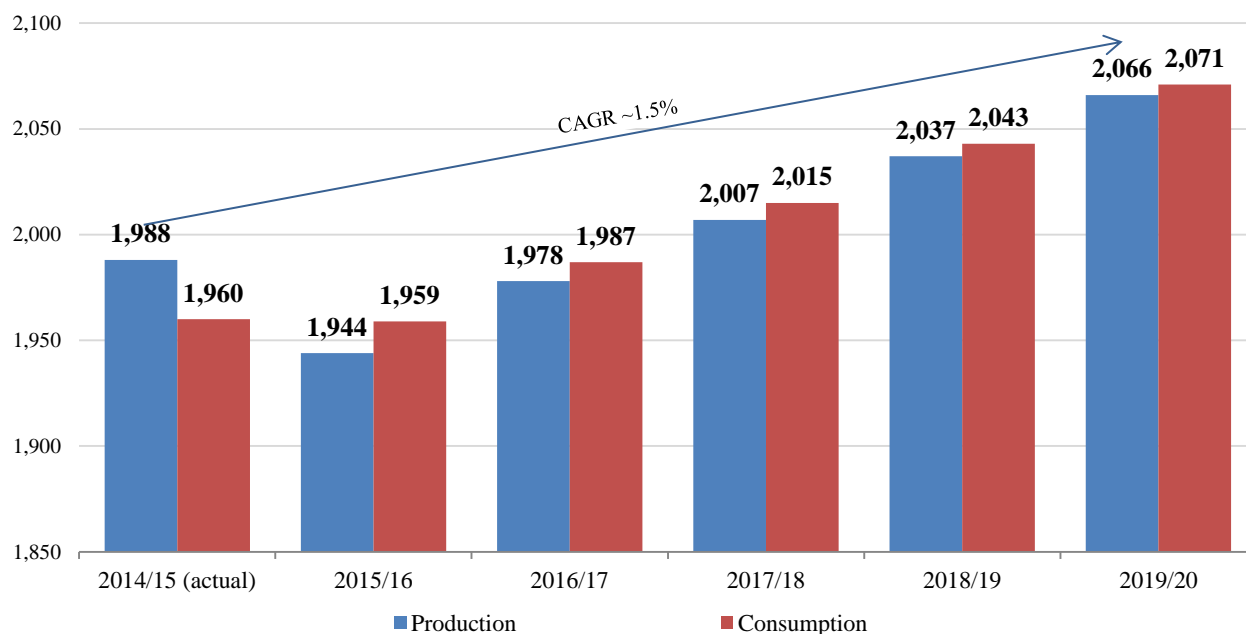
share in world output. Russia's wheat output grew by 13% year-on-year, the global output growing by 1%.

Gross grain harvest and export in Russia, m tonnes



According to a forecast by the International Grains Council, in 2015-2020 global grain consumption and production will grow at approximately the same rate – around 1.5% per year. This growth will be driven by the continuous expansion of the world's population and rising demand from the food and livestock breeding industries. Production growth will be primarily secured by an improvement in crop yields.

Forecast for global production and consumption of grains, m tonnes



RZ Agro Group operates in the Sothern and North Caucasian Federal Districts – Russia's key grain producing regions, which account for about 70% of winter wheat, over 95% of winter barley and approximately 35% of oil-bearing crops produced in Russia. In 2014, the grain producers in the Rostov region, where RZ Agro has five farms, harvested 9.5m tonnes of grain and grain legumes, almost 3m tonnes more than last year. It was a record harvest of the last 24 years.

RZ Agro's business in 2014

The total land bank under RZ Agro's management is 99 thousand ha, including 65 thousand ha (66%) of land in its ownership. Around 91% of RZ Agro land is under cultivation. The Group includes six farms grouped into three territorial production clusters.

RZ Agro is a highly specialised farm holding. In 2014, crop farming generated 98% of its total income. The main crop types grown are winter wheat, barley, sunflower, corn, pea, sugar beet. Livestock breeding is represented by the First Cavalry Army Stud Farm – a famous horse breeding farm that operates a dairy farm and has a nucleus herd and the largest number of Budyonny horses.

RZ Agro has developed and implemented a long-term crop rotation plan. Minor adjustments are made annually depending on the expected profitability of crops and the previous harvest.

In 2014, special attention was paid to soil condition diagnostics and climate monitoring; soil remediation and land productivity improvement; implementation of technologies that help to adapt production to climatic changes, especially to drought conditions. Starting from the 2013-2014 production year, certain drought-resistant crops such as camelina and sorghum were included in the crop rotation schemes in the Rostov-East cluster.

RZ Agro sells approximately 90% of its products on the international and domestic markets. The remaining 10% is used as seeds and to pay land rent.

Over the last four years, RZ Agro managed to increase its sales 5-fold with the share of direct exports rising from 14% in 2011 to 32% in 2014. In 2014, RZ Agro carried out direct grain deliveries to Egypt, Georgia, Armenia, Turkey, Iran, Saudi Arabia, South Africa

RZ Agro actively expands its pool of counterparties by establishing partnership relations with end consumers in the importing countries and in the domestic market. To this end, cooperation is being strengthened with the Russian Export Insurance Agency (EXIAR). Domestic sales (68%) were mainly made to medium-sized exporters and large trading houses, which may be considered as indirect export, and also directly to domestic consumers.

Re-equipment of production is one of RZ Agro's priorities. In 2014, 13 new units of modern tillage machinery (cultivators, harrows), 4 sowing machines, 1 tractor, 2 loaders, and other agricultural machinery were purchased. Additionally, investments were made to install monitoring and security systems, such as fuel consumption monitoring, video surveillance, fencing and automated accounting.

In 2014, a new grain quality laboratory was set up and outfitted with modern equipment at SP Novotroitskoye (part of the Stavropol-West cluster) along with a new electronic weighing scale with a maximum capacity of 80 tonnes. A quality laboratory at OJSC Krasnaya Zvezda (Rostov-East cluster) received a new device for express analysis of grain.

The company prepared a five-year production re-equipment programme for 2015-2020. The key objectives are to continue replacing old machinery with modern high-performance units and to upgrade the fleet and equipment. One of the key criteria in selecting new machinery is soil preservation and energy efficiency.

Operational strategy

RZ Agro manages agricultural assets based on the cluster approach, which envisages the setup of full-fledged and self-sufficient clusters comprising 30,000-50,000 ha of crop land plots located close together. This approach makes it possible to optimise the operating and investment costs of the clusters.

RZ Agro's operating strategy also seeks to increase crop yields, optimise production and management costs by introducing state-of-the-art agricultural technologies, modernising agricultural equipment and implementing modern cost monitoring systems.

In order to improve efficiency RZ Agro management focuses on the development of related activities to enhance business efficiency. Focus areas include: grain procurement and trading (target procurement programme – up to 500,000 tonnes per year), seed production and sale programme, harvesting contracting (crop harvesting services in the northern regions).

In 2015 RZ Agro intends to invest in the development of its machinery, equipment and infrastructure. The main investments of RZ Agro are scheduled for 2015 (including the capex previously budgeted for 2016) in order to take advantage of the current market situation and purchase equipment on favourable terms offered by Russian and foreign suppliers. This strategy will speed up the implementation of the re-equipment plan and reduce the risks associated with a considerable rise in machinery prices.

2014 Performance

Financial indicators

<i>(RUB m)</i>	2014	2013	Change over the year
Revenue	2,387	895	166.7%
OIBDA	735	(150)	-
Operating income	594	(241)	-
Net income attributable to Sistema	182	-187	-

Operating performance

	2014	2013	Change over the year
Gross wheat yield, K tonnes	188.7	96.9	94.7%
Wheat yield, t/ha	4.5	3.0	50%
Gross barley yield, K tonnes	26.8	18.6	44.1%
Barley yield, t/ha	3.4	1.9	80%
Gross sunflower yield, K tonnes	16.3	14.4	13.2%
Sunflower yield, t/ha	2.3	1.8	27.7%

5. DESCRIPTION OF MAIN RISK FACTORS

The Corporation may face a variety of risks in the course of its business operations. The main risks that the Corporation may encounter are the consequences of the processes and factors that Sistema JSFC has little or no influence on. At the same time, the Corporation can take measures to reduce negative consequences in case some or other risk occurs. In this connection, efficient assessment of existing risks and probability of their occurrence and their efficient management are an important part of Sistema's strategy.

The Corporation has introduced an integrated enterprise risk management system (ERM) that is designed to provide a reasonable guarantee that the strategic goals will be achieved and ensure that the level of risk will be kept within the limits that are acceptable for the shareholders and the management of the Corporation. ERM at Sistema JSFC was built in compliance with international standards, recommendations and best practices in risk management.

5.1. Integrated risk management system (ERM) used in the Sistema Group

As part of quarterly ERM procedures the risk managers of Sistema Group compile risk registers for subsidiaries and a consolidated risk register for the Group, prioritise risks and aggregate them into

portfolios, develop a risk map and analyse its key trends, conduct an analysis of the impact that material risks have on the financial results of specific subsidiaries and Sistema Group as a whole, using simulation and financial modelling methods.

In order to deal with the risks included in the risk register of Sistema Group the company developed risk management (mitigation) and response plans including the lists of prepared activities. Risk management (mitigation) plans and response plans are extended, adjusted and then approved by the Risk Committee.

Risk management reports are submitted for review to the relevant collective governance bodies of the Corporation 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 identification of potential risk areas (areas requiring attention) for future periods.

5.2 External Risks

The risks related to changes in the political and economic situation in Russia are material to Sistema JSFC because most of the Corporation's business is conducted on the territory of the Russian Federation. Besides, many of its subsidiaries operate in countries with transitional economies, including Ukraine, Uzbekistan, Armenia, Belarus, Turkmenistan and India, and therefore are also prone to material external risks.

Financial risks

The business of Sistema JSFC is inextricably connected to the state of the global economy and financial markets and, in particular, depends on fluctuation of prices on oil, gas and other commodities exported by the Russian Federation. Further weakening of the rouble against the US dollar and Euro amid a slump in the oil prices, imposed sanctions and increased capital flight from Russia may result in a rise in costs and a drop in revenues or impede the achievement of financial targets and repayment of debt by Sistema Group subsidiaries.

Exit of foreign investors from Russia and the downgrading of the sovereign credit rating by international rating agencies, as well as restrictions introduced for foreign companies in Russia as a result of sanctions, may have a negative impact on the joint ventures (partnerships) and new investment projects of Sistema Group.

Growing inflation may result in higher expenses and, therefore, put pressure on profit margins and also negatively affect the domestic demand for products and services of Sistema Group companies.

If in the medium term 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 Corporation and its portfolio companies.

An unfavourable macroeconomic environment in many countries of Sistema's operations may make it necessary to reevaluate goodwill on some of the assets of the Corporation and its portfolio companies.

Currency control and restrictions on capital repatriation may adversely affect the business of Sistema Group by creating difficulties for capital flows and reduce the value of Sistema's investment in Russia.

Potential bankruptcy of one or several Russian or other banks due to restricted access to financing may result in reduction in the sources of debt for the Corporation and portfolio companies and may lead to direct losses of funds deposited in the accounts of such banks.

Political and social risks

The influence of geopolitical risks on the Corporation 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 risks of inter-state conflicts have significantly risen compared with the beginning of 2014, both in terms of their probability and the effect that they may produce on various areas of Sistema Group's activities. For example, for these reasons insurance companies may set higher insurance premiums for Sistema Group or refuse to insure against specific risks, which may lead to a deterioration of financial results.

Introduction of sanctions against Russia or Russian companies may result in disruptions in the work of international payment systems, which may prevent the Corporation and its portfolio companies from making settlements and will reduce Sistema's investment appeal.

A potential rise in social unrest in the regions where the Corporation operates may lead to a decrease in the Corporation's profits.

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 on the Group's business. This risk is caused by numerous factors, including:

- Possible discrepancies and ambiguity in: (1) federal and other laws; (2) bylaws issued by the executive authorities of the states where Sistema Group operates; (3) regional and local laws, rules and requirements;
- gaps in the legislative framework and a lack of court and administrative guidelines on the interpretation of some laws as well as the contradictory nature of some court guidelines and rulings.
- influence of political, social and commercial factors on the judicial system;
- potential selective or arbitrary actions of the government authorities.

Incompleteness of the existing legal framework related to corporate law, regulation of the securities market on markets of Sistema's operations can limit possibilities for raising capital in the future.

Absence of clarity about the applicability of the Federal Law "On the Procedure for Foreign Investment in Companies Which Are of Strategic Importance for National Defence and State Security" and the regulations of the Customs Union of Russia, Belarus and Kazakhstan to Sistema's business may have a negative impact on the business of Sistema Group in view of the company's having foreign shareholders.

There is a risk of amendments being made in the laws of the countries where Sistema Group companies operate, due to potential changes in the laws and regulations on international trade and investments introduced by foreign states or international organizations. For example, Russia's accession to the World Trade Organisation may result in certain unpredictable legislative and other changes in the markets of Sistema's operations.

Since, under corporate laws of Russia a shareholder may become liable for the obligations of its affiliates, Sistema may incur financial losses related to the liabilities of its portfolio companies.

The minority shareholders of Sistema's subsidiaries may contest related-party transactions or other transactions or vote against entering into such transactions, which may limit Sistema's capabilities in terms of closing investment deals and restructuring the business.

If the Russian Federal Anti-Monopoly Service concludes that Sistema JSFC or one of its material subsidiaries has violated any of the existing anti-monopoly laws, this may result in serious administrative sanctions involving losses for the Corporation. The Federal Anti-Monopoly Service may also prevent the Corporation and its portfolio companies from signing and/or executing some transactions, which may

limit the capabilities of Sistema with regard to completing investment deals and restructuring the business.

Taxation System of the Russian Federation

The tax law and tax practices in the markets of Sistema's operations are complicated and uncertain and prone to frequent changes and ambiguous interpretation. If the Corporation's actions are interpreted as breach of the tax laws, this may produce an adverse effect on the business of Sistema Group.

The Russian law on transfer pricing may make it necessary to introduce adjustments to the price setting system of Sistema Group companies and result in additional tax obligations with regard to certain transactions.

On 1 January 2015 new rules took effect in Russia relating to the taxation of undistributed profits from controlled foreign companies and profits from indirect sales of real estate assets located in Russia, the concept of a beneficiary owner and new criteria for determining the tax resident status for legal entities were introduced. As a result of the need to apply new taxation rules Sistema Group companies may face new tax liabilities arising due to the uncertainty around the interpretation of the tax law and the lack of previous law enforcement practice.

Stock markets

Deterioration of the geopolitical situation, sanctions imposed on Russian companies, worsening of the macroeconomic environment and capital and investor flight from the Russian market led to a reduction in the value of Russian companies in 2014. In view of the circumstances specified above Sistema's access to investor funding through stock markets may be restricted further as a result of the introduction of sectoral sanctions against Russian companies operating in the business segments of Sistema and/or due to the cautious approach of investors to Russian companies in general. In particular, Sistema's ability to raise funding via bond issues may be limited, which is likely to lead to a lack of working capital and investment resources and negatively affect the Corporation's financial results.

5.3. Risks related to activities of Sistema JSFC

Implementation of the business strategy

The Corporation's strategy is aimed at developing a balanced and diversified asset portfolio in sectors and regions where Sistema JSFC has expertise and competitive advantages, and also attracting leading international and Russian partners. Despite having a well-formulated strategy, Sistema JSFC cannot guarantee the achievement of the established goals, efficient management of the portfolio companies or taking up of new investment opportunities. Sistema's failure to achieve the goals set in the strategy may put pressure on the expected financial indicators of the Corporation.

The development of Sistema Group companies depends on numerous factors, including the receipt of necessary permits from the state authorities, sufficient demand from consumers, successful development of technologies, efficient risk and cost management, timely completion of development and introduction of new products and services by Sistema Group companies. Weaknesses in any of the areas specified above may have a detrimental effect on the development of Sistema Group companies and the Corporation's financial results.

Acquisition, integration, disposal or restructuring of assets

Sistema JSFC implements its strategy via new acquisitions, disposals and restructuring of assets. The process of carrying out investment opportunities in the market entails certain risks, including the risks of not finding relevant targets or their not being available for acquisition, the risk of insufficient or inadequate due diligence of the target company's operations and/or financial position of the target company, the risks of assets being overvalued and overpaid for. The occurrence of these risks may have a negative effect on the Corporation's financial results.

Acquisition of assets may increase pressure on the cash position of the Corporation and create a need for raising external funding.

Delays in the implementation of investment deals or failure to close investment deals may have an adverse effect on the achievement of Sistema's strategic goals and negatively influence the results, financial position and investment appeal of the Corporation.

Sistema may face the problem of building a 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 between 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.

In the event of occurrence of one or several of the specified risks the value of the respective assets and/or the financial results of Sistema JSFC may decrease.

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

- a delay in the implementation of a deal or a failure to close a deal due to inability to obtain corporate or state approvals;
- mistakes in asset valuation,
- assuming excess obligations related to an asset put up for sale,
- loss of synergies by the existing assets.

If one or several of the specified risks materialize the Corporation may lose profits which will have a negative effect on the financial results of Sistema JSFC.

Management and key personnel

The implementation of Sistema's strategy in many respects depends on the efforts and professionalism of the management team. Should it become impossible to hire a sufficiently competent and motivated management team, it will have a detrimental effect on the business, its financial results and position, as well as development prospects of the Corporation.

Cash flows from subsidiaries and affiliates.

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

Dependence on the results of 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 decrease in the financial results of Sistema JSFC. Any events having a damaging effect on the business of MTS may also negatively influence the current state of Sistema's business and its prospects and worsen the financial results of the Corporation.

Raising capital or financing

Cash flows from portfolio companies may be insufficient for covering the planned investment expenses of the Corporation. This may create the need to raise finance from external sources and may slow down the process of implementing the Corporation's strategy.

Restrictive covenants

The loan and debt security agreements entered into by Sistema and its portfolio companies contain certain restrictive covenants. These covenants put restrictions on attraction of additional debt financing, encumbrance of property with pledges, sale of assets and transactions with affiliates. Such covenants may put restrictions on Sistema's operations, including financing of capital expenses, or limit possibilities for timely repayment of debt or making payments on liabilities. Any inadvertent breach of covenants may create conditions when creditors of the Corporation and/or its portfolio companies will be entitled to demand early repayment of such loans and put pressure on the Corporation's financial performance.

Licences and permits

Operations of Sistema Group's companies are regulated by different government bodies and agencies, with regard to obtaining and renewing licences, approvals and permits and also due to the need to constantly abide by the existing legislation, regulations and standards. Regulating authorities to a large extent rely on their own judgment when interpreting and implementing requirements of applicable laws, issuing and extending licences, approvals and permits and monitoring compliance with licence requirements. There is no guarantee that the existing licences and permits, including those issued to the Group's companies, will be extended, new licences and permits will be issued or that the companies will be able to comply with the terms of corresponding licences. There is no guarantee either that any of the existing or future licences or permits will not be suspended or revoked on some or other grounds. Any of these circumstances can have material negative consequences for the business of Sistema JSFC.

Privatised companies

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

If the legitimacy of privatisation of a company is contested and Sistema JSFC is unable to defend its stand in the dispute, there is a risk of losing a stake in the corresponding company or its assets, which may have a material negative impact on the business, financial situation, performance and development prospects of the Corporation.

Anti-corruption rules

Activities of Sistema JSFC are covered by anti-corruption laws in the jurisdiction where it operates, including regulations of the Russian Federation and the US Foreign Corrupt Practices Act (FCPA) and may also be covered by the UK Bribery Act. Any investigation into potential violations of the FCPA, the UK Bribery Act or other anti-corruption laws of the US, Britain or other jurisdictions may affect the reputation, business, financial situation and performance of Sistema JSFC.

Competition on the part of other companies

All business segments where Sistema JSFC operates are exposed to competition on the part of other companies. Operations in the segments of telecommunications, high technology, banking, retail, media, tourism, private healthcare services and pharmaceuticals are characterised by strong competition among companies, both in Russia and other countries. Inability of Sistema Group's companies to compete efficiently may have a material negative impact on the business, performance, financial situation and development prospects of the Corporation.

Brand quality and reputation

Developing and maintaining brand awareness for the Group's companies is a crucial component of shaping the public opinion about the existing and future products and services of the Group's companies. Sistema JSFC believes that importance of a company brand is growing steadily on highly competitive markets. Successful development and improvement of brand awareness to a large extent depends on the efficiency of marketing operations and the companies' ability to provide quality products and services at competitive prices. Efforts to develop brands may not correspond to the received earnings, which may be insufficient to cover expenses on these activities, resulting in losses for the Group's companies.

Transfer of Bashneft shares to the state

On 24 September 2014, First Deputy Prosecutor General of the Russian Federation (hereinafter – "the Prosecutor") filed a lawsuit with the Arbitration Court of Moscow (hereinafter – the "Civil Suit") demanding a return of all of the Bashneft shares (hereinafter – "Bashneft Shares") held then by Sistema JSFC and its subsidiary CJSC Sistema Invest to the Russian Federation (in 2012 Bashneft merged with four oil and energy companies of the Republic of Bashkortostan). In response to the suit filed by the Prosecutor, the Arbitration Court of Moscow imposed a ban on any operations involving Bashneft Shares.

The Civil Suit alleged that the privatisation of Bashneft was illegal, since Bashneft was originally the property of the Russian Federation, and the authorities of Bashkiria had no right to have the asset privatised without consent from the Russian federal authorities.

On 7 November 2014, the Arbitration Court of Moscow ruled for the Bashneft shares to be transferred from Sistema JSFC and CJSC Sistema Invest to the Russian Federation. On 12 November 2014, having carefully considered the issue, the Board of Directors of Sistema JSFC passed a resolution not to appeal against the ruling of the Arbitration Court of Moscow and to file a lawsuit for recovering damages from the counterparts that sold Bashneft Shares to Sistema.

In December 2014, the Corporation and CJSC Sistema Invest transferred all the Bashneft shares they held to the state. Thus Sistema satisfied all the demands made by the Russian Federation with respect to Bashneft Shares.

In December 2014, in accordance with the resolution of the Board of Directors dd 12 November 2014, Sistema JSFC filed a lawsuit with the Arbitration Court of Moscow against LLC Ural-Invest to recover damages resulting from the seizure of Bashneft shares. Being a good-faith buyer Sistema intended to get compensation for its losses from the counterparties which had sold Bashneft Shares to Sistema and Sistema Invest, and their legal successors.

In February 2015, the Arbitration Court of Moscow upheld the lawsuit of Sistema against LLC Ural-Invest and ruled to charge damages from the defendant to the benefit of Sistema in the amount of RUB 70.7bn.

In March 2015 Sistema and Ural-Invest signed a Settlement Agreement at the stage of execution of the ruling passed by the Arbitration Court of Moscow on 18 February 2015. Under the terms of the Settlement Agreement LLC Ural-Invest shall transfer to Sistema all its property, namely the monetary assets totalling ca. RUB 46.5bn. According to the Settlement Agreement, the Corporation shall invest a part of the funds received totaling RUB 4.6bn into Ural Fund's charitable projects.

Criminal investigation into the privatisation of the oil and energy companies of the Republic of Bashkortostan

In April 2014, criminal charges were brought against Ural Rakhimov, the son of Murtaza Rakhimov, former President of the Republic of Bashkortostan who was in office at the time of the privatisation of the Republic's oil and energy assets (hereinafter – BashTEK assets) and against Levon Hairapetyan. These individuals are accused of embezzling BashTEK Shares in the course of their illegal privatisation and legalisation.

On 16 September 2014 Sistema's majority shareholder and Chairman of the Board of Directors was charged with legalisation of assets via the acquisition of BashTEK shares by Sistema JSFC and Sistema Invest. Vladimir Evtushenkov denies the allegations and rejects the charges brought against him.

History of the acquisition of BashTEK assets by Sistema

In 2005 Sistema JSFC, through its subsidiary Sistema Invest, acquired the shares of Bashneft and five other BashTEK assets from private Russian companies for USD 0.6bn (hereinafter – "the First Transaction"). The shares acquired as part of the First Transaction accounted for 21%-25% of the authorised capitals of each of the BashTEK assets.

In 2009 Sistema JSFC increased its shareholding in the BashTEK assets to more than 75% as a result of entering into contracts (hereinafter – "Contracts") on acquisition of controlling stakes in the BashTEK assets from external sellers – private Russian companies (hereinafter – "the Second Transaction").

Under the terms of the Contracts the price of BashTEK shares amounted to USD 2bn plus an additional payment of USD 0.5bn, which was to be made subject to certain conditions stipulated in the Contracts. Since the conditions set out in the Contracts were not met, the additional payment was not made.

Prior to closing the Second Transaction Sistema JSFC obtained an approval from Russia's Federal Antimonopoly Service for the acquisition of BashTEK shares.

The amount paid for the BashTEK shares was consistent with the price determined by an independent appraiser that had been engaged in order to raise funding from one of Russia's largest state-owned banks against the pledge of BashTEK shares and other Sistema assets. The price per share of each of the BashTEK assets paid by the Corporation as part of the Second Transaction significantly exceeded the shares' stock exchange price.

As of the date of acquiring the BashTEK shares there were not bans or limitations imposed on transactions involving the shares.

6. CORPORATE GOVERNANCE SYSTEM

Corporate Governance Principles

Maintaining the system of corporate governance and transparency at the level of the world's best practices is one of the crucial elements of the strategy of Sistema JSFC as an investment company. By maintaining the high quality of corporate governance Sistema gets the opportunity to attract partners and investors and increase return on equity by taking more efficient and creative managerial decisions. To achieve this goal, the Corporation's corporate governance policy is based on the following fundamental principles:

- transparency and clarity of all processes for investors and partners,
- a transparent dividend policy;
- a proactive and professional Board of Directors,
- investment decisions made in compliance with the established procedures;
- the attention of the Board of Directors to all transactions with related parties;
- an active role of the Board of Directors in the strategic planning process.
- development of corporate governance in portfolio companies.

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

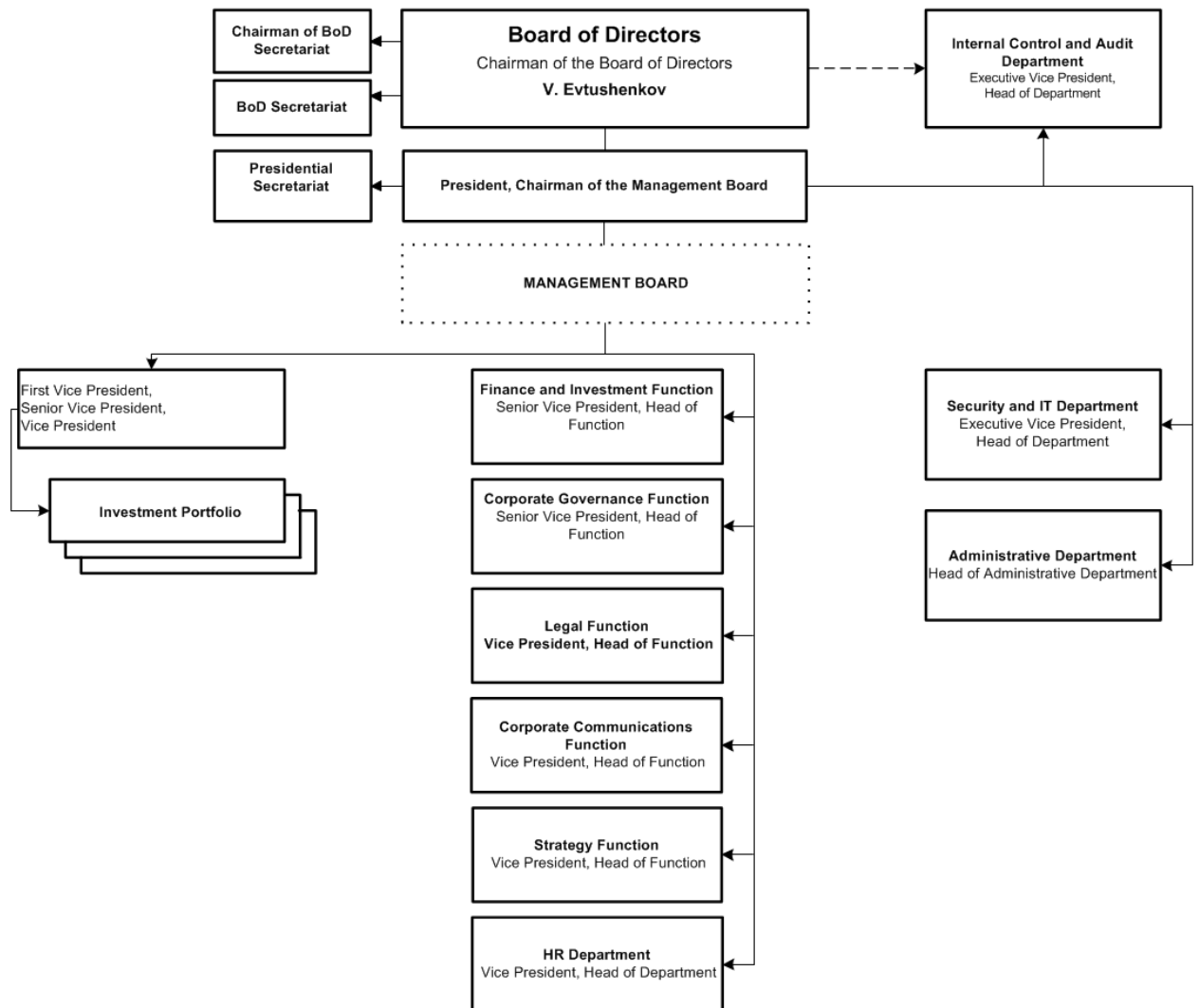
Principles and procedures of Sistema JSFC corporate governance are set out in its Charter and in a number of publicly available bylaws that, all together, determine the structure and the scope of the Corporation's governance and control bodies. The Corporate Governance and Ethics Code sets forth additional commitments of Sistema JSFC in the area of transparency, social responsibility, and ethical business principles.

Sistema makes every effort to bring its corporate governance practices in line with the recommendations specified by the Bank of Russia in the Corporate Governance Code (Letter of the Bank of Russia No. 06-52/2463 ¹¹dated April 10, 2014) and the guidelines set out in the UK Corporate Governance Code.¹² The conformity of Sistema's corporate governance practices with the standards set out in the Corporate Governance Code of Russia and the UK Corporate Governance Code is analyzed in Annexes 5 and 6 to this report. Should the corporate governance practices of Sistema JSFC diverge from the standards recommended in the above documents, the Corporation provides an explanation as to how else it makes sure that the balance of interests fixed in the applicable corporate governance standards is observed.

¹¹ The text of the Corporate Conduct Code is available at the following address: http://www.cbr.ru/sbrfr_new/files/legislation/letters/2014/Inf_apr_1014.pdf

¹² The text of the UK Corporate Governance Code is available at the following address: <http://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-September-2012.aspx>

Corporate Governance Structure of Sistema JSFC¹³



The Corporation's main governance bodies are: the General Meeting of shareholders, the Board of Directors, the President and the Management Board. The Board of Directors and the President have committees that conduct a more in-depth analysis of the proposed solutions in specific areas and develop recommendations for the governance bodies of Sistema.

The existing organisational structure of the Corporation that was adopted in December 2013, including the adjustments and amendments made later, reflects Sistema's operation in accordance with investment company model.

6.1. General Meeting of Shareholders

Principles of operation

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

Information and materials for the meeting are made available to the shareholders in Russian and in English and are published on Sistema's official website (www.sistema.ru; www.sistema.com). Along with

¹³ As of 31 December 2014.

the notice of the forthcoming meeting, shareholders get voting ballots. The venues of Sistema's General Meetings of shareholders are always located in the vicinity of the Corporation's headquarters.

Observance of shareholders' rights

Sistema JSFC aims to ensure the maximum protection of the shareholders' rights to participate in running the Corporation and receiving profit. The fundamental rights of a shareholder in this respect are the right to participate in the work of the General Meeting of shareholders and to vote on items on the agenda, and also the right to receive dividends.

For this right to be secured, notice of the conduct of the General Meetings of Sistema JSFC as well as voting ballots is circulated to all the shareholders at least 30 days before the meeting, and all materials covering the agenda items are published on the Company's website in Russian and in English (www.sistema.ru; www.sistema.com). The ballot may be filled out by the shareholder in advance and mailed to Sistema JSFC to the address specified in the ballot. In this case the vote of the shareholder will be taken into account when counting the voting results.

Depository receipt holders may vote on the agenda items of shareholder meetings by proxy through Deutsche Bank AG, which is used as the depository bank for Sistema's GDR programme:

*Global Equity Services,
Trust and Securities Services,
Email: adr@db.com*

The votes of GDR holders, information about whom has been disclosed to the depository, are collected by Deutsche Bank AG via clearing systems and are included in the general voting ballot of the depository, with all votes cast for the proposed draft resolution, against it, and abstentions specified.

Each shareholder can also attend General Meetings of shareholders in person or through a representative and vote on the agenda items directly at the Meeting.

An important guarantee of the shareholder's right to participate in running the Corporation is the right to access documents that the Company is obliged to retain in line with the provisions of the Federal Law On Joint-Stock Companies. To exercise this right, a shareholder should send a written request to the Corporate Secretary of Sistema JSFC asking for access to the documents that the shareholder wishes to see. After the time for providing the documents is agreed upon, the requested documents will be provided to the shareholder. When a shareholder is granted access to confidential documents, such a shareholder makes a written non-disclosure obligation thus providing a guarantee for the protection of the rights of all the shareholders of the Corporation.

Holders of material blocks of shares are entitled to make proposals on the agenda of the General Meeting of shareholders and nominate candidates to the Corporation's governance and control bodies¹⁴. Proposals on the agenda of the Annual General Meeting of shareholders of Sistema JSFC are accepted in writing within 100 days after the end of the financial year¹⁵. Candidates nominated to governance and control bodies of the Corporation are preliminarily interviewed by the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors of Sistema JSFC.

For the purposes of maximal observance of the shareholders' rights to the Company's profit the Corporation 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 made for the purposes of the payment. Therefore, the shareholders always have the opportunity to dispose of their shares taking into account the expected dividend payments.

¹⁴ Holders of 10 and more % of the Company's voting shares also have the right to request an Extraordinary General Meeting of shareholders to be conducted.

¹⁵ In the event an Extraordinary General Meeting of shareholders is conducted with its agenda containing 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 Company no later than 30 days before the date of such a meeting.

Dividend policy

To determine the recommended amount of dividends payable, the Corporation's Board of Directors abides by the dividend policy approved in October 2011. In compliance with the said policy, the amount of dividends payable shall be at least 10% of the group's net income generated during the previous financial year as per reports prepared in compliance with international accounting standards and at least 10% of the net cash income generated by the Corporation's investment transactions over the same period (special dividend). This approach allows the Corporation to pay predictable amounts of dividends.

General Meetings held in 2014 and their results

The Annual General Meeting of the shareholders of Sistema JSFC took place on 28 June 2014. The AGM (i) approved the Company's annual report and annual financial statements, including the profit and losses account for 2013, (ii) determined the amount, procedure, forms and timelines of dividend payments on the company's shares, (iii) elected members of the Board of Directors (iv) elected the members of the Auditing Commission, (v) and approved the auditors of the Corporation.

In accordance with the resolution passed by the Annual General Meeting of shareholders and the recommendation of the Corporation's Board of Directors, RUB 19, 879, 000 were allocated to pay dividends, which amounted to RUB 2.06 per each ordinary share of Sistema JSFC. The sum of dividends was determined in compliance with the current dividend policy, Compared to 2013, dividends grew by 115%.¹⁶

The Annual General Meeting of shareholders approved CJSC Deloitte and Touche CIS as Sistema's auditor for 2014 to perform the audit according to the Russian Accounting Standards and the US GAAP. The auditor was selected following an open tender organised by the Audit, Finance and Risk Committee of the Board of Directors of Sistema JSFC.

In 2014, Sistema JSFC did not convene any Extraordinary General Meetings of shareholders.

6.2. Board of Directors

The Board of Directors of Sistema JSFC is responsible for the strategic governance of the Corporation: it determines the strategy, works out strategic and financial development plans, sets the principles for investing, appraises executive performance and assesses risks, approves principles for corporate governance procedures, approves transactions and controls the work of the Corporation in general. The terms of reference for the Board of Directors are set out in the Charter of Sistema JSFC.

Board of Directors membership

The Board of Directors of Sistema JSFC effective as of 31 December 2014 was elected at the Annual General Meeting of the Company's Shareholders on 28 June 2014, and its membership remained unchanged compared to the previous year. The Board of Directors of Sistema JSFC has 13 members. Independent members of the Board of Directors form a majority.

Membership of Sistema's Board of Directors elected on June 28, 2014¹⁷

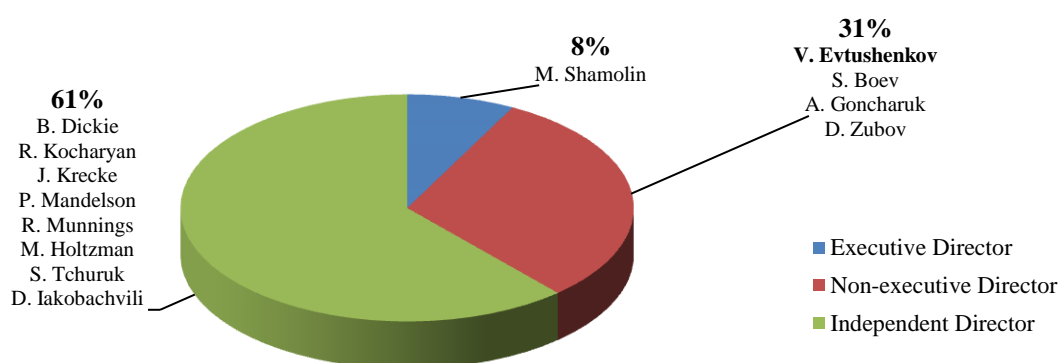
- | | | |
|----|----------------------|------------------------------|
| 1. | Vladimir Evtushenkov | Chairman of the Board |
| 2. | Alexander Goncharuk | Deputy Chairman of the Board |
| 3. | David Iakobachvili | Deputy Chairman of the Board |

¹⁶ In 2013, RUB 9, 264, 000 were allotted to pay dividends, which equalled RUB 0.96 per each ordinary share of Sistema.

¹⁷ Short biographies of the members of the Board of Directors and data on their shareholdings in Sistema JSFC are available in the Annex.

4. Sergey Boev
5. Brian Dickie
6. Dmitry Zubov
7. Robert Kocharyan
8. Jeannot Krecké
9. Peter Mandelson
10. Roger Munnings
11. Marc Holtzman
12. Serge Tchuruk
13. Mikhail Shamolin

Composition of Sistema's Board of Directors



Changes to the membership of the Board of Directors

There have been no changes in the membership of the Sistema Board of Directors elected on 28 June 2014 compared with the Board effective in 2013.

Meetings of the Board of Directors

Meetings of the Board of Directors of Sistema JSFC are held regularly in compliance with the approved work schedule for the year. The work schedule of the Board of Directors is developed proceeding from the logics of the strategic planning and reporting cycle of Sistema JSFC. Reports on and discussions of additional matters (such as transactions) are included in agendas of scheduled Board meetings on a routine basis. Additional sessions are organised whenever an urgent matter needs to be considered.

Forming the work plan of the Board of Directors and including additional items into the plan is the frame of reference of the Board Chairman.

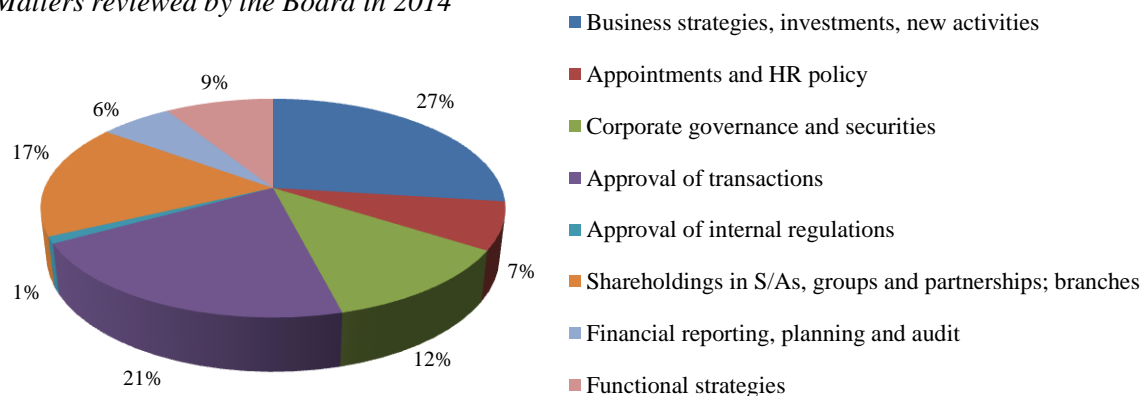
In 2014 the Board of Directors had 10 sessions: 8 scheduled regular Board meetings, and 2 extraordinary meetings, one of which was held in the form of absentee voting. The Board of Directors reviewed a total of 100 agenda items in 2014:

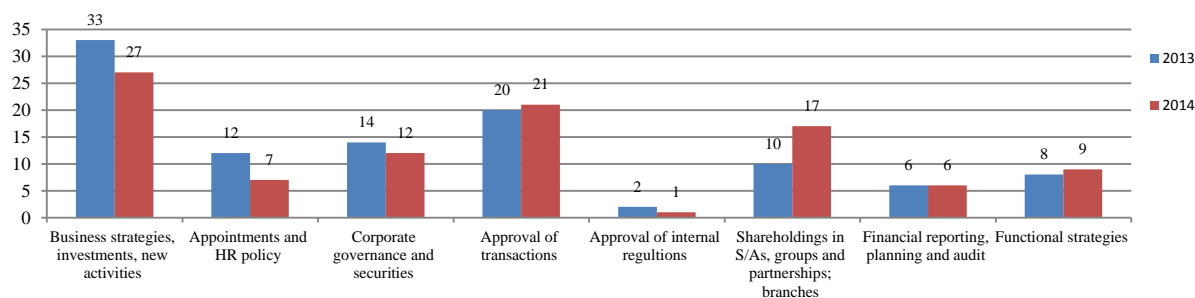
	2014	2013
Number of in-person meetings	9	8
Number of letter ballots	1	1
Number of items in accordance with the BoD work plan	39	43
Number of items reviewed at Board meetings	100	105

Over the reporting period the Board of Directors considered the following key items:

- 1) Development strategy of Sistema JSFC.
- 2) Top-down indicators and key performance indicators as part of the strategic planning cycle of Sistema JSFC.
- 3) Investment policy of the Corporation and priority investment areas in 2014-2015
- 4) Progress report on the Corporation's transition to an investment company model.
- 5) Development strategy and value creation for key portfolio assets of Sistema JSFC:
 - telecom assets;
 - media assets;
 - oilfield service assets;
 - hotel assets;
 - bank assets;
 - high-tech assets;
 - transport assets;
 - real estate assets;
 - healthcare assets;
 - biotech assets;
 - power grid assets;
 - agro assets
 - wood processing and pulp and paper industry;
 - consumer (retail) assets including e-commerce assets.
- 6) The performance results of Sistema JSFC and budget execution.
- 7) Approval of the consolidated budget of Sistema and key performance indicators of the management for 2015.
- 8) Long-term financial and economic model of the Corporation's development
- 9) Functional strategy in finance management and financial planning
- 10) Placement of securities (exchange-traded notes)
- 11) Risk and opportunity management in the Corporation.
- 12) Internal control and audits of the companies of the Sistema Group conducted by the Internal Control and Audit Department.
- 13) Legal protection of the Corporation's interests and legal risk management in 2014-2015.
- 14) HR issues, HR management and personnel motivation.
- 15) IR and PR current operations and development plans for 2014-2015.
- 16) Assessment of corporate governance including the self-assessment results of the Sistema Board of Directors.
- 17) Corporate social responsibility of Sistema JSFC.
- 18) Activities of Sistema Charitable Foundation.
- 19) Corporate governance system and corporate procedures including convening of the Annual General Meeting of shareholders.
- 20) Membership of Committees of the Board of Directors.
- 21) Approval of transactions.
- 22) Organisation of administrative support for the Corporation in 2013-2014

Matters reviewed by the Board in 2014





In 2014 the agenda of the Board of Directors was mainly related to business strategy, approval of transactions (including shareholdings in portfolio companies) and corporate governance. The Board of Directors' focus on these areas proceeds from the nature of the Corporation's operation as an investment company, when particular attention should be given to strategy and corporate governance of portfolio companies, portfolio strategy, analysis of new investment opportunities and transactions.

Preparation for the meetings and quorum of the Board of Directors

The procedure of preparation for the meetings of the Board of Directors is aimed at ensuring an efficient use of the time and experience of the Board members in order to enable them to take important decisions on the Corporation's strategic development. Materials on the agenda are provided to the Board of Directors of Sistema JSFC 10 days before meetings, which gives them the possibility to comfortably form their own position for the voting. The majority of main agenda items must be previewed at the meetings of Committees of the Board of Directors of the Corporation.

Members of the Sistema Board of Directors meet with the speakers and the management at a business dinner the evening before the meeting, so that they can discuss the items on the agenda of the Board and inquire about the voting positions of the parties in an informal environment.

Sessions of the Board of Directors normally take place with high attendance of the Board members. The average quorum of meetings in 2014 was 91.5%.

Participation of the Sistema Board members in meetings of the Board of Directors and its committees in 2014¹⁸

	Board of Directors	Strategy Committee	Audit, Finance and Risk Committee	Nomination, Remuneration and Corporate Governance Committee	Ethics and Control Committee	Investor Relations and Dividend Policy Committee
Attendance						
V. Evtushenkov	9/10 ¹⁹	8/11				
S. Boev	9/10	6/11	10/13		4/7	
A. Goncharuk	7/10	4/11		5/8	3/7	
B. Dickie	10/10	0/3		3/3	7/7	
D. Zubov	10/10			8/8		
R. Kocharyan	10/10	5/8		8/8	6/7	
J. Krecké	10/10			8/8		7/7
P. Mandelson	8/10		11/13			5/7
R. Munnings	10/10		13/13	8/8	7/7	7/7
M. Holtzman	7/10		12/13			5/7
S. Tchuruk	9/10	1/3	2/5		6/7	
M. Shamolin	10/10	10/11		5/5		1/7
D. Iakobachvili	10/10	6/8	13/13			7/7

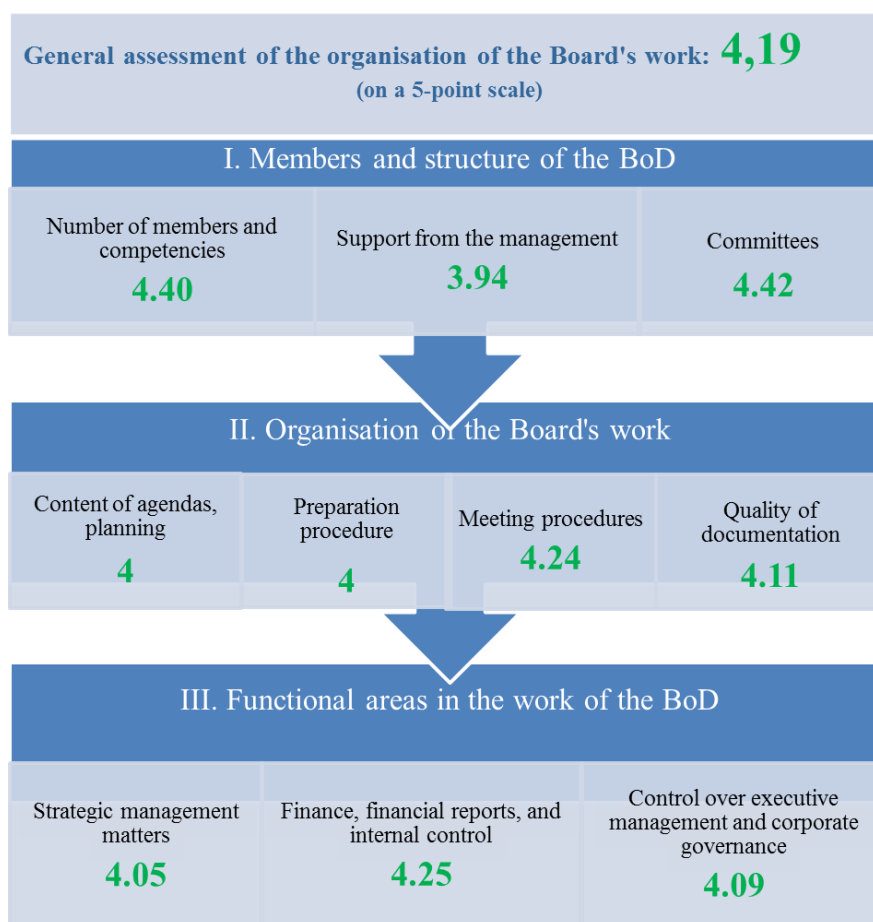
¹⁸ The membership of the Board of Directors is given as of 31 December 2014.

¹⁹ The first number denotes the number of meetings attended by the Board member, the second number stands for the total number of meetings the member could participate in.

Assessment of the work of the Board of Directors

The Corporation conducts regular assessment of the Board of Directors' work. The assessment is done for ten key criteria in order to identify those areas in the work of the Board of Directors that are in need of improvement. The assessment is organised by the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors of Sistema JSFC. Every year the findings of the assessment are used to develop a plan for improving corporate governance systems for the next year.

The work of the Board of Directors was assessed in May 2014. As a result of the analysis of the Board's performance the total score on a 5-point scale was 4.19 (which is 0.15 points above the results of 2013).



Based on the findings of the assessment of the Board's performance the work plan for 2015 in the area of corporate governance includes improvement of procedures of the Board meetings, increasing the engagement of the Board members in the development of the Corporation's strategy and its projects, development of communications between the Board members and the management.

Committees of the Board of Directors

Sistema JSFC has five committees of the Board of Directors:

- Strategy Committee
- Audit, Finance and Risk Committee
- Nomination, Remuneration and Corporate Governance Committee
- Ethics and Control Committee
- Investor Relations and Dividend Policy Committee

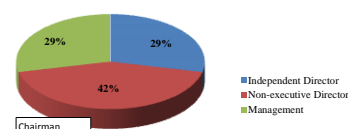
Starting from 2011 only members of the Board of Directors may be elected to the Board's Committees, with some rare exceptions. The main role of the Committees is to provide assistance to the Board in preparation and adoption of decisions in the respective functional areas, as well as in ensuring a detailed scrutiny of the issues submitted for consideration to the Board of Directors.

The Board Committees have considerable procedural powers, have a right to bring in external experts and use other resources of the Corporation.

Strategy Committee

The Strategy Committee includes 6 Board members and 1 representative of the management: ²⁰ **V. Evtushenkov** (Committee Chairman), S. Boev, A. Goncharuk, R. Kocharyan, M. Shamolin, D. Iakobachvili, M. Hecker (Vice President for strategy)²¹.

Share of independent Board members in the Committee's composition



The Committee discusses and analyzes strategic issues related to the management of the Sistema Group, and monitors the strategic management cycles of Sistema JSFC and its subsidiaries including the following:

- reviewing the strategy planning methodology;
- preliminary approval of the strategy and strategic goals of the Corporation;
- consideration of M&A transactions and large investment projects.

The Committee is responsible for mandatory consideration of:

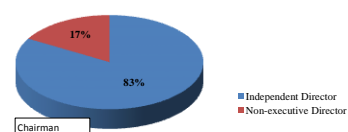
- all M&A transactions in the Sistema Group with a value exceeding \$100m;
- all projects of the Sistema Group related to entering new markets;
- all projects of the Sistema Group with significant government participation.

In 2014, 11 meetings of the Committee were held where 12 items related to the strategies of Sistema's portfolio companies were considered.

Audit, Finance and Risk Committee

The Audit, Finance and Risk Committee includes 6 Board members: **R. Munnings** (Committee Chairman), S. Boev, P. Mandelson, M. Holtzman, S. Tchuruk and D. Iakobachvili.

Share of independent Board members in the Committee's composition



The Committee conducts a detailed discussion and analysis of the issues related to managing Sistema in the following areas:

- preparing and auditing financial statements of the Corporation and monitoring these processes;
- 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;
- whistleblowing system for reporting potential cases of wrongdoing;
- preliminary assessment of major and related party transactions.

In 2014, the Audit, Finance and Risk Committee held 13 meetings at which 74 items were reviewed, including the following:

²⁰ As of 31 December 2014.

²¹ In February 2015, after the end of the reporting period, M. Hecker stood down from the Committee.

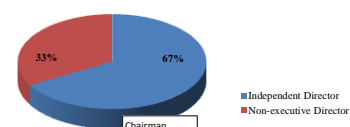
- 35 items related to appraisal of individual transactions submitted for consideration by the Sistema Board of Directors;
- 15 items related to the preparation and audit of financial reports;
- 8 items related to the processes of financial planning and risk management;
- 6 items related to interaction with external auditors, their selection and assessment of their work;
- 2 items related to internal control and audit processes and the whistleblowing system;
- 8 housekeeping and other matters.

In 2014 the Corporation's Board of Directors approved a new version of the Committee's Terms of Reference whereby the powers of the Committee were adjusted to conform to the new listing rules of the Moscow Stock Exchange.

Nomination, Remuneration and Corporate Governance Committee

The Nomination, Remuneration and Corporate Governance Committee includes 6 Board members: **R. Kocharyan** (Committee Chairman), A. Goncharuk, B. Dickie, D. Zubov, J. Krecké, R. Munnings.

Share of independent Board members in the Committee's composition



The purpose of the Committee is to facilitate the preparation and implementation of the Corporation's HR policy and support and develop an efficient corporate governance system that would meet international standards and make it easier to improve the quality of governance processes. The Committee conducts a detailed discussion and analysis of the issues related to managing Sistema in the following areas:

- preliminary review of candidates:
 - to the Board of Directors of Sistema JSFC;
 - to the top management positions at the Corporation and portfolio companies;
 - to the boards of directors of portfolio companies;
 - to the position of the Corporation's Corporate Secretary;
- incentive and remuneration policy for the employees of the Corporation;
- assessment of the management's performance and setting the parameters for remunerating the Corporation's employees;
- corporate governance systems of the Corporation and portfolio companies, protection of the shareholders' interests and rights.

In 2014 the Nomination, Remuneration and Corporate Governance Committee held 8 meetings at which 26 items were reviewed, including the following:

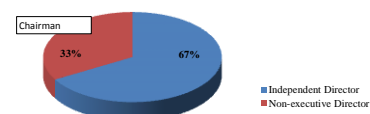
- 12 items related to the development of the incentive scheme, performance assessment and remuneration systems for the employees of Sistema JSFC;
- 8 items related to corporate governance systems and shareholders' rights protection;
- 6 items related to a preliminary review of candidates.

In 2014 the Corporation's Board of Directors approved a new version of the Committee's Terms of Reference whereby the powers of the Committee were adjusted to conform to the new listing rules of the Moscow Stock Exchange.

Ethics and Control Committee

The Ethics and Control Committee includes 6 Board members: **A. Goncharuk** (Committee Chairman), S. Boev, B. Dickie, R. Kocharyan, R. Munnings and S. Tchuruk

Share of independent Board members in the Committee's composition



The Committee conducts a detailed discussion and analysis of the issues related to managing Sistema in the following areas:

- internal control and audit (jointly with the Audit, Finance and Risk Committee);
- corporate security function;
- monitoring compliance with the requirements of the Ethics Code of the Corporation;
- corruption prevention system at the Corporation and the companies within Sistema Group.

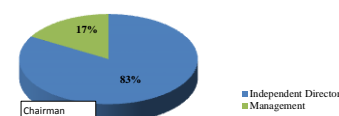
In 2014, the Ethics and Control Committee held 7 meetings at which 16 items were reviewed, including the following:

- 6 items related to internal audits conducted by the internal control and audit department and to the quality of control environment;
- 4 items related to the functional strategy and internal regulation in the area of internal control and security;
- 2 items related to the efficiency of the corruption prevention system.
- 4 housekeeping items;

Investor Relations and Dividend Policy Committee

The Investor Relations and Dividend Policy Committee includes 6 Board members: **D. Iakobachvili** (Committee Chairman), J. Krecké, P. Mandelson, R. Munnings, M. Holtzman, M. Shamolin.

Share of independent Board members in the Committee's composition



The Committee conducts a detailed discussion and analysis of the issues related to managing Sistema in the following areas:

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

In 2014, 7 meetings of the Investor Relations and Dividend Policy Committee were held where 11 items were considered.

6.3. President

The President of Sistema JSFC is a permanent chief executive officer whose main function is executive management and settlement of relevant matters outside the remit of the General Meeting of shareholders, Board of Directors and Management Board for the purposes of ensuring the Corporation's profitability, as well as safeguarding shareholders' rights and legitimate interests. The President reports to the Board of Directors and the General Meeting of the Corporation's shareholders.

From 10 March 2011, Mikhail Shamolin is Sistema's President. On 15 March 2014, the Board of Directors took the decision to extend his appointment as the Corporation's President for three years.

Mikhail Shamolin	Mikhail was born in 1970 in Moscow.
President of Sistema JSFC	In 1992, he graduated from the Moscow Automobile and Road
Chairman of the	Technical Institute.
Management Board.	In 1993, graduated from the Russian Presidential Academy of Public
	Administration.
	In 1997, he completed an Executive Program in Finance and
	Management at the University of Pennsylvania's Wharton School of

Business.

In 1998-2004, he worked at the international consulting company McKinsey&Co.

In 2004-2005, he held the position of the Managing Director for the Ferroalloys Division at Interpipe Corp (Ukraine).

In 2005-2011, he was Vice President for Sales and Customer Service, then Vice President, Head of MTS Russia.

Appointed President of Sistema JSFC on 10 March 2011. On 15 March 2014, the Board of Directors reappointed Mr Shamolin President and Chairman of the Management Board of Sistema for a new three-year term.

6.4. Management Board

Sistema's Management Board determines the methods of implementing the development strategy of the Corporation, works out development plans, sets investment procedures and controls their observance, appraises the performance of the personnel, and pre-considers items submitted to the Corporation's Board of Directors.

In 2014, the Management Board of the Company held 24 meetings and considered 33 agenda items in the following key areas:

- 1) Preliminary review of matters to be submitted to the Board of Directors, including:
 - the Corporation's investment policy and priority investment areas;
 - development strategy and value creation for key portfolio assets of Sistema JSFC;
 - internal control and audit;
 - HR policy;
 - corporate social responsibility;
- 2) Preparation of forecasts of and reports on the execution of quarterly, semi-annual, and annual budgets.
- 3) Strategic planning at the Corporation and S/As, including the establishment of top-down indicators of the strategic planning cycle.
- 4) Debt and borrowings management.
- 5) Risk management and preparation of risk maps.
- 6) Monitoring and management of investment projects.

Membership of the Management Board of Sistema JSFC ²²

1.	Mikhail Shamolin	<i>Chairman of the Management Board</i>
2.	Anton Abugov	
3.	Christopher Baxter	
4.	Elena Vitchak	
5.	Sergei Drozdov	
6.	Felix Evtushenkov	
7.	Leonid Monosov	
8.	Oleg Mubarakshin	

²² As of 31 December 2014. In May 2014, Alexey Buyanov and Alexey Chupin were relieved of the responsibilities of Management Board members.

Short biographies of the members of the Management Board and data on their shareholdings in Sistema JSFC are available in the Annex.

9. Vsevolod Rozanov
10. Andrey Terebenin
11. Ali Uzdenov
12. Michael Hecker

After the end of the reporting period, in February 2015, Nikolay Vasilkov became member of the Management Board, after being appointed Vice President, Head of Strategy Function. Michael Hecker was at the same time relieved of the responsibilities of a Management Board member.

Changes in the top management team in 2014

A number of changes in the top management of the Company took place in 2014:

<i>A. Buyanov</i>	25 June 2014	was relieved of his duties as First Vice President.
<i>A. Terebenin</i>	22 May 2014	was appointed Senior Vice President and relieved of his duties as Vice President, Head of the Corporate Communications Function.
<i>A. Chupin</i>	07 May 2014	was relieved of his duties as Vice President.
<i>D. Khidasheli</i>	30 September 2014	was relieved of his duties as Vice President.
<i>M. Hecker</i>	12 February 2014	was appointed Vice President, Head of Strategy Function.
<i>A. Shlyakhturov</i>	10 September 2014	was transferred from the position of Executive Vice President, Head of the Security and IT Department to the position of the Advisor to the Chairman of the Board of Directors.
<i>V. Shukshin</i>	10 September 2014	was appointed Executive Vice President, Head of the Security and IT Department.

6.5. President's committees

With the aim of improving the process of taking managerial decisions the Corporation has 7 Committees reporting to the President:

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

The Committees are permanent collective advisory bodies and their task is to ensure an in-depth analysis of the items falling within their remit and to assist the President and the Management Board of the Corporation in taking decisions in the respective areas.

Finance and Investment Committee

Finance and Investment Committee has the following tasks:

- review of all the investment projects of the Corporation and isolated projects of portfolio companies at different stages – from project idea to completion;
- approval of the financial mode, business plan, key performance indicators of investment projects;
- development of recommendations on the feasibility of projects and potential exit from them, and the sources of financing;
- analysis of conditions for raising external financing for the Corporation and its portfolio companies.

The Committee consists of 9 members. The Chairman of the Committee is the Corporation's President M. Shamolin, Deputy Chairman – Senior Vice President, Head of the Finance and Investment Function V. Rozanov.

In 2014 the Committee met 44 times.

The Finance and Risk Committee oversees the work of the Risk Subcommittee responsible for assessing the risks of Sistema and its subsidiaries and monitoring the performance of risk management action plans.

The Risk Subcommittee consists of 11 members. The Chairman of the Risk Subcommittee is Executive Vice President for corporate finance A. Kaurov.

In 2014 the Risk Subcommittee met 7 times.

Tender Committee

The Tender Committee has the following tasks:

- organising competitive procedures for selecting the suppliers of goods, works and services;
- ensuring the acquisition of goods, works and services by the Corporation on the most attractive economic terms possible;
- ensuring the transparency of purchasing procedures;
- facilitating prevention of corruption and other wrongdoing in the area of purchasing.

The Committee consists of 5 members. The Chairman of the Committee is Senior Vice President, Head of the Finance and Investment Function V. Rozanov.

In 2014 the Tender Committee met 26 times.

HR Committee

The HR Committee has the following tasks:

- reviewing and making proposals with regard to the HR policies and internal regulations at the Corporation and its portfolio companies;
- coordinating the activities of the subdivisions of the Corporation and its portfolio companies responsible for personnel management;
- assessment of candidates for key positions;
- assessment of the results and performance of the Corporation's employees.

The Committee consists of 10 members. The Chairman of the Committee is the Corporation's President M. Shamolin, Deputy Chair – Senior Vice President, Head of the HR Department E. Vitchak.

In 2014 the Committee met 7 times.

Security Committee

The Security Committee reviews items related to conducting a uniform security policy in the Corporation and its subsidiaries.

The Committee consists of 27 members. The Chairman of the Committee is Vice President, Head of the Security and IT Department of Sistema JSFC V. Shukshin

In 2014 the Committee met 2 times.

Internal Control Committee

The Internal Control Committee reviews matters related to the coordination of the internal control units of the Corporation and its portfolio companies.

The Committee consists of 14 members. The Chairman of the Committee is Vice President, Head of the Internal Control and Audit Department of Sistema JSFC A. Guryev

In 2014 the Committee met 3 times.

Discipline Committee

The Discipline Committee reviews items related to ensuring that the employees of the Corporation and its subsidiaries comply with the requirements of the labour law and internal regulations, follow the instructions of the governance bodies, and the Committee also develops opinions on whether there are grounds for applying disciplinary penalties to the employees.

The Committee consists of 6 members. The Chairman of the Committee is the Corporation's President M. Shamolin, Deputy Chairman – Vice President, Head of the Internal Control and Audit Department of Sistema JSFC A. Guryev.

In 2014 the Committee met 2 times.

Information Technologies Committee

The Information Technologies Committee reviews issues related to the development of the Corporation's strategy in the area of information technologies.

The Committee consists of 7 members. The Chairman of the Committee is the Corporation's President M. Shamolin, Deputy Chairman is Vice President, Head of the Security and IT Department of Sistema JSFC V. Shukshin

In 2014 the Committee met 3 times.

6.6. Specific characteristics of the risk management, internal control and internal audit systems in use

Risk management

The risk management system of Sistema JSFC is based on a two-level approach to management of risks of the Sistema Group, namely, detection of risks in subsidiaries and affiliates and in the Corporation and their integration for assessing their influence on the group in general.

The integrated risk management system (ERM) implemented in the Corporation envisages presence of the following components and procedures:

- identification of risks at all levels of the management (from the top to the line management), which includes finding the risk owner and making a risk passport;
- primary assessment of the materiality of identified risks and their analysis (VaR methodology);
- ranging of risks by management levels;

- assessment of the aggregate influence of material risks on the Company's key financial indicators (Monte Carlo modelling);
- development of plans to mitigate identified risks at all management levels;
- regular monitoring of execution of mitigation plans and assessment of their effectiveness;
- risk monitoring, quarterly reports on the risks of the Company;

The risk management procedures of Sistema JSFC are carried out by a dedicated risk management unit.

Quarterly monitoring of the Corporation's risks is performed at the level of the Management Board and the Risk Management Sub-Committee of Sistema JSFC by reviewing the effects of the mitigation and response measures taken and by reassessing the already identified and/or new risks.

The top management of Sistema JSFC presents a regular report on risk management in the Corporation to the Audit and Finance Committee of the Board of Directors of Sistema JSFC. An annual report is presented to members of the Board of Directors.

Internal control and audit

The internal control procedure of the Corporation encompasses all levels of management at the Corporation and includes the Board of Directors, its Committees and management of the Corporation, as well as the Internal Control and Audit Department.

Internal audit processes of the Corporation and Sistema Group companies fall within the remit of the Internal Control and Audit Department that functionally reports to the Board of Directors and administratively to the President. Head of Department is appointed and dismissed by the Corporation's President pursuant to a resolution passed by the Corporation's BoD after pre-approval by the BoD Ethics and Control Committee. Head of the Department is a certified internal auditor and has more than 15 years of experience in the field.

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

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

To perform its key tasks, 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 corporate governance system, preventing violation of law and the Corporation's regulations, ensuring observance of professional and ethical standards, and preparing recommendations for 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 whistleblowing programme;
- administering investigations, including internal ones;

- monitoring compliance with the Corporation's internal regulations;
- monitoring execution of assignments issued by the Management Board and the President of the Corporation;
- monitoring and investigating instances potentially qualifying as disciplinary violation and/or violation of execution discipline and/or conflict in the Corporation or Sistema Group companies.

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

The Internal Control and Audit Department closely interacts with the Corporation's external auditors, coordinates work and offers consultations in the course of preparing the Department's annual audit plan with regard to assessment of the efficiency of internal control over financial accounts, and also during discussion and assessment of identified risks.

In 2014, the Internal Control and Audit Department conducted 65 scheduled and unscheduled audits to assess the efficiency of internal control and risk management systems. Audits performed by the Internal Control and Audit Department did not uncover any weaknesses or risks that could affect the sustainability of the Corporation's business as a whole.

Reports on results of activities performed by the Internal Control and Audit Department in H1 2014 and FY2014 were submitted to the Audit, Finance and Risk Committee and to the Ethics and Control Committee of Sistema's Board of Directors²³. The report of the Internal Control and Audit Department for 2014 was reviewed by Sistema's Board of Directors.

In December 2014, in accordance with requirements of the Listing Rules of the Moscow Exchange, the Corporation's Board of Directors approved the Policy on internal audit at Sistema JSFC, which defines the goals, objectives and powers of the Internal Control and Audit Department.

At the end of the reporting period in February 2015, the Board of Directors approved the Policy on the Internal Control System that formalises the main principles of organising internal control as a continuous and integrated process involving all the subdivisions and governance bodies of the Corporation. Notably, the Policy on the internal control system defines:

- the goals and objectives of the internal control system;
- principles of functioning of the internal control system;
- the structure of the internal control system and the list of its entities;
- division of responsibilities and powers between entities of the internal control system (management, the Internal Control and Audit Department, the Board of Directors and Board Committees).

External Audit

In compliance with the decision of the Audit and Finance Committee, the following procedures have been developed at the Corporation for selecting external auditors for the purposes of audit of the financial and accounting reports of Sistema JSFC. The Audit and Finance Committee performs annual assessment of the quality of audit services. If the quality of services provided by the current auditor is deemed insufficient, the Audit Committee arranges a tender for selection of a new auditor. If the quality of services provided by the current auditor is deemed sufficient, negotiations will be held with the auditor about the price of auditing services for the next period. However, to ensure impartiality and objectivity of the auditor, the Audit and Finance Committee of Sistema JSFC has decided that a tender for auditing services shall be held at least once in every five years.

²³Joint meetings of the Committees.

6.7. Development of the corporate governance system in 2014

In 2014, 13 members were elected to the Corporation's Board of Directors, out of whom 8 meet the independence criteria of the Moscow Exchange and the Russian Corporate Governance Code. The following independent directors were elected to the Board:

- David Iakobachvili;
- Brian Dickie;
- Robert Kocharyan;
- Jeannot Krecké;
- Peter Mandelson;
- Roger Munnings;
- Marc Holtzman;
- Serge Tchuruk.

All independent directors have extensive practical business experience and a solid reputation in the international professional community, which means that their judgment in the capacity of Board members will not be influenced by the management or individual shareholders. One of the Board members has vast experience in the audit of financial statements.

Independent directors make up the majority of the Board, which ensures the required level of objectivity and independence from the influence of the Corporation's executive bodies in the course of decision-making by the Board.

In June 2014, the Corporation's ordinary shares were included in the first (top) quotation list of the Moscow Stock Exchange, thus confirming their status as the first class securities in the Russian market, attesting to the high assessment of Sistema's corporate governance standards and granting access to a broader range of investors.

In view of the above, the Corporation assumed additional commitments to maintain the corporate governance system at the high level and bring some of its components in compliance with the new requirements of the Listing Rules of the Moscow Exchange. In December 2014, the Board of Directors approved new versions of the terms of reference of some Board Committees and the Corporate Secretary and adopted a new Policy on internal audit. The introduced amendments formalised the functions of Board Committees and the Corporate Secretary that are directly specified in the Listing Rules and introduced provisions on the procedure of appointment of head of the Internal Control and Audit Department. In the near future the Corporation will amend the Terms of Reference of the General Meeting of Shareholders and the Terms of Reference of the Board of Directors.

In June 2014, Sistema's Annual General Meeting of shareholders approved payment of dividends in the amount of RUB 19, 879, 000, i.e. RUB 2.06 per ordinary share, which corresponds to a dividend yield of ca. 5.22% per annum. The total amount of dividends was determined in compliance with the current dividend policy, which was successfully applied for the second successive year.

7. SOCIAL RESPONSIBILITY

Responsible investor

Sistema has substantial influence on the development of many sectors of the Russian economy and society in general. The Corporation abides by the Principles for Responsible Investment developed by an international investor group under the auspices of the United Nations in response to growing concerns involved in the interplay of environmental and social issues as well as issues of corporate governance and investment practices. The Company measures up its business goals against the background of social interests and gives consideration to environmental, social, and corporate governance factors underpinning the development of market sectors and regions its portfolio companies operate in.

In 2002, Sistema JSFC became one of the first Russian companies to join the United Nations Global Compact and strictly abide by the ten principles of sustainable development enshrined therein.

The Corporation 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), and seeks to make its contribution to sustainable development permanent, consistent and socially intelligible.

Sistema JSFC bears responsibility towards all stakeholders: shareholders, investors, the government, the Corporation's employees, clients, partners, suppliers, social organisations, non-profit institutions, and local communities.

Reports on corporate social responsibility are reviewed annually by the Board of Directors, who determines strategic goals and assesses the efficiency of social investment made. Sistema's Corporate Communications Function and specialised units of the Corporation's portfolio companies manage corporate social responsibility and prepare and publish related non-financial reports.

Social investment

An important component of Sistema's corporate social responsibility is charity promoted in line with the social investment concept, i.e., a purposeful long-term social policy linking strategic interests of the corporation and its shareholders to society's needs. The basic principles of charity efforts and areas to be addressed are outlined in the Policy *Sistema's Charity Work*. The key body in charge of the Corporation's charity and social projects is Sistema Charitable Foundation (Sistema CF), which accumulates funds allocated from profits of subsidiaries to implement general corporate programmes. The Foundation focuses on such areas as science and education, culture and art, preservation of religious and historical heritage, healthcare and social security, physical culture and sports.

Portfolio companies pursue their own CSR and charity projects. The aggregate spending on charity and CSR in the last three years (2012, 2013 and 2014) exceeded RUB 5.3bn.

The Corporation seeks to consistently deepen integration of its CSR projects and improve their efficiency through combined effort of all Sistema Group companies. These companies increasingly use projects designed to develop business and address social needs at the same time. 2014 was the year when the Corporation reached a whole new level of synergies in corporate social responsibility: its subsidiaries and affiliates took active part in joint projects promoting high technologies, human development, and education of the youth, as well as in volunteer campaigns.

Education, science, innovation

Sistema's broadest-scale long-term project in education and science is Lift to the Future, a nationwide young talent development programme launched in 2011 with the support of the Russian Ministry of Education and Science, the Agency for Strategic Initiatives (ASI), and more than 500 partner organisations. The programme uses a special procedure for talent screening and development and intends to provide students with early career guidance and inspire scientific and technological creativity. The ASI's supervisory board (chaired by the Russian president V. Putin) recommended the project for replication in various regions of Russia (administrations of 19 regions of Russia signed related cooperation agreements).

2014 became the year of establishment of four talent high schools for science and research in the Moscow, Smolensk, and Vladimir regions and the Republic of Bashkiria. School and university students submitted 370 innovation projects in Environment & Natural Resources, Power Engineering, Information Technologies, Telecommunications, Transport Technologies, Healthcare & Pharmaceuticals, Microelectronics, etc., to be reviewed by expert contest judges. Master classes, lectures, contests, and conferences for school and university students involved representatives of most companies of Sistema Group. The Corporation also offered a career guidance programme for participants of the Lift to the

Future, children of employees of S/As, and students of sponsored orphanages and schools by organising tours to MTS, MTS Bank, MGTS, Detsky Mir, Mikron, Stream, and BPGC.

In December 2014, Sistema and its portfolio companies MTS and SSTL held the first-ever Russian-Indian Youth Innovation Summit in New Delhi dedicated to latest technologies and prospects of international cooperation in telecom innovations. The summit was supported by the Russian Embassy in India. MTS regularly holds the Telecom Idea, a contest of new "smart" IT solutions helping city environments to become more comfortable, eco-friendly, and accessible for all social groups. The contest has been held in Russia for four successive years, and in 2014 it was for the first time extended to India.

The summit also included an interactive culture and technology exhibition, From Russia with Progress, which was dedicated to outstanding Russian inventions.

MTS and MGTS are partners of the New Technology School project originated by the Education and IT Departments of Moscow and designed to broaden the use of information and communication technologies (ICT) in education.

VivaCell-MTS supported Armenian schools in setting up Creativity Labs, modern classrooms equipped with interactive blackboards, latest computers and movable furniture specially designed for individual and group use.

Sistema takes active part in the development of national innovation infrastructure. The Corporation is among the shareholders of Technopark Sarov (co-run with Rosatom and RUSNANO) designed for innovation projects to be carried out at the VNIIEF Russian Federal Nuclear Centre for the benefit of Russian economy.

In October 2013, the Sistema CF for the first time provided support to the Valdai International Discussion Club, which met in Sochi and brought together more than 800 representatives of the global academic community, including professors from major universities of nearly 50 countries.

Culture

Sistema pursues several sizeable initiatives in culture and arts aiming to preserve and promote national cultural and historical legacy. The Sistema Charitable Foundation supports over 20 institutions and foundations active in the field of culture, including the Nikolay Petrov Foundation, the Benois Centre, the Valery Gergiev Foundation, the Foundation for Support of Church Construction in Moscow, the Valaam Convent & Nature Reserve, and the Field of Prokhorovka Museum of Armoured Vehicles.

The largest recipient of the Corporation's long-term social investments is the Russian Museum, Sistema's partner since 2003. Support of the Sistema CF allows the museum to carry out large-scale exhibition, editorial, art restoration, and educational projects. Notably, the museum is currently building an extensive interregional and international network of 'virtual branches' to make the vast collection of Russian arts accessible to a broader audience. The number of new branches doubled in 2013-2014. In 2014, the museum opened 28 information and education centres based in libraries, museums, and learning institutions in St Petersburg, Angarsk, Arkhangelsk, Volsk, Izhevsk, Ishim, Kaluga, Kostomuksha, Kondopoga, Petrozavodsk, Pikalyovo, Saransk, Sortavala, Yuzhno-Sakhalinsk, and locations in Turkey and Finland.

The West wing of St Michael's Castle (the Engineers' Castle) in St Petersburg now hosts an "e-museum", a state-of-the-art multi-media centre providing access to the Russian Museum's rich art collection via cutting-edge technologies. Sistema helps the museum to constantly upgrade the centre's hard- and software to maintain its high-tech status. The various projects carried out by the Russian Museum with Sistema's support in 2014 include new multi-media programmes, books on Russian arts, and the VII international Imperial Gardens of Russia festival.

Since 2009, Sistema has been sponsoring the annual May Festival of Children's Films that organises free charity shows of Russia's best motion pictures and cartoons for children. The programme is designed to

develop modern learning methods and provide entertainment to children from orphanages and social boarding schools, disabled children, and families with foster children.

Another project that made great progress in 2014 is the Mobile Library, an innovative social learning project originated by MTS and involving the installation of "virtual" bookshelves in libraries and other public places allowing users to download masterpieces of the Russian and foreign literature, including those from school curricula, on mobile devices using QR codes. MTS is carrying out the Mobile Library project in over 30 regions of Russia, as well as in Ukraine and Belarus.

Environment

Sistema and its subsidiaries are actively involved in environmental efforts in regions where they operate, working to gradually reduce their environmental impact, improve the ecology and enhance environmental consciousness. The Corporation rigorously abides by environment protection principles and complies with all relevant laws and regulations. The Corporation's environmental efforts are focused on implementation of energy-saving principles, safe waste disposal/reclamation, protection of the atmosphere, protection of water and land resources and environmental education of the younger generation.

Information about fuel and energy consumption

	2014	2013
Boiler and furnace fuels, t of coal equivalent	0	0
Heat, Gcal	2,643.23	3,114.36
Electricity, thous. kWh	3,223	3,556
Water, cu m	22,126.06	35,186.91

Sistema participated in financing of the Republic of Bashkiria's water programme. The programme embraced 20 districts and 8 cities of Bashkiria and envisaged reconstruction and major repairs of existing and construction of new water intakes, conduits and water supply systems, drilling of wells and installation of water towers, mainly in remote rural areas where they are often the only source of drinking water.

Companies whose activities are directly related to natural resources management or have an impact on public health pay special attention to environmental safety. Notably, Targin has introduced an HSE (health, safety and environment) system that enables it to work safely at a customer's facilities and helps to preserve the environment. In 2014, the system was first certified to the international standards ISO 9001, ISO 14001, and OHSAS - 18001.

LesInvest Group, the biggest forest user in the European part of Russia, is certified to FSC²⁴, which, among other things, envisages forest restoration and close cooperation with environmental organisations and local communities.

Medsi Group strictly complies with Russian sanitary regulations on hospital waste handling. Medsi clinics take regular steps to prevent hospital-acquired infections and ensure epidemiological safety of their patients and employees. Bacteriological tests show a definite improvement in the epidemic safety of Medsi clinics in recent years.

MTS' retail outlets now serve as drop-off stations for used batteries to be disposed according to environmental safety standards. The campaign runs under the title Discard It Right and is part of a broader Eco Office programme promoting environment conservation principles since 2012.

In 2014, MTS organised its first national open eco lesson Mobile Technology for Ecology as part of the Green Schools programme supported by the inter-regional public organisation EKA Green Movement of Russia. During the lesson, teachers and volunteers at more than 1,000 Russian schools talked about the role of modern technologies in environment protection.

²⁴ * FSC (Forest Stewardship Council) is an independent international organisation that has created a certification system for environmentally and socially responsible forest management.

In Armenia, VivaCell-MTS together with the Foundation for the Preservation of Wildlife and Cultural Assets (FPWC) launched a number of innovative projects seeking to develop alternative energy sources and introduce environment-friendly solutions in rural areas.

The Corporation is also involved in preservation of biological diversity, notably, by supporting the Eurasian Center for Leopard Studies and Preservation and particularly one of its key projects, the Leopard Land national park. In 2014, it sponsored biochemical works in the park and the development of technology infrastructure, fire control, and an electronic database of the Amur leopard population. Sistema also contributed to a leopard-themed education campaign targeting local communities, including school students of the Khasansky municipality (Primorye).

It has already become a tradition for Sistema employees to volunteer to clean up public areas in cities and natural sites by organising spring Saturday clean-ups in Moscow and other regions.

Since 2010, Sistema has been supporting projects of the Russian Geographic Society. In 2014, it supported the Society's first nationwide festival involving all of its regional divisions at the Central House of Artists in Moscow. The week-long festival attracted about 60,000 visitors, including many children and teenagers who also participated in the event's rich educational programme.

Society

In 2014, the Sistema Charitable Foundation began shaping a corporate volunteer movement as a tool of non-financial charity. Volunteers from Sistema supported tens of cultural, social, educational and sports projects in various regions where the Group operates. MTS has launched a corporate volunteer theater, whose actors stage educating performances for the employees' children and children from orphanages. Detsky Mir joined this project in 2014. BPGC arranged an educational show on electrical safety staged by the Bashkirian State Puppet Theater in Belebei, Kumertau, Neftekamsk and Ufa.

The number of volunteers at Sistema Group grew by almost 2.5 times in 2014 alone, from 3,300 to 8,000. Employees of all Sistema Group companies took part in New Year charity campaigns, with over 2,000 employees acting as volunteers.

In summer 2014, the Sistema CF sponsored the purchase and delivery of a large relief consignment for refugees from Ukraine. Employees of all companies of the Group joined the Foundation's initiative, contributing over 200 cu m of humanitarian aid, including living essentials and vaccines.

The Group's companies work hard to implement social and educating programmes for the benefit of their customers. MTS pursues Children and the Internet, a programme designed to promote rules of useful and safe web surfing among younger schoolchildren, their parents and teachers, as well as Internet for All, a programme teaching older people to use the Internet and adapt in the information-oriented society.

MTS and MGTS support the Children Online help line, which has by now received over 10,000 calls and processed over 2,500 e-mails regarding safe use of the Internet by minors.

In September 2014, BPGC signed an agreement with the Bashkirian Education Ministry on joint implementation of initiatives to prevent children's electrical injuries as part of the Safe Childhood project. Bashkirenergo's employees gave electric safety lessons at 221 schools of the republic.

In November 2014, Medsi launched a unique project under the slogan Be Healthy with Medsi promoting a healthy lifestyle among corporate customers and partners of the company. Within this programme, Medsi's best doctors and fitness instructors offer lectures and consultations on such issues as handling chronic fatigue and stress, pregnancy and work, children's health, etc.

Healthcare, support of the disabled and promotion of sports are among priorities of Sistema's social policy. Renovation of a rehabilitation center for children with cerebral palsy at the Martha and Mary Convent of Mercy began in 2014. Since 2008, the Sistema Charitable Foundation has provided a total of

RUB 100m for the Convent's restoration. This unique project supported by the Moscow City Government and the Russian Orthodox Church will help to improve the quality of life of families with disabled children that are in need of continuous care.

For several years, SSTL has been involved in an initiative to end poliomyelitis in India, working hard to increase general awareness about polio vaccination through promotional text messages and other channels of communication. In the past three years, subscribers of MTS India received 20m texts reminding them to get their shots. As a result of this large-scale programme, on 27 March 2014 the World Health Organisation declared India polio-free, and UNICEF is now considering this model for use in Africa.

Sistema encourages the development of Russian sports by supporting the country's Olympic and Paralympic teams, as well as sports schools and clubs for children and youth. In November 2014, Sistema and the Russian Paralympic Committee organised treatment and rehabilitation of athletes in the Republic of Altay, at the unique Altay Resort belonging to the Intourist Hotel Group. The Sistema Charitable Foundation also supported the Moscow Olympro team of the Vozrozhdenie club, which participated in the 12th International Football Tournament for Amputees that took place in Sochi. Sistema sponsored the establishment of a family camp for the Moscow equestrian club for the disabled in Yevpatoria (Crimea), where children underwent a unique course of rehabilitation through exercise. Sistema's subsidiaries are also actively involved in promotion of sports at regional and national levels.

Responsibility towards employees

Sistema Group is one of Russia's biggest and most attractive employers, employing over 150,000 people in Russia (0.4% of the workforce) and other countries it operates in. The Corporation uses the best HR management practices and fully complies with labour legislation of countries it works in, offering its employees competitive remuneration and social benefits (health and life insurance, sports events, etc.).

The Corporation has a system of internal career lifts. In 2014, Sistema launched the Talent Bank project that is designed to search for, develop and rotate top managers of subsidiaries that have high potential and high motivation for growth. In 2014, over 100 senior managers from the Group's companies underwent remote and in-person assessment. Based on its results, 53 managers were selected to start a development programme in 2015.

Yet another HR initiative that was launched in 2014 is the School of In-House Coaches. The project seeks to create a pool of efficient corporate coaches to develop key business skills and competencies of medium and junior management using the best expertise in the sphere.

Important tools of non-financial motivation and employee engagement promotion are corporate volunteering and sports movements. The central sports event of 2014 was the 12th Summer Games, which united over 3,000 employees from 60 Sistema Group companies from different regions of Russia, the CIS and India.

Sistema conducts annual engagement surveys to give the employees of the Corporation and its portfolio companies an opportunity to share their thoughts on the most important issues and give feedback, to find out the company's strengths and areas that need improvement and development and to determine priorities when planning HR events for the next year. The Corporation sets itself ambitious goals and looks up to the most successful international companies. In 2014, about 28,000 employees took part in the survey. The measures taken by Sistema improved employee engagement by 14% compared to 2013, reaching the level of the world's most successful companies. Almost all areas and parameters of the survey demonstrated a positive trend.

Sistema and MTS traditionally win leading positions in Russian employer ratings. In 2014, Sistema confirmed its previously won A.hr grade ("High level of employer appeal") in Expert RA's employer rating and won the special nomination award Best Corporate Mass Media System in the Best Corporate Media 2014 competition.

MTS won the No.1 position in HeadHunter's annual Employers of Russia rating for a second consecutive year, and was also included in HeadHunter's list of top Russian employers of the young.

8. REMUNERATION POLICY APPLIED TO BOARD MEMBERS AND SENIOR MANAGEMENT

Remuneration and compensations payable to members of Sistema's Board of Directors are calculated on the basis of the Policy on remuneration and compensations payable to members of the Board of Directors of the Corporation, approved by the resolution of the General Meeting of shareholders of Sistema JSFC on 30 June 2006 (Minutes No.1-06) as amended by the resolution of the General Meeting of shareholders of Sistema JSFC on 16 February 2009 (Minutes No.1-09). The Policy provides for the payment of the following to the Board members:

- fixed amounts for participation in meetings of the Board of Directors and its Committees, including reimbursement of expenses related to participation in meetings of the Board of Directors;
- fixed amounts for acting in the capacity of the Chairman or Deputy Chairman of the Board of Directors, and for chairing Board Committees;
- based on the performance during a year, members of the Board of Directors get additional performance-related remuneration in the form of a fixed amount, half of which is payable in shares (USD 250,000 - 325,000);
- also, if the capitalisation of the Corporation has grown over the year, members of the Board of Directors get additional remuneration amounting to 0.1% of the incremental capitalisation.

The Policy on remuneration and compensations payable to members of the Board of Directors of the Corporation also envisages standard liability insurance for Board members.

The Corporation does not provide loans to Board members.

The short-term (up to 1 year) incentive scheme for the top managers of Sistema JSFC in 2014 consisted of the following elements:

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

In 2014, the three-year long-term incentive programme for Sistema's top management (2012-2014) was completed. Its members were allocated the last shares due for distribution for the last period of the programme.

The long-term incentive system for top management of Sistema was extended for another three-year period (2015-2017). The programme is aimed at increasing Sistema's shareholder value and creating additional incentives for maintaining long-term employment and corporate relations between the Corporation and its management.

No extra compensation above the level stipulated by labour laws of the Russian Federation 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 Corporation does not grant loans to senior executives.

Top executives of the Corporation were paid a total of RUB 2,746,764,517 in fixed salary and bonuses for the calendar year 2014. Payments to top executives under the long-term incentive programme in the form of the Corporation's shares totalled RUB 1,659,419,767 in 2014, including RUB 1,559,140,150 for the previous years of the programme.

Remuneration paid to the members of Sistema's Board of Directors in 2014 totalled RUB 334,447,900. Board members also received reimbursement of their expenses incurred in connection with their duties amounting to RUB 3,608,900.

ANNEX

Annex 1. Brief biographies of Sistema's Board members, President, Management Board members, and Corporate Secretary. Their shareholding²⁵ in Sistema JSFC

Members of the Board of Directors

<i>Name, position</i>	<i>Brief biography</i>
Vladimir Evtushenkov	Was born in 1948 in the Smolensk Region.
Chairman of the Board of Directors	In 1973, he graduated from the Moscow Mendeleyev Chemical-Engineering Institute, in 1980, from the Economics Department of the Lomonosov Moscow State University. Holds a PhD degree in Economics.
Non-executive director	1975 – 1982 Shop manager; deputy director; chief engineer, the Karacharovo Plastics Factory. 1982 – 1987 Chief engineer, first deputy CEO, the Polymerbyt Research and Manufacturing Association. 1987 – 1988 Head of the technical department, then head of the Main Department of Science and Technology, the Moscow City Executive Committee. 1990 Chairman of the Moscow Municipal Committee for Science and Technology. 1993 Founded Sistema Joint-Stock Financial Corporation together with a group of associates. Principal shareholder, Chairman of the Board of Directors and Chairman of the Strategy Committee of the Board of Directors of Sistema JSFC. Member of a number of government commissions, actively involved in decision-making for improvement of competitiveness of the Russian industry, development of high technologies and innovations, science and culture; chairman of the Russian-Arab Business Council and member of the National Council on Corporate Governance, member of the management boards of the main associations of entrepreneurs in Russia - the Russian Union of Industrialists and Entrepreneurs, the Russian Chamber of Industry and Commerce. Chairman of the Council of Trustees of the Fund for Development of the State Russian Museum “Friends of the Russian Museum”. Member of the Board of Trustees of the Sistema Charitable Foundation. Share in the authorised capital of Sistema JSFC – 64.1862%.
Alexander Goncharuk	Was born in 1956 in Sevastopol.
Deputy Chairman of the Board of Directors	In 1978, graduated from the Sevastopol Higher Navy and Engineering School, and in 1987, from the Grechko Navy Academy.

²⁵ As of 31 December 2014.

Non-executive director	<p>1995 – 1998 Vice President, Sistema JSFC.</p> <p>1998 – 2003 President of CJSC Sistema Telecom</p> <p>2003 – 2006 President of OJSC Sitronics</p> <p>2006 – 2008 President of Sistema JSFC.</p> <p>1998 and 2002 – 2003 Chairman of the Board of Directors, OJSC MTS.</p> <p>2009 – 2012 Chairman of the Board of Directors, OJSC Bashneft.</p> <p>Chairman of the Board of Directors of OJSC Sitronics, member of the Board of Directors of OJSC Bashneft and some other companies. Member of the Board of Trustees of the Sistema Charitable Foundation.</p> <p>Member of the Board of Directors of Sistema JSFC since 1996. Chairman of the Ethics and Control Committee, member of the Strategy Committee and the Nomination, Remuneration and Corporate Governance Committee of Sistema Board of Directors.</p> <p>Share in the authorised capital of Sistema JSFC – 0.0295%.</p>
David Iakobachvili	Was born in 1957 in Georgia.
Independent director	<p>Graduated from the Civil and Industrial Engineering Department of the Georgian Technical University in Tbilisi.</p> <p>1986 – 2000 private entrepreneur involved in various projects: official dealership of General Motors cars, tourism and hotel business, timber processing, retail, communications and banking.</p> <p>1992 One of the founders of a well-known dairy company, Wimm-Bill-Dann.</p> <p>1992 – 2011 Member and later Chairman of the Board of Directors of Wimm-Bill-Dann.</p> <p>Chairman of the board of LLC OrionService. Member of the board of CJSC Agrokomplex Gorki-2, Airport Financial Services Limited and a number of other companies.</p> <p>Member of managing bodies of various Russian and international organisations: Vice President and member of the Management Bureau of the Russian Union of Industrialists and Entrepreneurs (RSPP), head of the RSPP Committee for Corporate Social Responsibility and Demographic Policy, chairman of the RSPP United Ethics Committee, chairman of the B20 Job Creation, Employment and Investments in Human Capital Task Force (during Russia's presidency in 2013), chairman of the board of RusBrand, president of the Russian-American Business Council, member of the board of the Russian Chamber of Commerce and Industry, the General Council of LLC Business Russia, the World Economic Forum in Davos, of the President's Global Council at New York University, the Public Council of the Russian Culture Ministry, the Coordination Council for Intellectual Property Protection.</p> <p>Member of the Board of Directors of Sistema JSFC since 2011. Chairman of the Investor Relations and Dividend Policy Committee, member of the Strategy Committee and the Audit, Finance and Risk Committee of Sistema Board of Directors.</p>

Share in the authorised capital of Sistema JSFC – 0.0051%.

Sergey Boev

Non-executive director

Sergey was born in 1953 in Moscow.

In 1978, graduated from the All-Union Correspondence Law Institute, in 1984, from the Ordzhonikidze Moscow Institute of Management. Holds a PhD degree in Economics. Professor, honoured economist of the Russian Federation.

Full member of the Academy of Military Science. Head of department at the National Research University of the Moscow Institute of Physics and Technology. Recipient of the 2012 State Prize in science and technologies.

Member of the Russian President's Council for Economy Modernisation and Innovation Development of Russia, the Working Group for Technological Development of the Russian President's Economic Council and the Academic Board of the Russian Security Council.

Co-Chairman of the working group for innovations of the EU-Russia Industrialists' Round Table.

Member of the Public Council of the Committee of Science and Science-Intensive Technologies of the State Duma of the Russian Federal Assembly and also of the Science and Technology Council of the Military and Industrial Commission of the Russian Government.

1971 – 1999 Worked at the Mintz Radio Technology Institute where he made a career from fitter's apprentice to CEO.

2000 – 2008 CEO of Radiotechnical and Information Systems Concern.

2008 – 2011 Vice President, Head of the Sistema's High Technology and Industry Business Unit.

Since 2011 CEO of RTI.

2012 Appointed Chief Designer of the National Missile Warning System.

Chairman of the Board of Directors of OJSC Mintz Radio Technology Institute, OJSC Research Institute of Long-Range Radio Communications, member of the Board of Directors of Almaz-Antey Concern and a number of other companies.

Member of the Boards of Trustees for Sistema's Charity Fund, Russian Admirals' Club, and Suvorov Military School in Tver.

Member of the Board of Directors of Sistema JSFC since 2013. Member of the Strategy Committee, the Audit, Finance and Risk Committee and the Ethics and Control Committee of Sistema Board of Directors.

Share in the authorised capital of Sistema JSFC – 0.0148%.

Brian Dickie

Independent director

Master of Arts In English Literature, Oxford University; MBA, Harvard Business School.

1981-1998: Booz, Allen & Hamilton Inc., an international management consulting company. President and Chief Operating Officer from 1993 to 1998. Previously: Managing Partner, AsiaPacific.

1999-2003: President, TXU Energy in Dallas, Texas.

2003- Present: Investcorp International Ltd., the Bahrain based alternative

investment company. From 2003 to 2010, Managing Director in London office. Since 2012, senior advisor to Europe and Middle East private equity businesses.

Current directorships: Chairman of Icopal A/S (Denmark); Hydrasun Ltd (UK); and Lazurde Company for Jewelry (Saudi Arabia). Non-executive director of Polyconcept Inc. (USA).

Member of Board of Directors of Sistema JSFC since 2012. Member of Nomination, Remuneration and Corporate Governance Committee and Ethics and Control Committee of Sistema Board of Directors.

Share in the authorized capital of Sistema JSFC – 0.0020%.

Dmitry Zubov	Was born in 1954 in the Gorkiy Region.
Non-executive director	<p>In 1977, graduated from Ordzhonikidze Moscow Aviation Institute. Holds a PhD degree in Economics.</p> <p>1992 – 1999 CEO of CJSC Alon, then held executive positions at MosEximBank, OJSC IBN Sistema and CJSC PromChemInvest.</p> <p>1999 Elected member of the Board of Directors of Sistema JSFC, in 2000, Deputy Chairman of the Board. Member of the Nomination, Remuneration and Corporate Governance Committee of Sistema Board of Directors. Member of the Board of Trustees of the Sistema Charitable Foundation.</p> <p>Share in the authorised capital of Sistema JSFC – 0.9557%.</p>
Robert Kocharyan	Was born in 1954 in Stepanakert, Nagorno-Karabakh Autonomous Region.
Independent director	<p>In 1982, graduated from the Yerevan Polytechnic Institute. 1991 – 1994 Deputy of the first Supreme Council of the Nagorny-Karabakh Republic (NKR), Chairman of the State Defense Committee of the NKR and Prime Minister of the NKR.</p> <p>1994 – 1997 President of the NKR.</p> <p>1997 – 1998 Prime Minister of the Republic of Armenia.</p> <p>1998 – 2008 President of the Republic of Armenia.</p> <p>Member of the Board of Directors of Sistema JSFC since 2009. Chairman of the Nomination, Remuneration and Corporate Governance Committee, member of the Strategy Committee and the Ethics and Control Committee of Sistema Board of Directors.</p> <p>Share in the authorised capital of Sistema JSFC – 0.0052%.</p>
Jeannot Krecké	Was born in 1950 in Luxembourg.
Independent director	<p>Graduated from the Free University of Brussels. When studying in the USA he majored in economics, accounting and taxation. Co-author of the annual manual on taxation in Luxembourg and of books on tax control and tax fraud monitoring.</p> <p>2004 Minister of Sport of Luxembourg.</p> <p>2004 – 2011 Minister of Economics and Foreign Trade of Luxembourg, representative of the Luxembourg Government in the Council of Ministers of the European Union.</p>

1987 – 1997 Co-founder and President of the Alzheimer Association Luxembourg.

Since 1997 President of the Alzheimer Fund.

1970 – 1977 Played for the Luxembourg national football team; participated in transatlantic and polar expeditions (Greenland, Svalbard).

Member of the Board of Directors of Sistema JSFC since 2012. Member of the Nomination, Remuneration and Corporate Governance Committee and of the Investor Relations and Dividend Policy Committee of Sistema Board of Directors.

Share in the authorised capital of Sistema JSFC – 0.0025%.

Peter Mandelson

Independent director

Was born in 1953 in the United Kingdom.

Graduated from the Oxford University, where he majored in political science, philosophy and economics.

1985 – 1990 Director of Campaigns and Communications for the Labour Party of Britain.

1992 – 2004 Member of Parliament.

July 1998 - December 1998 British Secretary of State for Trade and Industry.

1999 – 2001 Secretary of State for Northern Ireland.

2004 – 2008 European Commissioner for Trade.

2008 – 2010 Secretary of State for Business, Innovation and Skills; First Secretary of State.

Life peer in the House of Lords since 2008.

2010 Became chairman of Global Counsel, a consultancy firm, and senior advisor to Lazard Ltd., in 2013 elected chairman of the board of Lazard International.

President of the Policy Network think tank and High Steward of Hull.

Member of the Board of Directors of Sistema JSFC since 2013. Member of the Investor Relations and Dividend Policy Committee and of the Audit, Finance and Risks Committee of Sistema Board of Directors.

Share in the authorised capital of Sistema JSFC – 0.0008%.

Roger Munnings

Independent director

Was born in 1950 in the United Kingdom.

Graduated from the Oxford University with a degree of Master of Arts in politics, philosophy, economics.

Member of the UK Government's working group on trade and investments between Great Britain and Russia, Chairman of the Institute of Audit Committees in Russia.

Roger has had a long and successful career (from 1974) with the international auditor KPMG, especially during his time as the President and Managing Partner of KPMG in Russia and the CIS (1996-2008), as well as Chairman of the world energy and natural resources committee of KPMG (1993-2008).

Deputy Chairman of the management board of the Association of European Business (AEB) and member of the Institute of certified accountants of England and Wales.

Actively involved in the social activities in Russia as a member of the Russian National Council on Corporate Governance, the Russian Union of Industrials and Entrepreneurs, the Russian institute of directors, management board of the American-Russian business council, management board of the Russian-British chamber of commerce etc.

Member of the Board of Directors of Sistema JSFC since 2010. Chairman of the Audit, Finance and Risks Committee, member of the Nomination, Remuneration and Corporate Governance Committee, the Investor Relations and Dividend Policy Committee and the Ethics and Control Committee of Sistema Board of Directors.

Share in the authorised capital of Sistema JSFC – 0.0043%.

Marc Holtzman

Was born in 1960 in the United States.

Independent director

Holds a Bachelor of Arts degree in economics from Lehigh University.

1989 - 1998 Work in Eastern Europe and Russia as Senior Advisor to Solomon Brothers, as co-founder and President of MeesPierson EurAmerica (an investment banking firm which was subsequently acquired by ABN Amro Bank) and as Vice Chairman of ABN Amro Bank.

1999 – 2003 Colorado's first Secretary of Technology. In addition, he was Chairman of Colorado's Information Management Commission and Co-Chairman of Governor's Commission on Science and Technology. Mr. Holtzman helped guide Colorado's economic transformation into a fully diversified technology hub.

2003 – 2005 President of the University of Denver.

2004 – 2010 Member of the Board of Trustees, the United States Space Foundation.

2006 - 2008 Member of the Board of Directors of Kazyna, Kazakhstan's national wealth fund.

2006 – 2013 Vice Chairman of ABN Amro Bank and, subsequently, Vice Chairman of Barclays Capital.

2012 – 2014 Chairman of the Board of Directors, Meridian Capital HK.

He is currently member of the board of directors of FTI Consulting (NYSE), Kazkommertsbank (Kazakhstan's biggest financial institution), The Bank of Kigali (Rwanda's biggest commercial bank) and TeleTech (NASDAQ).

Mr. Holtzman has been member of the Board of Directors of Sistema JSFC since 2012. Member of the Audit, Finance and Risk Committee and the Investor Relations and Dividend Policy Committee of Sistema Board of Directors.

Share in the authorised capital of Sistema JSFC – 0.0020%.

Serge Tchuruk

Was born in 1937 in France.

Independent director	<p>Graduated from Ecole Polytechnique in Paris.</p> <p>1964 – 1979 Work at Mobil Corporation (France and the United States).</p> <p>1979 - CEO of Mobil Benelux.</p> <p>1980 – 1986 Held various executive positions at Rhône-Poulenc, an international chemical and pharmaceutical company; in 1983, appointed Managing Director of the company.</p> <p>1986 – 1990 Chairman and CEO of Orkem, a European chemical company (earlier known as CDF-Chimie).</p> <p>1990 – 1995 Chairman and CEO of Total, one of the world's largest oil and gas companies.</p> <p>1995 – 2006 CEO of Alcatel.</p> <p>Member of the Board of Directors of Sistema JSFC since 2011. Member of the Audit, Finance and Risk Committee and the Ethics and Control Committee of Sistema Board of Directors.</p> <p>Share in the authorised capital of Sistema JSFC – 0.0034%.</p>
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Mikhail Shamolin	Mikhail was born in 1970 in Moscow.
Executive Director	In 1992, he graduated from the Moscow Automobile and Road Technical Institute.
President	In 1993, graduated from the Russian Presidential Academy of Public Administration.
Chairman of the Management Board	<p>1996 – 1997 Completed the finance and management course for top managers at the Wharton Business School.</p> <p>1998 – 2004 Work at the international consulting company McKinsey&Co.</p> <p>2004 – 2005 Managing Director for the Ferroalloys Division, Interpipe Corp (Ukraine).</p> <p>2005 – 2011 Vice President for Sales and Customer Service, then Vice President, Head of Business Unit, President of OJSC MTS Russia.</p> <p>Appointed President of Sistema JSFC on 10 March 2011. On 15 March 2014, the Board of Directors reappointed Mr Shamolin President and Chairman of the Management Board of Sistema for a three-year term.</p> <p>Chairman of the Management Board of Sistema JSFC. Member of the Strategy Committee and the Investor Relations and Dividend Policy Committee of Sistema Board of Directors. Member of the Board of Trustees of the Sistema Charitable Foundation.</p> <p>Share in the authorised capital of Sistema JSFC – 0.1325%.</p>

President and Board members

<i>Name, position</i>	<i>Brief biography</i>
Mikhail Shamolin	Mikhail was born in 1970 in Moscow.

President of Sistema JSFC	In 1992, he graduated from the Moscow Automobile and Road Technical Institute.
Chairman of the Management Board of Sistema JSFC	In 1993, graduated from the Russian Presidential Academy of Public Administration.
	1996 – 1997 Completed the finance and management course for top managers at the Wharton Business School.
	1998 – 2004 Work at the international consulting company McKinsey&Co.
	2004 – 2005 Managing Director for the Ferroalloys Division, Interpipe Corp (Ukraine).
	2005 – 2011 Vice President for Sales and Customer Service, then Vice President, Head of Business Unit, President of OJSC MTS Russia.
	Appointed President of Sistema JSFC on 10 March 2011. On 15 March 2014, the Board of Directors reappointed Mr Shamolin President and Chairman of the Management Board of Sistema for a three-year term.
	Chairman of the Management Board of Sistema JSFC. Member of the Strategy Committee and the Investor Relations and Dividend Policy Committee of Sistema Board of Directors. Member of the Board of Trustees of the Sistema Charitable Foundation.
	Share in the authorised capital of Sistema JSFC – 0.1325%.

Anton Abugov	Was born in 1976 in Mytishchi, the Moscow Region.
First Vice President, Investment Portfolio Manager of Sistema JSFC	In 1998, graduated from the Russian Presidential Academy of National Economy with a degree in management.
	1995 – 1999 Deputy Executive Officer of the Securities Transaction Department, Trader, CJSC United Financial Group.
	1999 – 2002 Head of Corporate Finance, CJSC United Financial Group.
	2003 – 2006 Managing Director, Head of Corporate Finance, Rosbank.
	2006 – 2012 First Vice President, Head of the Strategy and Development Function, Sistema JSFC.
	From September 2012 First Vice President, Sistema JSFC.
	Share in the authorised capital of Sistema JSFC – 0.2388%.

Christopher Baxter	Was born in 1963 in the United Kingdom.
Senior Vice President, Head of Investment Portfolio of Sistema JSFC	In 1987, graduated from Imperial College London with First Class honours as a Master of Engineering. Fellow of the Royal Society of Arts, Manufactures and Commerce.
	1987 – 1995 Held different positions at Chase Manhattan Bank (now part of JP Morgan), including the position of Vice President.
	1995 – 2002 Head of Energy and Power Investment Banking, Merrill Lynch.
	2002 – 2012 Head of Investment Banking, the Renaissance Group, member of the board of Renaissance Credit (the Group's retail bank).

From November 2012 Senior Vice President, Sistema JSFC.

Share in the authorised capital of Sistema JSFC – 0.0221%.

Nikolay Vasilkov²⁶

Vice President, Head of the Strategy Function of Sistema JSFC

Nikolay was born in 1980 in Moscow.

In 2004 graduated from the Moscow State University with a master's degree in management. A degree with honours. Was awarded a gold medal of the Moscow State University.

2004 – 2005 Analyst of the investment banking division of JSC Corporate Finance Advisory (France).

2005 – 2012 Vice President for Financial Consulting, LLC Renaissance Capital - Financial Consultant.

2012 – 2015 Investment Director at an Investment Portfolio of Sistema JSFC.

February 2015 Appointed Vice President, Head of the Strategy Function of Sistema JSFC.

Share in the authorised capital of Sistema JSFC – 0.0049%.

Elena Vitchak

Vice President, Head of the HR Department, Sistema JSFC

Elena was born in 1971 in Moscow.

In 1992, graduated from the Philology Department of the Rostov State University, in 2005, from the State Academy of Investment Specialists with a degree in HR management.

Member of the Expert Council of the National Union of HR Specialists of Russia

Member of the HR Committee of the Association of Russian Banks.

2002 – 2008 Head of the HR Department, the Capital Insurance Group.

2008 – 2010 Director of the HR Department, Member of the Management Board, OJSC Sistema Halls.

2010 – 2012 Senior Vice President, Director of the HR Department, OJSC MTS Bank.

2012 – 2013 Executive Vice President, Head of the HR Department, Sistema JSFC.

From December 2013 Vice President, Head of the HR Department, Sistema JSFC.

Share in the authorised capital of Sistema JSFC – 0.0114%.

Sergei Drozdov

Senior Vice President, Head of Corporate Governance Function of Sistema JSFC

Was born in 1970 in Arkhangelsk.

In 1993, graduated from the Moscow Ordzhonikidze Management Academy with a degree in urban economics. Holds a PhD degree in Economics.

1994 – 1995 Head of the Financial Innovation and Marketing Department, the Moscow City Property Fund.

1995 – 1998 Deputy head of the Development and Investment Department,

²⁶ Nikolay became member of the Management Board in February 2015.

Sistema JSFC.

1998 – 2002 Vice President, First Vice President, CJSC Sistema Invest.

2002 Acting First Vice President, Head of the Corporate Property Department, Sistema JSFC.

2002 – 2011 First Vice President, Senior Vice President, Head of the Property Function, Sistema JSFC.

From 2011 Senior Vice President, Head of the Corporate Governance Function, Sistema JSFC.

Chairman of the Board of Directors of OJSC Mosdachtrest, member of the Board of Directors of JSC Binnopharm and some other companies.

Share in the authorised capital of Sistema JSFC – 0%.

Felix Evtushenkov	Felix was born in 1978 in Moscow.
First Vice President, Investment Portfolio Manager of Sistema JSFC	<p>In 2000, graduated from the Griboyedov Institute of International Law and Economics with a degree in law.</p> <p>1999 – 2000 Assistant to the President of CJSC Sistema Invest, Executive Director of the Industry Department, Sistema JSFC.</p> <p>2000 – 2006 Deputy CEO, CEO, CJSC Sistema Hals.</p> <p>2006 – 2008 President of OJSC Sistema Hals.</p> <p>2008 – 2011 Vice President, Head of the Consumer Assets Business Unit, Sistema JSFC.</p> <p>2011 – 2011 First Vice President, Head of the Core Assets Business Unit, Sistema JSFC.</p> <p>From 2012 First Vice President, Sistema JSFC.</p> <p>Chairman of the Board of Directors of OJSC BPGC and some other companies.</p> <p>Share in the authorised capital of Sistema JSFC – 0.0525%.</p>

Leonid Monosov	Was born in 1958 in Mozyr, Belarus.
Vice President, Investment Portfolio Manager of Sistema JSFC	<p>In 1980, graduated from the Moscow Institute of Railway Engineers with a degree in industrial and civil construction.</p> <p>Recipient of various awards and the title of Honoured builder of the Russian Federation.</p> <p>1999 – 2007 CEO of OJSC Moskapstroy.</p> <p>2007 – 2010 Head of the Moscow City Contract Repairs Department.</p> <p>2010 – 2012 Vice President, the state-owned corporation Olymstroy.</p> <p>2012 – 2013 Executive Vice President of the Developing Assets Business Unit, Executive Vice President, Sistema JSFC.</p> <p>From December 2013 Vice President, Sistema JSFC.</p>

Share in the authorised capital of Sistema JSFC – 0.0325%.

Oleg Mubarakshin	Was born in 1968 in the Saratov Region.
Vice-President, Head of the Legal Function, Sistema JSFC.	<p>In 2000, graduated from the Moscow State Academy of Law with a degree in law; in 2002, from the Finance Academy at the Government of the Russian Federation with a degree in finance and credit.</p> <p>In 1991, graduated from the Defence Ministry's Military Institute.</p> <p>1996 – 1998 Deputy CEO for legal matters, the oil and gas company Belye Nochi (Russia).</p> <p>1998 – 2007 Vice President for Corporate and Legal Affairs for Central and Eastern Europe, InBev FMCG Group (Russia).</p> <p>2008 – 2009 Vice President for Legal Affairs for Western Europe, InBev FMCG Group (Belgium).</p> <p>2009 – 2013 Member of the Management Board, Head of Legal Department, EastOne Investment and Consulting Group (Ukraine, Great Britain).</p> <p>December 2013 Appointed Vice President, Head of the Legal Function of Sistema JSFC.</p> <p>Share in the authorised capital of Sistema JSFC – 0.0074%.</p>

Vsevolod Rozanov	Vsevolod was born in 1971 in Moscow.
Senior Vice President, Head of the Finance and Investment Function of Sistema JSFC	<p>Graduated from the Economics Department of the Lomonosov Moscow State University, with a degree in economics.</p> <p>1993 – 2001 Held various positions at the consultancy Bain & Company Inc. in Moscow, London and Stockholm.</p> <p>2002 – 2004 Deputy CEO for Economics and Finance, CJSC MTU-Inform.</p> <p>2004 – 2006 Vice President for Economics and Finance, OJSC Comstar United Telesystems.</p> <p>2006 – 2008 Vice President for Finance and Investment, member of the Management Board, OJSC MTS.</p> <p>2008 – 2013 CEO of Sistema Shyam TeleServices Limited. Board member of SSTL and OJSC MTS.</p> <p>June 2013 Appointed Senior Vice President, Head of the Finance and Investment Function of Sistema JSFC.</p> <p>Share in the authorised capital of Sistema JSFC – 0.0370%.</p>

Andrey Terebenin	Andrey was born in 1962 in Moscow.
Senior Vice President, Head of Investment Portfolio of Sistema JSFC	<p>In 1985, graduated from the Moscow State Institute of International Relations with a degree in international relations and Arabic.</p> <p>Held a number of management positions at the Publishing House Ekonomicheskaya Gazeta, Dun&Bradstreet CIS and AIG Russia. 1999 Be came a partner at the Triangle Porter Novelli Communications Agency</p>

2003 - January 2006 Director General and Partner, R.I.M. Porter Novelli.

2006 – 2011 Vice President for Corporate Communications, OJSC MTS.

From May 2011 Vice President, Head of the Corporate Communications Function of Sistema JSFC.

Share in the authorised capital of Sistema JSFC – 0.0337%.

Ali Uzdenov

Senior Vice President, Head of Investment Portfolio of Sistema JSFC

Was born in 1962 in Kislovodsk, the Stavropol Territory.

In 1985, graduated from the Rostov Institute of Railway Engineers.

In 1990, continued his education at the International Survival School (Italy).

1994 – 1997 Head of the Rostov Commodity Exchange.

1997 – 1998 CEO of LLC Ayaks.

1998 – 2001 CEO of the Rostov branch, OJSC Bashneft.

2001 – 2007 Chairman of the Board of Directors, OJSC Kormmash.

2007 – 2009 CEO of LLC Rostovregiongaz.

2009 – 2012 First Vice President for Refining and Sales, OJSC Bashneft.

2012-2013 Vice President, Sistema JSFC.

From December 2013 Senior Vice President, Sistema JSFC.

Share in the authorised capital of Sistema JSFC – 0.0325%.

Michael Hecker²⁷

Vice President, Head of the Strategy Function of Sistema JSFC

Was born in 1970 in Kiel, Germany.

In 1994, graduated from Pierre Mendes-France University, Grenoble, France, with a degree in management and international politics. In 2001, graduated from the University of Gottingen, Germany, with a degree in law and contemporary history.

Doctor of Philosophy, PhD (Law).

Before 2000 Junior associate at various German firms.

2000 – 2006 Employed at A.T. Kearney Europe, responsible for projects in the spheres of strategy, marketing and finance for telecom companies and producers of consumer goods.

2006 – 2014 Vice President for Strategy, Mergers, Takeovers and Corporate Development, Member of the Management Board, OJSC MTS.

February 2014 Appointed Vice President, Head of the Strategy Function of Sistema JSFC.

February 2015 Relieved of his duties.

Share in the authorised capital of Sistema JSFC – 0.0050%.

²⁷ M. Hecker was member of the Corporation's Management Board as of 31 December 2014, but was relieved of his duties in February 2015.

Corporate Secretary

<i>Name, position</i>	<i>Brief biography</i>
Igor Petrov	Igor was born in 1978 in Leningrad.
Corporate Secretary of Sistema JSFC	<p>In 1999, graduated from the St Petersburg State University with a degree in Oriental and African studies; in 2000, obtained a degree in philology from the same university.</p> <p>In 2004, graduated from the Utrecht University (the Netherlands) with a master's degree in law.</p> <p>2000 – 2001 Technical editor of the documentation department, CJSC Novavoks.</p> <p>2005 – 2006 Legal Advisor, Corporate Secretary, LLC ICICI Bank Eurasia.</p> <p>Corporate Secretary of Sistema Board of Directors since 2006.</p> <p>Share in the authorised capital of Sistema JSFC – 0.0065%.</p>

Annex 2. Transactions involving Sistema shares made by Sistema's Board members, President, and Management Board members from 01 January to 31 December 2014

Receipt of Sistema JSFC shares by top management as part of the LTI program on 25 April 2014 and 29 December 2014

<i>Name</i>	<i>Number of shares of Sistema JSFC</i>
M. Shamolin	7,810,795
A. Abugov	6,583,944
C. Baxter	3,998,824
N. Vasilkov	1,049,471
E. Vitchak	2,083,127
A. Goncharuk	4,929,591
S. Drozdov	3,111,389
F. Evtushenkov	5,064,124
D. Zubov	6,127,679
L. Monosov	2,705,305
O. Mubarakshin	718,071
V. Rozanov	3,567,797
A. Terebenin	2,342,504
A. Uzdenov	3,131,999
M. Hecker	478,898

Receipt of shares of Sistema JSFC by Board members as remuneration for work in the Board of Directors on 09 July 2014

<i>Name</i>	<i>Number of shares of Sistema JSFC</i>
V. Evtushenkov	72,500
A. Goncharuk	72,500
D. Iakobachvili	75,833
S. Boev	72,500
B. Dickie	75,833
D. Zubov	72,500
R. Kocharyan	75,833
J. Krecké	75,833

P. Mandelson	75,833
R. Munnings	75,833
M. Holtzman	75,833
S. Tchuruk	75,833
M. Shamolin	72,500

Disposal of shares of Sistema JSFC by Sistema's Board members, President, and Management Board members

<i>Name</i>	<i>Number of shares of Sistema JSFC</i>	<i>Dates of transactions</i>
A. Goncharuk	47,407,419	from 11 April 2014 to 14 November 2014
D. Zubov	10,000,000	from 22 July 2014 to 08 October 2014
M. Shamolin	5,470,930	from 16 January 2014 to 14 November 2014
C. Baxter	564,045	30 April 2014
E. Vitchak	981,003	from 30 April 2014 to 25 September 2014
S. Drozdov	20,112,389	from 27 June 2014 to 28 July 2014

Annex 3. List of transactions performed by Sistema JSFC in the reporting year that are recognised as major transactions under the Federal Law On Joint-Stock Companies, and other transactions subject to the major transactions approval procedure pursuant to the Corporation's Charter

During 2014 Sistema JSFC did not perform any transactions which, in accordance with the Federal Law On Joint-Stock Companies, are recognised as major transactions, and other transactions which, in accordance with the Company's Charter, are covered by the procedure for approval of major transactions.

Annex 4. List of transactions performed by Sistema JSFC in the reporting year that are recognised as related party transactions under the Federal Law On Joint-Stock Companies

All the transactions closed by Sistema JSFC in 2014 that are recognised as related party transactions under the Federal Law On Joint-Stock Companies were approved by the Board of Directors of the Corporation.

<i>No.</i>	<i>Ref. No. of BoD meeting minutes and date of resolution</i>	<i>Subject of the transaction</i>	<i>Counterparties</i>	<i>Amount of the transaction</i>	<i>Related parties</i>
1	01-14 01 February 2014	Signing of a shareholder agreement with OJSC MTS and shareholders of Ozon Holdings Limited	OJSC MTS, shareholders of Ozon Holdings Limited	max. USD 75,000,000	OJSC Sistema Finance, A. Abugov, S. Drozdov, V. Rozanov
2	01-14 01 February 2014	Signing of a surety agreement in relation to the liabilities of Sistema Shyam TeleServices Limited to ING Vysya Bank Limited under the Guarantee Facility Agreement	ING Vysya Bank Limited	up to USD 13,421,948	OJSC Sistema Finance, A. Abugov, A. Terebenin, V. Rozanov
3	01-14 01 February 2014	Acquisition by Sistema JSFC of a shareholding in TCF Project PTE LTD	TCF Project PTE LTD	max. USD 300,000,000	OJSC Sistema Finance, A. Abugov, A. Terebenin, V. Rozanov
4	01-14 01 February 2014	Providing a guarantee for the liabilities of Sistema Shyam Teleservices Limited to Bank of China Limited in accordance with the English law	Bank of China Limited, Shenzhen Branch	up to USD 7,497,000	OJSC Sistema Finance, A. Abugov, A. Terebenin, V. Rozanov
5	01-14 01 February 2014	Granting a loan to OJSC NIS for the purpose of working capital financing	OJSC NIS	up to RUB 215,000,000	OJSC Sistema Finance
6	01-14 01 February 2014	Granting a loan to OJSC NIS for the purpose of financing work on key projects	OJSC NIS	up to RUB 320,000,000	OJSC Sistema Finance
7	01-14 01 February 2014	Granting a loan to OJSC NIS for the purpose of debt restructuring and providing financial support for the company's migration to an operator business model	OJSC NIS	up to RUB 1,686,400,000	OJSC Sistema Finance
8	02-14 15 March 2014	Granting an interest-bearing loan to LLC LesInvest for acquisition of 100% of shares of OJSC Segezha Pulp and Paper Mill, 100% of shares of LLC Derevoobrabotka-Proekt and the companies' and their subsidiaries' debt to the Bank of Moscow	LesInvest	up to RUB 12,000,000,000	OJSC Sistema Finance, S. Drozdov, V. Rozanov, A. Uzdenov
9	02-14 15 Mar 2014	Signing an agreement for providing consulting services in connection with the management of Sistema Shyam TeleServices Limited	OJSC MTS	max. USD 10,000,000	OJSC Sistema Finance, A. Abugov, A. Terebenin, V. Rozanov
10	02-14 15 Mar 2014	Sistema's participation in the additional issue of shares of East-West United Bank S.A. (without a change in the shareholding)	EWUB	EUR 17,000,042.14	OJSC Sistema Finance, J. Krecké, A. Buyanov, F. Evtushenkov
11	02-14	Granting a subordinated loan	OJSC MTS Bank	up to EUR	OJSC Sistema

	15 Mar 2014	from Sistema JSFC to OJSC MTS Bank		33,000,000	Finance, A.Buyanov, F. Evtushenkov
12	03-14 19 April 2014	Granting an interest-bearing loan from Sistema JSFC to CJSC Krasnodar Agro	CJSC Krasnodar Agro	max. USD 72,000,000	OJSC Sistema Finance
13	03-14 19 April 2014	Contribution of properties owned by Sistema JSFC to the authorised capital of CJSC Business Nedvizhimost and acquisition by Sistema of additionally issued ordinary registered shares of CJSC Business Nedvizhimost	CJSC Business Nedvizhimost	RUB 1,392,004,785.60	OJSC Sistema Finance, L. Monosov
14	03-14 19 April 2014	Amendments to the guarantees provided by Sistema JSFC to the Bank of China Limited, Shenzhen Branch to secure all liabilities of Sistema Shyam TeleServices Limited under the credit agreements between Sistema Shyam TeleServices Limited and the Bank of China Limited, Shenzhen Branch	Bank of China Limited, Shenzhen Branch	up to USD 211,473,200.59	OJSC Sistema Finance, A. Abugov, A. Terebenin, V. Rozanov
15	03-14 19 April 2014	Amendment to the guarantee provided by Sistema JSFC to China Development Bank Corporation to secure all liabilities of Sistema Shyam TeleServices Limited under the credit agreement between Sistema Shyam TeleServices Limited and China Development Bank Corporation.	China Development Bank Corporation	up to USD 250,368,243.25	OJSC Sistema Finance, A. Abugov, A. Terebenin, V. Rozanov
16	04-14 21 May 2014	Provision of financial aid to OJSC MTS Bank (capital increase)	OJSC MTS Bank	up to RUB 3,800,000,000	OJSC Sistema Finance, V. Evtushenkov, F. Evtushenkov
17	05-14 28 June 2014	Acquisition by Sistema JSFC of additionally issued shares of OJSC SMM	OJSC SMM	up to RUB 5,600,000.00	OJSC Sistema Finance, A. Abugov, M. Hecker
18	05-14 28 June 2014	Divestment of Sistema's shareholding in LLC Stream	OJSC SMM	RUB 1,972,999,982	OJSC Sistema Finance, A. Abugov, M. Hecker
19	05-14 28 June 2014	Termination of LLC Stream's shareholder agreement due to termination of Sistema's shareholding in LLC Stream by way of contribution of Sistema's entire stake in LLC Stream to the authorised capital of OJSC SMM	OJSC MTS, OJSC SMM	-	OJSC Sistema Finance, A. Abugov, S. Drozdov V. Rozanov, M. Hecker
20	05-14 28 June 2014	Providing a guarantee from Sistema JSFC to Industrial and Commercial Bank of China Limited for the obligations of Sistema Shyam TeleServices Limited	Industrial and Commercial Bank of China Limited Sistema Shyam TeleServices Ltd.	up to USD 20,000,000	OJSC Sistema Finance, V. Evtushenkov, A. Abugov, A. Terebenin, V. Rozanov
21	05-14 28 June 2014	Increase of Sistema's shareholding in OJSC NIS	OJSC NIS	up to RUB 2,856,665,997.08	OJSC Sistema Finance
22	06-14 31 July 2014	Pledge by Sistema of ordinary registered shares of OJSC Detsky Mir in favour of OJSC Sberbank of Russia to secure	OJSC Sberbank of Russia	RUB 4,542,514,482	OJSC Sistema Finance, C. Baxter, O. Mubarakshin

		all liabilities of OJSC Detsky Mir under the agreement on opening a non-renewable credit facility concluded between OJSC Detsky Mir and OJSC Sberbank of Russia			
24	06-14 31 July 2014	Granting a loan to OJSC Sistema Finance	OJSC Sistema Finance	up to RUB 8,000,000,000	OJSC Sistema Finance,
25	06-14 31 July 2014	Acquisition by Sistema of ordinary shares of OJSC RTI Systems Concern	S. Boev	max. RUB 800,000,000	OJSC Sistema Finance, S. Boev
26	06-14 31 July 2014	Divestment of ordinary shares of OJSC RTI	S. Boev	RUB 862,779,750	OJSC Sistema Finance, S. Boev
27	07-14 13 September 2014	Acquisition by Sistema JSFC of additionally issued shares of OJSC MTS Bank	OJSC MTS Bank	RUB 10,000,000,000	OJSC Sistema Finance, V. Evtushenkov, A. Abugov, V. Rozanov
28	07-14 13 September 2014	Divestment of Sistema's shareholding in OJSC Detsky Mir - Retail Assets and contribution of ordinary registered shares of OJSC Detsky Mir - Retail Assets as payment for additionally issued ordinary registered shares of CJSC Business Nedvizhimost	CJSC Business Nedvizhimost	RUB 2,213,704,000	OJSC Sistema Finance, L. Monosov
29	07-14 13 September 2014	Acquisition by Sistema of ordinary registered shares of CJSC Leader-Invest	CJSC Leader-Invest	max. RUB 650,000,000	OJSC Sistema Finance, V. Evtushenkov, S. Drozdov, F. Evtushenkov, L. Monosov, V. Rozanov
30	07-14 13 September 2014	Granting an interest-bearing loan from Sistema JSFC to Rangecroft Limited	Rangecroft Limited	up to USD 22,500,000	OJSC Sistema Finance
31	07-14 13 September 2014	Acquisition by Sistema of shares of TCF Project PTE LTD	TCF Project PTE LTD	up to USD 400,000,000	OJSC Sistema Finance
32	07-14 13 September 2014	Granting a loan to OJSC NIS	OJSC NIS	up to RUB 120,000,000	OJSC Sistema Finance
33	07-14 13 September 2014	Granting a loan to LLC Krasnoselskaya	LLC Krasnoselskaya	up to RUB 35,000,000	OJSC Sistema Finance
34	08-14 25 October 2014	Acquisition by Sistema of ordinary registered shares of OJSC Intellect Telecom from OJSC MGTS	OJSC MGTS	RUB 344,000,000	OJSC Sistema Finance
35	08-14 25 October 2014	Acquisition by Sistema of ordinary registered shares of OJSC Intellect Telecom from OJSC Sitronics	OJSC Sitronics	RUB 330,000,000	OJSC Sistema Finance
36	08-14 25 October 2014	Divestment of Sistema's shareholding in OJSC NIS and transfer of Sistema's ordinary registered shares of OJSC NIS to OJSC MGTS	OJSC MGTS	RUB 44,000,000	OJSC Sistema Finance
37	08-14 25 October 2014	Signing a corporate guarantee agreement between Sistema JSFC and ING Vysya Bank Limited under the Indian law	ING Vysya Bank	up to USD 20,576,300	OJSC Sistema Finance A. Abugov, V. Rozanov

		as security for the liabilities of Sistema Shyam TeleServices Limited under the guarantee facility agreement signed between Sistema Shyam TeleServices Limited and ING Vysya Bank			
38	08-14 25 October 2014	Granting an interest-bearing loan from Sistema JSFC to OJSC Sistema Finance	OJSC Sistema Finance	up to RUB 11,000,000,000	OJSC Sistema Finance
39	10-14 13 December 2014	Signing a surety agreement between Sistema JSFC and OJSC Sberbank of Russia as security of all liabilities of CJSC NVision Group under the agreement on a non-renewable credit facility and the framework agreement on a renewable credit facility with differentiated interest rates signed between OJSC Sberbank of Russia and CJSC NVision Group	OJSC Sberbank of Russia	up to RUB 4,500,000,000	OJSC Sistema Finance, F. Evtushenkov, M. Hecker
40	10-14 13 December 2014	Signing a surety agreement between Sistema JSFC and OJSC Alfa Bank as security of all liabilities of CJSC NVision Group under the agreement on a non-renewable credit facility signed between OJSC Alfa Bank and CJSC NVision Group	OJSC Alfa Bank	up to RUB 1,537,486,600.80	OJSC Sistema Finance, F. Evtushenkov, M. Hecker
41	10-14 13 December 2014	Signing a surety agreement between Sistema JSFC and OJSC Bank VTB as security of all liabilities of CJSC NVision Group under the loan agreements signed between OJSC Alfa Bank and CJSC NVision Group	OJSC Bank VTB	up to RUB 1,973,272,000	OJSC Sistema Finance, F. Evtushenkov, M. Hecker
	10-14 13 December 2014	Signing a corporate guarantee agreement on liabilities of TCF Projects PTE. LTD under the Letter of Credit Agreement and the Letter of Credit Security Agreement signed between TCF PROJECTS PTE. LTD. and ING Bank N.V. to secure liabilities of Sistema Shyam TeleServices Limited under the credit agreement with ING Bank Vysya Limited	ING BANK N.V.	up to USD 115,000,000	OJSC Sistema Finance, A. Abugov, V. Rozanov

Annex 5. Report on compliance with the Corporate Governance Code recommended by the Bank of Russia

In the opinion of Sistema Board of Directors, the Corporation complies with the principles and the guidelines of the Corporate Governance Code recommended by the Bank of Russia (hereinafter – the "Code") with the reservations mentioned herein below.

When appraising compliance of Sistema's corporate governance practice with the Code, the Board of Directors considered both inclusion of the recommended provisions in the Corporation's internal regulations, and the actual execution of the Code's principles and guidelines in the activities of the Corporation and its executives. In the course of this process, not only individual guidelines or principles were taken into account, but also general achievement of goals set by the relevant principles, including alternative mechanisms for attaining such goals.

<i>No.</i>	<i>Corporate Governance Principles</i>	<i>Compliance</i>	<i>Notes</i>
I. Shareholder rights and equality for exercise of their rights			
1.1.	The Company should ensure equal and fair treatment of all shareholders for exercise of their rights to participate in the company's governance.		
1.1.1.	It is recommended to the Company to create the most favourable conditions for participation in the general meeting, for developing a substantiated position on the general meeting's agenda items, coordinating their actions, and expressing their opinions on the items under consideration.	Observed	The procedure for convening, preparing and conducting the General Meeting of the Shareholders of the Corporation is set out in the Terms of Reference of the General Meeting of Shareholders that was approved by the General Meeting of Shareholders of Sistema JSFC (Minutes No. 2-10 dd. 30 June 2010).
1.1.2.	The procedure for notification of the general meeting and provision of materials for the general meeting should enable the shareholders to prepare for the meeting as appropriate.	Observed	Information about the date of making the list of persons that have the right to participate in the General Meeting of Shareholders is disclosed by the Corporation at least 7 days before such date. In adherence to its Charter, Sistema JSFC circulates a Notice of the general meeting no later than 30 days before the meeting. At the same time, the materials for the general meeting become available on the corporate website (www.sisetma.ru) in electronic format, both in Russian and in English. Notices of the general meeting contain sufficient information for the shareholders to take a decision whether to participate in the meeting and how. The information about who proposed each item to the agenda of the general meeting and about each candidate nominated for election to the Corporation's governance bodies and who nominated them is provided in explanatory notes or other relevant materials.
1.1.3.	During preparation and conducting of the general meeting, the shareholders should be able to receive information about the meeting and the relevant materials in a timely manner and without any hindrance, ask questions to executive bodies and members of the company's board of directors and to communicate with each other.	Observed	During preparation for the company's general meeting the shareholders are entitled to answers to their questions sent to a special email (osa@sistema.ru). The Corporation provides to its shareholders additional materials on the agenda items for the general meeting that would enable them to formulate their positions on such items. In line with the Terms of Reference of the General Meeting of Shareholders of Sistema JSFC, its shareholders are entitled to seeing the list of persons that have a right to participate in the General Meeting by contacting the Corporate Secretary of Sistema JSFC.
1.1.4.	Exercise of a shareholder's right to request convention of the	Observed	The Charter of Sistema JSFC sets a deadline for contribution of shareholders' proposals for the general

	general meeting, nominate candidates to the company's governance bodies and to make proposals for the general meeting's agenda should not be fraught with needless complexities.		meeting's agenda to 100 days after the end of the financial year. Should a shareholder's proposals contain material deficiencies, the Corporation informs the shareholder accordingly in advance, so that such deficiencies could be eliminated before the Board of Directors has approved the general meeting's agenda and the list of candidacies for election to the relevant governance bodies. Electronic means of communication are used, when possible, to communicate with the shareholders with regard to their proposals.
1.1.5.	Each shareholder should be able to exercise their voting right in the easiest and most convenient way for the shareholder, without any hindrances.	Observed	The Terms of Reference of the General Meeting of Shareholders of Sistema JSFC include a definitive list of documents to be presented to the Teller Committee for registration of participants in the general meeting. The functions of the Corporation's Teller Committee are performed by its registrar. The work of the General Meeting of Shareholders is completed within one day. The general meeting is held either at the main office of the Corporation (13/1 Mokhovaya St., Moscow), or in the immediate proximity thereto. Voting results are summed up and announced before the end of the general meeting. The detailed recommendations of the Code with regard to what provisions are included in the Corporation's internal regulations to assert that the person filling out a voting ballot has the right to require a copy of their filled in ballot certified by the Teller Committee before the end of the general meeting are fulfilled only in practice. Such right is provided to the participants of the general meeting. Any person taking part in the general meeting is given the opportunity to have a copy of their filled-in ballot made at such person's expense. Resolutions of the general meeting are made available to all shareholders. In accordance with the Information Policy, the Corporation provides its shareholders with access to minutes of the meetings.
1.1.6.	The procedure of general meetings adopted by the company should ensure equal opportunities for all the persons present at the meeting to express their opinions and to ask their questions.	Observed	Enough time is allowed at the general meeting for reports on the agenda items and for discussion of such items. The shareholders are given the opportunity to ask questions to the sole executive body, the Chief Accountant, members of the Auditing Commission, Chairman or other members of the Board of Directors' Audit, Finance and Risk Committee, and to get answers to such questions. The candidates nominated to the Board of Directors and the Auditing Commission also attend the respective general meeting. Participants of the General Meeting have the possibility to communicate and consult with each other on the agenda items. The Corporation is not using telecom technologies to provide its shareholders with remote access to the General Meeting, but it provides a sufficiently big room that accommodates all the persons willing to participate in the general meeting.
1.2	The shareholders should be given equal and fair opportunities to share the company's net income via dividends.		
1.2.1.	The Company should develop and implement a transparent and clear mechanism for determining the amount of dividends and their distribution.	Observed	The Board of Directors of the Corporation approved a Dividend Policy (Minutes No. 09-11 dd. 01 November 2011), according to which, subject to positive net income, the Corporation distributes at least 10% of its consolidated net income according to international accounting standards (net of special dividends paid). Following the recommendations of the Board of Directors the Company may also pay special dividends in the minimum amount of

			<p>10% of net income from transactions with an incoming cash flow, such as sale of assets.</p> <p>The Dividend Policy of Sistema JSFC is published on its corporate website.</p> <p>The dividends of the Corporation are paid out only in cash. The Corporation explains to the shareholders the importance of the company being timely notified of any changes to their data that are required for payment of dividends.</p>
1.2.2.	It is not recommended for companies to take a decision to distribute dividends if such decision, while formally being within the restrictions imposed by the government, is economically unreasonable and can lead to misrepresentation of the company's business.	Observed	The Corporation does not declare dividends if net income or cash flow are insufficient (liquidity shortage) or when the investment programme is not performed while the Corporation has exceeded the target debt level.
1.2.3.	Companies should not allow the dividend entitlements of existing shareholder to be downgraded.	Observed	The Corporation has issued only one type of ordinary shares. Holders of derivative securities (global depositary receipts) are entitled to dividends like the holders of ordinary shares.
1.2.4.	Companies should strive to avoid situations where shareholders receive from the company any types of profit (income) other than dividends or disposal value.	Observed	In accordance with the corporate governance practice, shareholders of the Corporation do not receive profit (income) from the Corporation in the form of loans, transfer prices or services rendered by the Corporation.
1.3.	Corporate governance system and practices should ensure equal footing for all shareholders that hold shares of the same category (type), including minority and foreign shareholders, and equal treatment of them by the company.		
1.3.1.	Companies should create the conditions for fair treatment of each shareholder by the governance bodies and the controlling persons of the company, including prevention of abuse of power by major shareholders in respect of minority shareholders.	Observed	The Corporation has created all the conditions necessary to prevent shareholder's actions that are intended to harm other shareholders or the Corporation as well as other abuse of shareholder rights.
1.3.2.	Companies should not take actions that will or may lead to artificial redistribution of corporate control.	Observed	<p>The Corporation has issued only one type of ordinary shares.</p> <p>The Corporation is not aware of any shareholder agreements between its shareholders.</p> <p>The Corporation is not using financial market tools to transfer the voting rights attributable to treasury shares.</p> <p>The Corporation is not aware of any usage of financial market tools with the aim of transferring the voting rights attributable to quasi-treasury shares. The internal regulations of the Corporation do not contain any prohibition on voting with the shares of the Corporation held by legal entities under the Corporation's control.</p>
1.4.	Shareholders should be provided with reliable and efficient ways to register rights to the shares, and the ability to dispose of their shares freely and easily.		
1.4.	Shareholders should be provided with reliable and efficient ways to register rights to the shares, and the ability to dispose of their shares freely and easily.	Observed	<p>The Registrar of the Corporation has a strong reputation, proven and reliable technologies that provide the most efficient way to ensure registration of proprietary rights and exercise of shareholder rights.</p> <p>Jointly with the Registrar, the Corporation is undertaking measures aimed at updating information about the shareholders recorded in the shareholder register.</p> <p>Shares of the Corporation are included in the top quotation</p>

			list of Moscow Stock Exchange and are highly liquid, which enables shareholders to sell their shares as soon as required and at a fair price.
II. Board of Directors			
2.1	The Board of Directors is in charge of strategic management of the company, determines the main principles and approaches to organising the company's risk control and internal control systems, controls the work of its executive bodies and performs other key functions.		
2.1.1.	The Board of Directors should bear responsibility for decisions relating to appointment and dismissal of executive bodies, including cases of dismissal due to improper performance of their duties. The Board of Directors should also control that the company's executive bodies act in compliance with the approved development strategy and the core areas of the company's business.	Observed	<p>The Charter of Sistema JSFC asserts that the authority of the Board of Directors includes appointment of the President of the Corporation, election of members of the Management Board and early termination of the President's and Management Board members' employment, as well as the terms of agreements with the President and members of the Management Board.</p> <p>The Nomination, Remuneration and Corporate Governance Committee of the Board of Directors (hereinafter – "NR&CG Committee") approves candidacies to sole executive body positions in the companies controlled by the Corporation in accordance with its Terms of Reference. The authority of the Board of Directors with regard to nominating candidacies to the executive bodies and Board of Directors of entities under the Corporation's control are not recorded in the Charter.</p> <p>The Board of Directors controls execution of the Corporation's strategy and business plans on a regular basis and reviews relevant status reports at each meeting.</p>
2.1.2.	The Board of Directors is to set the key long-term priorities for the company's business, assess and approve key performance indicators and key business goals of the company, evaluation and approve strategies and business plans for the core businesses of the Company.	Observed	<p>The Board of Directors controls and supports each stage of the process of strategy development and execution at the Corporation, evaluates its execution status and feasibility, and make adjustments, if necessary.</p> <p>The strategy and business plans of the Corporation approved by the Board of Directors contain clear criteria, most of which are expressed in quantitative indicators, with interim control indicators.</p> <p>The Board of Directors approves the budget of the Corporation on an annual basis.</p> <p>The Board of Directors reviews development strategies and reports of the entities under the Corporation's control on a regular basis.</p> <p>At least once a year, the Board of Directors considers items pertaining to the strategy of the Corporation, its execution and updating.</p>
2.1.3.	The Company's Board of Directors should determine the principles of and approaches to organising the risk management and internal control systems at the Company.	Observed	<p>The Charter of Sistema JSFC includes approval of risk management principles in the remit of the Board of Directors.</p> <p>The Board of Directors evaluates the financial, operating, social and ethical risks related to the Corporation's activities.</p> <p>In the discussions of risk management principles the Board of Directors indicates that undertaking of risky transactions should proceed from a reasonable level of risk.</p> <p>The Board of Directors reviews a risk management report and a report on the work of the internal control system at the Corporation at least once a year.</p> <p>Executive bodies of the Corporation present reports to the Audit, Finance and Risk Committee of the Board of Directors on the work of the risk management and internal control systems on a regular basis.</p>
2.1.4.	The Board of Directors should determine the company's policy with regard to remuneration and (or) reimbursement of expenses to Board members, executive	Observed	<p>The General Meeting of Shareholders of the Corporation approved the Policy on remuneration and compensations payable to members of the Board of Directors of Sistema JSFC (Minutes No. 1-06 dd. 30 June 2006).</p> <p>The Board of Directors of the Corporation has approved</p>

	bodies and other key executives of the company.		the HR policy and policies on remuneration payable to the employees of Sistema JSFC. Employees' remuneration includes a fixed part, a bonus for execution of projects and generation of cash income, and long-term incentives. The Board of Directors has also approved the rules for reimbursement of expenses to the top executives of the Corporation.
2.1.5.	The Board of Directors should play the key role in preventing, identifying and settling internal conflicts between the company's governance bodies, shareholders and employees.	Observed	The Board of Directors takes all the measures necessary to prevent and settle conflicts between the governance bodies of the Corporation and its shareholders. The Corporation uses questionnaires to obtain information about related and affiliated persons of the members of its Board of Directors and executive bodies. Resolutions on related party transactions are made by persons that are not in the position of relevant conflict of interests. Employees' compliance with the regulations for resolution of conflicts of interests is secured with disciplinary measures.
2.1.6.	The Board of Directors plays a key role in securing transparency of the company, timely and full disclosure of the company's information, unhindered access of shareholders to the company's documents.	Observed	The Board of Directors of the Corporation approved the Information Policy (Minutes No. 04-10 dd. 17 April 2010). The responsibility to control compliance with the Information Policy lies with the Corporate Secretary reporting to the Board of Directors of the Corporation.
2.1.7.	The Board of Directors control the corporate governance practices at the company and plays a key role in materials corporate events of the company.	Observed	The Board of Directors and the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors (hereinafter – "NR&CG Committee") controls the corporate governance practices at the Corporation. Following an assessment of the corporate governance practices, the NR&CG Committee formulates proposals aimed at improving the corporate governance practices, including changes to the Charter and other internal regulations of the Corporation, and relevant appointments/dismissals.
2.2	The Board of Directors should be accountable to the company's shareholders.		
2.2.1.	Information about the work of the board of directors should be disclosed and provided to shareholders.	Observed	The Annual Report and the corporate website of the Corporation disclose information about the number of meetings of the Board of Directors and its Committees held during the past year, specifying the forms of meetings and details of Board members' attendance at the meetings, as well as information about an efficient risk management and internal control system at the Corporation. The main results of the Board's performance assessment and that of its executive bodies are disclosed in the Annual Report of the Corporation.
2.2.2.	Chairman of the Board of Directors should be available for communication with the company's shareholders.	Observed	Shareholders can ask questions to the Chairman of the Board of Directors regarding issues within the remit of the Board of Directors, and inform him about their opinions (positions) on such matters via the Corporate Secretary.
2.3.	The Board of Directors should be an efficient and professional governance body of the company, capable of passing objective independent judgements and taking decisions aligned with the interests of the company and its shareholders.		
2.3.1.	It is recommended to elect to the Board of Directors persons that have an impeccable business and personal reputation and possess the knowledge, skills and experience necessary for making decisions on the matters falling	Observed	Members of the Board of Directors have an impeccable business and personal reputation and possess the knowledge, skills and experience necessary for making decisions on the matters falling within the remit of the Board of Directors and required for efficient discharge of its functions. Members of the Board of Directors are not shareholders or

	within the remit of the Board of Directors and required for efficient discharge of its functions.		executives or employees of legal entities competing with the Corporation.
2.3.2.	Members of the Board of Directors should be elected via a transparent procedure enabling shareholders to receive information about the candidates that is sufficient to form an opinion of their personal and professional qualities.	Observed	<p>The Nomination, Remuneration and Corporate Governance Committee organises preliminary discussions of the candidacies nominated by shareholders to the Board of Directors with such shareholders.</p> <p>The shareholders can receive information about the candidates to the company's Board of Directors and such information is sufficient to form an opinion about their personal and professional qualities and their adequacy for the requirements to independent directors.</p> <p>The Corporation is not using an online forum to collect shareholders' opinions about candidates' compliance with the independence criteria, since existing clear independence criteria enable the Board of Directors to unambiguously determine the status of each director.</p> <p>The Corporation obtains from each candidate his/her written consent to election to the Board of Directors or Committees.</p> <p>Full information about candidates to the company's Board of Directors is provided in the package of materials for the General Meetings of shareholders.</p> <p>Status of newly elected members of the Board of Directors and their independence are confirmed at the first meeting of the Board of Directors after election of its new composition. According to the law, determining the status of members of the Board of Directors does not fall within the remit of the General Meeting of shareholders, including the status of independent directors.</p>
2.3.3.	The composition of the board of directors should be well balanced, in terms of qualification, experience, expertise and business qualities, and enjoy the confidence of shareholders.	Observed	<p>The Board of Directors is well balanced in terms of qualification, experience, expertise and business qualities of the Board's independent directors.</p> <p>The Board of Directors consists of 8 independent directors, 4 non-executive directors and 1 executive director.</p>
2.3.4.	The number of members on the company's board of directors should make it possible to organise the work of the board of directors in the most efficient manner, allowing for formation of board committees and giving the opportunity to material minority shareholders of the company to elect candidates they vote for to the board of directors.	Observed	The Board of Directors of Sistema JSFC has 13 members.
2.4.	The board of directors should have a sufficient number of independent directors.		
2.4.1.	It is recommended to acknowledge as independent directors the persons that have sufficient expertise, competence, experience, and independence for formulation of their own positions; that are capable of making objective and conscientious judgments; and that are independent from the Company's governance bodies, particular groups of shareholders, or other interested parties. It should be noted that a candidate is not normally	Observed	The independence criteria of members of the Corporation's Board of Directors are aligned with the criteria recommended by the Corporate Governance Code and the Listing Rules of Moscow Stock Exchange.

	considered to be independent if he/she is affiliated with the company, its material shareholder, material counterparty or competitor or with the state.		
2.4.2.	It is recommended to assess compliance of candidates to the board of directors with the independence criteria and to analyse compliance of independent directors on the board with the independence criteria on a regular basis. In such assessment, contents should prevail over form.	Observed	The Nomination, Remuneration and Corporate Governance Committee of the Board of Directors (hereinafter – "NR&CG Committee") issues a conclusion on the independence of candidates to the Board of Directors. At the first meeting of the Board of Directors following the General Meeting of shareholders where such new Board of Directors was elected, the Board of Directors determines the status of independent members of the Board of Directors. The NR&CG Committee analyses compliance of the independent directors on the Board with the independence criteria on a regular basis.
2.4.3.	It is recommended that independent directors constitute at least one third of elected board of directors.	Observed	8 of 13 members of the Board of Directors are independent.
2.4.4.	Independent directors should play the key role in preventing internal conflicts in the company and in the performance of significant corporate actions by the company.	Observed	Independent directors perform a preliminary assessment of potential actions and draft resolutions of the Corporation that may lead to a corporate conflict as they prepare for meetings of the Board of Directors. Opinions of all members of the Board of Directors are always incorporated in the meeting materials.
2.5.	Chairman of the board of directors should facilitate the most efficient discharge of functions that fall within the remit of the board of directors.		
2.5.1.	It is recommended to elect an independent director as chairman, or to select a senior independent director among the elected independent directors who would coordinate the work of independent directors and interact with the chairman of the board of directors.	Observed	One Deputy Chairman of the Board of Directors is an independent director who is also in charge of coordinating the activities of the independent directors.
2.5.2.	Chairman of the board of directors should ensure a constructive atmosphere of the meetings, free discussions of the matters on the meeting agenda, and control over execution of resolutions passed by the board of directors.	Observed	Chairman of the Board of Directors of the Corporation organises development of the Board's work plan, control over execution of resolutions passed by the Board of Directors (through assignments), formulation of the agenda for Board meetings, development of the most efficient solutions for the agenda items, and provides for efficient work of Board Committees, nominates members of the Board of Directors to this or that Committee proceeding from their professional or personal qualities and taking into account the proposals from the members of the Board of Directors.
2.5.3.	Chairman of the board of directors should take necessary measures to provide members of the board of directors with information requisite for making decisions on the agenda items in a timely manner.	Observed	In accordance with the Procedure for the Board of Directors, the Chairman of the Board of Directors takes necessary measures to provide members of the board of directors with information requisite for making decisions on the agenda items in a timely manner. Chairman of the Board of Directors maintains contacts with other governance bodies and executives of the Corporation.
2.6.	Members of the board of directors should act in good faith and reasonable in the best interests of the company and its shareholders proceeding from sufficient amount of information, with due care and diligence.		

2.6.1.	Reasonable and good faith actions of the members of the board of directors assume that decisions are made with account given to all available information, without conflicts of interests, with equal treatment of the company's shareholders, within normal entrepreneurial risks.	Observed	<p>In their decision-making, members of the Board of Directors adhere to the principles of due care and diligence and observance of a balance of interests of all stakeholders. Members of the Board of Directors refrain from actions that will or may lead to a conflict of interests and notify the Corporation's Board of Directors, should they have any conflicts of interests, and do not participate in the decision-making on items where they have a conflict of interests. Members of the Board of Directors take active part in the work of the Board of Directors.</p> <p>Internal regulations of the Corporation include rules on presents and other potential situations that may have lead to conflicts of interests for members of the Board of Directors.</p> <p>Executive directors refrain from voting on approval of the terms of agreements with members of the Corporation's executive bodies.</p> <p>Special internal regulations of the Corporation determine the obligation of Board members to inform the Corporation about the number of the Corporation's securities in their holding and about transactions with them.</p> <p>The Corporation procures insurance for the liability of its Board members.</p>
2.6.2.	Rights and obligations of board members should be clearly formulated and recorded in the internal regulations of the company.	Observed	Rights and obligations of Board members are recorded in the Charter of Sistema JSFC, the Terms of Reference of the Board of Directors of Sistema JSFC, and the Procedure on the Board of Directors.
2.6.3.	Board members should have enough time to perform their duties.	Observed	<p>Members of the Board of Directors allocate enough time to the work on the Board of Directors and in its Committees, which is confirmed by high attendance.</p> <p>Members of the Board of Directors provide information of their intent to accept positions in the governance bodies of other organisations and notify the Corporation of their election or appointment to such positions.</p>
2.6.4.	All members of the board of directors should have equal possibilities to access the company's documents and information. Newly elected members of the board of directors should be provided with sufficient information about the company and the work of the board of directors as soon as possible.	Observed	<p>After election of members of the Board of Directors, the Corporate Secretary familiarises such new Board members with the activities of the Corporation and the entities under its control, the work of the Board of Directors and the internal regulations of the Corporation.</p> <p>Members of the Board of Directors can obtain any information they need directly from the executive management or via the Corporate Secretary, and get answers to their inquiries without delay. The employees' obligation to provide such information is recorded in the internal regulations of the Corporation.</p> <p>In order to prevent potential unlawful use of the information that constitutes trade secret, each candidate to the Board of Directors signs an obligation not to disclose confidential information.</p> <p>The Corporation circulates weekly information bulletins to members of the Board of Directors to ensure regular communication to Board members of information about the most important events.</p>
2.7.	Meetings of the board of directors, preparation therefor, and participation of board members therein should provide for efficient work of the board of directors.		
2.7.1.	It is recommended to hold meetings of the board of directors as necessary, taking into account the scale of business and the company's objectives in a certain period of time.	Observed	<p>Members of the Board of Directors take active part in the work of the Board of Directors and Board Committees.</p> <p>The Procedure on the Board of Directors provides for a possibility to hold meetings of the Board of Directors in presentia and in absentia.</p> <p>Members of the Board of Directors always inform the Board of Directors if they are unable to participate in a meeting of the Board of Directors.</p> <p>Minutes of the meeting of the Board of Directors record information on the votes of each Board member on the</p>

			<p>agenda items.</p> <p>Meetings of the Board of Directors are held at least six times a year in accordance with the work plan of the Board of Directors.</p> <p>The meeting of the Board of Directors where the Board Chairman is elected, Board Committees are formed, and their respective chairmen are elected is held directly after the Annual General Meeting of shareholders.</p>
2.7.2.	It is recommended to develop and include in the company's internal regulations the procedure for preparing and conducting meetings of the board of directors that would give the board members the possibility to prepare for the meeting.	Observed	<p>The Procedure of the Board of Directors determines the procedure and the time of sending a voting ballot to each member of the Board of Directors and for obtaining the filled-in ballot in case the meeting is held in absentia.</p> <p>At the meetings of the Board of Directors that are held in presentia, for the purposes of determining the quorum and the voting results, the written opinions submitted by Board members that were not present at the meeting are taken into account. The procedure for receiving a written opinion from a member of the Board of Directors is determined in the Procedure of the Board of Directors.</p> <p>Board members that cannot be present at the venue of the meeting are offered an opportunity to participate in the discussions and to vote remotely via a conference call or a video conference call.</p> <p>Each member of the Board of Directors has a right to convene a meeting of the Board of Directors. Shareholders that believe that an extraordinary meeting of the Board of Directors is necessary can contact any independent director for convention of such meeting.</p> <p>Board members have permanent access to the work plan of the Board of Directors. All information for Board meetings is available on the portal of the Board of Directors (to which all Board members are connected) 10 days before the Board meeting.</p>
2.7.3.	The form of board meetings should be determined with consideration of the importance of agenda items. The most important items should be discussed at meetings in presentia.	Observed	<p>All scheduled meetings of the Board of Directors are held in presentia. Meetings in absentia are held when some urgent issues arise.</p> <p>For the most important ad-hoc issues, the Corporation convenes extraordinary Board meetings in presentia. The importance of an issue is determined by its materiality for the strategic development of the Corporation.</p>
2.7.4.	It is recommended that decisions on the most essential aspects of the company's business are made by a qualified majority or a simple majority of votes of all the elected Board members.	Partially observed	<p>According to the Charter of Sistema JSFC, decisions on items relating to increase of authorised capital, placement of certain types of securities, approval of material and related party transactions are made in compliance with special voting rules.</p> <p>Decisions on other agenda items are made by simple majority of votes of the Board members.</p> <p>Such voting procedure ensures more candid discussions and encourages independent directors to voice their opinions.</p>
2.8.	The board of directors should form committees for preview of the most important matters pertaining to the company's business.		
2.8.1.	For provisional review of matters pertaining to the company's financial activities, it is recommended to form an audit committee consisting of independent directors.	<p>Observed*</p> <p>*Most of the independent directors are on the Committee. The Committee is chaired by an independent director.</p>	<p>The Corporation has formed an Audit, Finance and Risk Committee of the Board of Directors (hereinafter – "Audit Committee", or "the Committee") and approved the Terms of Reference of the Committee. The objectives of the Committee as recorded in the Terms of Reference are aligned with the recommendations of the Corporate Governance Code.</p> <p>In accordance with the requirements of the Listing Rules of Moscow Stock Exchange, most of the Board's independent directors are on the Committee (5 out of 6). The Committee is chaired by an independent director.</p> <p>R. Munnings, Chairman of the Committee, has a vast experience and expertise in preparation, analysis,</p>

			<p>evaluation and audit of statutory (financial) accounts.</p> <p>The Audit Committee may invite to its meetings any executives of the Corporation and representatives of third-party auditing companies, as well as engage independent experts in the work of the Audit Committee.</p> <p>Meetings of the Audit Committee with the head of the Corporation's internal audit unit are held at least quarterly.</p> <p>The Corporation publicly discloses information about the Audit Committee's evaluation of auditor opinions prepared by third-party auditors, and information about inclusion in the Committee of an independent director possessing experience and expertise in preparation, analysis, evaluation and audit of statutory (financial) accounts.</p>
2.8.2.	For provisional review of issues relating to development of efficient and transparent practices in the sphere of remuneration, it is recommended to form a remuneration committee consisting of independent directors and chaired by an independent director who is not the chairman of the board of directors.	<p>Observed*</p> <p>*Most of the independent directors are on the Committee. The Committee is chaired by an independent director.</p>	<p>The Corporation has formed the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors (hereinafter – "Nomination Committee", or "the Committee") and approved the Terms of Reference of the Committee. The objectives of the Committee as recorded in the Terms of Reference are aligned with the recommendations of the Corporate Governance Code with respect to the objectives of the Nomination Committee.</p> <p>In accordance with the requirements of the Listing Rules of Moscow Stock Exchange, the majority of the Committee members are independent directors (4 out of 6). The Committee is chaired by an independent director.</p> <p>The Nomination Committee oversees disclosure of information about the policy and practices in remuneration and about shares of the Corporation in the possession of its Board members, President and members of the Management Board.</p>
2.8.3.	It is recommended to form a nomination (HR) committee to preview issues relating to HR (continuity) planning, professional composition and efficiency of the board of directors. Most of the members of such committee should be independent directors.	Observed	<p>The Corporation has formed the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors (hereinafter – "Nomination Committee", or "the Committee") and approved the Terms of Reference of the Committee. The objectives of the Committee as recorded in the Terms of Reference are aligned with the recommendations of the Corporate Governance Code with respect to the objectives of the Nomination Committee.</p> <p>In accordance with the requirements of the Listing Rules of Moscow Stock Exchange, the majority of the Committee members are independent directors (4 out of 6). The Committee is chaired by an independent director.</p> <p>The Nomination Committee determines the methodology for assessment of the Board's work and organises such assessment process.</p>
2.8.4.	Depending on the scale of business and the level of risks the company is exposed to, it is recommended to form other committees of the board of directors (strategy committee, corporate governance committee, ethics committee, risk management committee, budget committee, EH&S committee, etc.)	Observed	<p>Sistema JSFC has five committees of the Board of Directors:</p> <ul style="list-style-type: none"> ▪ Strategy Committee, ▪ Audit, Finance and Risk Committee, ▪ Nomination, Remuneration and Corporate Governance Committee, ▪ Ethics and Control Committee, ▪ Investor Relations and Dividend Policy Committee. <p>The Board of Directors has approved the Terms of Reference for each of these Committees.</p> <p>The objectives of the Strategy Committee and the Ethics and Control Committee as recorded in the Terms of Reference are aligned with the guidelines of the Corporate Governance Code.</p>
2.8.5.	It is recommended to determine the composition of committees so as to allow for a thorough discussion of the items under	Observed	<p>Each Committee of the Board of Directors consists of at least 5 members of the Board of Directors.</p> <p>The maximum number of committees in which a members of the Corporation's Board of Directors can take part is not</p>

	preliminary consideration, taking into account various opinions.		<p>determined, however it is normally between one and three Committees.</p> <p>Experts and consultants can be engaged in the work of the Committees, if necessary.</p> <p>Persons who are not members of the Audit, Finance and Risk Committee or the Nomination, Remuneration and Corporate Governance Committee may attend meetings of such Committees only upon invitation from their Chairmen.</p> <p>Three Committees of the Board of Directors are chaired by independent directors (the Audit, Finance and Risk Committee or the Nomination, Remuneration and Corporate Governance Committee, the Investor Relations and Dividend Policy Committee). Two Committees of the Board of Directors are chaired by non-executive directors (the Strategy Committee and the Ethics and Control Committee).</p>
2.8.6.	Committee chairmen should inform the board of directors and its chairman about the work of their committees on a regular basis.	Observed	<p>Chairmen of the Committees inform the Chairman of the Corporation's Board of Directors about the work of their Committees on a regular basis.</p> <p>The Committees present regular reports on their work to the Board of Directors.</p>
2.9.	The board of directors should ensure performance review of the board of directors, its committees and members of the board of directors.		
2.9.1.	Performance review of the board of directors should be aimed at determining the efficiency of the board of directors, its committees and members of the board of directors, adequacy of their performance for the needs of the company's development, activation of the board's work or identifying areas for improvement.	Observed	<p>Performance review of the Board of Directors is provided for in the Terms of Reference of the Board of Directors of Sistema JSFC.</p> <p>The performance review procedure for the Board of Directors was developed by the Corporation and approved by the Board of Directors proceeding from their extensive experience and includes appraisal of the Board's performance, organisation of its work, and of the work of its Committees. There is no separate assessment of the performance of the Chairman of the Board of Directors.</p> <p>The criteria used to assess the performance of the Board of Directors provide for assessment of the professional and personal qualities of members of the Board of Directors, their independence, teamwork and personal contribution, as well as other factors that have an impact on the performance of the Board of Directors.</p> <p>Self-assessment results are reviewed at a meeting of the Board of Directors held in presentia.</p> <p>Proceeding from such results, the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors formulates suggestions for improvement of the performance of the Board of Directors and its Committees.</p>
2.9.2.	Performance review of the board of directors, its committees and members should be performance on a regular basis at least once a year. It is recommended to engage a third party (consultant) to perform an independent assessment of the board's performance on a regular basis, not less than once every three years.	Observed	Performance review of the Board of Directors and its Committees is performed annually. The Corporation is planning to engage an independent consultant within three years.
III. Corporate Secretary of the Company			
3.1	The corporate secretary should provide efficient day-to-day interactions with the shareholders, coordination of the company's activities aimed at protecting the shareholders' rights and interests, facilitation of the work of the board of directors.		

3.1.1.	The corporate secretary should have the expertise, experience and qualification sufficient for execution of his/her professional duties, an impeccable reputation, and enjoy the confidence of shareholders.	Observed	<p>The Board of Directors of the Corporation approved the Policy on the Corporation Secretary of Sistema JSFC (Minutes No. 10-14 dd. 17 December 2014). The Policy specifies the requirements to the person who may hold the position of the Corporate Secretary, in line with the guidelines of the Corporate Governance Code.</p> <p>The person holding the position of the Corporate Secretary is not affiliated with the Corporation, not related to the controlling shareholder or the executive management and does not hold any other positions in the Corporation.</p> <p>The Corporate Secretary maintains regular professional contacts with other Corporate Secretaries.</p> <p>Information about the Corporate Secretary is disclosed in the Annual Report.</p>
3.1.2.	The corporate secretary should have sufficient independence from the company's executive bodies and the authority and resources required to fulfill his/her professional duties.	Observed	<p>The Corporate Secretary reports directly to the Board of Directors, appointed or dismissed by the Board of Directors.</p> <p>The Board of Directors of the Corporation has approved a Policy on the Corporate Secretary of Sistema JSFC setting the requirements to the candidacies to the position of Corporate Secretary, the appointment and dismissal procedures, reporting lines, procedure for the Corporate Secretary's interactions with the governance bodies and the subdivisions, his/her functions, rights and obligations, the terms and procedure of remuneration and the liabilities of the Corporate Secretary.</p> <p>The Corporate Secretary's functions include participation in preparation and conducting of General Meeting, providing for the work of the Board of Directors and its Committees; participation in execution of the information disclosure policy, ensuring storage of corporate documents, ensuring interactions with shareholders and regulators, market makers, registrars, and other professional participants of the securities market, to the extent of his/her authority, ensuring execution of the procedures providing for the exercise of shareholders' rights and legal interests, participation in improvement of the corporate governance system and practices.</p> <p>The Corporate Secretary has the right to request and receive documents of the Corporation, within his/her authority, submit items for review by the governance bodies, control adherence of the company's governance bodies and employees to the company's charter and internal regulations pertaining to his/her functions, interact with the Chairman of the Board of Directors and the Chairmen of the Committees of the Board of Directors.</p>

IV. Remuneration of the Board of Directors' members, executive bodies and key management of the Company.

4.1.	The level of remuneration paid by the Company should be sufficient for engaging, motivating and retaining employees possessing the competencies and qualifications required by the Company. The remuneration of the Board members, executive bodies and key management should be paid in accordance with the remuneration policy adopted by the Company.		
4.1.1.	It is recommended that the level of remuneration paid by the Company to the Board members, executive bodies and other key management, should provide sufficient motivation for their efficient work enabling the Company to engage and retain competent and highly qualified specialists. At the same time, the Company should avoid paying excessive remuneration or having an unjustifiably big gap between the remuneration	Observed	The level of remuneration paid to the Board members, executive bodies of the Company and other key management correspond to the remuneration levels at peer companies.

	levels of the persons specified above and other employees.		
4.1.2.	The Company's remuneration policy should be developed by the Remuneration Committee and approved by the Company's Board of Directors. The Board of Directors with the support of the Remuneration Committee should ensure oversight over the implementation of the remuneration policy by the Company and, if necessary, to revise and amend this policy	Observed	<p>The Company's remuneration policy is developed by the Nomination, Remuneration and Corporate Governance Committee (NRCGC) of the Company and approved by the Board of Directors.</p> <p>The Board of Directors has approved the internal regulations of the Company in the area of remuneration and long-term incentives of the executive bodies or other key management of the Company.</p> <p>When forming or revising the remuneration system for the executive bodies or the key management of the Company, NRCGC conducts an analysis and gives recommendations to the Board of Directors with respect to each of the elements of the remuneration system, makes a comparison of the relative sizes of the variable and fixed parts of the remuneration system.</p>
4.1.3.	The Company's remuneration policy should contain transparent mechanisms for determining the amount of remuneration payable to the Board members, executive bodies and other key management of the Company, as well as to regulate all types of payments, benefits and compensation granted to the specified persons.	Observed	<p>The Company's internal regulations provide detailed guidelines on the procedure for determining the amount of remuneration and for making the respective payments of all remuneration components, as well as any other compensation.</p> <p>Decisions on the amount of remuneration payable to specific employees are taken without the participation of the respective employee and are not discussed with him or her.</p>
4.1.4.	It is recommended that the Company should develop a policy for expenses compensation, specifying the list of costs to be reimbursed and the level of services to which the Board members, executive bodies and other key management of the Company may be entitled. Thus policy should become an integral part of the Company's remuneration policy.	Observed	<p>According to the Company's internal regulations, compensation is due only for the expenses incurred by the members of corporate governance bodies and other employees of the Company that are directly related to activities performed in the interests of the Company.</p> <p>There are strict regulations on the level of services to which the Board members, the President, the Management Board members and other key employees are entitled.</p> <p>The travel expenses of such persons related to the need to attend the Company's meetings and make any other business trips as part of performing their job responsibilities are reimbursed.</p>
4.2.	The remuneration system of the Board members should ensure that the financial interests of the directors are closely correlated with the long-term financial interests of the shareholders.		
4.2.1.	Fixed annual remuneration is a preferable form of cash remuneration payable to the Board members. It is inadvisable to pay remuneration for participation in isolated meetings of the Board or its Committees. It is not recommended applying any forms of short-term incentives and additional financial motivation to the Board members.	Partially observed	<p>The main form of remuneration payable to the Board of Directors is fixed remuneration.</p> <p>The Company also pays additional remuneration to the Board members for achievement of the Corporation's investment goals.</p> <p>Additional remuneration may be paid for performing the functions of the Board Chairman, Deputy Chairman, and Committee Chairman.</p> <p>The Board members also receive compensation for each attended Board meeting as reimbursement of their out-of-pocket expenses that cannot be directly reimbursed by the Corporation in accordance with the requirements of the tax regulations.</p>
4.2.2.	A long-term ownership of the Company's shares is the best tool facilitating the proximity of the financial interests of the Board members and the long-term interests of the shareholders. At the same time, it is not recommended that the right to	Partially observed	<p>A portion of the remuneration of the Board members is paid in the form of shares. The long-term ownership of shares by the Board members is stimulated by their obligation to disclose information on transactions with securities, and in practice most of the Board members hold their shares until they leave the Board.</p> <p>There are no limitations on the Board members' transactions with securities, as this may infringe the Board</p>

	sell shares be linked to the achievement of specific operating targets of the Company, nor the participation of Board members in stock option schemes is recommended.		members' right to dispose of their rightfully owned property. The Board members have no obligation to refrain from using hedging mechanisms.
4.2.3.	It is inadvisable to allow paying any additional remuneration or compensation to the Board members in the event of early termination of their contract due to a change of the controlling shareholder or other circumstances.	Observed	There are no provisions on the Board members' entitlement to any additional remuneration or compensation (severance payments) in the event of early termination of their powers due to a change of the controlling shareholder or any other circumstances.
4.3.	The remuneration system of the executive bodies and key management of the Company should ensure correlation of their remuneration and the results of the Company, as well as their personal contribution to the achievement of this result.		
4.3.1.	Remuneration of the executive bodies and other key management of the Company should be determined in such a way as to ensure a reasonable and justifiable ratio of the fixed and variable parts of the remuneration linked to the results of the Company and personal (individual) contribution of the employee in the final result.	Observed	<p>The Corporation has a short-term and long-term incentive system for the members of the executive bodies and other key management of the Company, approved by the Board of Directors</p> <p>When determining the amount of fixed remuneration the Company takes into account all other benefits granted to the members of the Company's executive bodies and to other key senior managers.</p> <p>The Nomination, Remuneration and Corporate Governance Committee is involved in the development of key indicators used as the basis for the short-term incentive system and oversees its implementation.</p> <p>According to the provisions of the short-term incentive system the results of the employees are assessed at the end of the year.</p> <p>The assessment of the Corporation's year-end performance as part of the short-term and long-term incentive systems takes into account the risks carried by the Corporation.</p> <p>In the event of discovering any instances of manipulation with accounting figures or any other types of wrongdoing committed by executive bodies or other senior managers seeking to ensure technical achievement of targets while jeopardising the interests of the shareholders, the respective employees are penalised and have to compensate the Corporation for its losses in compliance with the current laws.</p>
4.3.2.	It is recommended that the companies whose shares are traded on a stock exchange, should implement a long-term incentive scheme for the executive bodies of the Company and other key management based on the shares of the Company (stock options or other derivative financial instruments whose underlying asset is the company's shares).	Observed	<p>The Corporation has a long-term incentive scheme for the top management and other key employees of the Company based on the shares of the Company.</p> <p>Under the long-term incentive scheme the shares are granted during a four-year period with annual deferral of share awards depending on the results achieved over the previous two years. There are no further limitation on the disposal of shares.</p> <p>In view of the fact that under the long-term incentive scheme shares are granted with a deferral, the scheme does not provide for any additional restrictions on the sale of shares in the event of early termination of powers and (or) termination of the employment contract.</p>
4.3.3.	Severance payments (golden parachutes) paid by the Company in the event of early termination of the powers of executive bodies or key management should not exceed the double size of their fixed annual remuneration, provided that such early termination was prompted by the Company and	Observed	The amount of severance payment made by the Corporation in the event of an early termination of powers of executive bodies or key management prompted by the Corporation does not exceed the amount set by the law and at any rate does not exceed the double amount of fixed annual remuneration.

	that the respective employee was not guilty of any wrongdoing.		
V. Risk management and internal control system			
5.1.	The Company should have an effective risk management and control system aimed at providing reasonable assurance in the achievement of the goals set for the Company.		
5.1.1.	The Company's Board of Directors should determine the principles of and approaches to organising the risk management and internal control systems at the Company.	Observed	<p>The Board of Directors approved the Internal Audit Policy of Sistema JSFC and the Internal Control Policy of Sistema JSFC. The Corporation also adopted the Risk Management Code. All the regulations were developed in accordance with the COSO integrated concept on internal control.</p> <p>The risk management and internal control systems function at operational and organisational levels.</p> <p>The roles and objectives of various governance bodies of the Corporation in this process are set out in the above-mentioned documents.</p>
5.1.2.	The Company's executive bodies should ensure the establishment and maintenance of effective risk management and internal control systems at the Company.	Observed	<p>The Internal Control and Audit Department was set up in order to perform activities in the area of internal control and to bear responsibility for the implementation of decisions taken by the Board of Directors in this area.</p> <p>A dedicated risk management subdivision was set up within the Finance and Investment Function.</p> <p>Heads of the Corporation's subdivisions, in line with their functional duties, are responsible for developing, documenting, implementing, monitoring and upgrading the risk management and internal control systems in the respective functional areas.</p>
5.1.3.	The risk management and internal control systems of the Company should ensure objective, fair and clear understanding of the current status and prospects of the Company, the integrity and transparency of the Company's financial reporting, the reasonableness and acceptability of the risks assumed by the Company.	Observed	<p>The internal control and risk management system enables the Corporation to timely respond to the newly emerged risks.</p> <p>The Board of Directors approved the Anticorruption Policy of Sistema JSFC.</p> <p>The Corporation has a single whistleblower hotline enabling any employee of the Corporation to report any offences committed by the Corporation and/or its officers. The whistleblowers are protected from any types of pressure (including dismissal, persecution and any forms of discrimination).</p>
5.1.4.	It is recommended that the Board of Directors should take all necessary and sufficient measures to make sure that the existing risk management and internal control system of the Company meets the respective principles and approaches approved by the Board of Directors and is functioning efficiently.	Observed	<p>The Board of Directors reviews the matters of organisation, functioning and efficiency of the risk management and internal control systems and, if necessary, gives recommendations for their improvement on a regular basis (at least once a year). Information on the results of the review held by the Board of Directors into the matters of risk management and internal control is provided to the shareholders as part of an Annual Report.</p>
5.2	To ensure a regular and independent assessment of the reliability and efficiency of its risk management and internal control systems and corporate governance practices the Company should organise internal audits.		
5.2.1.	It is recommended that internal audits should be organised by means of establishing a dedicated subdivision (internal audit unit) or engaging an independent external auditor. In order to ensure the independence of the internal audit unit its functional and administrative	Observed	<p>The Corporation has set up the Internal Control and Audit Department operating on the basis of the Terms of References of the Internal Control and Audit Department.</p> <p>The Department functionally reports to the Board of Directors and administratively – to the Corporation's President.</p> <p>Head of the Department is appointed and dismissed by the President based on the resolution of the Board of Directors.</p>

	reporting lines should be divided. It is advisable that the internal audit unit should functionally report to the Board of Directors and administratively – directly to the Company's sole executive body.		
5.2.2.	It is recommended that the internal audit function should perform an assessment of the efficiency of the internal control and risk management systems, corporate governance, and conform to the generally accepted standards in internal audit.	Observed	<p>The Corporation's internal audit procedures comply with the International Internal Audit Standards of the Institute of Internal Auditors.</p> <p>The Corporation's internal audit procedures include:</p> <ul style="list-style-type: none"> ▪ assessing the efficiency of the internal control system, ▪ assessing the efficiency of the risk management system, ▪ assessing the corporate governance system.
VI. Disclosing information about the Company, informational policy of the Company			
6.1.	The Company and its operations should be transparent for the shareholders, investors and other interested parties.		
6.1.1.	The Company should develop and implement an informational policy ensuring efficient interaction of the Company, shareholders, investors and other interested parties.	Observed	<p>The Corporation has developed and implemented an Informational policy which was approved by the Board of Directors.</p> <p>The executive bodies of the Corporation and its Corporate Secretary are responsible for the implementation of the Informational Policy. The Board of Directors oversees compliance with the Informational Policy.</p> <p>Members of the executive bodies hold meetings with analysts on a regular basis to accompany the disclosure (publication) of the Corporation's financial statements or to comment on the key investment projects and development plans of the Corporation.</p>
6.1.2.	The Company should disclose information on the corporate governance system and practices, including detailed information on compliance with the principles and recommendations of this Code.	Observed	<p>The Corporation publishes information about its governance bodies and their composition, including information on the background of the members of governance bodies on the Company's website.</p> <p>The Corporation has adopted the Corporate Governance Code of Sistema JSFC (hereinafter – "the Code") setting out the key principles of corporate governance and the obligations assumed by the Board of Directors including representatives of the principal shareholder with respect to the Corporation.</p> <p>The Code has been published on the Corporation's website.</p>
6.2.	The Company should timely disclose complete, relevant and reliable information about the Company in order to enable its shareholders and investors to take informed decisions.		
6.2.1.	The Company should disclose information regularly, consistently and promptly and ensure the accessibility, reliability, completeness and comparability of the disclosed data.	Observed	<p>The Corporation's informational policy makes it possible to coordinate the work of all units and subdivisions of the Corporation dealing with information disclosures.</p> <p>The Corporation discloses information in the shortest possible time.</p> <p>The Corporation's material information is disclosed for Russian and foreign investors simultaneously and in equal volumes in the Russian and English languages.</p> <p>The Corporation promptly responds to any rumours and/or unreliable information about its activities.</p> <p>The Corporation uses its website and the Interfax news feed for disclosing information.</p> <p>The Corporation is aiming to make sure that the disclosed information is unambiguous, objective and neutral and it does not avoid disclosing negative information.</p>
6.2.2.	It is recommended that the	Observed	The Corporation discloses all material information not only

	Company should avoid adopting a purely technical approach when disclosing information and should disclose all material information about its activities even if the disclosure of such information is not required by the law.		about itself but also about its controlled legal entities. The Corporation discloses the following additional information: <ul style="list-style-type: none"> ▪ mission, strategy and objectives of the Corporation, ▪ financial operations and financial status of the Corporation, ▪ capital structure of the Corporation, ▪ social responsibility of the Corporation.
6.2.3.	Annual Report, being one of the most important tools of informational interaction with shareholders and other interested parties, should contain information making it possible to assess the company's annual results.	Partially observed	The Corporation discloses all material information in the Annual Report in accordance with the recommendations of the Corporate Governance Code. The Annual Report includes all material data from the annual accounting and financial statements. The Corporation discloses only the total amount of remuneration paid to the Board members and executives respectively in order to avoid breaching the principles of reasonable competition in the top management labour market.
6.3.	The Company should ensure that all shareholders have equal and unhindered access to information and documents upon their request.		
6.3.1.	The shareholders should be able to exercise their right to access documents and information without any unjustifiable difficulties.	Observed	When granting the shareholders access to its documents and information the Corporation is guided by the current laws and aims to avoid creating unreasonable difficulties for the shareholders. The Corporation's informational policy sets out the procedure for granting such access. The Corporation does not overstate the costs related to making and sending the copies of such documents. The matters of providing information about controlled legal entities are not regulated by the Informational policy, since the companies controlled by the Corporation conduct independent operations and Sistema JSFC does not take any operational decisions with respect to such companies.
6.3.2.	It is recommended that when providing information to the shareholders the Company should ensure a reasonable balance of interests of specific shareholders and the Company itself, which is interested in maintaining confidentiality of crucial commercial information that may have a significant impact on its competitiveness.	Observed	A shareholder may be granted access to confidential information only provided that the shareholder is aware of the confidential nature of such information and assumes the obligation to maintain its confidentiality and to comply with the requirements of the current laws.
VII. Material corporate actions			
7.1.	Actions that have or may have a significant impact on the structure of the shareholders' equity or the financial position of the Company and accordingly the position of its shareholders (material corporate actions) should be taken on fair terms providing for the protection of the rights and interests of the shareholders and other interested parties.		
7.1.1.	Material corporate actions include company reorganisation, acquisition of 30 and more percent of company voting shares (a takeover), entering into material transactions, increasing or decreasing the authorised capital of the company, listing and delisting the company's shares, and other actions that may result in a significant change of shareholder rights or	Observed	In accordance with the law decisions on filing for a delisting of shares falls within the remit of the general meeting of shareholders. In accordance with the Charter of Sistema JSFC decision-making on all other actions specified in the Corporate Governance Code falls within the remit of the Board of Directors.

	<p>have a detrimental effect on their interests. It is recommended that the Company's Charter should determine the list (criteria) of transactions or other actions constituting material corporate actions and vest the board of directors of the company with the exclusive powers to take decisions on such matters.</p>		
7.1.2.	<p>The Board of Directors should play a key role in taking decisions or developing recommendations on material corporate actions on the basis of the opinions of independent directors of the Company.</p>	Observed	<p>The competence of the Board of Directors set out in the Charter and its broad powers enable the Board to play a key role in decision-making. The final decision conforms to the opinions of independent directors.</p> <p>In accordance with the Charter of Sistema JSFC the powers of the Board include:</p> <ul style="list-style-type: none"> ▪ taking decisions on acquiring, changing or selling stakes in equity capitals of other legal entities, including controlled companies, ▪ approval of major transactions involving assets whose value amounts to 25% -50% of the Corporation's book value, ▪ approval of transactions related to disposal or potential disposal of real property whose value exceeds 10% of the book value of the Corporation's assets. <p>Decisions on major transactions are taken unanimously. All major transactions are approved by the Board of Directors prior to their completion.</p> <p>If it is necessary to determine the value of the assets divested or acquired under the terms of a major or material related-party transaction, the Board of Directors hires an independent appraiser.</p> <p>The Board of Directors takes decisions on the disposal of treasury shares of the Corporation and considers transactions performed by and on behalf of third parties but at the expense of the Corporation, provided that such transactions would qualify as major or related party transactions if closed by the Corporation.</p> <p>Prior to being considered by the Board of Directors, related party transactions are provisionally reviewed by the Audit, Finance and Risk Committee which consists mostly of independent directors. The materials prepared for the respective Board meeting include a document reflecting the position of the Committee on the matter.</p> <p>The Board of Directors evaluates, as far as possible, whether the transactions of controlled subsidiaries involve the interests of the members of the Corporation's governance bodies.</p> <p>Decisions on approval of related-party transactions are taken by those Board members that do not have any conflict of interest with respect to such a transaction.</p> <p>In the event of reorganisation of the Corporation the Board of Directors will take an active part in determining the terms of such reorganisation and will take decision on including the respective item in the agenda of the general meeting of shareholders only provided that it has assurance of the necessity and feasibility of the terms of such reorganisation. The members of the Board of Directors will take part in the negotiations on reorganisation.</p> <p>When considering the advisability of a reorganisation the Board of Directors will assess the terms of such reorganisation from the point of view of their meeting the interests of all the shareholders and will follow the procedures ensuring maximum transparency of the taken decisions and their justifiability for investors.</p> <p>In the event of occurrence of the respective events the</p>

			<p>governance bodies of the Corporation will oversee compliance with the laws applicable to the Corporation's takeover of another legal entity, the takeover of the Corporation itself by another entity, a voluntary tender offer, a mandatory tender offer, a notice of the right to demand a buyback of the Corporation's securities, the demand of the majority shareholder on mandatory buyout of the Corporation's securities. The Board of Directors, as far as possible, monitors compliance with the applicable laws by the persons making any transactions with the Corporation's securities.</p> <p>In the event of the Corporation's taking over any other legal entity the Board of Directors will make sure that the Corporation complies with the laws taking into account the principles and recommendations set out in the Corporate Governance Code.</p> <p>When considering issues related to listing or delisting the Corporation's securities the Board of Directors evaluates in advance all the benefits and costs related to such corporate actions and ensures complete transparency of the respective decisions.</p>
7.1.3.	<p>It is recommended that in the course of taking material corporate actions influencing the rights and lawful interests of the shareholders, equal conditions should be provided to all the company shareholders, and when the mechanisms provided by the law are insufficient, additional measures should be taken to protect the rights and lawful interests of the Company's shareholders. At the same time, the company should be guided not only by formal requirements of the law, but also by the principles of corporate governance set out in the Code.</p>	Observed	<p>The Corporation issued only one type of ordinary shares which excludes the possibility of there being various grades of shareholder rights to be taken into account by the Corporation when taking material corporate actions.</p> <p>If a decision is taken in the future to add clauses to the Corporation's Charter providing for issuance of preference shares, or split-up, consolidation or conversion of shares, the Corporation will aim to ensure that such actions do not violate the dividend rights of the existing shareholders and do not lead to dilution of their stakes.</p> <p>The Corporation seeks to ensure that all material transactions are made on fair and transparent terms that safeguard the interests of all shareholders, in particular, that the acquisition and buyback of shares by the Corporation is done at a fair price and that all shareholders have equal opportunity to sell the Company's shares.</p> <p>In the event of the Corporation's reorganisation, in order to determine the proportion of shares to be converted, an independent appraiser with strong business reputation and experience in the respective area will be engaged.</p> <p>The Corporation does not issue securities against non-cash payments. If the Corporation conducts such a placement of shares, the Corporation will engage exclusively those appraisers that have an impeccable business reputation widely recognised by the market and relevant experience. The respective issues will be also considered by the independent members of the Board of Directors, and the position of the Corporation with respect to the fairness of the terms of the planned increase in its authorised capital will be based on the opinions of independent directors.</p> <p>The Corporation does not take any actions that may lead to a mandatory delisting of its shares. In the event of delisting the Corporation will aim to ensure that the shareholders are provided with mechanisms for disposing of their shares.</p> <p>The Corporation takes all necessary steps to identify and, if possible, curb any attempts at manipulating the share price of the Corporation.</p>
7.2.	<p>The Company should establish such procedures for taking corporate actions that would enable the shareholders to timely receive information on such actions, and provide them with the opportunity to influence such actions and guarantee an adequate level of protection of the shareholder's rights.</p>		
7.2.1.	Disclosures of information on	Observed	Being a public company the Corporation discloses the

	material corporate actions should contain explanations of the reasons, terms and consequences of such actions.		maximum possible amount of information on any corporate actions, including those that may influence the dividend and/or any other rights of the shareholders. If a takeover attempt is made with regard to the Corporation, the Company will publish on its website voluntary or mandatory tender offers on the buyback of its securities and any other important information, as well as the stance of the Board of Directors on the planned takeover, including with regard to compliance with the laws and recommendations of the Corporate Governance Code by the party planning the takeover.
7.2.2.	It is recommended that the rules and procedures related to the Company's taking material corporate actions should be set out in the internal regulations of the Company.	Observed	To the extent that the rules and procedures on the Company's taking material corporate actions are not provided for by the applicable laws, such rules and procedures are set forth in the internal regulations of the Corporation on the basis of the probability of such actions.

Annex 6. Report on compliance with key requirements of the UK Corporate Governance Code

<i>Provisions of the Code</i>	<i>Compliance</i>	<i>Note</i>
A. GOVERNANCE		
A.1. Governance bodies		
A.1.1. Work of the Board of Directors (BoD) should be organised efficiently, which implies holding a sufficient number of regular BoD meetings.	Observed	The Board of Directors of Sistema JSFC meets at least 8 times a year, which allows reviewing and taking decisions on issues within its scope of authority.
The scope of authority of the Board of Directors should be formally set out.	Observed	The scope of authority of the Board of Directors is set out in the Charter of Sistema JSFC (Clause 32 of the Charter).
The corporation's annual report should include a description of the principles of work of the BoD, including general description of decisions made by the Board of Directors and the Management Board.	Observed	The 2013 Annual Report of Sistema JSFC includes information on procedures of the Board of Directors, including a report on key items decisions on which were made by the Board of Directors and the Management Board (p. 6.2, 6.4).
A.1.2. The corporation's annual report should identify the chairman, the deputy chairmen, the president, the senior independent director and the chairmen and members of board committees.	Observed	The 2013 Annual Report of Sistema JSFC includes information on election of V. Evtushenkov Chairman of the Board of Directors of Sistema JSFC, and also on elected deputy chairmen of the Board. Besides, the 2013 Annual Report includes information on the President and also Chairmen and Deputy Chairmen of the BoD Committees of Sistema JSFC. The Corporation's statutory documents do not provide for the position of a senior independent director.
The annual report should include information on the number of meetings of the BoD and the BoD Committees, and on their attendance by Board members.	Observed	The 2013 Annual Report of Sistema JSFC includes information on the number of meetings of the Board of Directors and Board Committees, as well as their attendance by members (p. 6.2).
A.1.3. The corporation should ensure relevant	Observed	According to the Terms of Reference of the

indemnification of BoD members.		Board of Directors, the Company insures liability of the Board members from legal actions or claims in relation to business decisions or other actions taken in capacity of a member of the Board of Director of Sistema JSFC or its affiliates (D&O Policy). Additionally, members of the Board of Directors have signed Indemnification Agreements.
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A.2. Division of powers between the Chairman of the Board of Directors and the President

A.2.1. The same person cannot at the same time hold the position of the Chairman of the Board of Directors and the President. The division of powers between the board chairman and the president should be clearly established and set out in the Corporation's internal documents approved by the BoD.	Observed	The Russian legislation and the Charter of Sistema JSFC envisage that a person performing the functions of the sole executive body of Sistema JSFC cannot simultaneously hold the position of the Chairman of the Board of Directors of Sistema JSFC (Clause 31.3 of the Charter). The powers of the Board Chairman, Board Members and the President are clearly divided in the Charter of Sistema JSFC.
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A.3. Chairman of the Board of Directors

A.3.1. A candidate to the position of board chairman should meet the independence criteria specified in Section B.1.1.	Not observed	The Corporation's main shareholder V. Evtushenkov, who is non-executive member of the Board of Directors, but does not meet the independence criteria, was elected Chairman of the Board of Directors of Sistema JSFC.
The president should not perform the functions of the board chairman of the same company. If, however, the president is nominated board chairman after all, the board should discuss his/her nomination with the corporation's main shareholders in advance, providing sufficient grounds for the election, and should disclose this information in the next annual report.	Observed	The Russian legislation and the Charter of Sistema JSFC envisage that a person performing the functions of the sole executive body of Sistema JSFC cannot simultaneously hold the position of the Chairman of the Board of Directors of Sistema JSFC. The powers of the Board Chairman and the President are clearly divided in the Charter of Sistema JSFC.

A.4. Non-executive directors

A.4.1. The board should appoint one of the non-executive directors meeting the independence criteria to be the senior independent director. The senior independent director should be available to shareholders for resolving issues that have not been resolved through contacting the chairman, president or other executive directors. A.4.2. From time to time the board chairman should hold meetings with non-executive directors without the executive directors being present.	Partially observed	Formal meetings of the Board of Directors of Sistema JSFC without the executive directors' presence are not held, but there are regular informal meetings of the Board Chairman with independent directors. The Company's statutory documents do not provide for the position of a senior independent director. Prior to every meeting of the Board of Directors of Sistema JSFC, independent members of the Board hold an informal meeting in form of a business dinner, which is also attended by the management of the Corporation, to discuss urgent questions of managing the Company and organising the work of the BoD.
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The corporation's non-executive directors should hold a meeting chaired by the senior independent director without the board chairman present at least once a year, including for the purpose of discussing the chairman's performance.	Not applicable	Performance of the Board of Directors' Chairman is assessed during the assessment of the performance of the Board of Directors as a whole.
A.4.3. If board members have dissenting opinions about decisions taken by the board, they should ensure that their opinions are recorded in the minutes of the meeting.	Observed	<p>The entire course of the meeting of the Board of Directors is recorded in writing in form of statements from participants and is subsequently analysed to ensure that all elements of decisions that were made are reflected in the minutes.</p> <p>According to the Procedures of the Board of Directors of Sistema JSFC, approved by the Board on 27.10.2007, directors have an opportunity to express (attach to the minutes of a Board meeting) their dissenting opinion within 24 hours after the meeting.</p> <p>All Board members of Sistema JSFC are provided with a copy of minutes of every Board meeting.</p>

B. EFFICIENCY

B.1. Board of Directors membership

<p>B.1.1. The Corporation's annual report should include information on each non-executive director that meets the independence criteria. The BoD should determine whether a director is overall independent in decision-making and decide whether there are certain relations or circumstances that can to a larger or lesser degree influence his/her decisions. The BoD should justify its decision on awarding the status of an independent director if there are relations or circumstances that could influence this status.²⁸</p>	Observed	<p>Information on each non-executive director that meets the independence criteria is included in the 2013 Annual Report of Sistema JSFC (p.6.2.).</p> <p>There are 8 directors among members of the Board of Directors that meet the independence criteria: B. Dickie, R. Kocharyan, J. Krecké, P. Mandelson, R. Munnings, M. Holtzman, S. Tchuruk, D. Iakobachvili.</p>
B.1.2. In addition to the board chairman, at least half of the members on boards of large companies from the FTSE 350 list should be non-executive directors meeting the independence criteria.	Observed	Sistema JSFC is not included in FTSE 350, however, 8 of its Board Members, or over 60% (apart from the Board Chairman), meet the independence criteria.

B.2. Appointment of Board Members

B.2.1. The BoD should have a nomination committee one of the tasks of which is to accompany the process of nominating board members and developing recommendations on the matter for the BoD.	Observed	The Nomination, Remuneration and Corporate Governance Committee of Sistema JSFC has been set up and is active. Its scope of authority is defined by the Regulation on the Nomination, Remuneration and Corporate Governance
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²⁸ Including cases when a director: a) works or worked at the company or the group of companies in the last five years; b) has or had in the last three years material business relations with the company directly as a partner, shareholder, director or top manager of a company that has such relations with the company; c) receives or received additional remuneration from the company apart from the remuneration for performing the functions of a board member, participates in the company's option plan, receives performance-based bonuses from the company or participates in its retirement programme; d) is a close relative of a consultant, board member or top manager of the company; e) is simultaneously a board member at an affiliated company or has material relations with other board members through participation in other companies or bodies; f) represents interests of a big shareholder; or g) has been board member for 9 or more years since his/her first appointment.

		<p>Committee of Sistema JSFC approved on 29 June 2013 (minutes No. 06-13). One of the Committee's main functions is preliminary consideration of nominees to the Corporation's top management positions to be approved by the Board of Directors of Sistema JSFC. The Committee also considers candidates to the Board of Directors of Sistema JSFC as part of preparation for the Annual General Meeting of shareholders.</p>
A majority of members of the board nomination committee should be non-executive directors meeting the independence criteria.	Observed	<p>Half of the members of the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors of Sistema JSFC are independent directors (R. Kocharyan (Chairman), J. Krecke, R. Munnings).</p>
The board nomination committee should be chaired by the board chairman or non-executive director of the company meeting the independence criteria; however, the board chairman should not chair a meeting of the nomination committee when a nominee to the board chairman is considered.	Observed	<p>The Nomination, Remuneration and Corporate Governance Committee of the Board of Directors of Sistema JSFC is independent non-executive director R. Kocharyan.</p>
B.2.2. The board nomination committee should determine the combination of skills and competencies the BoD needs to efficiently perform its functions and, based on this assessment, prepare qualification requirements for candidates to the position of a board member.	Partially observed	<p>Candidates to the Board of Directors are nominated by shareholders of Sistema JSFC.</p> <p>Requirements to candidates to the position of a board member are set out in the Terms of Reference for the Board of Directors of Sistema JSFC. A candidate should have substantial professional experience, should not be previously convicted of economic crimes, should not be banned from holding executive positions, etc. A candidate should not be member of governance and audit bodies of the companies that are competitors of Sistema JSFC or be an affiliate of such companies.</p> <p>The Nomination, Remuneration and Corporate Governance Committee of the Board of Directors of Sistema JSFC considers candidates to be elected to the Board of Directors when preparing for the Annual General Meeting of shareholders.</p>
B.2.3. Non-executive directors should be elected for specified terms and thereafter may be re-elected or dismissed from office in accordance with applicable corporate legislation.	Observed	<p>According to the Russian legislation, Board Members are elected at the Annual General Meeting of shareholders for a 1-year term (for the period until the next Annual General Meeting of shareholders) and have a right to be re-elected for an unlimited number of times.</p>
The decision on re-election of a non-executive director for any term beyond six years should be based on thorough review of his/her performance and take into account the need the gradually renew the membership of the Board.	Not applicable	<p>According to the Russian legislation, Board Members are elected at the Annual General Meeting of shareholders for a 1-year term (for the period until the next Annual General Meeting of shareholders) and have a right to be re-elected for an unlimited</p>

		<p>number of times.</p> <p>Every year, when new members of the Board are elected, information on the work of the Board of Directors in the previous year is disclosed, including attendance of meetings by the Board Members and the work of the respective Committees, and it is up to the shareholders to make conclusions about the performance of the Board and its individual members.</p>
<p>B.2.4. A separate section of the annual report should describe the powers and scope of authority of the nomination committee, the procedures and key items considered by it, including the process it has used to nominate candidates to the board.</p> <p>If the nomination committee has not used the services of an external consultant or has not advertised its vacancies, the annual report should include the description of the procedure used to select candidates to the board.</p> <p>If the nomination committee has used the services of an external recruiting agency, it is necessary to specify which one and whether it is linked to the Corporation in any way.</p>	Partially observed	<p>The 2013 Annual Report of Sistema JSFC (p.6.2) includes information on the powers and scope of authority of the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors and on key items considered by the Committee.</p> <p>At the same time, the Committee does not have powers to directly nominate candidates to the Board of Directors of the Corporation, since this is the shareholders' scope of authority.</p> <p>In 2013, the Committee did not use the services of an external consultant.</p>
A separate section of the annual report should include confirmation of the principle of a balanced board being applied.	Partially observed	The Board of Directors of Sistema JSFC has a balance of executive (1) ²⁹ , non-executive (4) ³⁰ and independent (8) ³¹ directors.
A separate section of the annual report should include goals and objectives for the nomination committee and their progress status.	Observed	The Board Committees section (p. 6.2) includes the description of the goals and objectives of the Nomination, Remuneration and Corporate Governance Committee and topics considered at its meetings.

B.3. Appointments

<p>B.3.1. Prior to electing the Chairman of the Board, the Nominations Committee should prepare a detailed description of the position including information on the amount of time that will be required for fulfilling the responsibilities of the Chairman, taking into account availability of the Chairman in crisis situations.</p>	Observed	<p>Type of work and tasks of the Board Chairman are set out in the Terms of Reference of the Board of Directors of Sistema JSFC.</p> <p>The Chairman of the Board of Directors of Sistema JSFC is elected by all members of the Board of Directors at the first meeting after the Annual General Meeting of shareholders of Sistema JSFC.</p>
<p>Information on all other positions held by the Board Chairman in other companies should be disclosed to the Board of Directors and included in the annual report. Information on all subsequent changes to such data should be reported to the Board as such changes happen and should be included in the next annual</p>	Observed	<p>Information on all positions held by the Chairman of Sistema JSFC's Board of Directors was disclosed and included in the 2013 annual report. The Chairman of Sistema JSFC's Board of Directors V. Evtushenkov does not hold the position of a Chairman in any other significant</p>

²⁹ M. Shamolin

³⁰ V. Evtushenkov, A. Goncharuk, S. Boev, D. Zubov

³¹ B. Dickie, R. Kocharyan, J. Krecké, P. Mandelson, R. Munnings, M. Holtzman, S. Tchuruk, D. Iakobachvili

report.		companies except Sistema JSFC.
B.3.2. Information on the terms and conditions of appointment of non-executive directors should be made available to any interested parties at the Corporation's office and during the Annual General Meeting of shareholders (AGM).	Observed	Information on the terms and conditions of appointment of the non-executive directors of the Board is available on the corporate web site of Sistema JSFC (www.sistema.ru / www.sistema.com) and at the office of Sistema JSFC, the information is also available to the participants of the AGM of Sistema JSFC in the course of the meeting. According to the Russian legislation all Board members are elected for 1 year and have a right to be re-elected for an unlimited number of times.
The notice of nomination of a Board member should indicate the expected time commitment. Elected Board members of the Corporation should provide guarantees that they will have sufficient time to fulfill their responsibilities.	Partially observed	Before nomination all candidates for election to the Board familiarise themselves with the work plan of the Board of Directors of Sistema JSFC for the coming year, the rights and obligations of the Board members and their potential inclusion in the Board's committees. As part of induction procedures, a Corporate Secretary of the Corporation explains to every newly elected member of the Board of Sistema JSFC the procedures of the Board and the approximate amount of time required for their execution. Before the election, all candidates sign a document confirming their consent to the nomination that includes, inter alia, a consent to follow all the requirements of the internal regulations of Sistema JSFC applicable to the Board members. Attendance of the Board meetings of Sistema JSFC and involvement of the Board members in the discussion of agenda items is recorded and analysed in order to subsequently include this information in the report on the quality of corporate governance.
Information on all the positions held by the non-executive Board members in other companies (with indication of the respective time commitment) should be presented to the BoD. Information on all subsequent changes in this data should be available when such changes happen.	Observed	The biographies of candidates to the Board of Directors, including information on positions held in other organisations, are included in the materials for the Annual General Meeting of shareholders, and information on the incumbent Board members of Sistema JSFC is included in the annual report. All candidates for election to the Board of Directors complete candidate questionnaires thus providing the Company with necessary information. The obligation to disclose any changes in the information provided by the members of the Board of Directors is set out in the Terms of Reference of the Board of Directors of Sistema JSFC.
B.3.3. Executive directors should not have either the status of non-executive directors or hold the position of Board Chairman in more	Observed	As of 31 December 2013 the Board of Directors of Sistema JSFC consists of 13 members, 1 of which holds the position of

than one major FTSE 100 companies.

executive director (M. Shamolin)
M. Shamolin holds the position of the President of the Corporation and is also a member of the Board of Directors of a number of Sistema's subsidiaries not included in the FTSE 100 list.
Membership in the boards of directors of the subsidiaries of Sistema JSFC Group is one of the main duties of executive directors, therefore, this does not create any conflict of interest for work at the Corporation.

B.4. Professional development

B.4.1. The Chairman of the Board of Directors is responsible for organising a professional and high-quality induction procedure for new Board members. As part of this procedure directors should be granted the opportunity to meet the main shareholders of the Corporation.	Observed	Every candidate for election to the Board of Directors of Sistema JSFC meets the Board Chairman, Board members and the management before the election and receives information on the work of the Board of Directors, his/her role in the Board of Directors and on the Company's business. The Corporate Secretary of Sistema JSFC provides consultations to new members of the Board on the procedures and organisation of the work of the Board and its committees and provides all the necessary regulatory documents describing the company's strategy, business, markets of presence and financial reports. The induction procedure for new Board members outlined above is not formalised.
B.4.2. The Chairman of the Board of Directors should discuss and agree with Board members their individual training and development needs.	Observed	The members of the Board of Directors of Sistema JSFC, subject to the approval of the Board Chairman, represent the Corporation at various international symposiums, conferences, professional workshops etc.

B.5. Informational support

B.5.1. The Board of Directors shall provide its members with the opportunity to receive independent professional advice at the expense of the company when fulfilling their professional duties.	Observed	The Terms of Reference of the Board of Directors of Sistema JSFC give Board members the right to engage external independent experts for assessing materials and decisions on any agenda items. When needed, such independent appraisal is organised by the Secretariat of the Board of Directors.
B.5.2. If needed, all board members should have access to the advice and services of the Corporate Secretary, who is responsible to the board for ensuring that board procedures are complied with.	Observed	In accordance with the Terms of Reference of the Corporate Secretary of Sistema JSFC, one of the functions of the Corporate Secretary is to provide support to the work of the Board of Directors, including: providing Board members with requested information and documents regarding the Company's business operations, distributing among Board members the materials for the Board meetings, facilitating the work of the Board Committees.

B.6. Performance appraisal

B.6.1. The Annual Report shall contain information on procedures for assessing the performance of the Board of Directors, its Committees and each director.	Observed	The procedure for assessing the work of the Board of Directors of Sistema JSFC is set out in cl. 6.5. of the Annual Report of the Company for 2009. The Board of Directors' self-appraisal procedure was introduced in 2009. Board members fill in questionnaires giving their opinion on the organisation of work of the Board of Directors: membership and structure of the Board, procedures and organisation of the work of the Board, its Committees, the quality of decisions taken by the Board in different functional areas. The Secretariat of the Board of Directors conducts an annual survey of the Board members, analyses the results and submits the final analysis to the Nomination, Remuneration and Corporate Governance Committee, the Board Chairman and the members of the Board of Directors of Sistema JSFC.
B.6.2. At least every 3 years the work of the Board of Directors of a company included in the 350 FTSE list, should be assessed by an independent external consultant specified in the annual report. When hiring an external consultant it is necessary to provide information on this consultant and to make a statement on whether this consultant has any connections with the Company.	Not applicable	Sistema JSFC is not included in the FTSE 350 list.
B.6.3. Non-executive directors, under the guidance of a senior independent director, should perform the assessment of the Board Chairman taking into account the opinions of executive directors.	Not applicable	The Company's statutory documents do not provide for the position of a senior independent director. Performance of the Board of Directors' Chairman is assessed during the assessment of the performance of the Board of Directors as a whole.

B.7. Re-election.

B.7.1. All Board candidates should be approved at the respective AGM. Thereafter, Board members shall be re-elected at least once every three years.	Observed	According to the Russian legislation, Board Members are elected at the Annual General Meeting of shareholders for a 1-year term (for the period until the next Annual General Meeting of shareholders) and have a right to be re-elected for an unlimited number of times.
A non-executive director may hold his/her position for more than 9 years on condition of annual re-election. If an executive director serves on the Board for more than nine years, his/her status should not be defined by the Board as independent.	Observed	According to the Russian legislation, Board Members are elected at the Annual General Meeting of shareholders for a 1-year term (for the period until the next Annual General Meeting of shareholders) and have a right to be re-elected for an unlimited number of times. The Terms of Reference of the Board of Directors define independence criteria for the Board members, according to which a

		person that has served as a Board member for more than 9 years cannot be considered independent.
Information about the Board candidates should include biographical data of the candidates and/or any other information to enable the shareholders to take an informed decision on electing or re-electing the Board members.	Observed	Information on the Board candidates including their biographies is provided among other materials for the Annual General Meeting of shareholders, which elects members of the Board of Directors of the Company.
B.7.2. The Board of Directors should provide the shareholders with a rationale for electing a candidate to the position of a non-executive member of the Corporation's Board of Directors.	Partially observed	Shareholders shall be provided with biographical details and information on the professional qualities of candidates to be able to make independent conclusions on their competence and on the advisability of electing them to the Board.
In the event of reelecting a non-executive director for a new term, the Board Chairman should provide the shareholders with sufficient reasons for re-election, including the performance assessment results of the respective director.	Partially observed	Every year, when new members of the Board are elected, information on the work of the Board of Directors in the previous year is disclosed, including attendance of meetings by the Board members and the work of the respective Committees. Shareholders take independent decisions on the quality of work of the Board of Directors and their members.

C. REPORTING AND AUDIT

C.1. Financial statements

C.1.1. Annual report should contain statements of the Board members confirming that the annual report and the financial statements of the company are reliable, balanced and clear, and include the information required by the shareholders for assessing the results of the Company, its business model and strategy.	Partially observed	Annual report does not contain the respective statement of the Board members of Sistema JSFC, however, this provision is complied with due to the preliminary approval of the annual report and the financial statements of the Corporation at the meetings of the Board of Directors and the Audit, Finance and Risk Committee of Sistema JSFC's Board, with the results of such meeting being recorded in the respective minutes of meetings.
Annual report should contain an auditor statement on the auditor's obligations with respect to auditing financial statements.	Observed	The respective statement is contained in the auditor's opinion which is an integral part of the annual financial statements.
C.1.2. Annual report should contain the explanations of the Board members on the creation or preservation of value for the company in the long-term (business model) and a strategy for achieving the goals of the company.	Observed	Annual report contains the description of the Corporation's development strategy.
C.1.3. Annual and semi-annual reports should contain a statement of the Board members on the continuity of the company's operations with justified assumptions or qualifications, if necessary.	Partially observed	Annual and semi-annual financial statements do not contain the respective statements of the Board of Directors of Sistema JSFC, however, this provision is complied with due to including, when necessary, the respective qualifications in the opinion/report of an independent

auditor, which is an integral part of the annual and semi-annual financial statements approved by the Audit, Finance and Risk Committee.

C.2. Risk management and internal control

C.2.1. The Board should, at least annually, conduct a review of the effectiveness of the Corporation's risk management and internal control system and should report to the shareholders that they have done so. This analysis should encompass all types of control, including financial and operational control and the monitoring of compliance with the regulatory requirements.	Observed	<p>The Board of Directors annually reviews the report from the Internal Control and Audit Department of the Corporation on the results of the year with analysis of the existing control systems and identified deficiencies.</p> <p>A report from the Auditing Commission is attached to the materials of every Annual General Meeting of Sistema JSFC.</p>
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C.3. Audit Committee and Auditors

C.3.1. The Board should form an Audit Committee consisting of at least three independent non-executive directors (for large companies) meeting independence criteria. At least one member of the audit committee should have relevant financial experience.	Partially observed	<p>The Audit, Finance and Risk Committee of Sistema JSFC has been established and is active. The Committee consists of 5 members of the Board of Directors, 4 of which meet independence criteria: P. Mandelson, R. Munnings, M. Holtzman, D. Iakobachvili.</p> <p>The Chairman of the Audit, Finance and Risk Committee of the Board of Directors of Sistema JSFC is R. Munnings, who has extensive experience in the area of financial audit.</p>
<p>C.3.2. The main functions of the audit committee should be set out in the Terms of Reference of the Committee and should include:</p> <ul style="list-style-type: none"> -audit of the fairness of the company's financial statements and any public statements on the financial indicators of the company, review of any material judgment on the company's financial statements; -analysis of the company's internal financial control system and, provided that this issue is not expressly within the remit of a specific risk committee of the Board consisting of independent members or of the Board of Directors itself, analysis of the internal control and risk management systems of the company; - control and analysis of the efficiency of the internal audit function of the company; - presenting recommendations for the Board of Directors for their further submittal to the AGM with respect to the appointment, re-appointment or termination of the powers of external auditors, and approval of the remuneration and the terms of appointment of an external auditor; - analysis and monitoring of the independence and impartiality of the external auditor, and the efficiency of the audit process taking into account the respective professional and regulatory requirements; -development and implementation of a policy 	Observed in all material aspects	<p>The responsibilities of the Audit, Finance and Risk Committee of the Board of Directors of Sistema is set out in the Terms of Reference of the Committee approved by the Corporation's Board of Directors on 29 June 2013.</p> <p>The Terms of Reference of the Audit, Finance and Risk Committee meets the recommendations of section C.3.2 of the UK Corporate Governance Code.</p>

for hiring an external auditor to provide consulting services taking into consideration ethical recommendations on the provision of such services by an external audit company; and submitting to the Board of Directors reports outlining the areas requiring improvements or specific actions, and presenting recommendations on such actions; and

- presenting reports on the performance of the respective responsibilities to the Board.

C.3.3. A company should have Terms of Reference of the audit committee setting out the main powers and responsibilities delegated to the committee by the Board of Directors.	Observed	The responsibilities of the Audit, Finance and Risk Committee of Sistema JSFC were set out in the Terms of Reference of the Committee.
C.3.4. Following a request from the Board the audit committee should provide an opinion on whether the annual report and the financial statements of the company are reliable, balanced and clear, and whether they include the information required by the shareholders for assessing the results of the Company, its business model and strategy.	Observed	This requirement is complied with by reviewing the annual report and the financial statements of Sistema JSFC in terms of their completeness and reliability at the Audit, Finance and Risk Committee meetings.
C.3.5. The audit committee should analyse the procedures available to the company's employees for anonymously expressing their concern about any potential violations in the area of financial reporting and other areas. The task of the Audit Committee is to ensure the implementation of the respective procedures to conduct a proper independent investigation into such violations and take measures aimed at their elimination.	Observed	The Audit, Finance and Risk Committee of Sistema JSFC reviews issues related to the operation of the hot line used by the Company's employees and other interested parties for raising concerns about any potential financial malpractice on a confidential basis.
C.3.6. The audit committee should monitor and analyse the efficiency of the internal audit procedures. In the event of absence of internal audit function the audit committee should perform an annual analysis of the need to create an internal audit function and to submit the respective recommendations to the Board of Directors, while the reasons of the absence of such a function should be specified in writing in the respective section of the annual report.	Observed	In accordance with the Terms of Reference of the Audit, Finance and Risk Committee of the Board of Directors of Sistema JSFC, one of the main functions of this Committee is to oversee the internal audit system of the Company as implemented by the Internal Control and Audit Department. The Audit and Finance Committee, together with the head of the above-mentioned Department and the Company's management, analyses implemented activities aimed at removing deficiencies in internal business processes.
C.3.7. The audit committee is directly responsible for the provision of recommendations on appointment, re-appointment and termination of the powers of external auditors. Companies included in the FTSE 350 list should hold a tender for the provision of external audit services at least every 10 years. If the Board does not accept the recommendations of the audit committee, the committee should make sure that the annual report and other documents containing recommendations for appointing or re-	Observed	According to the Terms of Reference of the Audit, Finance and Risk Committee of the Company's Board of Directors, the Committee analyses the work of external auditors and makes recommendations to the Board of Directors of the Corporation on the appointment and re-appointment of external auditors or rejection of their services.

appointing an auditor, includes a rationale for the recommendations given and states reasons behind the decision taken by the Board.

C.3.8. A separate section of the annual report should be devoted to the performance of responsibilities by the committee. The report should include: -a description of the material issues reviewed by the committee with respect to financial reporting and the way in which the issues were resolved; -a description of the process for assessing the efficiency of external audit and the principles of appointing and re-appointing an external auditor, as well as information on the duration of the contract with the current auditor and the dates of the most recent tender; - if the external auditor provides additional consulting services to the company – explanation of how the impartiality and independence of the auditor were ensured;	Observed	The 2013 Annual Report of Sistema JSFC includes information on the policy for preserving the impartiality and independence of the Company's auditor.
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D. REMUNERATION

D.1. Level and structure of remuneration

D.1.1. When developing a remuneration system for executive Board members the remuneration committee should be guided by Schedule A of the UK Corporate Governance Code.	Observed	The sections of Schedule A of the UK Corporate Governance Code are in general reflected in the remuneration system developed for the Corporation's Board of Directors' members (including executive directors). <i>Comments on specific sections of Schedule A are provided below.</i>
D.1.2. If the internal regulations of a company allow an executive director to hold non-executive directorships in other companies, the data on the remuneration of such executive director in another company should be included in the respective report.	Partially observed	The managers of the Corporation elected to the boards of directors of subsidiaries do not receive any additional remuneration for serving on such boards. The managers of the Corporation or executive directors elected to the boards of directors of other companies retain their remuneration for serving on the boards of directors of such companies in accordance with the existing internal regulations of such companies. The information on the size of remuneration received by the employees of Sistema JSFC for serving on the boards of directors of other companies is not disclosed.
D.1.3. The size of remuneration payable to non-executive directors should depend, inter alia, on their duties and the level of responsibility. Non-executive directors should not be granted any stock options or other types of remuneration linked to performance. If, exceptionally, such options are granted, shareholder approval should be sought in advance. A member of the Board who acquired shares by exercising an option shall	Observed	The Board members of Sistema JSFC receive additional remuneration for serving as Chairman of the Board of Directors, Deputy Chairman and Chairman of the Board Committee. Special remuneration is also paid for attending the meetings of the Board and its Committees. Stock options are not granted for serving on the Board of Directors.

hold them until at least one year after he/she leaves the Board.

If a non-executive director receives a stock option, it may mean that he/she does not meet independence criteria any longer (see section B.1.1.).

D.1.4. The Board's remuneration committee should define a methodology for determining the remuneration of a director in the event of early contract termination. The amount of remuneration should be reduced on a pro rata basis.	Observed	Pursuant to cl. 1.6. of the Policy on remuneration and compensations for the Board members of Sistema JSFC, in the event of early termination of the powers of a Board member, the amount of remuneration is calculated in proportion to the actual time of service of the specific member on the Board.
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D.1.5. The term of directors' powers specified in a contract or an appointment notice should not exceed one year. If for some reasons new directors are offered a longer term of employment, this term should be later reduced to a normal level.	Observed	In accordance with the Russian laws the members of the Board of Directors of Sistema JSFC are elected by the annual general meeting of shareholders for a one-year term (until the next AGM) with the right to be re-elected an unlimited number of times.
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D.2. Procedure:

D.2.1. The Board of Directors should form a remuneration committee consisting of at least three independent non-executive directors (for large companies).	Partially observed	The Nomination, Remuneration and Corporate Governance Committee of Sistema JSFC has been set up and is active. The Committee consists of 6 directors, 2 of which (A. Goncharuk and D. Zubov) are non-executive directors and 3 (R. Kocharyan, J. Krecke, R. Munnings) are independent (meet independence criteria).
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The remuneration committee of the Board of Directors should ensure unrestricted access to the terms of reference of the committee outlining the role of the committee and the powers delegated to it by the Board of Directors.	Observed	The responsibilities of the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors of Sistema JSFC are set out in the Terms of Reference of the Committee approved by the Corporation's Board of Directors on 29 June 2013. The Terms of Reference of the above-mentioned Committee are available on the corporate web site of the Company (www.sistema.ru / www.sistema.com) and may be provided to shareholders upon request. .
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When hiring external consultants on the issues of remuneration payable to the Board members, it is necessary to provide information on such consultants and their relation to the Corporation.	Not applicable	In 2013 no external consultants on remuneration were engaged by the Company's Board of Directors.
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D.2.2. The Board of Directors should vest the remuneration committee with the powers to determine the amount of remuneration payable to all executive directors and the Board Chairman.	Observed	The amounts of and the procedures for paying remuneration and compensations to the Corporation's Board members are set out in the Policy on remuneration and compensations for the Board members of Sistema JSFC If amendments should be made to the above-mentioned Policy, the Nomination, Remuneration and Corporate Governance
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		Committee should develop the required amendments.
The remuneration committee of the Board should also monitor the level and structure of remuneration for senior management and make the respective recommendations. The definition of 'senior management' for this purpose should be determined by the Board but should normally include the first line of management below the Board level.	Observed	One of the key functions of the Nomination, Remuneration and Corporate Governance Committee according to the respective Terms of Reference is preliminary review of the terms of employment contracts of the President and Board members presented for the approval of the Company's Board of Directors, and assessment of performance of the Company's top management and setting the amounts of their remuneration.
D.2.3. Shareholders or the Board, depending on the Charter of the Company, should set the amounts of remuneration payable to non-executive directors within the pre-approved limits. If permitted by the Charter of the company, the Board may delegate these powers to the remuneration committee.	Observed	The Policy on remuneration and compensations for the Board members of Sistema JSFC sets a clear formula for calculating the remuneration and compensations payable to the Corporation's Board members. No special decision of the Nomination, Remuneration and Corporate Governance Committee is required for making such payments.
D.2.4. The shareholders of the company should be invited to approve any new long-term incentive systems for employees or any significant changes in the existing incentive systems.	Observed	Long-term incentive schemes are approved by the Board of Directors and, when needed, by the Annual General Meeting of shareholders of Sistema JSFC, and shareholders discuss such matters both at the level of the Board of Directors and the level of the Annual General Meeting of shareholders.

E. RELATIONS WITH SHAREHOLDERS

E.1 Dialogue with the main shareholders

E.1.1. The views of shareholders on the development of the company should be communicated to the Board. The Board Chairman should regularly discuss the issues of company development with the main shareholders. Non-executive directors should be offered the opportunity to attend meetings with the main shareholders of the Company and, if requested by the main shareholders, their attendance at such meetings is mandatory.	Observed	Representatives of the main shareholders were elected to the Board of Directors of the Company. The IR Department of the Company works with major institutional investors. The results of its work, including the views of major institutional investors on the Company's strategy and development, are reviewed by the Board of Directors on a regular basis as part of the IR strategy of the Company. It is mandatory for all members of the Board of Directors, including non-executive directors, to attend the Annual General Meeting of shareholders of Sistema JSFC.
The senior independent director should hold regular meetings with shareholders to discuss the development of the company.	Not applicable	The Company's statutory documents do not provide for the position of a senior independent director. Prior to every meeting of the Board of Directors independent members of the Board hold an informal meeting in the form of a business dinner which is also attended by the management of the Company.

		Information on the Board members meeting the independence criteria is available to the shareholders on the corporate web site of Sistema JSFC, so that the shareholders may contact any of them if they have any questions.
E.1.2. The annual report of the company should contain information on how the opinions of the main shareholders on the development of the company may be taken into account by the Board.	Observed	The Board of Directors of Sistema JSFC includes representative of most of the major shareholders. The IR Department of the Company works with major institutional investors. As part of a review of the IR strategy of Sistema JSFC, the Board of Directors reviews the results achieved by the IR Department including the opinions of the key institutional investors on the development of the Corporation.
E.2. Constructive solutions for the AGM		
E.2.1. Each agenda item of the AGM should be accompanied with a draft resolution with 'for', 'against' and 'abstained' voting options.	Observed	According to the Russian legislation and the Company's Charter, every agenda item at the AGM is accompanied by a separate draft resolution with 'for', 'against' and 'abstained' voting options.
E.2.2. The company should ensure that the votes of all persons that participated in the AGM are properly recorded. The minutes of the AGM should include the number of persons that participated in the voting on every agenda item and the number of votes 'for', 'against' and 'abstained'.	Observed	All votes of the shareholders are registered by the Teller Committee and this information is included in the Minutes of the Company's Annual General Meeting of shareholders. All 'for', 'against' and 'abstained' votes on every agenda item are recorded separately, voting results for every item are disclosed publicly.
E.2.3. All members of the Board should attend the AGM. Committee Chairmen should be available for answering the questions of shareholders at the AGM.	Observed	Based on clause 2.8 of the Policy of the Board of Directors of Sistema JSFC, all members of the Board of Directors should attend the AGM and answer the questions of the participants. The shareholders attending the Annual General Meeting of shareholders of Sistema JSFC may put questions to any member of the Board of Directors attending the meeting.
E.2.4. The company should make sure that a Notice of the AGM and all related papers are sent to shareholders at least 20 working days before the meeting.	Observed	According to its Charter, Sistema JSFC circulates a Notice of the AGM and publishes the related materials no later than 30 days before the meeting.

**President of
Sistema JSFC**

M. Shamolin

