

**ANNUAL REPORT**  
**of Open Joint-Stock Company**  
**Sistema Joint-Stock Financial Corporation**  
**for 2013**

This report was compiled in accordance with the requirements of the Federal Law “On the Stock Market”.

The financial information presented in this Annual Report is based on the accounting reports made pursuant to the Russian laws and contains elements of consolidated financial statements compiled in conformity with international standards.



**Moscow, 2014**

## **Contents**

1.	POSITION OF SISTEMA JSFC IN THE INDUSTRY	4
1.1.	Sistema JSFC's profile	4
1.2.	Shareholders' equity structure	4
2.	BUSINESS PRIORITIES AND DEVELOPMENT STRATEGY	6
2.1.	Sistema JSFC's mission and strategy	6
2.2.	Sistema JSFC's portfolio	7
3.	REPORT OF THE BOARD OF DIRECTORS ON THE RESULTS OF THE CORPORATION'S DEVELOPMENT IN PRIORITY BUSINESS AREAS	9
3.1.	Key events of 2013	9
3.2.	Financial results of Sistema JSFC	10
3.3.	Overview of operational results	12
3.4.	Financial overview	19
3.5.	Sistema JSFC's credit ratings	20
3.6.	Report on payment of the announced (allocated) dividends on the shares of Sistema JSFC	20
4.	PROSPECTS AND DEVELOPMENT STRATEGY OF THE SISTEMA JSFC GROUP OF COMPANIES	21
4.1.	Mobile TeleSystems (MTS)	21
4.2.	Bashneft	22
4.3.	Bashkirian Power Grid Company (BPGC)	24
4.4.	United Petrochemical Company (UPC)	26
4.5.	Bashneft Service Assets (BNSA)	28
4.6.	Detsky Mir	29
4.7.	Medsi	31
4.8.	Binnopharm	33
4.9.	MTS Bank	34
4.10.	SG-trans	36
4.11.	Sistema Shyam TeleServices Limited	37
4.12.	RTI	39
4.13.	Media assets	41
4.14.	Real estate assets	44
4.15.	RZ Agro Holding Ltd	45
5.	DESCRIPTION OF KEY RISK FACTORS	47
5.1.	External risks	47
5.2.	Risks related to Sistema JSFC's operations	49

6.	CORPORATE GOVERNANCE SYSTEM	52
6.1.	General meeting of shareholders	53
6.2.	Board of Directors	55
6.3.	President	61
6.4.	Management Board	62
6.5.	Risk management system, internal control and audit	64
6.6.	Development of the corporate governance system in 2013	65
7.	SOCIAL RESPONSIBILITY	67
8.	CRITERIA FOR DETERMINING THE AMOUNT OF REMUNERATION PAYABLE TO THE MEMBERS OF THE BOARD OF DIRECTORS AND SENIOR MANAGERS OF THE COMPANY	70
9.	ANNEX	71
9.1.	Brief biographies of the Board of Directors' members and their stakes in Sistema JSFC's authorised capital	71
9.2.	Information on the transactions made by the members of Sistema JSFC's Board of Directors with their shares from 1 January to 31 December 2013	78
9.3.	Brief biographies of the President and the Management Board members of Sistema JSFC	79
9.4.	Information on the number of shares held by the President and the management Board members of Sistema JSFC	85
9.5.	The list of transactions made by the Company in the reporting period that are recognised as major transactions in accordance with the Federal Law "On Joint-Stock Companies", as well as other transactions that should be approved as major transactions in accordance with the Charter of the Company	86
9.6.	The list of transactions made by the Company in the reporting period that are recognised as related party transactions in accordance with the Federal Law "On Joint-Stock Companies"	87
9.7.	Information on the Company's compliance with the Corporate Conduct Code of the Federal Financial Markets Service	91
9.8.	Information on the Company's compliance with the main requirements of the UK Corporate Governance Code	99

## 1. POSITION OF SISTEMA JSFC IN THE INDUSTRY

### 1.1. Sistema JSFC's profile

#### Overview

Sistema is Russia's largest publicly listed holding company. Incorporated in 1993, Sistema is now one of Russia's top 10 companies by revenue, and is one of the largest public holding companies in the world. The company's investment portfolio comprises stakes in predominantly Russian businesses in a range of sectors, including telecommunications, oil, utilities, consumer, high tech and others. Sistema is a controlling shareholder in most of its portfolio companies.

Sistema's global depository receipts are listed under the symbol "SSA" on the London Stock Exchange (1 GDR is 20 ordinary shares) and the Company's ordinary shares are listed under the symbol "AFKS" on the MICEX-RTS stock exchange.

#### Value creation model

The model of Sistema as an investment company provides for the creation of value for shareholders through an investment process consisting in monetisation of investments in the form of dividends or divestment of stakes in portfolio companies and further reinvestment of proceeds in attractive projects with the aim of making profit. Some of the profit generated in this way is then distributed to Sistema's shareholders in dividends.

Sector	% of 2013 revenue
Oil&Energy	50.8%
Telecom&Media	36.0%
Consumer	4.2%
High tech	6.5%
Banking	2.5%

### 1.2. Shareholders' equity structure

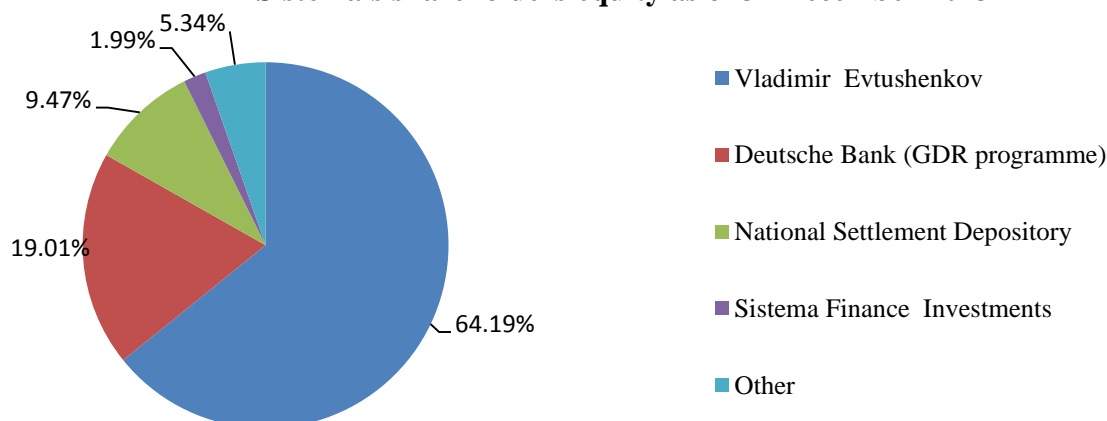
Sistema has 9,650,000,000 ordinary shares issued, with the par value of RUB 0.09 each. The company's shareholders' equity amounts to RUB 868,500,000.

In February 2005, Sistema conducted an initial public offering. The listing of shares was held in the form of Global Depositary Receipts on the London Stock Exchange under the symbol SSA. One GDR represents 20 ordinary shares. The Company's ordinary shares are traded under the symbol AFKS on the Moscow Stock Exchange. 17.7% of the Company's shares are traded as GDRs on the London Stock Exchange and 11% of shares are traded on the Moscow Stock Exchange.

Sistema's portfolio also includes two public companies. MTS's shares are traded on the New-York Stock Exchange in the form of ADRs (ticker: MBT) and MTS's ordinary shares are traded on the MICEX-RTS stock exchange (ticker: MTSS). Bashneft's ordinary and preference shares are also traded on MICEX-RTS (ticker: BANE, BANEP).

The Chairman of the Board of Directors of Sistema JSFC Vladimir Evtushenkov, holding 64.19% of the company's shares, is the principal shareholder.

### Sistema's shareholders' equity as of 31 December 2013



### Performance of Sistema's GDRs on the London Stock Exchange

Sistema's GDR price increased by 57.5% in 2013 and outperformed key stock market indices including RTS and MSCI Russia. The closing price of Sistema's GDR on the London Stock Exchange on the first trading day of 2013 was US\$ 20.4 with a market capitalisation of US\$ 9,843m, while on the last trading day it reached US\$ 32.12 with a market capitalisation of US\$ 15,498m. Sistema's GDRs reached a high of US\$ 32.28 on December 30, 2013 and a low of US\$ 18.0 on April 16, 2013. Average daily trading volumes on the London Stock Exchange in 2013 amounted to 552,417 GDRs.

### Chart 1:

Comparative performance of Sistema's GDRs and RTS index in 2013\*



\*Source: Bloomberg

## **2. BUSINESS PRIORITIES AND DEVELOPMENT STRATEGY**

### ***2.1. Sistema JSFC's mission and strategy***

#### ***Mission***

Long-term growth of shareholder value through efficient management of the asset portfolio and achievement of high returns on investment.

#### ***Value creation model***

The model of Sistema as an investment company provides for the creation of value for shareholders through an investment process consisting in monetisation of investments in the form of dividends or divestment of stakes in portfolio companies and further reinvestment of proceeds in attractive projects with the aim of making profit. Some of the profit generated in this way is then distributed to Sistema's shareholders in dividends.

#### ***Investment strategy***

##### ***Investment criteria***

The Company acquires assets mostly in those sectors that are complementary to the existing investments, making it possible to use the competences of the Company and to build synergies. The Company also invests in other economically attractive industries, provided that it has the required expertise or a reliable industry partner.

Sistema JSFC makes investments predominantly in Russia and the CIS region, but it is also open to potential investments in other markets.

Sistema JSFC is focused on big or mid-sized assets with the aim of becoming a leader in the respective market through synergies, industry consolidation and introduction of operational and structural improvements.

##### ***Asset management***

Sistema's competences are concentrated in the area of increasing the operational efficiency of the acquired assets through restructuring and attracting industry partners with a view to strengthen expertise and reduce financial risks.

Sistema aims to maintain a balanced portfolio that includes core assets generating stable cash flows and developing assets being at the stage of rapid growth.

Sistema oversees the development of its portfolio companies through participation in the work of their boards of directors and engagement of professional independent directors.

Sistema's assets are divided into portfolios based on the principle of deal origination and portfolio managers' industry expertise. The key performance indicator (KPI) for the management is TSR (total shareholder return), which is set for each asset individually.

The Company is pursuing a progressive dividend policy. The amount of dividends is determined based on performance in the previous financial period and is at least 10% of the Group's net profit under US GAAP and at least 10% of net profit from transactions, such as sale of assets.

## 2.2. Sistema JSFC's portfolio

In November 2012 Sistema's Board of Directors approved a new organisational structure and all investments of the Company were split into portfolios.

In 2013 the Company actively managed its investment portfolios and generated more than USD 3.2bn in profit from asset monetisation, restructuring and dividends. Significant inflow of cash made it possible to increase dividend payments to the shareholders of Sistema JSFC.

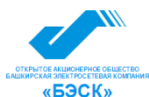
### *Sistema's portfolio companies:*



MTS – the biggest mobile operator in Russia, Central and Eastern Europe.



Bashneft – one of the biggest oil companies in Russia.



Bashkirian Power Grid Company – one of the largest regional power grid companies.



Bashneft Service Assets – a managing company of an oilfield service holding comprising 11 companies.



United Petrochemical Company – a vertically integrated petrochemical group of companies.



Sistema Mass Media – a leading media company in Russia.



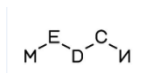
MTS Bank – one of the leading commercial banks in the Russian Federation.



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



Intourist – one of the leading Russian companies in the tour operating industry.



Medsi – the biggest federal chain of private clinics in Russia.



RTI – the largest Russian company in the area of defence, comprehensive communication systems, system integration and microelectronics.



Binnopharm – a pharmaceutical company operating one of the biggest biotechnological production facilities in Russia.



NIS – one of the leaders in the Russian navigation market.



Russkaya Zemlya – a major grain producer.



SG-trans – one of the largest independent operators of a liquefied gas transportation business in Russia.



Sistema Shyam TeleServices Limited (MTS India) –an Indian mobile operator.



### **3. REPORT OF THE BOARD OF DIRECTORS ON THE RESULTS OF THE CORPORATION'S DEVELOPMENT IN PRIORITY BUSINESS AREAS**

#### **3.1. Key events of 2013**

##### ***Asset restructuring***

##### **Restructuring of transportation assets**

*Goal: developing a partnership with Unirail, achieving a partial monetisation of initial investments.*

The restructuring of the transportation assets of Sistema JSFC was conducted in three stages. At the first stage in April 2013, SG-trading was spun off from SG-trans and turned into a separate company owned by Sistema and uniting non-core LPG storage and sale assets.

In April 2013, Sistema sold a 70% stake in SG-trans for RUB 12.0bn to Financial Alliance (Sistema's 50/50 joint venture with Unirail). In July 2013 the Corporation sold additional 15% of SG-trans shares to Unirail for RUB 2.5bn. As a result of this deal Unirail and Sistema JSFC each own 50% of the united transportation business.

At the start of 2014 SG-trans and Financial Alliance were united under the SG-trans brand.

*Result: RUB 14.5bn of return on investment, consolidation of the transportation assets, development of the transportation business jointly with Unirail.*

##### **Reorganisation of Sistema Invest**

*Goal: simplifying Bashneft's corporate structure*

The structure of reorganisation provides for a split of Sistema Invest's assets with the aim of eliminating cross-ownership at Bashneft. As a result of restructuring, Sistema Invest remains an owner of 8.4% of the authorised capital of Bashneft and also holds stakes in Ufaorgsintez and BPGC. Sistema's stake in Sistema Invest is increased up to 100%. Bashneft Invest, created as a result of a spin-off from Sistema Invest, is owned by Bashneft (100%) and receives Bashneft ordinary shares accounting for 16.8% of its authorised capital and inherits Sistema Invest's accounts payable to Bashneft.

*Result: elimination of cross ownership at Bashneft.*

##### **Mergers and acquisitions**

##### **Sale of RussNeft**

*Goal: monetisation of investments*

In July 2013, Sistema sold its 49% stake in RussNeft for US\$ 1.2 billion.

##### **Acquisition of United Petrochemical Company**

*Goal: entering a promising petrochemical market*

In September 2013, Sistema acquired a 98% stake in United Petrochemical Company from its subsidiary Bashneft for RUB 6.2 billion. UPC is a vertically integrated petrochemical group which owns four enterprises located in the Bashkortostan region: Ufaorgsintez, Tuymazinkoye and Shkapovskoye Gas Processing Plants and Bisphenol-A plant.

In September 2013, United Petrochemical Company signed a joint venture agreement with a Mexican company Grupo Petrotemex, S.A. de C.V., a subsidiary of Alpek, S.A.B. de C.V., for the construction of an integrated purified terephthalic acid - polyethylene terephthalate plant in Ufa, Bashkortostan.

##### **Acquisition of Bashneft Service Assets**

*Goal: entering a fast-growing oilfield service market; unlocking the existing value potential*

In October 2013, Sistema completed the acquisition of a 100% stake in Bashneft Service Assets (BNSA) from Bashneft for RUB 4.1 billion. BNSA is a group of oilfield service companies focused on onshore drilling and well workover operations, equipment servicing and manufacturing, transportation and construction services.

##### **Acquisition of a controlling stake in Business Nedvizhimost**

*Goal: unlocking hidden value of the real estate portfolio*

In December 2013, Sistema acquired 51% of the ordinary shares of Business Nedvizhimost from MGTS Nedvizhimost for RUB 3.2 billion. The company's main areas of operation are property management and leasing. Business Nedvizhimost owns 76 properties, which were previously used by MGTS as automatic

telephone stations; covering the total area of approximately 178,000 square metres. Later, in April 2014, Sistema acquired the remaining 49% for RUB 3.1 billion and now owns 100% of the company.

### ***Key events after the reporting period***

#### ***Investment in the forest, timber processing and pulp and paper industries***

In April 2014, Sistema, through its subsidiary LLC LesInvest, signed legally binding agreements with the Bank of Moscow to acquire 100% of OJSC Segezha Pulp and Paper Mill and 100% of LLC Derevoobrabotka-Proekt (Group of companies), together with all debt obligations to the Bank of Moscow. The transaction is expected to be completed by the end of the third quarter of 2014.

The acquired group of companies is the largest manufacturer of sack paper and paper sacks in Russia and the second largest producer of paper sacks in Europe. It is also one of the largest manufacturers and exporters of timber products and plywood in Russia. In 2013, the Group's estimated revenue and EBITDA amounted to approximately RUB 20.9 billion and RUB 2.4 billion respectively. Export accounted for 54% of the Group's total revenue.

## **3.2. Financial results of Sistema JSFC**

### ***Financial results in accordance with the Russian accounting standards (RAS)***

	<i>RUB'000</i>	
	<b>2013</b>	<b>2012</b>
Revenue	<b>47, 238, 145</b>	26, 460, 099
Income from sales	<b>36, 022, 581</b>	20, 114, 968
Net income (loss) in the reporting period	<b>133, 893, 543</b>	62, 664, 467

<i>Revenue structure :</i>			<i>RUB'000</i>	
	<b>2013</b>		<b>2012</b>	
Stakes in the authorised capital held by other organisations	<b>47, 112, 485</b>		26, 104, 253	
	<b>125, 660</b>		355, 846	
Other sales (property lease, agency services and guarantees)				
TOTAL:	<b>47, 238, 145</b>		26, 460, 099	

The main business operations of the issuer are focused on the management of stakes and shares in commercial organisations.

<i>Structure of other profit and losses:</i>			<i>RUB'000</i>	
	<b>2013</b>		<b>2012</b>	
Interest receivable	<b>2, 453, 277</b>		2, 774, 833	
Interest payable	<b>(4, 805, 748)</b>		(4, 575, 040)	
Other income	<b>138, 700, 920</b>		98, 390, 528	
Other expenses	<b>(31, 270, 215)</b>		(55, 722, 927)	
TOTAL:	<b>105, 078, 234</b>		40, 867, 394	

<i>Efficiency indicators :</i>			<i>RUB'000</i>	
	<b>2013</b>		<b>2012</b>	
Labour productivity, RUB ths/person	<b>217, 687.3</b>		135, 692.8	
	<b>0.130</b>		0.197	
Debt to equity ratio				
	<b>0.058</b>		0.082	
Long-term debt to the sum of long-term debt and equity ratio				
Coverage of debt by current revenue (income) ratio	<b>0.86</b>		2.19	
Overdue debt, %	<b>0</b>		0	

The analysis of the issuer's financial solvency and the level of credit risk shows that, overall, the issuer has both significant own resources and is capable of raising additional debt without the risk that the repayment of such debt would be called into question.

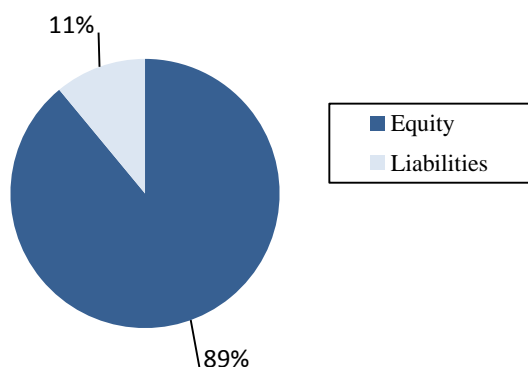
Long-term liabilities make up 47% of debt. Accounts receivable and payable pertain to the current period.

*Financial stability indicators:*

	2013	2012
Net working capital , RUB ths	25, 553, 733	(2, 940, 356)
Current ratio	1.63	0.94
Quick ratio	1.62	0.90

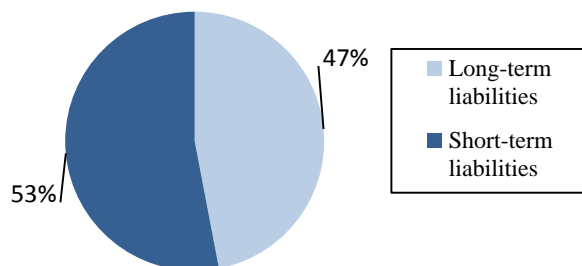
As of 31 December 2013 the Corporation's current assets amounted to RUB 66, 026, 652 ths, the volume of short-term liabilities was RUB 40, 472, 919 ths, the cost of goods sold in 2013 was RUB 33, 653 ths.

**Liabilities and equity**



The share of equity in the Company's liabilities is 89%.

**Debt structure**



The share of long-term liabilities in the total debt of the Company is 47%

*Information on fuel and energy consumption*

Type of resource	UoM	Consumed in 2013	For reference : consumed in 2012
Boiler fuel	equivalent fuel tonnes	0	0
Heat energy	G cal	3, 114.36	5, 745.48
Electric energy	thousand kW*h	3, 556	7, 328.48
Water	cubic meters	35, 186.91	32, 255.33

**Consolidated financial results in accordance with US GAAP<sup>1</sup>**

In 2013, Sistema's consolidated revenues increased by 5.9% in US dollar terms and by 8.4% in rouble terms year-on-year. The top-line growth reflects a strong contribution from all the Group's companies despite the rouble depreciating by an average of 2.4% against the US dollar in 2013. Almost all of the portfolio assets demonstrated revenue growth in the reporting year, with the exception of SSTL (due to closing its operations in 13 circles in India). Along with MTS and Bashneft, significant contributions came from Detsky Mir, MTS Bank and Medsi. In the fourth quarter, the Group's revenues were up 4.6% year-on-year.

Selling, general and administrative expenses (SG&A) increased by 8.6% year-on-year to US\$ 4,422.8 million in 2013, mainly due to one-off restructuring costs at RTI, business expansion at Detsky Mir and other factors. Bashneft reduced its SG&A expenses by 8.1% year-on-year, while SSTL demonstrated a 36.5% decrease in SG&A expenses in 2013.

Depreciation, depletion and amortisation expenses increased by 5.7% year-on-year to US\$ 3,242.6 million in 2013.

<sup>1</sup> This section and subsequent sections include financial information prepared in conformity with the accounting principles of the USA, or US GAAP, as well as other financial indicators not related to US GAAP. The financial indicators that are not related to US GAAP should be considered as an addition to the US GAAP indicators rather than as a replacement of them.

The Group's adjusted OIBDA increased by 5.8% year-on-year in 2013, adjusted OIBDA margin amounted to 24.8%. All portfolio companies, except for SSTL, achieved positive adjusted OIBDA. SSTL narrowed its adjusted OIBDA loss by 56.0% in the reporting year.

Adjusted consolidated net income attributable to Sistema grew by 11.1% year-on-year in 2013, despite a US\$ 268.0 million currency exchange loss. Most of the Group's companies were profitable and, with exception of SSTL and RTI, reported net income for 2013.

#### *Key financial indicators*

<i>(USD million, except per share amounts)</i>	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Revenue	35,942.1	33,950.4	5.9%
Adjusted OIBDA	8,918.5	8,430.6	5.8%
Operating income	5,663.0	4,725.8	19.8%
<i>Adjusted operating income</i>	5,675.9	5,361.7	5.9%
Net income attributable to Sistema	2,257.5	946.1	138.6%
<i>Adjusted net income attributable to Sistema</i>	1,992.1	1,793.8	11.1%
Basic and diluted earnings per share (US cents)	24.43	10.18	140.1%

### **3.3. Operating results overview <sup>1</sup>**

#### **MTS**

<i>(USD million)</i>	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Revenue	<b>12,510.8</b>	12,161.1	2.9%
Adjusted OIBDA <sup>2</sup>	<b>5,656.1</b>	5,285.8	7.0%
Operating income	<b>3,606.7</b>	3,011.3	19.8%
<i>Adjusted operating income</i>	<b>3,365.1</b>	3,099.6	8.3%
Net income attributable to Sistema	<b>1,264.6</b>	533.9	136.9%
<i>Adjusted net income attributable to Sistema</i>	<b>1,146.2</b>	1,123.8	2.0%

MTS's revenues increased by 2.9% year-on-year in 2013 due to significant improvements in subscriber base quality with excellent growth in average monthly revenue per user (ARPU) and services consumption, the resumption of operations in Turkmenistan, restored subscriber base growth in Russia and across all markets where MTS operates. The active development of its data services and fixed-line businesses also contributed to revenue growth.

In 2013 adjusted OIBDA was up 7.0% year-on-year, due to continued operational improvements and revenue growth from high-margin data services. The adjusted OIBDA margin increased to 45.2% in 2013 compared to 43.5% in 2012.

<sup>1</sup> Hereinafter the comparison of revenue by periods is presented on an aggregated basis, excluding revenue from transactions inside the segment (between companies in one segment), but before excluding inter-segment turnovers (between companies in different segments) unless the word 'consolidated' is used. The amounts attributable to specific companies are indicated where necessary before excluding turnovers inside and between segments and may differ from the respective stand-alone indicators of companies as a result of making isolated adjustments.

<sup>2</sup> MTS' OIBDA of 2013 was influenced by the recognition of income from the compensation received as a result of the settlement of Bitel dispute.

MTS's mobile subscriber base totalled <sup>1</sup> 102.4m customers as of 31 December 2013. ARPU in Russia grew by 3.7% year-on-year to RUB 308 in 2013, reflecting an increase in data services consumption. Russian subscribers' average monthly minutes of usage (MOU) rose by 7.6% year-on-year to 327 minutes in 2013, compared to 304 minutes in 2012. In the fixed broadband business, the number of covered households increased by 4.7% year-on-year and reached 12.3m in 2013.

During the fourth quarter, MTS launched LTE networks in several regions across Russia, including the Rostov and the Novosibirsk regions.

In August, MTS paid RUB 30.2bn in dividends for the fiscal year 2012, and in November, RUB 10.8bn for the first six months of 2013.

### ***Bashneft***

<i>(USD million)</i>	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Revenue	<b>17, 684.6</b>	17, 125.2	3.3%
Adjusted OIBDA <sup>2</sup>	<b>3, 172.3</b>	3, 278.7	(3.2%)
Operating income	<b>2, 054.3</b>	2, 557.7	(19.7%)
<i>Adjusted operating income</i>	<b>2, 575.5</b>	2, 686.4	(4.1%)
Net income attributable to Sistema	<b>1, 130.3</b>	1, 279.5	(11.7%)
<i>Adjusted net income attributable to Sistema</i>	<b>1, 447.5</b>	1, 374.7	5.3%

In 2013, Bashneft's revenue grew by 3.3% year-on-year, mainly as a result of an increase in export volumes of oil products, particularly to countries outside the Customs Union. At the same time, the year-on-year revenue growth was offset by the falling oil prices in the world market.

Adjusted OIBDA decreased by 3.2% year-on-year in 2013, largely due to a rise in export duties on oil products, as well as in production costs. This production cost increase was primarily the result of organic production growth in Bashkiria and the launch of operations in the Trebs and Titov fields.

In 2013, Bashneft's oil production increased by 4.1% year-on-year to 16.1 million tonnes, including 291,000 tonnes produced at the Trebs and Titov fields, while mature fields added 2.2% to the production growth. Exports amounted to 4.7 million tonnes of crude oil and 9.4 million tonnes of oil products in 2013.

Bashneft reported a 3.0% year-on-year increase in oil refining volumes in 2013, reaching 21.4 million tonnes of crude oil. In 2013, the average refining depth was 84.7% and light-product yield was 60.4%.

In December 2013, Bashneft paid dividends for the nine months of 2013, amounting to RUB 45.25 billion. Earlier, in August 2013, Bashneft paid RUB 5.32 billion in dividends for the full year of 2012.

In December 2013, Bashneft acquired LLC Bashneftegazrazvedka, which holds a licence for geological exploration of subsoil blocks in the Vostochno-Ikiski licence area, located in the Bakalinsky District of the Republic of Bashkortostan.

<sup>1</sup> Excluding subscribers in the Republic of Belarus.

<sup>2</sup> Bashneft's OIBDA for 2013 and 2012 was adjusted for the effect from the sale of a stake in Belkamneft and other one-off events.

**BPGC**

<i>(USD million)</i>	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Revenue	<b>416.7</b>	373.1	11.7%
OIBDA	<b>177.4</b>	129.0	37.6%
Operating income	<b>123.4</b>	84.2	46.7%
Net income attributable to Sistema	<b>87.5</b>	24.4	259.0%

In 2013, Bashkirian Power Grid Company's revenues grew by 11.7% year-on-year, mainly as a result of a 3% increase in net electricity supply, as well as a 10% boiler tariffs indexation effective from July 1, 2013.

BPGC reported a significant OIBDA increase in 2013, reflecting growth in revenue and in other income related to the disposal of fixed assets and accrued penalties for late customer payments.

Distribution grid losses decreased from 8.67% in 2012 to 8.25% in 2013, while the effective power output was up 3.1% year-on-year reflecting organic consumption growth.

Transmission grid losses further decreased from 1.51% in 2012 to 1.37% in 2013. The effective transmission grid output was up 3.7% year-on-year in 2013.

**Detsky Mir**

<i>(USD million)</i>	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Revenue	<b>1 130.4</b>	892.5	26.7%
OIBDA	<b>87.0</b>	54.3	60.3%
Operating income	<b>67.1</b>	35.6	88.7%
Net income attributable to Sistema	<b>40.8</b>	11.1	268.1%

In 2013 Detsky Mir's revenues rose by 26.7% year-on-year, driven by strong sales in the stores opened in 2012, a 13.4% increase in like-for-like revenue in rouble terms and 41 new store openings, including 33 Detsky Mir branded stores and 8 Early Learning Centre (ELC) stores.

In 2013, Detsky Mir focused on its competitive pricing strategy. OIBDA grew by 60.3% in 2013. The OIBDA margin increased to 7.7% in 2013 from 6.1% in 2012, which had been stimulated by enhanced control over operating expenses and improved operational efficiency. Detsky Mir's SG&A expenses declined as a percentage of revenue to 31.8% in 2013 compared to 33.7% in 2012.

Detsky Mir's successful product and pricing policies resulted in an 8.2% increase in like-for-like traffic, while also achieving a 4.8% increase in like-for-like average cheque.

As of 31 December 2013, Detsky Mir's retail chain numbered 252 stores, including 27 ELC franchise stores located in 102 cities across Russia and Kazakhstan. The aggregate retail space was up 10% to 319,900 sq m as of the end of 2013.

In 2013, Detsky Mir paid dividends for 2012 in the amount of US\$ 12.7 million.

In July 2013, Detsky Mir repurchased its 25%+1 share from Sberbank for RUB 4.5 billion. Following the completion of the deal, Sistema's effective stake in Detsky Mir increased to 100%.

### ***Meds***

<i>(USD million)</i>	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Revenue	<b>294.0</b>	208.1	41.3%
OIBDA	<b>44.2</b>	27.6	60.1%
Operating income	<b>30.4</b>	8.6	253.3%
Net income attributable to Sistema	<b>31.8</b>	0.2	16, 157.6%

Meds achieved significant year-on-year revenue growth in 2013 following the integration of its assets with the Medical Centre for the Mayor and Government of Moscow (GUP) at the end of 2012, and increased its patient traffic and medical assets utilisation. Meds reported a 60.1% year-on-year increase in OIBDA in 2013.

In 2013, the number of patient visits and services provided increased by 20.8% and by 15.2% year-on-year, respectively, as a result of the integration with GUP assets and expansion of the number of services. An average bill totalled US\$ 48.7.

As of 31 December 2013, Meds chain consisted of 29 clinics, a consultation and diagnostic centre, 3 hospitals, 82 first aid stations, an ambulance service, 3 wellness centres and 3 sanatoriums, with 198,500 sq.m of healthcare facilities.

### ***Binnopharm***

<i>(USD million)</i>	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Revenue	<b>104.3</b>	73.8	41.3%
OIBDA	<b>20.5</b>	16.0	28.3%
Operating income	<b>13.4</b>	6.1	119.1%
Net income attributable to Sistema	<b>12.1</b>	2.1	466.6%

Binnopharm's revenue rose by 41.3% year-on-year in 2013, mainly due to increased sales of its own biotechnical products.

The company demonstrated significant OIBDA growth by increasing the share of the high-margin distribution segment and boosting the production of proprietary drugs.

In 2013, Binnopharm completed a large-scale project, installing a filling line for syringes (erythropoetins, interferones, vaccines). The line is expected to be used in contract manufacturing and for other purposes.

Binnopharm is conducting an upgrade at an infusion solutions unit at Alium plant, including the installation of a new plastic filling machine instead of the previous bottle packing machine.

In 2013, Binnopharm successfully continued its cooperation with ViiV Healthcare, a subsidiary of GlaxoSmithKline, on the localisation of antiretroviral medicines in Russia.

In April 2013, Binnopharm completed the merger with Alium Group of Companies, a producer of infusion solutions and blood substitutes.

### ***MTS Bank***

<i>(USD million)</i>	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Revenue	<b>903.1</b>	712.3	26.8%
OIBDA	<b>38.1</b>	50.7	(24.9%)
Operating income	<b>19.0</b>	32.3	(41.3%)
Net income attributable to Sistema	<b>18.8</b>	11.1	69.3%

In 2013, MTS Bank generated revenue growth of 26.8% year-on-year, as a result of a significant increase in interest and commission income.

The bank's OIBDA dropped by 24.9% year-on-year, mainly due to increased retail loan provisions following a 40% year-on-year growth in the retail loan portfolio up to US\$ 2.1 billion. The loan provisions to loan portfolio ratio does not exceed 9%.

MTS Bank's gross loan portfolio increased by 3.1% year-on-year to US\$ 5,771 million in 2013, with retail loans accounting for 36% of the total loan portfolio compared to 27% in 2012. Interest income from retail and corporate transactions rose by 27.2% year-on-year to US\$ 731.8 million.

In November 2013, the international rating agency Fitch Ratings confirmed MTS Bank's Long-term Issuer Default Rating at "B+" with a Stable outlook.

### ***Sistema Shyam TeleServices Ltd.***

<i>(USD million)</i>	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Revenue	<b>209.4</b>	303.0	(30.9%)
Adjusted OIBDA <sup>1</sup>	<b>(146.5)</b>	(333.2)	-
Operating loss	<b>(210.2)</b>	(621.2)	-
Net loss attributable to Sistema	<b>(225.1)</b>	(462.9)	-
<i>Adjusted net loss attributable to Sistema</i>	<b>(225.1)</b>	(341.3)	-

SSTL reported a year-on-year decrease in revenues in 2013, as a result of the company ceasing operations in 13 circles and focusing on its development in the nine most economically attractive regions.

SSTL narrowed its adjusted OIBDA loss in 2013 by 56.0% to US\$ 146.5 million. The company's SG&A expenses decreased by 36.5% over the full year 2013, reflecting the effects of the ongoing cost optimisation programme.

As of 31 December 2013, SSTL's total wireless (voice and data) subscriber base declined by 34.1% year-on-year to 9.8 million customers, following the termination of the company's operations in a number of

<sup>1</sup> SSTL's results of 2012 were influenced by a one-off write-down related to the devaluation of the SSTL assets in India.



circles. However, in the fourth quarter of 2013, growth was restored with the subscriber base expanding by 2.2%, while the number of data customers increased by 10.7% quarter-on-quarter.

## **RTI<sup>1</sup>**

<i>(USD million)</i>	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Revenue	<b>2,195.5</b>	2,196.2	0.0%
Adjusted OIBDA	<b>122.7</b>	181.5	(32.4%)
Operating loss	<b>(776.9)</b>	(59.3)	-
<i>Adjusted operating income<sup>2</sup></i>	<b>26.3</b>	73.6	(64.2%)
Net loss attributable to Sistema	<b>(412.6)</b>	(129.9)	-
<i>Adjusted net loss attributable to Sistema</i>	<b>(21.0)</b>	(14.9)	-

In 2013, RTI's revenues remained flat as the 23% year-on-year growth in revenues at the Defence Solutions BU was largely off-set by decreased revenues at the Information and Communication Technologies BU.

In 2013, the company's adjusted OIBDA was down 32.4% year-on-year, largely as a result of reduced profitability at the Information and Communication Technologies BU.

In December 2013, RTI was appointed as the sole contractor for a project to establish a National Integrated Monitoring Centre for biological threats, which was commissioned by the President and the Government of the Russian Federation.

In December 2013, RTI's shareholders, Sistema and the Bank of Moscow, participated in the additional share issue of RTI, therefore effectively converting shareholder debt to equity.

In September 2013, as a result of restructuring SITRONICS, a number of assets, including SITRONICS KASU, Kvant, Elaks, Koncel and SITRONICS (owns certain assets in the high technology sector, including Intellect Telecom), were transferred to a newly established company, SITRONICS-N. Later, in November 2013, SITRONICS-N came into Sistema's direct ownership and management.

## **SMM**

<i>(USD million)</i>	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Revenue	<b>109.8</b>	81.7	34.3%
OIBDA	<b>45.7</b>	20.5	123.1%
Operating income / (loss)	<b>6.2</b>	(14.7)	-
Net income / (loss) attributable to Sistema	<b>0.5</b>	(11.1)	-

Sistema Mass Media's revenue was up 34.3% for the full year of 2013, as a result of launching new services at Stream<sup>3</sup>, as well as an increase in Stream-TV's subscriber base.

<sup>1</sup> RTI consolidates RTI Systems Concern, NVision Group and Mikron Group and consists of four major business units: BU Defence Solutions, BU Comprehensive Security Systems, BU Microelectronics, BU Information and Communication technologies.

<sup>2</sup> RTI's results of 2012 and 2013 were influenced by the recognition of loss from the impairment of goodwill and other assets. The RTI results do not include the results of SITRONICS-N for all of the presented periods.

<sup>3</sup> Stream is owned by Sistema (55%) and MTS (45%). For the purpose of consolidated Sistema accounting the results of Stream are included in the results of SMM.

SMM's OIBDA demonstrated a significant year-on-year increase in 2013 as a result of cost optimisation at the managing company level. The OIBDA margin expanded to 41.6% in 2013.

In 2013, the Stream-TV subscriber base increased by 39.0% year-on-year and reached 10.7 million subscribers following active expansion of Stream-TV in the CIS region. On the back of growing market demand WRS increased the production of short TV series. The WRS content library grew to 1,729 hours as of 31 December 2013.

In 2013, Stream successfully launched a number of new services, including a ringback tone service "Gudok", an informational service "MTS Info", a "Video" option in the mobile TV service for MTS subscribers, as well as new applications for viewing Stream online-cinema content for all major mobile phone platforms and TVs with Smart TV support.

### ***Intourist***

<i>(USD million)</i>	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Revenue	<b>88.4</b>	87.5	1.0%
OIBDA	<b>18.0</b>	(13.5)	-
Operating income / (loss)	<b>12.3</b>	(23.2)	-
Net loss attributable to Sistema	<b>(0.9)</b>	(24.7)	-

In 2013, despite improved business operations, Intourist's revenues remained at the level of 2012, largely as a result of terminating the management services contract for "Severnaya" hotel in Petrozavodsk and "Oktyabrskaya" hotel in Nizhny Novgorod. Intourist's OIBDA was restored in 2013, after recognising the loss from the joint venture with Thomas Cook in 2012. OIBDA margin rose up to 20.4% in 2013, following the optimisation of costs, including outsourcing of certain functions, as well as revising contracts with food suppliers.

As of 31 December 2013, Intourist owned and managed 11 hotels across Russia, Italy, Czech Republic, Turkey, Ukraine and Namibia. The total number of rooms owned, managed and rented in the reporting year amounted to 2,688.

### ***Corporate Centre***

<i>(USD million)</i>	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
OIBDA <sup>1</sup>	<b>870.0</b>	(240.7)	-
Net Income (loss)	<b>518.1</b>	(251.7)	-
Debt	<b>1,574.5</b>	1 646.8	(4.4%)

The Corporate Centre segment comprises the companies that control and manage the Company's interests in its subsidiaries.

In 2013, the Corporate Centre segment reported positive OIBDA as a result of recognised gain from the sale of RussNeft.

<sup>1</sup> Hereinafter OIBDA and net income (loss) of the Corporate Centre and other indicators do not take into account intra-group dividends.

In 2013, the Corporate Centre's SG&A expenses increased by 54.6% year-on-year to US\$ 349.0 million. This includes US\$ 54 million of non-cash expenditure related to awarding ordinary shares to the top management. The amount of recognised expense was calculated based on the share price as of the date of the transaction in 2013.

Dividend flow from Sistema's investments totalled US\$ 1.5 billion (net of tax) in the reporting year.

### ***3.4. Financial overview***

Net cash flow from operations in 2013 increased by 15.4% year-on-year to US\$ 6,828.8 million.

Net cash spent by the Group on investment activities totalled US\$ 2,912.7 million in 2013, compared to US\$ 4,672.3 million used in 2012.

The year-on-year reduction in net cash outflow from investments was mainly due to the cash consideration of US\$ 2,046.7 million that the Group received from the monetisation of investments in its affiliated and subsidiary companies in 2013, in particular US\$ 1,200.0 million from the sale of a 49% stake in Oil and Gas Company RussNeft, US\$ 199.0 million from the sale of 500 ordinary shares of Belkamneft, and US\$ 417.7 million, net of cash disposed, from the sale of 85% in SG-trans to Financial Alliance and Unirail. In 2013 the Group also sold INTER RAO UES promissory notes received in 2012 for the sale of the power generation assets for the cash consideration of US\$ 220.2 million.

The Group's capital expenditure in 2013 amounted to US\$ 4,013.3 million compared to US\$ 4,209.6 million in 2012. The 4.7% year-on-year decrease in CAPEX was due to the reduction of capital expenditures at MTS by 11.8%, partially offset by Bashneft's growing investment programme in connection with developing the Trebs and Titov fields. In addition, in the reporting year, net increase in short-term and long-term investments was US\$ 429.2 million mainly due to depositing free cash funds into bank accounts. Investments in affiliates grew by US\$ 386.9 million mainly as a result of loans issued to Bashneft-Polus.

Net cash outflow from financing activities in 2013 was slightly lower than in 2012 (US\$ 3,083.0 million in 2013 compared to US\$ 3,171.7 million in 2012). Cash outflow from financial activities in 2013 were mainly related to the payment of US\$ 950.3 million to the shareholders of subsidiaries compared to US\$ 575.8 million in 2012, and dividends of US\$ 275.1 million paid by Sistema compared to US\$ 82.3 million in 2012.

The Group's net principal payments on long-term borrowings in 2013 totalled US\$ 1,253.8 million. Net principal payments of US\$ 231.0 million on short-term borrowings resulted in 86% repayment of short-term loans at the reporting date.

The Group's cash balances from continuing operations stood at US\$ 2,059.1 million as of 31 December 2013 (excluding an amount of US\$ 1,132.4 million which is attributable to the Group's banking activities) compared to US\$ 1,859.2 million as of 31 December 2012 (excluding an amount of US\$ 769.4 million which is attributable to the Group's banking activities). The Group's net debt (short-term and long-term debt less cash and cash equivalents and highly liquid deposits) amounted to US\$ 11,007.4 million as of 31 December 2013, compared to US\$ 13,460.1 million as of 31 December 2012.

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

The OIBDA indicator stands for operating income before depreciation and amortisation of intangible assets. OIBDA margin is OIBDA measured as percentage of net revenue. Our interpretation of the OIBDA indicator may differ from the use of this parameter in other companies; this indicator is not a US GAAP parameter and should be seen as an addition to the data contained in the consolidated US GAAP reports rather than as a replacement of this data. The Company believes that OIBDA is a useful indicator for investors, since it shows the stability and efficiency of the company's operations, including the company's ability to finance capital expenses, acquisitions and other investments, as well raise and service debt. Although under US GAAP depreciation and amortisation are treated as operating expenses,

these expenses are mostly related to non-cash spending on the long-term assets that had been acquired or created in previous periods. This OIBDA calculation methodology is widely used by investors, analysts and credit rating agencies for the assessment of the current and future operations of companies and their valuation. The calculation of OIBDA net of adjustments correlates with the consolidated operating results as follows:

*Operating income and OIBDA*

<i>(USD million)</i>	<b>2013</b>	<b>2012</b>
Operating income	<b>5, 663.0</b>	4, 725.8
One-off adjustments	<b>12.9</b>	635.9
Adjusted operating income	<b>5, 675.9</b>	5, 361.7
Depreciation and amortisation	<b>3, 242.6</b>	3, 068.9
Adjusted OIBDA	<b>8, 918.5</b>	8, 430.6

*Net income*

<i>(USD million)</i>	<b>2013</b>	<b>2012</b>
Net income	<b>2, 257.5</b>	946.1
One-off adjustments	<b>(265.4)</b>	847.7
Adjusted net income	<b>1, 992.1</b>	1, 793.8

### **3.5. Sistema JSFC's credit ratings**

<i>Rating agency</i>	<i>Date of the most recent rating update</i>	<i>Long-term credit rating</i>	<i>Forecast</i>
Standard & Poor's	30 August 2013	BB	Stable
Moody's	30 May 2013	Ba3	Positive
Fitch	26 February 2014	BB-	Positive

### **3.6. Report on payment of the announced (allocated) dividends on the shares of Sistema JSFC**

The dividend policy of Sistema JSFC is aimed at paying a predictable amount of dividends and enabling the company to reinvest profits into attractive investment opportunities in the future.

The amount of dividends is determined on the basis of the results of the previous financial period and should be at least 10% of the net income of Sistema JSFC Group under US GAAP (net of special dividends paid). Moreover, Sistema JSFC will pay special dividends accounting for at least 10% of net income following the respective decision of the Board of Directors in the event of asset divestments and completion of any other deals. In accordance with the Russian legislation the total amount of paid dividends is limited by the amount of consolidated net income under the Russian Accounting Standards.

On 29 June 2013, the Annual General Meeting of Sistema's shareholders (Minutes No1-13) took the decision to pay RUB 9, 264, 000, 000.00 in dividend for 2012, which amounts to RUB 0.96 per one ordinary share of Sistema (RUB 19.2 per one GDR). The amount of dividends was determined as percentage of net income under US GAAP for 2012 and percentage of net income from the transactions closed in 2012.

As of 31 December 2013, the total amount of dividends paid was RUB 9, 263, 999, 999.04. The tax withheld on dividends paid to foreign individuals and legal entities totalled RUB 348, 380, 234.00.

As of today the amount of unpaid dividends for 2012 is RUB 0.96. As of 31 December 2013, the amount of unpaid dividends was RUB 461,143.74. The specified amounts were not paid due to the lack of the required payment information on dividend recipients.

## 4. PROSPECTS AND DEVELOPMENT STRATEGY OF THE SISTEMA JSFC GROUP OF COMPANIES

### 4.1. Mobile TeleSystems

Mobile TeleSystems (MTS) is the largest telecommunication operator in Russia, Eastern Europe and Central Asia. MTS offers mobile and fixed telephony, broadband internet access and pay TV, as well as information and entertainment services, in one of the world's most dynamically developing regions.

Company	Effective ownership
Mobile TeleSystems	53.5%

President: Andrey Dubovskov

Chairman of the Board of Directors: Ron Sommer

#### *Industry*

The key growth driver in the telecoms market is the data and mobile internet access segment. Analysts expect the annual growth rates of the market to slow down to 3% in the next few years, with the traditional voice segment expected to continue shrinking due to strong competition and growing inter-network roaming.

In these conditions significant growth potential lies in developing convergent products, partnerships in adjacent segments such as financial services, media and advertising, and in designing all-embracing products.

#### *Steady growth in 2013*

MTS remains a leader by total revenues and OIBDA among the Russian 'Big Three' operators. The quality of subscriber base improved significantly in 2013: average revenue per user (ARPU) in Russia increased by 3.7% to RUB 308, MOU (minutes of usage) also was up 7.6% to 327 minutes. MTS demonstrated superior rates of growth in mobile data income in 2013. Churn rate in Russia impressively declined to 36.3% from 42.4% a year ago.

MTS built over 31,500 base 3G stations (increasing coverage to 76%) and over 5,000 base LTE stations.

MTS accelerated the construction of its digital platform based on MGTS's GPON (fibre access) project in Moscow. By the end of 2013, 700,000 subscribers had migrated to GPON, 240,000 customers were using GPON for internet access, and over 2.3 million households were ready to migrate. MTS's share of the national broadband market reached 26.5% in 2013, and the share of the pay TV market (by subscribers) increased to 11.7%.

#### *Operational strategy*

MTS's main operating objectives include the development of convergent products and services, and the increase of data penetration.

MTS plans to grow its 3G population coverage to 93% by 2015. By the end of 2014, the company will provide high-speed LTE internet access to over 70 Russian regions. MTS's new digital platform will be ready in 2014, aimed to expand the range of digital services provided.

The company's financial services development strategy, shared with MTS Bank, envisages a five-fold increase in the size of the retail loan portfolio by 2016.

### *Investment strategy*

Sistema's strategy for MTS provides for steady dividend payments, based on MTS' free cash flows. Starting from 2013 MTS dividend payments are determined on the basis of free cash flows. In February 2014, MTS upgraded its forecast for total dividends in 2014-2015 to at least RUB 90 billion.

### *Key results of 2013*

#### *Financial indicators*

<i>(USD million)</i>	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Revenue	<b>12, 511</b>	12, 161	2.9%
Adjusted OIBDA*	<b>5, 656</b>	5, 286	7.0%
Adjusted OIBDA margin*	<b>45.2%</b>	43.5%	1.7 p.p.
Adjusted net income attributable to Sistema *	<b>1, 146</b>	1, 124	2.0%
Debt	<b>6, 682</b>	7, 584	-11.9%
CAPEX	<b>2, 561</b>	2, 903	-11.8%

*\*The OIBDA of MTS in 2013 was influenced by the recognition of income from the compensation received after the settlement of Bitel dispute.*

#### *Operating indicators*

	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Mobile subscribers (m)**	<b>102.4</b>	95.8	6.9%
ARPU in Russia (RUB)	<b>308</b>	297	3.7%
MOU in Russia (min)	<b>327</b>	304	7.6%

*\*\*Excluding the subscribers of the Republic of Belarus*

### *Key events of 2013*

In March 2013, MTS acquired a 25%+1 stake in MTS Bank for RUB 5.1 billion. MTS signed an agreement with MTS Bank for joint development of MTS Money loans, with MTS receiving 70% of the profit generated.

In May 2013, MTS launched Moscow's first LTE FDD network.

In June 2013, the MTS annual general meeting of shareholders approved a new dividend policy providing for a direct correlation between the company's free cash flows and the dividends. The minimum amount of dividends payable in 2013-2015 will be the bigger of these two values: 75% of MTS's free cash flow over the past financial year or RUB 40 billion a year.

In August 2013, MTS completed the dividend payment for the fiscal year 2012, amounting to RUB 30.2 billion.

In September 2013, an Extraordinary General Meeting of MTS shareholders approved the payment of the company's first-ever semi-annual dividends, for the first half of 2013. The amount paid was RUB 10.8 billion.

## **4.2. Bashneft**

Bashneft is a vertically integrated oil company combining the largest fuel and energy producers of the Republic of Bashkortostan. It ranks among the top ten Russian oil producers, and in the top five oil-refining companies.

Company	Effective ownership
Bashneft	75%

President: Alexander Korsik

Chairman of the Board of Directors: Felix Evtushenkov

### *Industry*

Volatility in the world commodity and FOREX markets brought oil prices down: average Brent crude oil price in 2013 decreased by 2.7%, to US\$ 108.7 a barrel. However, falling prices were partially compensated for by a decrease in export duties on crude oil and petroleum products - as well as in the mineral extraction tax.

In 2013, Russia set a 25-year record for crude oil production, and experts expect the upward trend in the Russian crude oil production to continue. Depletion of the main oil deposits in West Siberia creates a need for further development of oil fields in the continental shelf of the Arctic and far-eastern seas, as well as in East Siberia and the Far East.

### *Steady growth in 2013*

In 2013 Bashneft's oil production increased by 4.1% to 16.1 million tonnes. Bashneft reaffirmed its leadership in Russia by annual growth in crude oil output, thanks to introducing highly efficient geological techniques and state-of-the-art technology, both at mature fields and at the Afanasyev oil field, launched in 2013. Trial operations started at the Trebs and Titov field in the Nenets Autonomous District in August 2013, adding 291 thousand tonnes of crude oil to production. In 2014, Bashneft expects the field's output to grow to around 1 million tonnes.

Bashneft retained absolute leadership among Russian oil companies by refining depth, which was 84.7%. Yield of light oil products grew to 60.4% compared to 59.7% in 2012.

The company is also a leader in oil product quality, with 87.7% of its 2013 petrol output meeting Euro-4 and Euro-5 standards, and 67.2% meeting Euro-5 standard.

Bashneft and Sistema took steps to improve corporate structure and unlock the company's hidden value. Bashneft sold its non-core businesses - United Petrochemical Company and Bashneft Service Assets - to focus on efficiency and development of its key segments.

### *Operational strategy*

Bashneft's operational strategy in the production and exploration sector is to sustain production at the company's mature fields while carrying out an extensive exploration programme in Bashkiria. Bashneft is planning to continue the development of the Trebs and Titov oil field, along with further exploration, and to launch production at new sites in the Nenets Autonomous District. The company will also consider acquiring new licences in promising regions, and participating in new international projects.

In oil processing, Bashneft is planning to upgrade its refineries, and by 2015, to fully migrate to the Euro-5 fuel standard. It is also a priority within the company's commercial strategy to rebrand the chain of retail petrol stations.

### *Investment strategy*

In 2014, Bashneft intends to further streamline its corporate structure. In 2013 it started the reorganisation which includes elimination of cross-ownership with Sistema Invest. Sistema believes Bashneft has considerable growth potential attainable through its operational strategy and the development of its key assets, as well as through strategic partnerships and M&A deals. The oil business possesses sufficient resources to provide a stable dividend flow.

## Key results of 2013

### Financial indicators

(USD million)	2013	2012	YoY change
Revenue	<b>17,685</b>	17,125	3.3%
Adjusted OIBDA*	<b>3,172</b>	3,279	-3.2%
Adjusted OIBDA margin *	<b>17.9%</b>	19.2%	-1.3 p.p.
Adjusted net income attributable to Sistema *	<b>1,447</b>	1,375	5.3%
Debt	<b>2,756</b>	3,601	-23.5%
CAPEX	<b>978</b>	890	9.9%

\* In 2013 and 2012, Bashneft's OIBDA was impacted by the effect from the sale of Bashneft's stake in OJSC Belkamneft and other one-offs.

### Operating indicators

	2013	2012	YoY change
Crude oil production (million tonnes)	<b>16.1</b>	15.4	4.1%
Refining volumes (million tonnes)	<b>21.4</b>	20.8	3.0%
Yield of light oil products (%)	<b>60.4</b>	59.7	0.7 p.p.
Refining depth (%)	<b>84.7</b>	84.9	-0.2 p.p.

## Key events of 2013

In September, Bashneft sold its 98% stake in United Petrochemical Company to Sistema for RUB 6.2 billion.

In October, Bashneft sold the entire authorised share capital of Bashneft-Service Assets to Sistema for RUB 4.1 billion.

In October, Bashneft won the auction for the geological survey, exploration and production of hydrocarbons at the Astashevsko-Sosnovsko-Nazarovsky field.

In October, Bashneft obtained the right to enter into a Production Sharing Agreement for Oil Block EP-4 in Myanmar with a participatory interest of 90%, and to become the operator of the project.

In December, Bashneft launched a corporate reorganisation through a merger with Bashneft Invest, a 100% subsidiary established following the spin-off from Sistema Invest.

In December, Bashneft paid out dividends for the nine months of 2013, amounting to RUB 45.25 billion. Earlier, in August, Bashneft had paid RUB 5.32 billion in dividends for the 2012 full year.

In December, Bashneft completed the acquisition of the Bashneftegazrazvedka company, which has a licence for the East-Iksky field.

In March 2014, Bashneft acquired a 100% stake in Burneftegaz, an oil exploration and production company in the Tyumen District, which owns the rights to explore and develop the Sorovskoye field and the Tortasinskoye field. Total C1+C2 oil reserves of the fields amount to 53.4 million tonnes. The amount of the deal exceeded US\$1 billion, including debt.

### 4.3. Bashkirian Power Grid Company

Bashkirian Power Grid Company (BPGC) is a large power grid company providing power transmission services to consumers in the Republic of Bashkortostan.



Company	Effective ownership
Bashkirian Power Grid Company	79%

CEO: Andrey Makarov

Chairman of the Board of Directors: Felix Evtushenkov

### *Industry*

The new development strategy of the Russian power grid network sets targets for reducing the costs of grid companies. To meet the strategy's recommendations, regulated power transmission tariffs were indexed to remain stable for 2014.

There are now plans to introduce benchmarking tools for estimating operating and investment expenses, an availability charge for consumers, and measures to reduce cross-subsidies. Power grid tariffs indexation in 2014 for 2015 will be fixed below the rate of inflation. In the Republic of Bashkortostan, power consumption is expected to rise by 1.59%.

### *Steady growth in 2013*

BPGC increased electricity output by 3.1%, thanks to economic growth and increased consumption in the Bashkiria region. Successful execution of investment programme worth RUB 3,481m allowed increasing the capacity and the number of connected consumers. BPGC's improved performance was also driven by a 32.6% increase in technological connections, to 17,180 units, with a connected capacity of 250.6 MW.

BPGC also renovated power facilities, and improved efficiency and reliability in electric power transmission. The company signed an agreement with Siemens to conduct a provisional feasibility study for modernising the power grid infrastructure in Ufa, the capital of Bashkortostan, using a 'smart grid' technology. Smart grid is a priority for the global power grid sector, and Ufa will become the first Russian city to introduce it, which will reduce its power outages by almost 50%.

### *Operational strategy*

In 2014, BPGC will work to switch to RAB regulation of tariffs, which will make the company more attractive to investors and create a stable source of income to support its long-term investment programme.

To generate additional revenue from non-regulated activities, BPGC will also set up an engineering company that specialises in planning power grid infrastructure, designing complicated electro-technical facilities and constructing cyber safety systems for power grids. BPGC is also considering strategic partnerships with leading foreign companies that already have smart grid technology implementation experience.

### *Investment strategy*

Sistema's strategy for BPGC envisages growth of the company's market share in the Republic of Bashkortostan through organic and possibly acquisition opportunities.

### *Key results of 2013*

<i>Financial indicators</i>			
<i>(USD million)</i>	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Revenue	<b>417</b>	373	11.7%

OIBDA	<b>177</b>	129	37.6%
OIBDA margin	<b>42.6%</b>	43.4%	-0.8 p.p.
Net income attributable to Sistema	<b>87</b>	24	259.0%

*Operating indicators*

	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Distribution grid effective output (m kWh)	<b>19,080</b>	18,514	3.1%
Distribution grid losses (%)	<b>8.25%</b>	8.67%	-0.42 p.p.
Transmission grid effective output (m kWh)	<b>20,936</b>	20,192	3.7%
Transmission grid losses (%)	<b>1.37%</b>	1.51%	-0.14 p.p.

*Key events of 2013*

In January, BPGC commissioned the Zaton-Krasnodonskaya 110 kV aerial cable line and completed reconstruction of the Krasnodonskaya substation (110/10/6 kV).

In November, BPGC began construction of a new 110/10 kV substation at Gafuri, and a 110 kV aerial cable line to resolve a power deficit in the Buzdyaksky district of Bashkortostan.

#### **4.4. United Petrochemical Company**

United Petrochemical Company (UPC) is a vertically integrated petrochemical group with four businesses in the Republic of Bashkortostan: Ufaorgsintez, the Tuymazy and Shkapovo gas processing plants, and a Bisphenol-A production facility.

Company	Effective ownership
United petrochemical Company	99%

President: Kirill Tyurdenov

Chairman of the Board of Directors: Vladislav Bazhenov (as of December 31, 2013 -Yakov Goldovsky)

*Industry*

In 2013, Russia's petrochemical industry increased its output of polymers by 9.3%, polyethylene by 19.8% and polypropylene by 25.2%. With introduction of new capacities and resumption of operations at some plants, Russian-produced petrochemicals are beginning to replace imported ones, and this trend is expected to continue, given the growth of investment in the sector.

Russia still lags behind the developed and some developing countries in per-capita polymer consumption. The growth rate of polymer consumption will outpace the GDP growth rate as the market is far from saturation.

*Steady growth in 2013*

In September, Sistema purchased 98% of UPC from Bashneft for RUB 6.2 billion. Later in the year, UPC signed an agreement with Mexico's Grupo Petrotex, a subsidiary of Alpek, for a joint venture to build a plant producing purified terephthalic acid (PTA) and polyethylene terephthalate (PET) in Ufa. The

PTA/PET plant will use Petrotemex's IntegRex technology and have a maximum capacity of 600,000 tonnes of PTA and 600,000 tonnes of PET, supplying products to the Russian and export markets.

In 2013 UPC accounted for a 12% share of the Russian market in polypropylene, 14% in low-density polyethylene, 26% in phenol, and 30% in acetone – and generated revenues of US\$ 697 million, of which 11% came from Bashneft. In 2013, UPC processed 752 thousand tonnes of hydrocarbons.

#### *Operational strategy*

In 2014, UPC aims to increase processing volumes at Ufaorgsintez and the Bisphenol production facility, and reduce costs. With regard to the JV with Alpek to build the PTA/PET plant, the parties plan to sign licence agreements in 2014, as well as to begin the design work and hold a tender for FEED and EPC.

#### *Investment strategy*

Sistema sees significant growth potential in the petrochemical business, through developing state-of-the-art petrochemical production facilities in partnership with major petrochemical players (for pyrolysis, production of polyethylene, polypropylene, ethylene oxide and glycols, and epoxy resins). Implementation of this strategy will increase UPC's value and ensure a stable dividend flow.

#### *Key results of 2013*

##### *Financial indicators \**

<i>(USD million)</i>	<b>2013</b>
Revenue	<b>697</b>
OIBDA	<b>74</b>
Debt	<b>0</b>

*\* Full-year 2013 results, no comparable data for 2012 is available*

##### *Operating indicators \**

<i>('000 tonnes)</i>	<b>2013</b>
Processed hydrocarbons, thousand tonnes	<b>752</b>
Output of finished products, thousand tonnes	<b>725</b>
Including : Polypropylene	<b>119</b>
Polyethylene	<b>91</b>
Phenol	<b>49</b>
Acetone	<b>39</b>
Bisphenol A	<b>27</b>
LPG and stable gas naphtha	<b>163</b>

*\* Full-year 2013 results, no comparable data for 2012 is available.*

#### *Key events of 2013*

In October 2013, UPC began operating automated LPG fillers at the Tuymazy and Shkapovo plants, each with a monthly capacity of 2,800 tonnes, which will support significant expansion of LPG sales geographically.

In December 2013, UPC registered a joint venture with Mexico's Grupo Petrotemex, a subsidiary of Alpek, one of the world's biggest petrochemical players, to build a PTA/PET plant in Ufa.

#### 4.5. Bashneft Service Assets

Bashneft Service Assets (BNSA) is a major oilfield services company in the Republic of Bashkortostan, operating in East Siberia and in the north-west of the Russian Federation.

Company	Effective ownership
Bashneft Service Assets	100%

CEO: Kamil Zakirov

Chairman of the Board of Directors: Felix Evtushenkov

##### *Industry*

In-house oilfield services account for over a third of the oilfield service market in Russia. BNSA's market share is approximately 1.6%.

Drilling is the main oilfield service market in Russia. Aggregate drilling volumes in Russia in 2013 were up by 7% as compared to 2012. Industry experts forecast the drilling segment to grow in the medium term, while in the long run growth will depend mostly on the success of the exploration projects of the next few years.

There is growing demand for high-tech oil and gas services in Russia, with the competitiveness of independent service companies depending on their ability to offer advanced technologies and multifunctional equipment. Growth of the oilfield service market will come from the need to maintain production levels at mature deposits and from projects aimed at extracting hard-to-recover reserves.

##### *Steady growth in 2013*

BNSA comprises eleven companies, providing more than 130 different oilfield services in five business segments: drilling, well servicing and workover, mechanical service, transport, and construction. The main production facilities are based in Bashkortostan. Drilling volumes in 2013 amounted to 408 thousand meters and the number of commissioned wells amounted to 161.

BNSA's major customer is Bashneft, with a long-term contract for the provision of oilfield services. The contract with Bashneft generated 77% of BNSA's revenues in 2013. Other customers include TNK BP, RN-Samaraneftegaz, Slavneft Megionneftegaz, and RN-Yuganskneftegaz. In 2013, BNSA expanded its client base by signing contracts with Gazpromneft and Russneft.

BNSA generated revenue of US\$ 767 million in 2013. The OIBDA margin of 8% can be significantly improved through equipment modernisation and diversification of the client base. The company's debt amounted to US\$ 8 million. BNSA has significant debt capacity to finance its investment programme.

##### *Operational strategy*

BNSA aims to increase its market share through investing in the drilling segment, with 2014 investments expected to reach RUB 6.3 billion, mainly through debt.

The company is also aiming to diversify its client base, expand its range of services and streamline its internal structure.

##### *Investment strategy*

Sistema's investment strategy for BNSA envisages further restructuring and optimisation of the company, expansion of its operations and client base and possible future monetisation through M&A or a sale to strategic investors.

### Key results of 2013

#### Financial indicators\*

(USD million)	2013
Revenue	<b>767</b>
OIBDA	<b>60</b>
Debt	<b>8</b>

\* Full-year 2013 results, no comparable data for 2012 is available.

#### Operating indicators

	2013	2012	YoY change
Number of drilling crews	<b>30</b>	37	-19%
Drilling volumes, ths m	<b>408</b>	474	-14%
Number of commissioned wells	<b>161</b>	212	-24%
Number of well servicing and workover crews	<b>154</b>	137	12%
Well servicing and workover work plan, ths hours	<b>1, 138</b>	1, 039	10%
Transport: number of vehicles	<b>5, 068</b>	5, 190	-2%
Transport: work plan, ths hours	<b>12, 937</b>	12, 904	0%
Mechanical service: overhaul of oilfield equipment, oil-well tubing and pump rods, ths units	<b>332</b>	267	24%
Mechanical service: Maintenance of oilfield equipment, ths units	<b>55</b>	80	-31%
Mechanical service: Polymer coating services for pipes, ths m	<b>474</b>	342	39%
Maintenance of ESP units, ths per day	<b>1, 229</b>	1, 257	-2%

### Key events of 2013

In December 2013, BNSA and Bashneft signed a Framework Agreement for cooperation in oilfield works and services from 2014-2018.

#### 4.6. Detsky Mir

Detsky Mir Group is the largest children's goods retailer in Russia and the CIS. The Group includes Detsky Mir retail chain in Russia and Kazakhstan, early development chain ELC in Russia, the luxury centre Yakimanka Children's Gallery, and the online stores detmir.ru and elc-russia.ru.

Company	Effective ownership
Detsky Mir	100%

CEO: Vladimir Chirakhov

Chairman of the Board of Directors: Christopher Alan Baxter

## *Industry*

A reduction in the market share of non-organized retail, from 36% to 20%, and increased consumer spending, has contributed to the continued growth of the children's goods retail market in Russia. Children's clothing, toys, and baby products are still the market segments with the highest potential. In 2013, there was significant growth in the market share of medium-price goods, the segment Detsky Mir operates in. In addition, the improving demographics, growing consumer spending, and the strengthening positions of specialist retail chains will drive further growth. There are new duty reductions scheduled for 2014, based on Russia's WTO membership, which will improve the contractual terms for sourcing high-quality children's goods from abroad.

## *Steady growth in 2013*

Detsky Mir's growth rate was more than double the average market growth rate, with revenue growing 26.7% in 2013 compared to 2012. Detsky Mir's share of the total market increased to 8.2%, reaching 12.9% in toys, 11.1% in clothing and footwear, and 9.4% in baby products.

The company opened 33 Detsky Mir stores and 8 ELC stores, reaching a total store count of 252 with a total floor space of 320 thousand m<sup>2</sup>.

Detsky Mir also focused on its competitive pricing strategy and efficient customer proposition which resulted in an 8.2% like-for-like increase in traffic and a 4.8% like-for-like increase in the average ticket.

By the end of 2013, Detsky Mir's private label portfolio included 11 clothing and footwear brands, and generated 20% of the company's revenue.

In December 2013, Detsky Mir unveiled a new innovative store concept with substantially improved shopping experience for the customers. Key attributes of the new concept include modern merchandising technology, a broader product mix, and a combination of play space and retail space to further increase traffic and sales. For 2014, Detsky Mir plans to open 30 to 40 stores in this new format as well as refurbish 5-7 existing stores, mainly largest Detsky Mir stores in Mega shopping malls.

## *Operational strategy*

Over the next few years, Detsky Mir plans to increase the share of its highly profitable private-label clothing and footwear, to 70% of the total clothing and footwear sales.

Focus on omni-channel sales development would allow improving marketing and customer experience across a wider range of platforms, from mobile devices and computers, to television, radio and direct mail. For example, in 2014 the company plans to open 5-7 e-kiosks.

Detsky Mir will also continue developing its logistics system, increasing its centralisation and improving turnover rates.

## *Investment strategy*

Based on the trend of market consolidation, Detsky Mir is assessing a range of opportunities to grow the business. These include potential M&A deals on attractive terms to secure expertise in new retail market segments, and further strengthening Detsky Mir's market position in specific regions and in Russia overall. At the same time, Sistema is considering various strategic options to further support Detsky Mir's growth plans.

## *Key results of 2013*

### *Financial indicators*

<i>(USD million)</i>	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Revenue	<b>1, 130</b>	893	26.7%
OIBDA	<b>87</b>	54	60.3%
OIBDA margin	<b>7.7%</b>	6.1%	1.6 p.p.
Net income attributable to Sistema	<b>41</b>	11	268.1%

Debt	<b>181</b>	99	83.3%
------	------------	----	-------

#### *Operating indicators*

	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Floor space (ths sq. m)	<b>320</b>	291	10.0%
Number of stores	<b>252</b>	216	16.7%

#### *Key events of 2013*

In July, Detsky Mir bought out a 25%+1 stake of its shares from Sberbank, for RUB 4.5 billion. This resulted in Sistema's effective shareholding in Detsky Mir increasing to 100%.

In August, Detsky Mir paid RUB 420.5 million worth of dividends for 2012.

In December, Detsky Mir launched its first store under new interactive concept in the shopping mall Mega Belaya Dacha.

#### **4.7. Medsi**

Medsi is a leading provider of private healthcare services in Russia, which operates the largest private chain of medical facilities in the country. Medsi Group includes one clinical and diagnostic centre, 29 clinics, 82 first aid stations, three hospitals, an emergency medical service, three wellness centres and three healthcare resorts.

Company	Effective ownership
Medsi	75% -1 share

President: Alexey Chupin (before May 2013 - Khawar Mann)

Chairman of the Board of Directors: Mikhail Shamolin

#### *Industry*

The Russian private healthcare market continued growing rapidly in 2013. Many private clinics opened, and the range of healthcare services increased.

Private medical insurance – with its 10% and 29% share in Russian and Moscow healthcare markets respectively – is one of the segments showing the highest growth. High income in Moscow, where more than 30% of residents have an average monthly income over RUB 50,000, will contribute to further growth in the private medical insurance sector and the Moscow private healthcare market overall. A reduction in the number of services available under mandatory medical insurance in 2013 has also created revenue growth among private companies.

The Russian private healthcare segment remains heavily fragmented: Medsi's share of Russia's healthcare services market is around 2%, and its share of the Moscow market is around 6%.

However, consumers are increasingly choosing large clinical and diagnostic centres that provide a wider range of services over regular clinics.

#### *Steady growth in 2013*

Medsi completed the integration of the acquired GUP Medical Centre assets into the Group, and now focuses on the efficiencies available through implementing a full-cycle healthcare model. Among other

factors, this successful integration allowed Medsi to increase revenue and OIBDA by 41.3% and 60.1% respectively, compared with 2012.

Medsi also launched several new healthcare and check-up programmes, and about ten new rehabilitation programmes using health resorts and wellness centres – and prepared to launch new products in 2014 in partnership with insurance companies. The merger with GUP Medical Centre had secured Medsi a contract to provide healthcare among state and municipal agency employees, which was extended into 2014. The total number of patient visits in 2013 rose by 20.8% to over 6 million.

Medsi has significant potential for further development. The company can improve on the current 40% use of capacity in its hospitals, and also in one of its most successful projects – a clinical and diagnostic centre in Moscow that currently has an OIBDA margin of 48% and utilization of 64%.

In association with Royal Phillips, Medsi is developing flagship clinical and diagnostic centres that use hospital-substituting technology as a key way of developing complex and comprehensive services. The company began the construction one of these in December 2013.

#### *Operational strategy*

Medsi's strategy focuses on developing complex, full-range medical services and building the large clinical and diagnostic centres popular with private customers. In 2014, Medsi plans to commence construction of two such centres jointly with Royal Philips.

In addition, Medsi plans to optimise some of its smaller clinics, modernise and re-equip hospitals as part of its organic growth plans and increase utilisation and diversify the client base in the recently integrated assets. Medsi will continue cooperating with major international healthcare leaders, sharing experience and technology, educating staff, and improving quality standards.

#### *Investment strategy*

Sistema regards healthcare as one of the key long-term growth opportunities in Russia. The Group actively assists Medsi in implementing its strategic direction, establishing relationships with leading international healthcare providers and assessing strategic opportunities to maintain the company's ambitious plans.

#### *Key results of 2013*

##### *Financial indicators*

<i>(USD million)</i>	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Revenue	<b>294</b>	208	41.3%
OIBDA	<b>44</b>	28	60.1%
OIBDA margin	<b>15.0%</b>	13.3%	1.7 p.p.
Net income attributable to Sistema	<b>32</b>	0.2	16, 157.6%
Debt	<b>73</b>	84	-13.1%

##### *Operating indicators*

	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Number of visits (thousand)	<b>6, 013</b>	4, 979	20.8%
Services provided (thousand)	<b>12, 736</b>	11, 055	15.2%
Average cheque (US\$)	<b>48.7</b>	41.7	16.8%

#### *Key events of 2013*

In May, Alexey Chupin was appointed new President of Medsi Group.



In January 2014, Medsi announced a strategic collaboration with Royal Philips which will commence with the construction of two new clinics and diagnostic centres in Otradnoe and Michurinsky prospect in Moscow.

#### **4.8. Binnopharm**

Binnopharm is a pharmaceutical company, which operates one of Russia's largest facilities manufacturing biotechnological drugs in line with the international quality standard GMP (Good Manufacturing Practice).

Company	Effective ownership
Binnopharm	74%

CEO: Pavel Medvedev

Chairman of the Board of Directors: Dmitry Zubov

##### *Industry*

Russia's pharmaceuticals market demonstrates consistent growth, especially in the commercial segment of finished pharmaceutical products. Domestic producers control almost two-thirds of the market by product, though less than a quarter in monetary terms.

In 2013, a government decree required all Russian drug producers to adopt the GMP standards by 1 January 2014. Binnopharm already meets these standards.

##### *Steady growth in 2013*

Binnopharm's revenue grew significantly reaching record US\$ 104 million thanks to higher sales of its own biotechnological drugs such as vaccine Regevak and aerosol generics, and growth of distribution operations. For the sixth successive year, Binnopharm met most of the country's hepatitis vaccine needs.

In August 2013, Binnopharm's dosage production line started manufacturing the original anti-asthmatic medication, Theopec, which was previously produced under contract manufacturing.

To meet demand, the company installed a line for filing biotechnological products (erythropoietins, interferones, vaccines) in pre-filled syringes. Among others, the line is expected to be used in contract manufacturing.

Binnopharm continued working with ViiV Healthcare (a subsidiary of GlaxoSmithKline) to localise manufacturing of antiretroviral drugs in Russia. The company also started preparations for a transfer of technology for full-cycle manufacturing of Kivex and Ziagen.

Binnopharm recreated technology to produce erythropoietin  $\alpha$ . The samples of substance, as well as of finished forms for registration, were manufactured at a new eukaryotic production facility. This technology is unique to Russia and meets all European Pharmacopoeia requirements.

##### *Operational strategy*

Binnopharm aims to expand its range of manufactured medications and launch its own production of erythropoietin  $\alpha$ , interferon  $\alpha$ , interferon  $\beta$  and Filgrastim. Meanwhile, the company will develop its distribution chain in the Russian regions. Binnopharm is also looking for new markets outside Russia, initially in the CIS.

##### *Investment strategy*

Sistema is considering several strategic developments for Binnopharm, including strategic alliances, joint ventures and attractive M&A opportunities.

### Key results of 2013

(USD million)	2013	2012	YoY change
Revenue	104	74	41.3%
OIBDA	20	16	28.3%
OIBDA margin	19.7%	21.7%	-2 p.p.
Net income attributable to Sistema	12	2	466.6%
Debt	22	21	6.7%

### Key events of 2013

In April 2013, Binnopharm completed the merger with Alium Group of Companies, a producer of infusion solutions and blood substitutes. In 2013, Binnopharm carried out reconstruction of the infusion solutions unit, including the installation of a new plastic filling machine, at the Alium plant.

In October, Binnopharm finalised the contract to manufacture antiretroviral medications with ViiV Healthcare. GlaxoSmithKline audited Binnopharm's compliance with GMP standards and approved Binnopharm for further transfer of technology. The new technology of Binnopharm for the production of erythropoietin  $\alpha$  is unique for Russia and meets all the requirements of the European pharmacopeia.

In November, Binnopharm developed technology to produce erythropoietin  $\alpha$ , and manufactured samples of substance and finished product for registration, at a new eukaryotic production line.

In December, Binnopharm submitted a dossier for registering a hepatitis B vaccine in the Republic of Belarus. Sales there are planned to start in 2014.

### 4.9. MTS Bank

MTS Bank is a universal commercial bank of federal scale, one of the top 50 Russian banks by the size of equity and net assets.

Company	Effective ownership
MTS Bank	87%

Chairman of the Management Board: Mikhail Chaykin

Chairman of the Board of Directors: Alexey Buyanov

### Industry

In 2013, growth in the Russian banking sector slowed down, and assets were increasingly concentrated in the largest banks. However, retail lending continued to grow at a significant pace, with a 29% increase in individual borrowings in 2013. Meanwhile, regulations tightened, and the Central Bank revoked the licenses of 27 Russian banks and introduced stricter requirements for impairment provisions. On 1 January 2014, the banking system moved to the Basel 3 standards.

Telecom companies are showing an increasing interest in banking – all the Big 3 operators are either collaborating with banks or looking to enter banking. Credit card use is much lower in Russia than in more developed economies, which creates a favorable environment for active growth of this market segment.

### *Steady growth in 2013*

MTS Bank achieved significant success in the retail business segment, in partnership with MTS. The company's loan portfolio from joint projects with MTS grew to US\$ 563 million, expanding over 25% each quarter in 2013. MTS Bank's total loan portfolio to individuals increased by 40% to US\$ 2.1 billion. Interest income rose by 27.2% to US\$ 731.8 million.

Provisions to loan portfolio ratio amounted to approximately 9%. MTS Bank meets all the accounting standards of the Bank of Russia at all reporting dates and regulatory requirements, including the capital adequacy ratio.

The company developed a range of new products with MTS. MTS subscribers were able to make NFC contactless payment transactions in shops and on public transport. The segment development forecasts, as well as pilot project results, suggest good prospects for this payment technology.

### *Operational strategy*

The main operational objectives of MTS Bank are to reduce operational costs and improve customer service, while investing in rebranding, and developing a consistent concept for promoting financial products and services. The bank also plans to increase its share of high-margin products and non-interest income.

### *Investment strategy*

Sistema's strategy for the banking business includes developing the retail lending segment in partnership with MTS, and continuing to grow the business.

### *Key results of 2013*

#### *Financial indicators*

<i>(USD million)</i>	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Revenue	<b>903</b>	712	26.8%
OIBDA	<b>38</b>	51	-24.9%
Net income attributable to Sistema	<b>19</b>	16	18.8%

#### *Operating indicators*

<i>(USD million)</i>	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Assets	<b>6,920</b>	7,006	-1.2%
Loan portfolio	<b>5,771</b>	5,596	3.1%
Loan portfolio attributable to joint project with MTS	<b>563</b>	234	140.6%

### *Key events of 2013*

In March, MTS Bank obtained access to the credit histories database and subscribed to the 'National Hunter' service that helps fight banking fraud.

In November, MTS Bank became one of the biggest bank card issuers in the Russian Federation – in the first half-year, and was ranked tenth according to Banki.ru, an informational and analytical web portal.

In November, the international rating agency, Fitch, affirmed MTS Bank's Long-term Issuer Rating as B+ with a Stable Outlook. In March 2014 the Outlook was improved to Positive.

In December, MTS Bank was included in the list of 51 lending organisations approved by the Russian Government to provide accounts for government procurement, effective from 1 January 2014.

#### **4.10. SG-trans**

SG-trans is one of Russia's leading railcar operators. Sistema is developing its transportation business in a 50/50 partnership with Unirail.

Company	Effective ownership
SG-trans	50%

President: Alexei Taicher

Chairman of the Board of Directors: Ali Uzdenov

#### *Industry*

Generally negative economic trends in Russia meant cargo shipments fell by 2.8% in 2013, with shipments of metal products and coke dropping significantly. Yet shipments in liquefied gas, one of the key segments for SG-trans, grew by 10% (SG-trans held a 29% market share in Russian LPG transportation in 2013).

Growth of total Russian railcar fleet in recent years has been higher than that of cargo turnover. The daily lease rate of a gondola car fell by 25% year-on-year to RUB 600 in December 2013, while the lease rate of oil tank cars nearly halved, and the lease rate of LPG carriers decreased by 18% to RUB 1,400-1,500.

In 2014, further growth in the liquefied gas shipments is expected, based on increasing demand for petrochemical products and the opening of new production facilities.

#### *Steady growth in 2013*

Having acquired SG-trans in 4Q 2012, in 2013 Sistema restructured the business and attracted industry partner Unirail (50/50) to develop it jointly. Sistema returned RUB 14.5 billion of the original investment, spun off SG-trans non-core assets in the gas segment to SG-Trading, which is now a 100% Sistema subsidiary, and merged Sistema's transportation assets – Financial Alliance and SG-trans – under SG-trans brand in the first quarter of 2014.

SG-trans aimed to expand the fleet and improve fleet management effectiveness, optimise business processes and attract new clients. Notably, SG-trans signed long-term contracts with RN-trans, Sanors and Sibur-Trans, which helped the company to reduce the volatility of its revenue significantly. SG-trans's client portfolio was diversified to more than 100 companies, including such majors as Novatek, Tatneft, Rosneft, Lukoil, Gazpromneft.

The scope of work for Bashneft also grew significantly, with shipment of about 65% of its cargo flow. SG-trans overall transportation volumes increased by 69% including substantial expansion of oil and oil product volumes. Signing new long-term contracts allowed SG-trans to start renewing the car fleet, buying 1,174 modern oil tank cars, about 1,200 LPG carriers and 1,001 gondola cars. SG-trans railcar fleet under operation increased by 20% in 2013 amounting to 31,665 cars with 88% fleet owned and leased. Average fleet age amounts to 9 years for oil tank cars, 23.7 years for LPG carriers and 14.4 years for gondolas.

#### *Operational strategy*

In 2014, SG-trans will focus on car fleet renewal, including acquiring LPG tank cars, as well as signing new long-term contracts and increasing market share. SG-trans also sees significant growth potential in vertical integration – buying railway infrastructure assets such as servicing stations, repair depots and approach railway lines. Vertical integration will allow SG-trans to diversify the business and reduce its volatility, cut costs and strengthen its position in the regions of operations.

### *Investment strategy*

Sistema considers transportation business as one of the key segments of its portfolio. Monetisation is planned to be carried out through dividend flow and then through IPO or sale to third parties. Sistema and Unirail will monitor opportunities for market consolidation, including potential M&A deals within the industry and related areas.

### *Key results of 2013*

#### *Financial indicators*

<i>(USD million)</i>	<b>2013*</b>	<b>2012*</b>	<b>YoY change</b>
Revenue	<b>632</b>	436	45%
OIBDA	<b>190</b>	125	52%
OIBDA margin	<b>30%</b>	29%	1 p.p.
Net income attributable to Sistema	<b>32</b>	15	113%
Debt	<b>856</b>	331	159%

\* SG-trans Group aggregates full year unaudited financial results based on management accounts of the SG-trans OJSC, Financial Alliance LLC, SG-trading LLC and Bashneft-Trans LLC for the year ended 31 December 2013. These assets formed SG-trans Group in 2013 and going forward it is planned to consolidate their financial accounts. As a result, financial figures are shown on an aggregated pro forma basis for 2012 and 2013, excluding intragroup turnover and balances between companies.

#### *Operating indicators*

<i>(items)</i>	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Total railcar fleet	31, 665	26, 463	20%
Oil tank cars	12, 893	10, 594	22%
LPG carriers	16, 331	14, 964	9%
Gondolas	2, 377	841	183%
Boxcars	27	27	-
Cement hoppers	27	27	-
Flatcars	10	10	-

### *Key events of 2013*

In April, SG-trading separated from SG-trans and became a standalone entity. It is now 100% owned by Sistema and controls assets related to LPG trading and storage.

In April, Sistema sold 70% of its shares in SG-trans to its 50%-owned Financial Alliance (50/50 with Unirail) for RUB 12 billion. In July, Sistema sold another 15% of SG-trans to Unirail for RUB 2.5 billion to form 50%/50% JV with partner on the base of SG-trans.

### **4.11. Sistema Shyam TeleServices Limited**

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

Company	Effective ownership
Sistema Shyam TeleServices Limited	56.7%

CEO: Dmitry Shukov

### *Industry*

The total subscriber base in the Indian market remained fairly steady in 2013, after a drop in 2012 caused by a regulatory crisis - yet the active subscriber base increased by 7%. In the fourth quarter of 2013, the growth was restored and Indian mobile subscriber base increased by 2% to 887 million, penetration of services reached 71.8%.

In November 2012 and March 2013, there were auctions for 2G frequencies. As a result, two operators left the market in 2012, while many others had to reduce their presence to only 6-8 circles. The companies were forced to shut down their networks in other circles – where acquisition of frequencies became commercially unviable because of high starting prices – and become regional, rather than pan-Indian, operators.

Fewer new operators meant reduced competition. Most mobile operators increased tariffs for voice services and, for the first time in the last few years, improved their revenues and returns. Growth is projected to continue in 2014, based on the launch of new 4G (LTE) networks and other factors.

Facing a record-breaking slump in foreign investment in the telecoms industry, the Indian Government looked to improve regulation and increase the investment appeal of the industry. For example, restrictions on the foreign ownership ratio in telecom companies were eliminated in 2013. Since February 2014, the undistributed spectrum (900 MHz and 1,800 MHz) has been auctioned off, although the prospects for auction sales of the 800 MHz spectrum remain uncertain.

### *Steady growth in 2013*

In March 2013, SSTL resolved issues with operator licences following the Indian telecoms market crisis. SSTL acquired three carriers in eight circles and in total continued development in nine most economically attractive Indian regions: Rajasthan, Delhi, Gujarat, Uttar Pradesh (West), Kolkata, West Bengal, Kerala, Tamil Nadu, and Karnataka.

By focusing on developing these circles, SSTL cut adjusted OIBDA loss from US\$ 333 million in 2012 to US\$147 million in 2013. SG&A expenses dropped by 36.5%. The debt also decreased significantly, by 43%, and interest expense fell by 31.1%.

Following restructuring, SSTL managed to revive revenue growth in the last quarter of 2013, showing a 7.4% quarter-on-quarter increase, and shifted its focus back to business expansion and development. The company's subscriber base grew by 2.2% in the last quarter, while its data customer base increased by 10.7%. Subscribers' monthly minutes of usage also increased by 39.5% to 373 minutes. Blended mobile ARPU grew by 22.8% in local currency, while non-voice revenues from data and value-added services accounted for 34.7% of SSTL's total revenue in 2013.

In October, having secured new licences and three carriers from the nine above-mentioned circles, SSTL launched the EVDO Rev.B Phase 2 high-speed data transfer services, offering an access speed of up to 9.8 Mb/sec and the highest quality available in the market to date.

### *Operational strategy*

SSTL's 2014 organic growth strategy for the nine circles focuses on accelerating development of its data services and promoting smartphones, with maximised monetisation of voice services. SSTL is expected to achieve OIBDA profitability in the first half of 2015.

### *Investment strategy*

Sistema's strategy is focused on Indian business profitability and financial recovery. The Group's financing of SSTL will continue to reduce sharply in 2014. Sistema will also continue to monitor closely the regulatory changes in the sector and assess their impact and opportunities for SSTL.

## Key results of 2013

### Financial indicators

(USD million)	2013	2012*	YoY change
Revenue	209	303	-30.9%
Adjusted OIBDA	-147	-333	-
Adjusted net loss attributable to Sistema	-225	-341	-
Debt	597	1,047	-43.0%

\*SSTL's results in 2012 were affected by the recognised loss from the impairment of long-lived assets.

### Operating indicators

(m)	2013	2012	YoY change
Mobile voice subscribers (million)	8.5	13.1	-35.4%
Data subscribers (million)	1.3	1.8	-24.8%

## Key events of 2013

In March, SSTL secured three carriers in eight circles and continued developing in the nine most economically attractive Indian circles. In March to May 2013, SSTL discontinued activities in 13 circles.

In June, Dmitry Shukov was appointed SSTL's CEO.

In October, SSTL launched the EVDO Rev.B Phase 2 high-speed data transfer services in all nine operating circles.

## 4.12. RTI

RTI is a major Russian industrial holding, which develops and manufactures high-tech products and infrastructure solutions using proprietary microelectronic technologies. RTI subsidiaries have their own R&D infrastructure and implement projects of unique complexity and scale in the fields of radio communication and space technology, security, microelectronics and Information and communications technology.

Company	Effective ownership
RTI	84.7%

CEO: Sergei Boev

Chairman of the Board of Directors: Yevgeny Primakov

## Industry

In the defence industry, demand for high-tech products is expected to grow significantly. Under the government weapons programme until 2020, aggregate government spending on defence will amount to around US\$ 650 billion and it is projected that up to 70% of funds will be used to purchase new systems, weapons and equipment.

The microelectronic market in Russia exceeded US\$ 2 billion and will thrive on a growing demand for RDIF-based solutions, partly from the government. Demand for semiconducting products for manufacturing and telecom industries is also growing, which as part of an import-substituting programme, should boost the demand for local microelectronic production.

The Russian information and communication technology sector grew by around 7% in 2013, with Russian top-20 companies among the largest consumers. An average annual 10% growth rate in the

information and communication technologies sector is projected until 2017, with the comprehensive security systems segment showing the most promise.

#### *Steady growth in 2013*

Sistema began its high-tech assets restructuring, looking for an optimal management model. Non-core assets of the group, including Sitronics KASU, which is involved in the intelligent transport system project for Moscow, were transferred to a newly established company - Sitronics-N, and acquired by Sistema. RTI now operates in four principal segments: defence solutions, comprehensive security systems, microelectronics (Micron Group) and information and communication systems (NVision Group).

RTI's defence solutions business showed the highest growth, with revenues increasing by 23%. At the end of 2013, RTI was appointed the only executor of the major project to set up the National Integrated Biohazard Monitoring Centre. The key customers of Defence Solutions are Russian military and law-enforcement agencies and operators of strategic installations and critical infrastructure. RTI was also involved in providing security systems for Olympic facilities in Sochi.

RTI's Microelectronics division supplied over 360 million transport cards for Moscow transport companies. Mikron is planning to launch production using 65 nm technology, which will increase the company's competitive position and support the expanding use of microchips.

#### *Operational strategy*

RTI's strategy focuses on the intensive development of economically attractive segments. The Defence Solutions division will focus on complex information systems for aerospace defence and over-the-horizon radars to detect air, sea and ground targets.

In the field of radio communications, RTI will continue serial production of 6th-generation radio equipment and mobile satellite communications equipment, as well as development work in new areas: network-centric trusted systems and communication facilities; radio and control systems and complex unified satellite communications system.

Threat monitoring focuses on the development of IT solutions and services for monitoring and control of risks to be used by law-enforcement agencies and government. The main objective in coming years is to become the leading Russian supplier of situation centres, and equipment for control, monitoring and multisensory networks.

RTI also focuses on increase of profitability by the application of advanced technologies and intellectual property to end products. Strategy of the Group's R&D is to develop breakthrough and advanced technologies, ensuring RTI's long-term leadership on targeted markets.

#### *Investments strategy*

Sistema has begun restructuring its high-tech assets to improve RTI's economic performance and ensure a stable dividend flow in the medium term. The main focus will be on the defence industry, microelectronics and ICT.

#### *Key results of 2013*

##### *Financial indicators*

<i>(USD million)</i>	<b>2013*</b>	<b>2012*</b>	<b>YoY change</b>
Revenue	<b>2, 196</b>	2, 196	0.0%
Adjusted OIBDA*	<b>123</b>	182	32.4%
Adjusted OIBDA margin*	<b>5.6%</b>	8.3%	-2.7 p.p.
Debt	<b>1, 229</b>	1, 140	7.8%



\* RTI results do not include the results of SITRONICS-N for all periods presented. RTI's OIBDA in 2013 and 2012 was adjusted for the recognised loss from impairment of goodwill and other assets.

#### *Operating indicators*

<i>(m)</i>	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Mobile voice subscribers (million)	<b>8.5</b>	13.1	-35.4%
Data subscribers (million)	<b>1.3</b>	1.8	-24.8%

#### *Key events of 2013*

In January, the Crisis Management Centre of the Republic of Mordovia opened in Saransk. RTI helped design the Centre and were involved in installing and setting up equipment.

In March, NVision Group and Vimpelcom signed agreements on the transfer of broader functions of servicing broadband data networks in the Ural, Siberian, North-West, Central, South and Moscow regions for five years.

In July, RTI rose seven notches to 80th in the top 100 international defence companies, according to Defence News.

In July, Mikron won the Moscow Metro tender for manufacturing and supplying plastic cards for contactless fare payment.

In August, construction work officially began on the Voronezh-M-type new generation ready-to-use radar station in Orsk.

In November, RTI designed a security system for the Far Eastern Federal University, which hosted the APEC summit on the island of Russky.

In December, in compliance with the President's decree, the Russian government appointed RTI as the only executor of the project to set up the National Integrated Biohazard Monitoring Centre. In December 2013, the company's shareholders, Sistema and the Bank of Moscow, participated in the additional share issue of RTI, therefore effectively converting shareholder debt to equity.

#### **4.13. Media assets**

Sistema Mass-Media (SMM) is one of Russia's leading media holding that manages media assets in pay TV, cinema and TV content production, and advertising. SMM owns and manages CJSC TV Company STREAM (Stream), CJSC Russian World Studios (RWS), OJSC United Russian Studios (URS), OJSC Maxima and TsTV LLC.

Stream LLC is a joint venture of Sistema (55%) and MTS (45%) in distribution of digital content and VAS services for telecom operators. For reporting purposes, Stream's financial results are allocated to SMM segment.

Company	Effective ownership
Sistema Mass Media	85.7%
Stream	78.9%

President of Sistema Mass-Media: Gulnara Khasyanova (until January 31, 2014 – Vladimir Khanumyan)

Chairman of the Board of Directors of Sistema Mass-Media: Evgeniy Savostyanov.

CEO of Stream LLC: Artem Zasursky

Chairman of the Board of Directors of Stream LLC: Vasil Latsanich.

## *Industry*

According to preliminary estimates, the Russian media market in 2013 increased to US\$ 27.8 bln, whilst in 2013-2017 an average annual market growth rate will amount to 9.4%. The most fast-growing segments remain pay TV and online advertising; annual growth rates will amount to 12% and 20%, respectively.

Within pay TV market, developing possibilities for TV signal delivery result in growing competition and increasing demand for production of theme TV channels. By 2017 online advertising market will come close to TV advertising market, online and mobile advertising will be the most promising segments.

Thanks to improving legislation (Federal Law No 187), launch of iTunes and Google Play stores and other OTT services, the Internet market of legal digital content distribution demonstrated significant growth in online video and music segments in 2013. Revenue from sales of video content grew by 67% in 2013, and from music by 158%. Further development in the sector will be supported by growth of Smart-TV penetration (the technology of Internet and digital interactive services integration into televisions and digital TV receivers).

In the segment of TV content production, demand for TV series remains, but because of growing competition and participation of big FTA channels in preparations for and broadcasting of the Olympics in Sochi, demand for premium series content may reduce for a short time in 2014.

## *Steady growth in 2013*

In 2012-2013, optimisation of media assets continued, with commercial and administrative expenses reduced. As a result of these measures, Sistema's media assets reached a breakeven point in terms of net profit and demonstrated an increase in revenue and OIBDA.

In 2013, RWS moved a significant part of its production to the ORK studio in St Petersburg and intensified sales of services to foreign cinema and TV content producers. These measures allowed to significantly increase the studios's work load and create conditions for improving its economic performance.

Stream strengthened its market position and remained a leader in terms of average annual reach in every niche group compared to its rivals. Stream's distribution network exceeds 1,400 operators in more than 800 Russian cities and abroad. Thanks to the company's more active stance in the former Soviet Union, the subscriber base grew by 39% over the year, to 10.7 million unique subscribers, while the audience grew to 27.7 million.

In 2013, the Stream.ru business also demonstrated net profit, thanks to the successful launch of the GOOD'OK service, MTS Info, the Video section as part of mobile TV services for MTS and also new applications for watching the Stream online cinema for all major mobile platforms and for TV sets with Smart TV functionality.

## *Operational strategy*

SMM plans to further optimise its asset management structure and to start transfer to the model of a sole operating media company.

The cinema production strategy aims at preserving the share of the series market. The studio business is expected to break even, including due to development of segments related to organisation of the full-cycle shooting process.

Stream's strategy envisages further development of the distribution network by increasing the number of telecom operators and improving the quality of the content produced. The company is also preparing proposals for the promising segment of HDTV.

The strategy of distribution of Stream digital content is aimed at launching new services, including in partnership with MTS, and on the OTT services market, and also at development of the online cinema.

### *Investment strategy*

Sistema's strategy envisages further business optimisation with assets development around TV, mobile and online theme sources with their cross-interaction. The strategic objective is creating a leader in the segment of new media and pay content. The company will develop these areas both organically and through M&A and partnerships.

### *Results of 2013*

#### *Financial indicators*

<i>(USD m)</i>	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Revenue	<b>110</b>	82	34.3%
OIBDA	<b>46</b>	20	123.1%
OIBDA margin	<b>41.6%</b>	21.5%	20.1 p.p.
Net income attributable to Sistema	<b>0.5</b>	-11	-
Debt	<b>27</b>	33	-16.1%

#### *Operating indicators*

	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Number of Stream's subscribers (million)	10.7	7.7	39.0%
RWS library (hours)	1, 729	1, 600	8.1%

### *Key events of 2013*

In April 2013, Stream became a provider of GOOD'OK service for MTS.

In April 2013, Stream's cable channels were included in MTS's Mobile TV package.

In August 2013, Stream became a provider of MTS Info service for MTS.

In August and October 2013, Stream's TV channels became available in Megafon's Mobile TV packages, and in packages of satellite TV operator Orion Express, respectively.

In September 2013, Stream expanded its presence in Beeline's Domashneye TV network from 2 to 7 TV channels and intensified distribution in Ukraine, adding its TV channels to local operators' networks.

In November 2013, Stream launched a "Video" option in the mobile TV service for MTS subscribers, entered VAS services market of Ukraine and started preparation for the launch of GOOD'OK service from January 2014 (the launch was successful).

In 2013, Stream launched new applications for watching the Stream online cinema for all major mobile platforms (iOS, Android, Windows Phone, Bada) and for TV sets with Smart TV support (Samsung, LG, Panasonic, Philips, Sony).

On February 25<sup>th</sup> 2014 SMM announced the change in shareholder structure of SMM and RWS. Yuriy Sapronov, RWS CEO, transferred to SMM his formerly owned 50% stake in CJSC RVS, which owns 25% stake in SMM, in exchange for 49% stake in RWS. As a result of this non-cash transaction, Sistema owns 87.5% stake in SMM, Yuriy Sapronov owns 49% stake in RWS and 51% stake in RWS belongs to SMM. Yuriy Sapronov will focus on development of producing business within RWS.

#### 4.14. Real estate

Sistema's real estate portfolio includes 760,000 m<sup>2</sup> of commercial and residential property, either owned or under management, and 25 ha of land and cottages with a total area of 62,000 m<sup>2</sup>. Its key companies are Leader-Invest, Business-Nedvizhimost and Mosdachtrest.

Company	Effective ownership
Leader Invest	100%
Business Nedvizhimost	100%
Mosdachtrest	100%

#### Industry

The Russian real estate market demonstrated encouraging growth in 2013. The capitalization rate for prime commercial real estate in Moscow amounted to 10.2% - a 4.1 p.p. higher than in largest European cities. Residential real estate amounted to the biggest share of the Moscow region's market, with the average offer price growing by approximately 5.0% in 2013. Experts estimate that about 888,000 m<sup>2</sup> of A and B class office buildings were commissioned in Moscow in 2013, up almost 40% from 2012.

#### Steady growth in 2013

In 2013, Sistema established two main business segments: Leader-Invest for real estate development, and Business-Nedvizhimost for real estate management. Sistema acquired Business-Nedvizhimost, with 76 property objects of 178,000 m<sup>2</sup> on its balance sheet, significantly increasing its pool of commercial real estate.

In the development segment, Sistema has formed a portfolio of priority projects, including the construction of offices, multi-purpose centres, luxury and business class apartments. 21 of these, totalling 600,000 m<sup>2</sup>, were at the design stage at the end of 2013. The Mosdachtrest business continued the planned renovation of cottages in Serebryany Bor.

#### Operational strategy

In 2014, the construction stage of 13 projects is expected to start - 12 housing projects and the second stage of Nagatino i-Land business park. Three B-class office buildings with an aggregate area of 26,000 m<sup>2</sup> will be commissioned after capital repairs.

#### Investment strategy

Sistema aims to create a successful business in real estate management and development, using its investment potential and own land resources and real estate. Projects will be monetised through sale or income from lease.

#### Key results of 2013

	2013	2012	YoY change
Owned real estate (thn m <sup>2</sup> )	194.2	-	100%
Managed real estate (thn m <sup>2</sup> )	563.1	777.6	-28%
Real estate in design/construction stage (thn sq. m)	681	-	100%
Mosdachtrest land resources (ha)	24.8	24.8	-
Mosdachtrest cottages (thn m <sup>2</sup> )	61.8	66.17	-7%

### *Key events of 2013*

To secure Leader-Invest's foothold in the real estate market, a controlling stake (75%+1 share) was bought in the authorised capital of Moscow Business Incubator, the developer of the Nagatino i-Land business park. Design and construction of the second stage of the business park, an area of 144,000 m<sup>2</sup>, will start in January 2014 - the total area of the park is 872,000 m<sup>2</sup>, and the first stage of 209,000 m<sup>2</sup> is already built.

In December 2013, Sistema acquired a 51% stake in Business-Nedvizhimost, and in April 2014, increased its stake to 100%.

### **4.15. RZ Agro Holding Ltd.**

Russkaya Zemlya (RZ Agro Holding Ltd.) is a major grain producer in the south of Russia with a land bank of 99 thousand ha, jointly controlled by Sistema and certain members of the Louis-Dreyfus family. It comprises six farms, united in three regional clusters in the Rostov region and the Stavropol territory.

Company	Effective ownership
RZ Agro Holding Ltd.	50%

CEO: Stéphane MacFarlane

Chairman of the Board of Directors: Thomas Schultz

### *Industry*

Russian agriculture is a promising and competitive sector based on the potential for significant crop yield growth and a low cost of production.

The Rostov region, where RZ Agro's key assets are located, is one of Russia's leading grain-producing regions alongside the Krasnodar and Stavropol territories. Last year the production fell due to difficult weather conditions in the region, but the market expects a significant increase in the yield of key crops in the 2013-2014 crop year compared to the previous year.

### *Steady growth in 2013*

Despite the difficult weather conditions, RZ Agro farms increased yields of the main crops, wheat and sunflower, and gross output of wheat reached about 97,000 tonnes. The integration of the Stavropol West land increased the company's land bank by 10 thousand ha.

During the year, RZ Agro restructured its general management, developed satellite tracking systems on agricultural vehicles, centralised the equipment maintenance and repairs, and set up modern product quality control laboratories on the farms.

### *Operational strategy*

RZ Agro manages its agricultural assets using a cluster approach, where self-sufficient clusters of 30,000-50,000 ha of land work together for efficient use of operating and investment expenses.

RZ Agro's operating strategy aims to increase crop yields, and to reduce production and management costs by using the latest agricultural technologies, modern agricultural equipment and modern cost-monitoring systems.

### *Investment strategy*

The strategy is to increase the land bank under management further through organic growth and strategic acquisitions, with the goal of creating a leading Russian agricultural company based initially in the Rostov region, the Stavropol territory and the Krasnodar territory. In 2014, RZ Agro is planning to set up a cluster in the Krasnodar territory by acquiring several farms in the region. It will later consider

acquiring land in other key grain producing regions in the south of Russia and the Central Black Earth Region. Ultimately, RZ Agro aims to manage over 300 thousand ha.

*Key results of 2013*

	<b>2013</b>	<b>2012</b>	<b>YoY change</b>
Gross wheat harvest, ths tonnes	<b>96.9</b>	84.8	14.3%
Gross sunflower harvest, ths tonnes	<b>14.4</b>	12.0	20.0%
Wheat yield, t/ha	<b>3.0</b>	2.6	15.4%
Sunflower yield, t/ha	<b>1.8</b>	1.6	12.5%

*Key events of 2013*

In November, RZ Agro Holding acquired a controlling stake in JSC Novotroitskoye, located in the Izobilnensky district, one of the most attractive areas in Stavropol for soil quality and climate. Novotroitskoye manages a land bank of 10 thousand ha, 96% of which is cultivated land, 39% of the land bank is in freehold. This has allowed RZ Agro to enter a new, large agricultural region, and the company will be able to consolidate further agricultural assets in the Stavropol region.

## 5. DESCRIPTION OF KEY RISK FACTORS

The main risks the business of the Corporation can 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. 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, India and therefore are also prone to material external risks.

#### *Economic 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.

Unfavourable macroeconomic conditions in many countries of the company's operations can have negative consequences for the business reputation of Sistema Group's companies and result in the need to reassess the value of its intangible assets.

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

Devaluation of the national currency can entail an increase of expenses and reduction of revenue of Sistema Group's companies and can also make it more difficult to achieve financial targets and repay debt.

Currency control and restrictions on capital repatriation may affect the business of Sistema Group and reduce the value of Sistema's investment in Russia.

Deterioration of the state of Russian infrastructure may damage the national economy, complicate goods shipments, increase expenses or suspend companies' operations, which will affect the business of Sistema Group, its performance, financial situation and prospects.

#### *Political and social risks*

An unstable political situation may result in a higher capital outflow and general deterioration of the investment climate on markets of Sistema's operations.

Government moves and decisions on the markets of Sistema's operations may have a negative impact on the business climate.

Terrorist attacks or Russia's involvement in an economic or military conflict in the future may bring instability and complicate business planning.

Organised crime, fraud, corruption and social instability can create uncertainty and result in certain losses or increased spending on the business conducted by the Group's companies.

Domestic political conflicts on markets of Sistema's operations can create an unfavourable business environment and affect Sistema's revenue.

#### *Legal risks and uncertainty*

Risks related to the weakness of the legal framework on markets of Sistema's operations include, to a different degree, the following factors:

- possible discrepancies, ambiguity and anomalies in: (i) federal laws, (ii) bylaws issued by the President, the Government and other federal executive bodies of power; (iii) regional and municipal bylaws;
- relative unpredictability of legislative and administrative decisions and court rulings and lack of means that could make the understanding of such legislative decisions and court rulings easier;
- significant gaps in the legal framework;
- the legal system is not independent from the influence of political, social and commercial factors;
- a risk of corruption in legislative and executive bodies of power;
- inconsistent court practice with regard to interim measures, which may disrupt ordinary business activities.

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.

There is no clarity about the influence of the Federal Law "On the Procedure for Foreign Investment in Business Companies Which Are of Strategic Importance for National Defence and State Security" and regulations of the Customs Union of Russia, Belarus and Kazakhstan on Sistema's business and on the situation of its foreign shareholders.

Russia's accession to the World Trade Organisation may result in certain legislative and other changes on the markets of Sistema's operations.

Since, under certain circumstances envisaged by the Russian corporate law, a shareholder becomes liable for obligations of its affiliates, Sistema may become financially liable for obligations of its subsidiaries.

If minority shareholders of Sistema's subsidiaries contest past or future related-party transactions or other transactions or vote against related-party transactions or other transactions in the future, this will limit Sistema's operating possibilities.

If the Russian Federal Anti-monopoly Service concludes that Sistema JSFC or one of its material subsidiaries has acquired or founded a new company in violation of the anti-monopoly law or has otherwise violated law with regard to protection of competition, this may result in administrative sanctions.

Failure to formally comply with certain requirements of the Russian law may result in Sistema JSFC or one of its subsidiaries registered in Russia being forced to carry out liquidation. Moreover, the ownership structure of Sistema Group can be contested or creditors may demand early repayment of debt.

#### *Tax system*

The tax law and tax practices on the markets of Sistema's operations are complicated and uncertain and prone to frequent changes and ambiguous interpretation, which may affect the Group's companies.



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

#### *Stock markets*

There is a risk that Russian companies' stock will grow more slowly than their peers on other emerging markets. The key reason of that is a substantial outflow of capital from Russia caused both by the political and economic factors inside the country and the situation on the international stock exchanges.

## **5.2. Risks related to Sistema JSFC's operations**

### *Implementation of the business strategy*

Key components of the business strategy include development of a balanced and diversified asset portfolio in sectors and regions where Sistema JSFC has competitive advantages, and also proactive management of the investment portfolio and involvement of leading international and Russian partners. Despite the existing developed strategy, Sistema JSFC cannot guarantee achievement of the established goals, efficient management of the portfolio companies or taking up of new investment opportunities.

The success of Sistema's strategy depends on numerous factors, including obtaining of the necessary permits from the authorities, sufficient demand from consumers, successful development of technologies, efficient management of spending, timely completion of development and introduction of new products and services by the Group's companies, successful differentiation of the companies' offers from their rivals and perception of the goods on the market.

### *Profiting from asset acquisition, integration, disposal or restructuring*

Sistema JSFC grows its business via new acquisitions, sale and restructuring of assets. The process of carrying out investment opportunities on the market entails certain risks, including risks of not finding relevant targets or their not being available for acquisition, a risk of insufficient or inadequate due diligence of the target company's operations and/or financial situation, risks of the assets being overvaluated and overpaid for and, consequently, of occurrence of financial risks exceeding expectations and discovery of financial liabilities not found earlier.

Acquisition of additional businesses may also put pressure on the Corporation's cash flows, especially if the acquisition is paid for in cash. Besides, untimely closing of the deal or refusal to close it may negatively affect Sistema's achievement of its strategic growth goals and have a substantial negative impact on the current business, operational results, the financial situation and prospects.

Moreover, Sistema JSFC may encounter problems of integrating assets into the existing structure, their optimal management or the necessary restructuring. These risks include inability to efficiently assimilate and integrate operating assets and personnel of the acquired company into the business, inability to establish and integrate all the necessary control systems and mechanisms, including with regard to facilities and agreements related to logistics and distribution, conflicts between majority and minority shareholders, hostility and/or unwillingness to cooperate on the part of the acquired asset's management, potential loss of customers of the acquired asset.

Transactions of asset disposal carry certain risks related to potential inability to execute the transaction or undervaluation of the sold asset, which arise from asset sale as future debt, failure to meet the deadline for the transaction closure or loss of synergy between existing assets. Besides, execution of such transactions, including restructuring, merger of businesses or financial resources depends on a combination of necessary conditions, including corporate and government consents. This creates a risk of not all transactions being finalised on declared terms or at all.

### *Management and key personnel*

Implementation of Sistema's strategy depends on the top management team. Moreover, further success of the investment portfolios and their ability to efficiently implement a common strategy, including plans of growth and increase of scale, will to a large degree depend on efforts of individual management teams working with every individual asset.

### *Cash flows from subsidiaries and affiliates.*

The Corporation's financial performance significantly depends on the ability of Sistema Group's companies to generate cash flows needed to service its financial liabilities, including repayment of debt and interest and any other borrowing in the future. From time to time, the company's ability to make these payments can be limited by regulatory, tax-related or other obstacles.

### *Dependence on the performance of MTS and Bashneft*

Sistema's financial performance significantly depends on the success of its core assets - OJSC MTS and OJSC Bashneft. A decline in these businesses' revenue may jeopardise not only Sistema's ability to service its debt, but also its ability to increase the scale of the business through restructuring and acquisition of assets. As a result, the risks and events that may have a material negative impact on the business of OJSC MTS and OJSC Bashneft can in turn directly affect the current state of Sistema's business in general and its prospects.

### *Attracting capital or financing*

Future financial receipts and cash flows from Sistema's subsidiaries and affiliates may not be sufficient to cover the planned expenses, e.g. if the following risks occur:

- absence of external sources of financing;
- changes in the terms of existing agreements on financing;
- emergence of new business opportunities or investment in existing businesses, in case of significant investment;
- a slower than planned growth of revenue and operating income;
- deterioration of the economic situation in countries of Sistema's operations.

### *Restrictive covenants*

Sistema's bank loan agreements and agreements of some of the Group's companies on bank loans and debt securities 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. If operations of portfolio companies are restricted, their revenue may decline, which, in turn, may limit the Corporation's opportunities for using this revenue to service the debt or finance Sistema Group's companies. Moreover, restructuring of the Group's companies, under certain circumstances, may violate restrictive covenants of these companies' loan agreements, which may result in a request of early repayment of such loans.

### *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*

The business structure of Sistema JSFC includes several privatised companies, including OJSC MGTS, OJSC Bashneft, OJSC VAO Intourist and several subsidiaries in the energy and technology sectors. It is quite likely that in the future the Corporation will participate in privatisations pursuant to its business strategy. 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 of 2010. Violation of applicable laws may result in fines and reputation risks.

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 segments where Sistema JSFC operates are prone 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 exposed to the influence of economic and other factors. In these sectors, there is high competition between companies 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 prospects.

#### *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 received revenue, which may be insufficient to cover expenses on these activities.

## 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. 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 proactive and professional Board of Directors,
- a consistent and collective approach to decision-making;
- a transparent dividend policy;
- making investment decisions in compliance with the established procedures;
- the Board of Directors' attention to all related-party transactions;
- an active role of the Board of Directors in the strategic planning process.

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

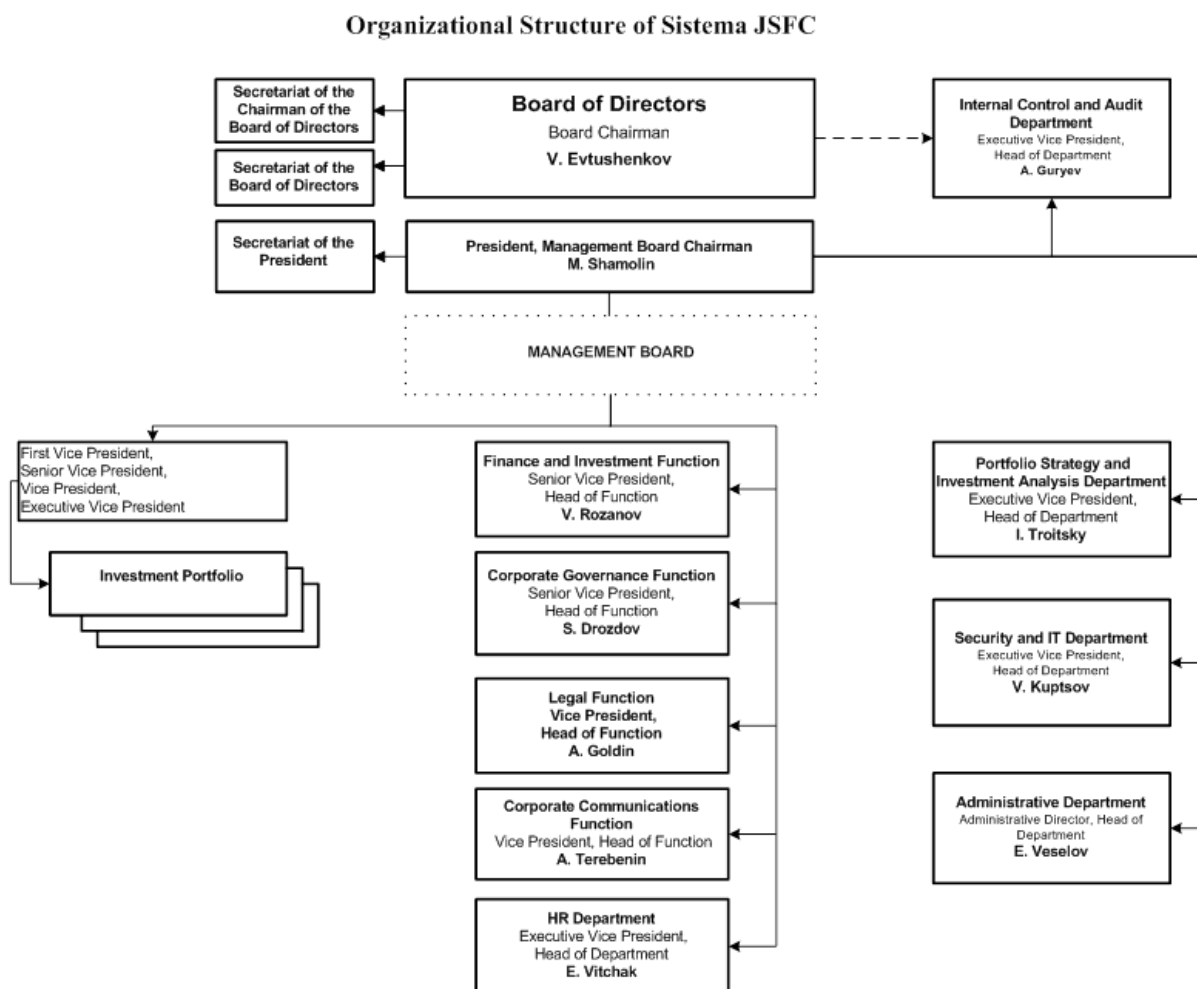
Principles and procedures of Sistema JSFC corporate governance are set out in its Charter and in a number of publicly available bylaws that, all together, determine the structure and the scope of the Corporation's governance and control bodies. The Corporate Conduct Code and the Ethics Code set forth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

Sistema JSFC takes every effort to bring the corporate governance practices in line with the guidelines set out in the Corporate Conduct Code recommended in the Executive Order from the Federal Commission for the Securities Market of Russia No. 421/r dated 4 April 2002, and in the UK Corporate Governance Code.<sup>1 2</sup> The consistency of corporate governance practices of Sistema JSFC with the standards set out in the Corporate Conduct Code and the UK Corporate Governance Code is analyzed in Annexes 9.7 and 9.8 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.

---

<sup>1</sup> The text of the Corporate Conduct Code is available at the following address: [http://www.fcsm.ru/ru/legislation/corp\\_management\\_study/corp\\_codex/](http://www.fcsm.ru/ru/legislation/corp_management_study/corp_codex/)

<sup>2</sup> 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>



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 develop recommendations for forming Sistema's decisions in the respective areas.

The existing organisational structure of the Corporation that was adopted in May 2012, including the adjustments and amendments made later, reflects Sistema's transition to the investment company model. As of the December 31, 2013, the organisational structure of Sistema JSFC was comprised of 4 functions, 8 investment portfolios and 5 departments.

### 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](http://www.sistema.ru); [www.sistema.com](http://www.sistema.com)). Along with

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](http://www.sistema.ru); [www.sistema.com](http://www.sistema.com)). The ballot can 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 items of Shareholder Meeting agendas by proxy through Deutsche Bank AG, which is used as the depository bank for the GDR programme:

*Global Equity Services,  
Trust and Securities Services,  
Email: [adr@db.com](mailto: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.

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 bodies<sup>1</sup>. 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 year<sup>2</sup>. 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.

---

<sup>1</sup> 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.

<sup>2</sup> 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 2013 and their results*

In 2013, on General Meeting of the Company's shareholders was held: The Annual General Meeting of the shareholders of Sistema JSFC on 29 June 2013.

The Annual General Meeting of shareholders (i) approved the Corporation's annual report and accounts including the profit and loss report for 2012, as well as (ii) determined the amount, procedure, forms and timelines for paying dividends on Sistema JSFC's shares. Besides, it (iii) elected members of the Board of Directors and (iv) the Audit Commission, (v) approved the auditors of the Corporation and (vi) introduced amendments to the Charter of Sistema JSFC.

As resolved by the Annual General Meeting of shareholders and recommended by the Corporation's Board of Directors, RUB 9.264bn were allotted to pay out dividends, which equalled RUB 0.96 per ordinary share of Sistema JSFC. The sum of dividends was determined in compliance with the current dividend policy. Compared to 2012, dividends grew by 243%.<sup>1</sup>

The Annual General Meeting of shareholders approved CJSC Deloitte and Touche CIS as Sistema's auditor for 2013 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 Committee of the Board of Directors of Sistema JSFC.

The amendments to the Charter of Sistema JSFC were made to bring it in line with the new requirements of the Federal Law "On the Stock Market" and the Federal Law "On Joint-Stock Companies."

## **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 2013 was elected at the Annual General Meeting of the Company's Shareholders on 29 June 2013, and it comprised 13 persons. A majority of members of the Board of Directors are independent directors.

#### *Membership of Sistema's Board of Directors elected on June 29, 2013<sup>2\*</sup>*

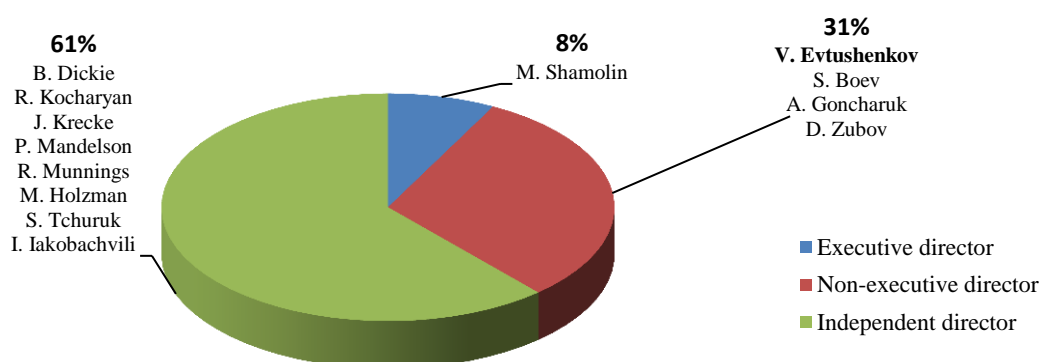
- |    |                      |                              |
|----|----------------------|------------------------------|
| 1. | Vladimir Evtushenkov | Chairman of the Board        |
| 2. | Alexander Goncharuk  | Deputy Chairman of the Board |

<sup>1</sup> In 2012, RUB 2.702bn were allotted to pay dividends, which equalled RUB 0.28 per ordinary share.

<sup>\*</sup> Short biographies of the members of the Board of Directors and data on their shareholdings in Sistema JSFC are available in the Annex.

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

*Members of the Board of  
Directors of Sistema JSFC*



*Changes to the membership of the Board of Directors*

Former members of the Board of Directors V.Kopyev and Y.Novitsky were not re-elected to the Board on 29 June 2013.

New independent director P.Mandelson and non-executive director S.Boev were elected to the Board of Directors.

*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 2013 the Board of Directors had 9 sessions: 8 scheduled in-person meetings and 1 unscheduled meeting in form of a letter ballot. In 2013, the Company's Board of Directors considered 105 agenda items, which is an increase of 18% from the previous year:

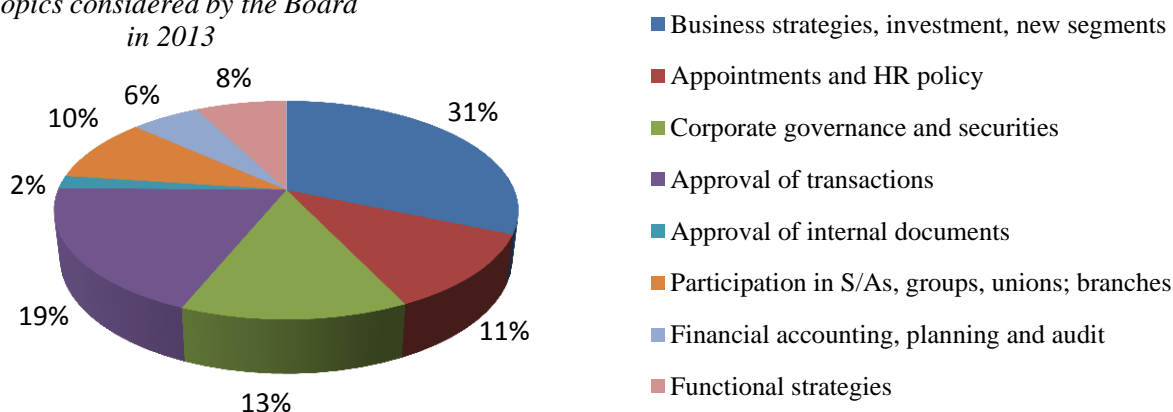
	2013	2012
Number of in-person meetings	8	8
Number of letter ballots	1	2
Number of items on the BoD work plan	43	40



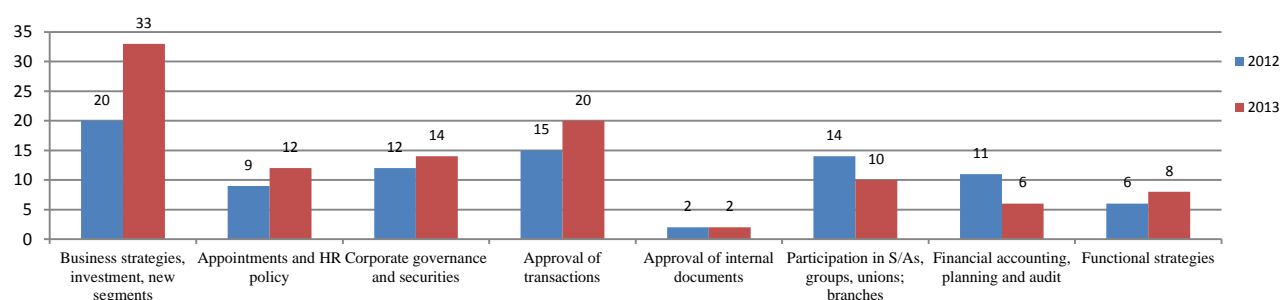
In 2013, the Board of Directors considered the following key items:

- 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 2013-2014
- 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;
  - oil assets;
  - hotel assets;
  - bank assets;
  - high-tech assets;
  - transport assets;
  - real estate assets;
  - healthcare assets;
  - biotech assets;
  - power grid assets;
  - consumer 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 2014.
- 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 2013-2014.
- 14) HR issues, HR management and personnel motivation.
- 15) IR and PR current operations and development plans for 2013-2014.
- 16) Corporate social responsibility of Sistema JSFC.
- 17) Convening the Annual General Meeting.
- 18) The status and main target areas of the corporate governance system of Sistema JSFC.
- 19) Membership of Committees of the Board of Directors.
- 20) Approval of transactions.
- 21) Organisation of administrative support for the Corporation in 2013-2014

*Topics considered by the Board  
in 2013*



**Figure 6:**



Most of the reports considered by the Sistema Board in 2013 are related to strategy, transaction approvals, and corporate governance. Increased focus on these matters reflects the Company's transition to an investment company management model that should result in an increase in the number of industries and markets the Corporation operates in, a growth in the number of transactions made, and in setting goals for building an efficient corporate governance system.

#### *Preparation for the meetings and quorum of the Board of Directors*

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 meetings of Committees of the Board of Directors of the Corporation. The work plan of the Board of Directors determines in advance which Committee is to preview a particular issue.

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 2013 was 99%.

#### *Participation of the Sistema Board members in meetings of the Board of Directors and its committees in 2013<sup>1</sup>*

	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
Participation in meetings						
V. Evtushenkov	9/9 <sup>2</sup>	15/15				
S. Boev	4/4	9/15	4/5		3/3	
A. Goncharuk	9/9	14/15		9/9	6/6	
B. Dickie	9/9	4/15		6/6		
D. Zubov	8/9		5/8	6/9		
R. Kocharyan	9/9			9/9	5/6	
J. Krecké	9/9			3/3		6/7
P. Mandelson	4/4		5/5			2/3
R. Munnings	9/9		13/13	8/9	5/6	6/7
M. Holtzman	9/9		13/13			5/7

<sup>1</sup> The membership of the Board of Directors is given as of 31 December 2013.

<sup>2</sup> 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.

S. Tchuruk	9/9	6/15		3/3	4/4
M. Shamolin	9/9	14/15	7/9	0/3	3/7
D. Iakobachvili	9/9		12/13		7/7

### ***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;

As a rule, only members of the Board of Directors are members of the Committees starting from 2011. 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 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: **V. Evtushenkov** (Committee Chairman), S. Boyev, A. Goncharuk, S. Tchuruk, M. Shamolin.

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 2013, 15 meetings of the Committee were held where 20 items were considered, including:

- 17 items related to the strategy of individual subsidiaries and affiliates;
- 2 items related to individual transactions;
- 1 item related to the motivation system for the management of subsidiaries and affiliates.

#### ***Audit, Finance and Risk Committee***

The Audit, Finance and Risk Committee includes 5 Board members: **R. Munnings** (Committee Chairman), S. Boev, P. Mandelson, M. Holtzman, and D. Iakobachvili.

In 2013, the Board of Directors of the Corporation approved a new version of the Regulation on the Committee. The tasks of the Committee are:

- assistance in preparing and auditing financial statements of the Corporation and monitoring these processes;

- facilitation in organizing interaction with the Company's external auditors;
- assessment of the risk management system and compliance with applicable legal requirements in financial reporting, audit and planning;
- facilitation in the budgeting process and financial modeling of the Corporation;
- support for development of internal audit function;
- preliminary appraisal of related party transactions and major transactions;

In 2013, the Audit and Finance Committee held 13 meetings at which 73 items were reviewed, including the following:

- 33 items related to appraisal of individual transactions submitted for consideration by the Sistema Board of Directors;
- 18 items related to preparation and audit of financial reports;
- 10 items related to the processes of financial planning and risk management;
- 5 items related to interaction with external auditors, their selection and assessment of their work;
- 3 items related to internal audit;
- 4 items related to organisational matters;

#### *Nomination, Remuneration and Corporate Governance Committee*

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

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 efficiency of governance processes. Key functions of the committee:

- preliminary review of candidates to top management positions at Sistema JSFC and nominees to the boards of directors and CEOs of portfolio companies;
- appraisal of performance of Sistema's top managers;
- development of the incentive and remuneration system for the employees of the Company;
- development of an efficient corporate governance system in line with international standards that will help to increase governance efficiency and guarantee the protection of the shareholders' rights and interests;
- assistance in improving corporate governance practices in the Company's subsidiaries and affiliates.

In 2013, the Nomination, Remuneration and Corporate Governance Committee held 9 meetings at which 31 items were reviewed, including the following:

- 16 items related to development and implementation of the incentive system for Sistema's employees;
- 7 items related to corporate governance in Sistema JSFC;
- 8 items related to preliminary review of candidates to top management positions at Sistema JSFC and nominees to the boards of directors and CEOs of portfolio companies.

#### *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

The tasks of the Ethics and Control Committee are:

- support to the development of Corporation's internal control and audit function, analysis of results in this field, jointly with the Audit, Finance and Risk Committee;
- assistance in the development of the Corporation's security function, and analysis of the results of related activities;
- analysis of the appropriateness and effectiveness of the Corporation's internal control and audit system;
- monitoring of compliance with the requirements of the Ethics Code of the Corporation;
- facilitating the operation of the corruption prevention system at the Corporation and the companies within Sistema Group;
- monitoring of compliance of the Ethics Code of Sistema JSFC.

In 2013, the Ethics and Control Committee held 6 meetings at which 18 items were reviewed, including the following:

- 8 items related to particular internal audits and the audit environment;
- 5 items related to functional strategies in internal control and security;
- 2 items related to the efficiency of the corruption prevention system.
- 3 items related to organisational issues;

#### *Investor Relations and Dividend Policy Committee*

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

The key objectives of the Investor Relations and Dividend Policy Committee are:

- facilitation in forming a system in the Corporation aimed at maintaining effective relations with the financial community and government agencies, as well as increasing the appeal of Sistema's shares to investors;
- facilitation in forming and maintaining a transparent and stable dividend policy of Sistema JSFC;
- assistance in increasing capitalisation of the Corporation;
- protection of the rights and interests of Sistema's shareholders.

In 2013, 7 meetings of the Investor Relations and Dividend Policy Committee were held where 10 items were considered, including:

- 8 items related to investor relations and dividend policy;
- 1 item related to corporate social responsibility of Sistema JSFC;
- 1 item related to the strategy of the Company's international development.

### **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 profit of the Corporation as well as observance of its shareholders' rights and legitimate interests. The President acts within his scope and reports to the Board of Directors and the General Meeting of the Corporation's shareholders.

The President of Sistema JSFC is Mikhail Shamolin, appointed by the Board of Directors on 10 March 2011.

---

<b>Mikhail Shamolin</b>	Mikhail was born in 1970 in Moscow.
President of Sistema JSFC, Chairman of the Management Board.	In 1992, he graduated from the Moscow Automobile and Road Technical Institute.

---

---

In 1993, Mikhail 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.

On 10 March 2011, Mikhail Shamolin was appointed President of Sistema JSFC.

---

#### ***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 2013, the Management Board of the Company held 26 meetings and considered 64 agenda items dealing with all the areas of business activity of the Corporation. In 2013, the Management Board considered 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 of the India project;
  - development strategy and value creation for key portfolio assets of Sistema JSFC;
  - internal control and audit;
  - HR policy;
  - risk and opportunity management report;
  - long-term financial and economic model of the Corporation's development;
  - corporate social responsibility;
  - legal risks management;
  - corporate security;
  - investor and public relations.
- 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 during the strategic planning cycle.
- 4) Debt and borrowings management.
- 5) Risk management and preparation of risk maps.
- 6) Training and development of employees and talent management.
- 7) Monitoring and management of investment projects.
- 8) Public disclosure of financial information.
- 9) Charity.

*Members of the Management Board of Sistema JSFC as of 31 December 2013<sup>1</sup>:*

1.	Michael Shamolin	<i>Chairman of the Management Board</i>
2.	Anton Abugov	
3.	Christopher Alan Baxter	
4.	Alexey Buyanov	
5.	Elena Vitchak	
6.	Sergey Drozdov	
7.	Felix Evtushenkov	
8.	Leonid Monosov	
9.	Oleg Mubarakshin	
10.	Vsevolod Rozanov	
11.	Andrey Terebenin	
12.	Ali Uzdenov	
13.	Alexey Chupin	

In February 2014 Michael Hecker, the new Head of the Strategy Function and Vice President, was made a member of the Corporation's Management Board.

*Changes in the top management in 2013*

A number of changes in the top management of the Company took place in 2013:

<i>A. Buyanov</i>	03 June 2013	was appointed First Vice President.
<i>A. Goldin</i>	16 December 2013	was transferred from the position of Vice President, Head of the Legal Function to the position of the Advisor to the Chairman of the Board of Directors.
<i>A. Guryev</i>	19 June 2013	was appointed Executive Vice President, Head of the Internal Control and Audit Department.
<i>O. Mubarakshin</i>	16 December 2013	was appointed Vice President, Head of the Legal Function.
<i>V. Rozanov</i>	03 June 2013	was appointed Senior Vice President, Head of the Finance and Investment Function.
<i>K. Tyurdenev</i>	18 February 2013	was relieved of his duties as Executive Vice President.
<i>A. Chupin</i>	14 May 2013	was appointed Vice President.
<i>A. Shavrov</i>	21 February 2013	was relieved of his duties as Executive Vice President.
<i>A. Shlyakhturov</i>	02 September 2013	was appointed Executive Vice President, Head of the Security and IT Department.

<sup>1</sup> Short biographies of the members of the Management Board and data on their shareholdings in Sistema JSFC are available in the Annex.

## ***6.5. Risk management system, internal control and audit***

### *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 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*

In 2013, the Board of Directors of Sistema JSFC decided to set up a united Internal Control and Audit Department reporting to the President of the Corporation (administratively) and to the Board of Directors (functionally).

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

- audit of the structure and operating efficiency of control procedures aimed to insure the reliability of financial reports issued;
- audit of the structure and operating efficiency of control procedures aimed to improve the economic efficiency of Sistema's operating processes, including procurement optimisation;
- control of safekeeping, integrity, and efficiency of utilisation of assets;
- financial and economic audit;
- monitoring of compliance with the principles and requirements of the Code of Ethics and the Anti-Corruption Policy of the Corporation;
- monitoring of compliance with the requirements of the Corporation's internal regulations, including monitoring and control of execution of investment projects;
- coordination of activities and development of unified standards for internal control and audit units of Sistema's subsidiaries and affiliates.

To perform its key tasks, the Internal Control and Audit Department carries out the following functions:

- financial audit;
- operating audit:



- audit and project support;
- coordinating the activities of control and audit subdivisions of S/As.

The main tools of the Internal Control and Audit Department are audits designed to obtain and analyse fair information on the said processes. Based on audit findings, the Internal Control and Audit Department prepares recommendations for remediation of specific irregularities or weaknesses identified in business processes. Important aspects of the work of the Internal Control and Audit Department are prevention of irregularities by way of creating a violation-intolerant environment and improvement of the Corporation's internal business processes.

The Internal Control and Audit Department submits semi-annual reports on the current internal audit status to the Audit, Finance and Risk Committee and the Ethics and Control Committee of the Board of Directors of Sistema JSFC<sup>1</sup>. Annual reports of the Department are delivered to the Board of Directors of Sistema JSFC.

#### *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 recognized to be insufficient, the Audit Committee arranges a tender for selection of a new auditor. In case the quality of services of the current auditor is recognized as satisfactory, negotiations are conducted on the price of audit 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 the audit of the RAS and US GAAP financial statements shall be held at least once in every five years.

### **6.6. Development of the corporate governance system in 2013**

In 2013 new independent director Peter Mandelson joined the Board of Directors of Sistema JSFC. It is expected that Mr Mandelson's extensive experience will significantly strengthen the BoD's competences in investment relations and strategic planning. Moreover, in 2013 the Corporation increased the focus on using the potential of its Board members in its core business activities. In particular, the Corporation uses the vast business contacts of the Board members for expanding its international contact network and looking for new investment ideas.

In October 2013 Sistema's Board of Directors approved a full package of documents regulating the new incentive system to be applied to the Corporation's management based on an investment company model. According to the new incentive system, bonuses payable to employees shall be based on cash income generated by each portfolio and shall factor in dividends received from Sistema's S/As<sup>2</sup> and net cash income from the sale of assets. The bonus pool shall be adjusted for the expenditure incurred by the investment portfolio and the minimum rate of return envisaged.

The Corporation's top managers participate in an additional long-term incentive programme that entitles them to remuneration in the form of Sistema shares. The long-term incentive programme is based on changes in the price of Sistema shares and total shareholder return (TSR).

In June 2013, Sistema's Annual General Meeting of shareholders approved the payment of a RUB 9,264m worth of dividends, or RUB 0.96 per ordinary Sistema share. The amount of dividends was determined in compliance with the current dividend policy as min. 10% of Sistema's consolidated US GAAP net income and min. 10% of the income generated by transactions made in 2012. The payment of dividends in compliance with the established new dividend policy testifies to an improvement in the predictability of dividend flows to be received by the Corporation's shareholders and direct correlation between the dividend amounts and the performance of the Corporation's investment.

---

<sup>1</sup>Joint meetings of the Committees.

<sup>2</sup>Except for MTS and Bashneft

In June 2013 the Board of Directors resolved to strengthen internal control and audit functions by combining them into a single department (the Internal Control and Audit Department) that would directly report to the Board of Directors (functionally) and the President (administratively). The functions of the new department are extensively described in cl.6.5 hereof. The strengthening of the control function results from the adoption of the investment company model by the Corporation and is designed to protect Sistema's interests in portfolio companies.

In December 2013 Sistema's Board of Directors stated that all the key actions envisaged for the purposes of the Corporation's transition to the investment company management model had been carried out.

## 7. SOCIAL RESPONSIBILITY

Due to its activities, Sistema JSFC bears responsibility to several groups of stakeholders, namely: consumers, company personnel, shareholders, local communities. The Corporation aims at building long-term relations with all groups of stakeholders to ensure its sustainable development in the long term.

The basic document governing the activities of the corporation and its subsidiaries in the sphere of corporate social responsibility is the *Policy on Corporate Social Responsibility of Sistema JSFC*. It establishes the basic principles, areas and priorities for stakeholder interaction. The document is also used as a tool for strategic management of the factors of Sistema's sustainable development and optimisation of its contribution to social and economic development of the countries and regions of the Company's operations. Other documents used by the company are the Code of Corporate Conduct that stipulates responsibilities voluntarily assumed by Sistema as regards transparency, openness, and anti-corruption procedures, and the Ethics Code governing corporate relationships, designed to ensure open and fair business operations.

Sistema JSFC was one of the first Russian companies to join the United Nations Global Compact (in 2002) and strictly abides by the principles of sustainable development enshrined therein. In 2003, the Corporation joined the World Business Council for Sustainable Development (WBCSD). The Corporation fully embraces the social responsibility concept outlined by the Russian Union of Industrialists and Entrepreneurs in the Social Charter of Russian Business and seeks to make its contribution to the sustainable development permanent, consistent and socially intelligible.

### *Charitable activities*

The consolidated charitable expenses of Sistema's subsidiaries in 2013 totalled RUB 1,825 m. Sistema's Charitable Foundation is the Corporation's principal charity tool. The foundation manages funds donated for charity by companies of Sistema Group. The foundation works in 4 key focus areas: education and science; culture and art; social development and sports.

A major initiative of the foundation is *Lift to the Future*, an all-Russian talent development programme. The long-term programme has been carried out since 2011 on an ongoing basis. By the end of 2013 over 8,000 school and university students had become prizewinners of various contests of the programme, 2,500 school students had received Lift to the Future grants, and 500 university students of natural and technical sciences had been awarded scholarships. A new programme for traineeship at European hi-tech companies was launched in 2013 and involved 50 winners of student papers contests.

In June 2013, Sistema and the Russian Museum signed an agreement on cooperation through 2023 envisaging an up to RUB 300m worth of financing to be provided by Sistema for the museum's various projects. The previous 10-year agreement had been signed in 2003. The Corporation and the Russian Museum continue several programmes originated in the previous years, including the development of a unique regional network of "virtual branches", special information and education centres.

The corporation and its subsidiaries took active part in the relief assistance provided to the Far Eastern regions that had suffered from the devastating flood in August-September 2013. They made money contributions and procured equipment, clothing, and children's goods. Another related initiative was a "winter school" session held for 150 children from the flooded regions, where school students prepared their very own projects for the development of the Far East.

2013 was marked by an evolution of Sistema's cooperation with the Russian Geographical Society. Sistema and its subsidiary RTI provided technical and financial support for the Arctic expedition of the well-known Russian traveller Fyodor Konyukhov.

### *Environment protection*

The Corporation rigorously abides by environmental principles, while compliance with environmental standards is required by the Ethics Code of Sistema JSFC. As players in the hydrocarbon market, the Corporation's companies invest substantial funds in environmental protection. The largest user of subsurface resources among Sistema's subsidiaries is OJCS Bashneft.

In 2013 Bashneft's Board of Directors set up a Health, Safety, Environment and Social Responsibility Committee to control the implementation of the company's functional strategy in these areas and prepare related recommendations for the Board.

In 2013, Bashneft commissioned a sulfuric acid alkylation and black sulfuric acid regeneration plant with a design output of 1,200 tonnes of alkylates per 24 hours, for production of Euro-5 high-octane gasoline. This technology allows Bashneft to produce environmentally friendlier fuel. Bashneft's investment in the project totalled RUB 8bn.

Bashneft's Health, Safety and Environment management system in 2013 was certified according to ISO 14001, an international environmental management standard, and OHSAS 18001, a standard for occupational health and safety management systems.

In 2013, Bashneft became the first Russian company to enter the International Petroleum Industry Environmental Conservation Association (IPIECA).

### *Responsibility towards local communities*

Sistema and its subsidiaries carry out task-oriented investments in the social infrastructure of the regions the corporation operates in. In 2013, OJSC Bashneft, OJSC BPGC and the Sistema Charitable Foundation completed construction and reconstruction of large social facilities (hospitals and sports centres) in Bashkortostan, the Orenburg region, and the Nenets Autonomous District, total 2013 investment being RUB 1.14bn. The total investment in 2013 amounted to RUB 1.14 bn. The companies support the development of children's and adult sports and carry out activities aiming to form environmental consciousness of the young.

The MTS-initiated federal educational project for raising the Internet literacy of the senior generation *All Ages are Online* was launched in 2013. Over 5,000 people had completed the programme course as of the end of 2013. The Corporation's volunteers take active part in the programme.

A total of 3.5 thousand employees of the Corporation and its subsidiaries volunteer in various initiatives, such as assistance to orphans and war veterans and educational and environmental projects. Moreover, Sistema's first corporate volunteer city park and garden clean-up events were held in Moscow and Ufa in May 2013.

### *Responsibility towards employees*

Sistema adheres to best practices in HR management. When implementing their HR policies, Sistema and its subsidiaries fully comply with the labour laws of the countries the corporation operates in. Its employees receive competitive compensation and social benefits (additional life and health insurance; sports events, which involved 1,500 employees in 2013, etc.).

The Corporation uses a two-tier incentive system: the short-term incentive programme is linked to operational performance of employees, while the long-term incentive programme is designed for personnel retention and development. A system of internal career lifts has been created: 46% of key managers appointed in 2013 previously worked for Sistema or its S/As.

In 2013, Sistema launched *The School of CEOs*, an annual programme for the development of managerial competences of the top managers of production companies within the corporation. Bashneft managers became the first participants of the programme. Sistema plans to extend this practice to other subsidiaries.

In 2013, Sistema and MTS won leading positions in Russian employer ratings.

## **8. CRITERIA FOR DETERMINING THE AMOUNT OF REMUNERATION PAYABLE TO THE MEMBERS OF THE BOARD OF DIRECTORS AND SENIOR MANAGERS OF THE COMPANY**

The remuneration of the members of Sistema JSFC Board of Directors is calculated on the basis of the Policy on remuneration and compensations payable to the members of the Board of Directors of the Company, approved by a resolution of the General Meeting of shareholders of Sistema JSFC on 30 June 2006 (Minutes #1-06) as amended by the resolution of the General Meeting of the shareholders of Sistema JSFC on 16 February 2009 (Minutes #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;
- fixed amounts for acting in the capacity of the Chairman or a Deputy Chairman of the Board of Directors, and for Chairmanship of the Committees under the Board;
- 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 (US\$ 250,000 - 325,000);
- also, given 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 short-term (up to 1 year) incentive scheme for the top managers of Sistema JSFC in 2013 consisted of the following elements:

- a fixed monthly salary determined in line with the internal system of job categories (grades);
- an annual bonus paid for the achievement of investment key performance indicators (KPIs) set for the Corporation as a whole for a respective reporting period; In 2013, the following indicators were approved as investment KPIs of Sistema JSFC: iTSR, TSR, Revenue (dividends, proceeds from sale of businesses, revenue from capital management and debt repayment), SG&A / NAV, Investment reserves at the yearend, External debt / OIBDA (for the Group), Debt / OIBDA (for Sistema JSFC);
- additional remuneration (1) for generating cash income for the corporation in the year, payable subject to achievement of the year's investment KPIs, or (ii) additional bonus payable exclusively at the discretion of the Board of Directors.

The long-term (over 1 year) incentive scheme for the top managers of Sistema JSFC in 2013 consisted of the following elements:

- a three-year Long-term Incentive Program (2012-2014) aimed at building the shareholder value of Sistema JSFC and at creating additional preconditions for maintaining long-term relations of employment and corporate relations between the Company and its management;
- an option program for initiating and developing M&A projects aimed at strengthening the interest of the management towards searching for, acquiring and developing new assets that increase the shareholder value and the market capitalization of Sistema JSFC.

No remuneration is paid for the executive work of the managers sitting on the Management Board of Sistema JSFC.

Top executives of the Corporation were paid a total of RUB 2,870,064,713 in remuneration for the calendar year 2013. Remuneration paid to the members of the Board of Directors of Sistema JSFC in 2013 totalled RUB 154,995,692.

## 9. ANNEX

### 9.1. Summary biographies of the members of the Board of Directors and their shareholdings in Sistema JSFC

<i>Name, position</i>	<i>Brief Biography</i>
<b>Vladimir Evtushenkov</b>	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 side 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.  2004 Elected 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 authorized capital of Sistema JSFC – 64.1855%.
<b>Alexander Goncharuk</b>	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.
Non-executive director	1995 – 1998 Vice President, Sistema JSFC.  1998 – 2003 President of CJSC Sistema Telecom  2003 – 2006 President of OJSC Sitronics

2006 – 2008 President of Sistema JSFC.

1998 and 2002 – 2003 Chairman of the Board of Directors, OJSC MTS.

2009 – 2012 Chairman of the Board of Directors, OJSC Bashneft.

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.

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 the Sistema Board of Directors.

Share in the authorized capital of Sistema JSFC – 1.0089%.

---

**Sergey Boev**

Non-executive director

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 Federation 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 JSFC'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 Risks Committee and the Ethics and Control Committee of Sistema Board of Directors.

Share in the authorized capital of Sistema JSFC – 0.0140%.

---

<b>Brian Dickie</b>	Was born in 1955 in Belfast, the United Kingdom.
Independent director	<p>Master of Arts in English literature, Oxford University; MBA, Harvard Business School.</p> <p>1981 – 1998 Work at BOOZ, ALLEN &amp; HAMILTON INC., an international management consulting company.</p> <p>1993 – 1998 President, chairman of the board of the company's office in New York; before that, the company's managing partner for Asia Pacific (Singapore); consulted big corporations and government agencies in North America, Europe and Asia Pacific on strategic and operational matters.</p> <p>1999 – 2003 President of TXU ENERGY, US, where he headed the Retail, Generation (32 nuclear, gas and coal power plants) and Trading divisions; simultaneously, he managed the sector of the Group's new businesses, including telecoms (US) and the international energy industry (Australia, Asia, Latin America).</p> <p>2003 – 2012 Work at INVESTCORP, an alternative investment company founded in Bahrain. Before 2010, Managing director of the European direct investment division (London). Senior advisor, member of the investment committee of the Gulf Opportunity Fund, a division of INVESTCORP, and chairman/member of the board of directors of a number of European and Middle Eastern companies.</p> <p>Member of the Board of Directors of Sistema JSFC since 2012. Member of the Strategy Committee and the Ethics and Control Committee of Sistema Board of Directors.</p> <p>Share in the authorized capital of Sistema JSFC – 0.0013%.</p>

---

<b>Dmitry Zubov</b>	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 Director General 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 authorized capital of Sistema JSFC – 0.9951%.</p>

---

<b>Robert Kocharyan</b>	Was born in 1954 in Stepanakert, Nagorno-Karabakh Autonomous Region.
Independent director	<p>In 1982, graduated from the Yerevan Polytechnic Institute.</p> <p>1991 – 1994 Deputy of the first Supreme Council of the Nagorno-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>

1997 – 1998 Prime Minister of the Republic of Armenia.

1998 – 2008 President of the Republic of Armenia.

Member of the Board of Directors of Sistema JSFC since 2009. Chairman of the Nomination, Remuneration and Corporate Governance Committee, member of the Ethics and Control Committee of Sistema Board of Directors.

Share in the authorized capital of Sistema JSFC – 0.0045%.

---

**Jeannot Krecké**

Independent director

Was born in 1950 in Luxembourg.

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.

2004 Minister of Sport of Luxembourg.

2004 – 2011 Minister of Economics and Foreign Trade of Luxembourg, representative of the Luxembourg Government in the Council of Ministers of the European Union.

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 authorized capital of Sistema JSFC – 0.0017%.

---

**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 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 – 0.00%.

---

**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, and 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 – 0.0035%.

---

**Marc Holtzman**

Independent director

Was born in 1960 in the United Kingdom.

Holds a Bachelor of Arts degree in economics from Lehigh University. Married with three sons.

1989 – 1998 Work in Eastern Europe and Russia as a guest lecturer of the World Economic Development Congress and Harvard University's John F. Kennedy School of Government.

Until 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.

Was member of the Board of Directors of Kazyna, Kazakhstan's sovereign wealth fund. Served as Deputy Chairman of the Board of ABN Amro Bank and Barclays Capital.

2004 – 2010 Member of the Board of Trustees, the United States Space Foundation.

Chairman of the board of Meridian Capital HK and member of the board of Indus, FTI Consulting, The Bank of Kigali (Rwanda's biggest commercial bank) and Prospect Global Resources (NASDAQ).

Member of the Board of Directors of Sistema JSFC since 2012. Member of the Audit, Finance and Risks Committee and the Investor Relations and Dividend Policy Committee of Sistema Board of Directors.

Share in the authorised capital of Sistema JSFC – 0.0013%.

---

**Serge Tchuruk**

Independent director

Was born in 1937 in France.

Graduated from «Ecole Polytechnique».

1964 – 1979 Mobil Corporation (France, US), CEO of Mobil Benelux.

1980 – 1986 Held various executive positions at Rone Poulenc, an international chemical and pharmaceutical company; in 1983, appointed Managing Director of the company.

1986 – 1990 Chairman and CEO of Orkem, a European chemical company (earlier known as CDF-Chimie).

1990 – 1995 Chairman and CEO of Total, one of the largest oil and gas companies globally.

1995 – 2006 CEO of Alcatel.

Member of the Board of Directors of Sistema JSFC since 2011. Member of the Strategy Committee and the Ethics and Control Committee of Sistema Board of Directors.

Share in the authorised capital of Sistema JSFC – 0.0026%.

---

**Mikhail Shamolin**

President

Chairman of the  
Management Board

Executive director

Born in 1970 in Moscow.

In 1992, graduated from the Moscow Automobile and Road Technical Institute.

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 Worked 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.

10 March 2011 Appointed President of Sistema JSFC.

Chairman of the Management Board of Sistema JSFC, member of the Strategy Committee, the Investor Relations and Dividend Policy Committee and the Nomination, Remuneration and Corporate Governance Committee of Sistema Board of Directors. Member of the Board of Trustees of the Sistema Charitable Foundation.

Share in the authorized capital of Sistema JSFC – 0.1557%.

---

**David Iakobachvili**

Was born in 1957 in Georgia.

Independent director

Graduated from the Civil and Industrial Engineering Department of the Georgian Technical University in Tbilisi.

1986 – 2000 private entrepreneur involved in various projects: official dealership of General Motors cars, tourism and hotel business, timber processing, retail, communications and banking.

1992 One of the founders of a well-known dairy company, Wimm-Bill-Dann.

1992 – 2011 Member and later Chairman of the Board of Directors of Wimm-Bill-Dann.

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.

Member of managing boards of influential 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.

Member of the Board of Directors of Sistema JSFC since 2011. Chairman of the Investor Relations and Dividend Policy Committee, member of the Audit, Finance and Risks Committee of Sistema Board of Directors.

Share in the authorized capital of Sistema JSFC – 0.0043%.

**9.2. Information on transactions performed by members of the Board of Directors of Sistema JSFC with the shares they hold in the Company over the period 1 January - 31 December 2013**

<i>Member of the Board of Directors</i>	<i>Date of transaction</i>	<i>Transaction content</i>	<i>Subject of the transaction (Number of shares of Sistema JSFC)</i>
V. Evtushenkov	12 December 2013	crediting securities to the holder's account	115,691
A. Goncharuk	8 May 2013	crediting securities to the holder's account	435,000
A. Goncharuk	12 July 2013	crediting securities to the holder's account	115,691
A. Goncharuk	17 July 2013	debiting securities from the holder's account to a nominee account of the Central Depository	858,850
A. Goncharuk	24 September 2013	debiting securities from the holder's account to a nominee account of the Central Depository	19,300,000
A. Goncharuk	8 October 2013	crediting securities to the holder's account	16,300,000
B. Dickie	12 July 2013	crediting securities to the holder's account	121,010
D. Zubov	8 May 2013	crediting securities to the holder's account	1,689,603
D. Zubov	12 July 2013	crediting securities to the holder's account	115,691
V. Kopiev	8 May 2013	crediting securities to the holder's account	64,979
V. Kopiev	12 July 2013	crediting securities to the holder's account	115,691
R. Kocharyan	12 July 2013	crediting securities to the holder's account	121,010
J. Krecké	12 July 2013	crediting securities to the holder's account	121,010
R. Munnings	12 July 2013	crediting securities to the holder's account	121,010
E. Novitsky	13 June 2013	debiting securities from the holder's account to a nominee account of the Central Depository	122,191
E. Novitsky	12 July 2013	crediting securities to the holder's account	115,691
M. Holtzman	12 July 2013	crediting securities to the holder's account	121,010
S. Tchuruk	12 July 2013	crediting securities to the holder's account	121,010
M. Shamolin	8 May 2013	crediting securities to the holder's account	1,987,769
M. Shamolin	12 July 2013	crediting securities to the holder's account	115,691
M. Shamolin	24 September 2013	crediting securities to the holder's account	9,650,000
M. Shamolin	30 December 2013	debiting securities from the holder's account to a nominee account of the Central Depository	15,023,401
D. Iakobachvili	12 July 2013	crediting securities to the holder's account	115,691

### 9.3. Summary biographies of the President and Management Board members.

<i>Name, position</i>	<i>Brief biography</i>
<b>Mikhail Shamolin</b>	Was born in 1970 in Moscow.
President of Sistema JSFC	In 1992, graduated from the Moscow Automobile and Road Technical Institute, and in 1993, from the Russian Presidential Academy of Public Administration.
Chairman of the Management Board of Sistema JSFC	1996 – 1997 Completed the finance and management course for top managers at the Wharton Business School.
	1998 – 2004 Worked 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.
	10 March 2011 Appointed President and Chairman of the Management Board of Sistema JSFC.
	The Executive Director, member of the Strategy Committee, the Ethics and Internal Control Committee, the Nomination, Remuneration and Corporate Governance Committee, the Investor Relations and Dividend Policy Committee of Sistema Board of Directors, member of the Board of Trustees of the Sistema Charitable Foundation.
<b>Anton Abugov</b>	Was born in 1976 in Mytishchi, the Moscow Region.
First Vice President, Sistema JSFC	In 1998, graduated from the Russian Presidential Academy of National Economy with a degree in management.
Member of the Management Board of Sistema JSFC	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.
	September 2012 Appointed First Vice President, Sistema JSFC.
<b>Christopher Baxter</b>	Was born in 1963 in the United Kingdom.
Senior Vice President, 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.
Member of the Management Board of Sistema JSFC	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).

November 2012 Appointed Senior Vice President, Sistema JSFC.

---

<b>Alexey Buyanov</b>	Was born in 1969 in Moscow.
First Vice President, Sistema JSFC	In 1992, graduated from the Moscow Physics and Technology Institute with a degree in Applied Mathematics and Physics.
Member of the Management Board of Sistema JSFC	1995 – 1998 Head of Department, Vice-President, First Vice-President, CJSC Sistema Invest.  1998 – 2002 Vice President, OJSC MTS.  2002 Vice President, Head of the Financial Restructuring Department, Sistema JSFC.  2002 – 2005 First Vice President, Sistema JSFC.  2005 – 2013 Senior Vice President, Head of the Finance and Investment Function, Sistema JSFC.  June 2013 Appointed First Vice President, Sistema JSFC.  Chairman of the Board of Directors of OJSC MTS Bank, member of the Board of Directors of OJSC MTS, OJSC Bashneft, Sistema Shyam Teleservices Limited (SSTL) and a number of other companies.

---

<b>Elena Vitchak</b>	Was born in 1971 in Moscow.
Vice President, Head of the HR Department, Sistema JSFC	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 Management Board of Sistema JSFC	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 Hals.  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.  December 2013 Appointed Vice President, Head of the HR Department, Sistema JSFC.

---

<b>Sergey Drozdov</b>	Was born in 1970 in Arkhangelsk.
Senior Vice President, Head of Corporate Governance Function of Sistema JSFC	In 1993, graduated from the Moscow Ordzhonikidze Management Academy with the qualification of a planning engineer. Holds a PhD degree in Economics.
Member of the Management Board of Sistema JSFC	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, 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.

2011 Appointed 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 OJSC Bashneft, OJSC United Petrochemical Company, CJSC Binnopharm and a number of other companies.

---

<b>Felix Evtushenkov</b>	Was born in 1978 in Moscow.
First Vice President, Sistema JSFC	In 2000, graduated from the Griboyedov Institute of International Law and Economics with a degree in law.
Member of the Management Board of Sistema JSFC	1999 – 2000 Assistant to the President of CJSC Sistema Invest, Executive Director of the Industry Department, Sistema JSFC.  2000 – 2006 Deputy CEO, CEO, CJSC Sistema Hals.  2006 – 2008 President of OJSC Sistema Hals.  2008 – 2011 Vice President, Head of the Consumer Assets Business Unit, Sistema JSFC.  2011 – 2011 First Vice President, Head of the Core Assets Business Unit, Sistema JSFC.  2012 Appointed First Vice President, Sistema JSFC.  Chairman of the Board of Directors of OJSC Bashneft, OJSC BPGC, OJSC United Petrochemical Company and a number of other companies.

---

<b>Leonid Monosov</b>	Was born in 1958 in Mozyr, Belarus.
Vice President, Sistema JSFC	In 1980, graduated from the Moscow Institute of Railway Engineers with a degree in industrial and civil construction.
Member of the Management Board of Sistema JSFC	Recipient of various awards and the title of Honoured builder of the Russian Federation.  1999 – 2007 CEO of OJSC Moskapstroy.  2007 – 2010 Head of the Moscow City Contract Repairs Department.  2010 – 2012 Vice President, the state-owned corporation Olymstroy.  2012 – 2013 Executive Vice President of the Developing Assets Business Unit, Executive Vice President, Sistema JSFC.  December 2013 Appointed Vice President, Sistema JSFC.

<b>Oleg Mubarakshin</b>	Was born in 1968 in the Saratov Region.
Vice-President, Head of the Legal Function, Sistema JSFC.	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.
Member of the Management Board of Sistema JSFC	In 1991, graduated from the Defence Ministry's Military Institute.
	1996 – 1998 Deputy CEO for legal matters, the oil and gas company Belye Nochi (Russia).
	1998 – 2007 Vice President for Corporate and Legal Affairs for Central and Eastern Europe, InBev FMCG Group (Russia).
	2008 – 2009 Vice President for Legal Affairs for Western Europe, InBev FMCG Group (Belgium).
	2009 – 2013 Member of the Management Board, Head of Legal Department, EastOne Investment and Consulting Group (Ukraine, Great Britain).
	December 2013 Appointed Vice President, Head of the Legal Function of Sistema JSFC.
<hr/>	
<b>Vsevolod Rozanov</b>	Was born in 1971 in Moscow.
Senior Vice President, Head of the Finance and Investment Function of Sistema JSFC	Graduated from the Economics Department of the Lomonosov Moscow State University, with a degree in economics.
Member of the Management Board of Sistema JSFC	1993 – 2001 Held various positions at the consultancy Bain & Company Inc. in Moscow, London and Stockholm.
	2002 – 2004 Deputy CEO for Economics and Finance, CJSC MTU-Inform.
	2004 – 2006 Vice President for Economics and Finance, OJSC Comstar United Telesystems.
	2006 – 2008 Vice President for Finance and Investment, member of the Management Board, OJSC MTS.
	2008 – 2013 CEO of Sistema Shyam TeleServices Limited. Board member of SSTL and OJSC MTS.
	June 2013 Appointed Senior Vice President, Head of the Finance and Investment Function of Sistema JSFC.
<hr/>	
<b>Andrey Terebenin</b>	Was born in 1962 in Moscow.
Vice President, Head of the Corporate Communications Function of Sistema JSFC	In 1985, graduated from the Moscow State Institute of International Relations with a degree in international relations and Arabic.
Member of the Management Board of Sistema JSFC	Held a number of management positions at the Publishing House Ekonomicheskaya Gazeta, Dun&Bradstreet CIS and AIG Russia.
	1999 Became a partner at the Triangle Porter Novelli Communications Agency
	2003 - January 2006 Director General and Partner, R.I.M. Porter Novelli.
	2006 – 2011 Vice President for Corporate Communications, OJSC MTS.
	May 2011 Appointed Vice President, Head of the Corporate

<b>Ali Uzdénov</b>	Was born in 1962 in Kislovodsk, the Stavropol Territory.
Senior Vice President, Sistema JSFC	In 1985, graduated from the Rostov Institute of Railway Engineers.
Member of the Management Board of Sistema JSFC	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.
	December 2013 Appointed Senior Vice President, Sistema JSFC.
<b>Michael Hecker</b>	Was born in 1970 in Kiel, Germany.
Vice President, Head of the Strategy Function of Sistema JSFC	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.
Member of the Management Board of Sistema JSFC	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.
<b>Alexey Chupin</b>	Was born in 1975 in Nvyansk, the Sverdlovsk Region.
Vice President, Sistema JSFC	In 1996, graduated from the Urals State Economics University with a degree in finance and credit. In 2005, was awarded an MBA degree from the Urals-Siberia Business University.
Member of the Management Board of Sistema JSFC	2002 – 2004 Head of the Analytical Centre, Director for Strategic Development, Deputy CEO, the Nvyansk Machine-Building Plant.
	2004 – 2009 Deputy CEO, LLC NMZ Finance.
	2009 – 2011 CEO of LLC Zenitko Finance Management.
	2011 – 2013 CEO of CJSC Binnopharm. Member of the Board of Directors of CJSC Binnopharm.

May 2013 Appointed Vice President of Sistema JSFC.

**9.4. Information on the number of Sistema shares held by the President and Management Board members**

<i>Management Board members:</i>	<i>Number of Sistema shares held by the Management Board member</i>
Mikhail Shamolin	19,220,298
Anton Abugov	20,035,943
Christopher Baxter	2,433,108
Alexey Buyanov	19,130,244
Elena Vitchak	1,031,590
Sergey Drozdov	27,236,389
Felix Evtushenkov	4,384,842
Leonid Monosov	1,736,389
Oleg Mubarakshin	0
Vsevolod Rozanov	1,305,000
Andrey Terebenin	2,063,448
Ali Uzdenov	1,087,499
Michael Hecker	0
Alexey Chupin	455,500

***9.5. List of transactions performed by the Company in the reporting year that are recognized as major transactions under the Federal Law "On joint-stock companies" and other transactions covered by the major transactions approval procedure pursuant to the Company's Charter***

During 2013 Sistema JSFC has not performed any transactions that in accordance with the Federal Law "On Joint-Stock Companies" are recognized as major transactions, and other transactions which in accordance with the Company's Charter are covered by the procedure for approval of major transactions.

**9.6. List of transactions performed by the company 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 2013 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.

#	Ref. No. of BoD meeting minutes and date of resolution	Subject of the transaction	Counterparties	Amount of the transaction	Related parties
1	01-13 02.02.2013	Supplementary Agreement to Contract No. 108 dtd 23 May 2011 with OJSC Reyestr for keeping and updating the register of securities holders (amendment to Annex 1 to Contract No. 108 dtd 23 May 2011 between Sistema JSFC and OJSC Reyestr)	OJSC Reyestr	RUB 620,000	OJSC Sistema Finance S.Drozдов
2	01-13 02.02.2013	Agreement with OJSC Region on rendering a range of informational, advisory, consulting and other services to ensure information and economic security at Sistema JSFC	CJSC Region	RUB 198,724,980	OJSC Sistema Finance S.Drozдов
3	01-13 02.02.2013	Granting an interest-bearing loan to CJSC Binnopharm.	Binnopharm	RUB 192,000,000	OJSC Sistema Finance D. Zubov S.Drozдов C. Baxter
4	01-13 02.02.2013	Repayment of the debt owed by OJSC SMM to Sistema JSFC in securities	LLC SMM OJSC Sistema Finance	RUB 1,174,878,034.94	OJSC Sistema Finance A.Abugov
5	02-13 16.03.2013	Reduction of Sistema's shareholding in MTS Bank	MTS Bank MOBILE TELESYSTEMS B.V.	RUB 5,088,888,248	OJSC Sistema Finance A. Buyanov A. Goldin
6	03-13 20.04.2013	Divestment of 70% of SG-trans shares in favor of LLC Financial Alliance	LLC Financial Alliance	RUB 12,000,000,000	OJSC Sistema Finance A.Uzdenov
7	03-13 20.04.2013	Acquiring a stake in the authorised capital of CJSC Leader-Invest	CJSC Leader Invest	RUB 550,000,000 and US\$ 130,000,000 US	OJSC Sistema Finance S.Drozдов L.Monosov
8	03-13 20.04.2013	Granting a loan to LLC Russkaya Zemlya.	Russkaya Zemlya LLC	RUB 100,000,000	OJSC Sistema Finance M. Shamolin A.Abugov
9	03-13 20.04.2013	Surety for the obligations of Sistema Shyam TeleServices to the Central Bank of India under the Guarantee Facility Agreement	Central Bank Of India	US\$ 120,664,892	OJSC Sistema Finance A. Buyanov A.Terebenin

1 0	03-13 20.04.2013	Surety for the obligations of Sistema Shyam TeleServices to the Central Bank of India under the Guarantee Facility Agreement	Central Bank Of India	US\$ 66,629,897	OJSC Sistema Finance A. Buyanov A.Terebenin
1 1	03-13 20.04.2013	Granting a loan to LLC Altay Resort	Altay Resort	RUB 250,000,000	OJSC Sistema Finance
1 2	04-13 25.05.2013	Granting a loan from Sistema JSFC to OJSC Sistema Finance	OJSC Sistema Finance	up to RUB 9,500,000,000	OJSC Sistema Finance
1 3	04-13 25.05.2013	Granting a loan from Sistema JSFC to OJSC Sistema Finance	OJSC Sistema Finance	up to RUB 8,000,000,000	OJSC Sistema Finance
1 4	04-13 25.05.2013	Granting a free financial aid from Sistema JSFC to OJSC Sistema Finance	OJSC Sistema Finance	RUB 2,500,000,000	OJSC Sistema Finance
1 5	06-13 29.06.2013	Granting an interest-bearing loan to CJSC Leader Invest	Leader Invest	RUB 667,548,200	OJSC Sistema Finance
1 6	06-13 29.06.2013	Granting an interest-bearing loan to CJSC Leader Invest	Leader Invest	RUB 1,200,000,000	OJSC Sistema Finance
1 7	06-13 29.06.2012	Acquiring 98% shares in OJSC United Petrochemical Company	OJSCANK Bashneft	RUB 6,200,000,000	OJSC Sistema Finance V. Evtushenkov A. Goncharuk A. Buyanov S.Drozdov F.Evtushenkov
1 8	06-13 29.06.2013	Sistema's shareholding in the subsidiary of TCF PROJECTS RTE LTD.	TCF Projects PTE. LTD	Up to US\$ 300,000,000	OJSC Sistema Finance A. Buyanov A.Terebenin V. Rozanov
1 9	06-13 29.06.2013	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 to a guarantee under the English Law dtd 18 December 2009	Bank Of China Limited, Shenzhen Branch	US\$ 12,213,307.45	OJSC Sistema Finance A. Buyanov A.Terebenin V. Rozanov
2 0	06-13 29.06.2013	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 to a guarantee under the English Law dtd 18 December 2009	Bank Of China Limited, Shenzhen Branch	US\$ 15,567,249.35	OJSC Sistema Finance A. Buyanov A.Terebenin V. Rozanov
2 1	06-13 29.06.2013	Amendments to the guarantees provided by Sistema JSFC to the Bank of China Limited, Shenzhen Branch to secure all liabilities of Sistema Shyam	Bank of China Limited, Shenzhen Branch.	US\$ 43,860,463.94	OJSC Sistema Finance A. Buyanov A.Terebenin V. Rozanov



		Teleservices Limited under the credit agreements between Sistema Shyam Teleservices Limited and the Bank of China Limited, Shenzhen Branch to a guarantee under the English Law dtd 18 December 2009			
2 2	06-13 29.06.2013	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 to a Guarantee under the Legal Law dtd 20 August 2009	Bank of China Limited, Shenzhen Branch.	US\$ 69,895,089.45	OJSC Sistema Finance A. Buyanov A.Terebenin V. Rozanov
2 3	07-13 15.09.2013	Acquisition by Sistema JSFC of ordinary registered shares in OJSC Sitronics-N	RTI	RUB 1,426,624,664	OJSC Sistema Finance S. Boev A. Buyanov
2 4	07-13 15 Sep 13 Item 5.1.2.5.	Disposal by Sistema JSFC of ordinary registered shares in Technopark Sarov	RTI	min. RUB 142,500,000	OJSC Sistema Finance S. Boev A. Buyanov
2 5	07-13 15.09.2013 Item 5.2.5	Acquisition by Sistema JSFC of additionally issued ordinary registered shares of OJSC RTI	RTI	RUB 5,100,000,000	OJSC Sistema Finance S. Boev A. Buyanov
2 6	07-13 15 Sep 13	Sistema JSFC acquiring a stake in LLC Bashneft Service Assets	Bashneft	RUB 4,100,000,000	OJSC Sistema Finance V. Evtushenkov A. Goncharuk A. Buyanov S.Drozdov F.Evtushenkov V. Rozanov
2 7	07-13 15.09.2013	Providing a guarantee for the liabilities of Sistema Shyam Teleservices Limited to Bank of China Limited, Shenzhen Branch	Bank of China Limited, Shenzhen Branch. Sistema Shyam TeleServices Ltd.	up to US\$ 35,000,000.00	OJSC Sistema Finance A. Buyanov A.Terebenin V. Rozanov
2 8	07-13 15.09.2013	Acquisition of units in the open mutual bond fund <i>Rezervny</i> and the open mutual bond fund <i>Rezervny. Foreign Exchange Investments</i> : Acquisition by Sistema JSFC of units in the open mutual fund <i>Rezervny</i> from LLC DIK	LLC DIK	max. RUB 12,000,000,000	OJSC Sistema Finance
2 9	07-13 15 Sep 13	Acquisition of units in the open mutual bond fund <i>Rezervny</i> and the open mutual bond fund <i>Rezervny. Foreign Exchange Investments</i> : Acquisition by Sistema JSFC from LLC DIK of units in the open mutual fund <i>Rezervny</i> Foreign Exchange Investments	LLC DIK	max. RUB 12,000,000,000	OJSC Sistema Finance
3 0	07-13 15 Sep 13	Granting a loan to JSC NPK NIIDAR	OJSC NIIDAR	RUB 1,000,000,000	OJSC Sistema Finance

					S. Boev
3 1	07-13 15 Sep 13	Shareholding in OJSC Intourist Hotel Group	Intourist	max. RUB 110,000	OJSC Sistema Finance
3 2	07-13 15 Sep 13	Granting a loan to LLC Altay Resort	Altay Resort	RUB 230,000,000	OJSC Sistema Finance
3 3	07-13 15 Sep 13	Granting a loan to RZ Agro Holding Ltd	RZ Agro Holding Ltd. LLC Russkaya Zemlya	up to US\$ 9,500,000.00	OJSC Sistema Finance A.Abugov A.Uzdenov
3 4	07-13 15 Sep 13	Granting a loan to JSC Navigation Information Systems	NIS	up to RUB 130,000,000	OJSC Sistema Finance
3 5	07-13 15 Sep 13	Granting a loan to JSC Navigation Information Systems	NIS	up to RUB 571,000,000	OJSC Sistema Finance
3 6	07-13 15 Sep 13	Granting a loan to OJSC Moscow Business Incubator	OJSC Moscow Business Incubator	up to RUB 3,000,000,000	OJSC Sistema Finance L.Monosov
3 7	08-13 26 Oct 2013	Acquisition by Sistema JSFC of additionally issued ordinary registered shares of CJSC Leader Invest	Leader Invest	up to USD 200,000,000	OJSC Sistema Finance V. Evtushenkov S.Drozdov F.Evtushenkov L.Monosov V. Rozanov
3 8	08-13 26 Oct 2013	Granting Security to the Bank of Moscow for the liabilities of OJSC RTI Concern under its irrevocable offer	The Bank of Moscow RTI Systems Concern	max. RUB 1,500,000,000	OJSC Sistema Finance
3 9	08-13 26 Oct 2013	Granting a repayable interest-bearing loan to OJSC RTI Estate	RTI Estate	RUB 4,100,000,000	OJSC Sistema Finance
4 0	09-13 14 Dec 2013	Acquisition by Sistema JSFC of 100% equity in CJSC Business Nedvizhimost	MGTS Nedvizhimost	max. RUB 6,303,000,000	OJSC Sistema Finance L.Monosov
4 1	09-13 14 Dec 2013	Sistema JSFC obtaining a loan from CJSC Sistema Invest in the form of cash as part of restructuring of Sistema JSFC's debt to CJSC Sistema Invest	CJSC Sistema Invest	RUB 9,370,000,000	OJSC Sistema Finance

## 9.7. Information about the Company's Compliance with the requirements of the Code of Corporate Conduct of the Federal Service for Financial Markets

<i>Provisions of the Corporate Conduct Code</i>	<i>Observed / not observed</i>	<i>Notes</i>
<b>General Meeting of Shareholders</b>		
1. Notice of the forthcoming General Meeting of Shareholders (AGM) should be sent out not later than 30 days before the day of the Meeting unless a longer term is provided for by legislation.	Observed	This requirement is incorporated in the Charter of Sistema JSFC (Section 28.9).
2. The procedure for announcement about the AGM of shareholders should provide shareholders with a possibility to properly prepare for participation in the meeting.	Observed	Announcement about AGM is forwarded to the shareholders by mail and is published on the website of Sistema JSFC ( <a href="http://www.sistema.ru">www.sistema.ru</a> ).
3. Shareholders should have the opportunity to study the list of persons entitled to take part in AGM starting with the data of AGM announcement and until the closure of in-praesentia AGM, and in case of AGM by ballot – until the deadline for ballot submission.	Observed	In line with the Terms of Reference of the General Meeting of the Shareholders of Sistema JSFC (endorsed by Minutes No. 2-10 dtd 30 June 2010 of the General Meeting of Sistema JSFC), shareholders can obtain the list of persons entitled to take part in AGM from the Corporate Secretary of Sistema JSFC.
4. Shareholders should be able to familiarize themselves with the information (materials) which is to be presented during preparation for the Annual General Meeting of Shareholders, through electronic means of communication.	Observed	Sistema JSFC publishes full information about the General Meetings of Shareholders on its Internet website ( <a href="http://www.sistema.ru">www.sistema.ru</a> ).
5. Shareholders should be able to add an item to the agenda of the AGM or demand convocation of the AGM without presenting an excerpt from the register of shareholders if his/her rights for shares are recorded in the register of shareholders, and if his/her rights for shares are registered in a depo account – subject to a statement from the depo account.	Observed	In line with the Terms of Reference of the General Meeting of the Shareholders of Sistema JSFC (endorsed with Minutes No. 2-10 dtd 30 June 2010), the General Meeting of Shareholders of Sistema JSFC, apart from a bank statement from depo account, the shareholders are not required to present any other documents to confirm their rights.
6. Provisions for the registration procedure of AGM participants in the internal regulations of the joint-stock company.	Observed	Envisaged in the Terms of Reference for the General Meeting of Shareholders of Sistema JSFC.
<b>Work of the Board of Directors</b>		
1. A JSC's charter should include the responsibility of the Board of Directors (BoD) to approve the financial and business plan of the JSC on an annual basis.	Observed	In accordance with the Company's Charter, the responsibilities of the Board of Directors include: "identifying the priority areas of the Company's business, determining the development strategy of the Company, approving the Company's annual budgets (financial plans), considering the main focus areas and development strategies of subsidiaries."

2. A JSC should have a risk management procedure approved by the BoD.	Observed	Annex 3 to the Minutes of Sistema Board of Directors No. 03-09 of 22 April 2009. Resolution of Sistema Board of Directors dtd 5 March 2011, Minutes No.03-11.
3. The Board of Directors should have the right to set the requirements to qualification and size of remuneration of the CEO and heads of the Joint-Stock Company's main structural divisions.	Observed	The responsibilities of Sistema Board of directors include: appointment of the President of the Corporation; determining the number of members of the Management Board, election of its members; approving the terms of the agreement with the President and with members of the Corporation's Management Board; early termination of authority of the President of the Corporation and members of the Corporation's Management Board, approving the principles of performance assessment and the remuneration system, as well as controlling activity of the Corporation's top officials who are directly reporting to the Corporation's President.
4. A JSC's Charter should provide for the right of the BoD to approve the terms of contracts with the CEO and members of the Management Board of the JSC.	Observed	The Charter of Sistema JSFC states that the terms of contracts with the President and members of the Management Board are subject to approval by the Board of Directors of Sistema JSFC.
5. A JSC's Board of Directors should include not less than 3 independent directors who meet the requirements of the Code of Corporate Conduct.	Observed	As of 31 December 2013, the Board of Directors of Sistema JSFC included 8 members who meet the requirements of the Code of Corporate Conduct defining independent directors: B. Dickie, R. Kocharyan, J. Krecké, P. Mandelson, R. Munnings, M. Holtzman, S. Tchuruk, D. Iakobachvili.
6. A JSC's BoD does not include persons with criminal record for economic crimes or crimes against the state, interests of the state and local governments or on whom administrative penalties were imposed for offenses in the area of entrepreneurial activity, finances, taxes and duties or equity market.	Observed	Sistema has reviewed this issue and does not have any information on such offenses committed by members of its Board of Directors.
7. A JSC's BoD shall not include persons who are shareholders, general directors (managers), members of a governance body or employees of a legal entity which competes with the Joint-Stock Company.	Observed	According to the information available to the Corporation, the Board of Directors of Sistema JSFC does not include persons being shareholders, general directors (managers), members of a governance body or employees of a legal entity which competes with Sistema JSFC.
8. JSC's internal regulations should set out the requirement on holding BoD meetings at least once in six weeks.	Observed	According to the Charter of Sistema JSFC, meetings of the Board of Directors are held as necessary but at least 2 times per quarter.
9. JSC's BoD meetings are to be held at least once every six weeks during the JSC's reporting year.	Observed	9 meetings of the Board of Directors of Sistema JSFC were held in 2013.

10. JSC's internal regulations should provide for a procedure for holding BoD meetings.	Observed	The procedure to hold meetings of the Board of Directors of Sistema JSFC is determined by the Terms of Reference and Working Procedures of the Board of Directors of Sistema JSFC.
11. JSC's internal regulations should provide for the right of BoD members to get information necessary for performing their functions from executive bodies and heads of the Joint-Stock Company's main structural divisions.	Observed	The right of members of the Board of Directors to get any information about the activity of Sistema JSFC is set forth in the Terms of Reference of the Board of Directors of Sistema JSFC.
12. A JSC should establish a committee of the Board of Directors responsible for strategic planning.	Observed	Sistema JSFC has a Strategy Committee of the Board of Directors.
13. The BoD should have a Committee that would recommend to the BoD the Auditor of the JSC and interact with such auditor and JSC's Auditing Commission.	Observed	Sistema JSFC has an Audit and Finance Committee of the Board of Directors.
14. A JSC's BoD should have a Committee responsible for setting the criteria for selecting candidates to the BoD and establishing the JSC's remuneration policy.	Observed	Sistema JSFC has a Nomination, Remuneration and Corporate Governance Committee of the Board of Directors.
15. The Nomination and Remuneration Committee of JSC's BoD should be chaired by an independent director.	Observed	The Committee is chaired by R. Kocharyan, an independent member of the Board of Directors.
16. A JSC should have internal regulations approved by the BoD, which set out a procedure for forming Committees of the Board of Directors and their working procedures.	Observed	Sistema JSFC has approved the Terms of Reference that set out the responsibilities of the BoD Committees, a procedure for their establishment and their working procedures.
17. A JSC's Charter sets out a procedure to determine the quorum of the Board of Directors that ensures participation of independent directors in meetings of the Board of Directors.	Partially observed	The quorum of the Board of Directors of Sistema JSFC is determined according to the number of BoD members attending the meeting regardless of their status of an independent, non-executive or executive director. A majority of the members of the Board of Directors are independent directors.
18. The issuer's internal regulations should provide for obligations of members of the Board of Directors, members of a collective executive governance body, the person who carries out the functions of the sole executive body, including JSC's governing organization and its officials, to disclose information on the possession of the issuer's securities as well as sale and (or) purchase of the issuer's securities.	Observed	This requirement is included in the Corporate Conduct Code, the Terms of Reference of the Board of Directors and the Management Board of Sistema JSFC, as well as internal regulations that set out the obligations of Sistema JSFC in implementing legal requirements on preventing illegal use of inside information.

### Executive bodies

1. A JSC should have a Management Board (a collective executive body).	Observed	Pursuant to the Charter of Sistema JSFC, the Corporation has a collective executive body – the Management Board.
2. JSC's internal regulations should set out procedures for approval of transactions outside of the Joint-Stock Company's financial and business plan.	Observed	Procedures for approval of transactions outside of the budget are set out in the budget policy, the Regulation on contracts approval and the Regulation on mergers and acquisitions of Sistema JSFC. All such transactions are pre-considered by the Audit and Finance Committee of the Board of Directors of Sistema JSFC. When necessary, changes to the budget are made by a resolution of the Board of Directors.
3. Executive bodies should not include persons who are shareholders, general directors (managers), members of a governing body or employees of a legal entity which competes with the Joint-Stock Company.	Observed	According to available information, the executive bodies of Sistema JSFC do not include persons being shareholders, directors general (manager), members of a governing body or employees of a legal entity which competes with Sistema JSFC.
4. JSC's executive bodies should not include persons with criminal record for economic crimes or crimes against the state, interests of the state and local governments or on whom administrative penalties were imposed for offenses in the area of entrepreneurial activity, finances, taxes and duties or equity market.	Observed	According to the information available to Sistema JSFC, executive bodies of Sistema JSFC do not include such persons.
5. A JSC's Charter or internal regulations should prohibit the management company (the manager) from performing similar functions in a competing company as well as from being in any other property relations with the Joint-Stock Company apart from the provision of services to the management company (the manager)	Observed	Set forth in the Charter of Sistema JSFC (s. 34.10).
6 JSC's internal regulations should set out obligations of executive bodies to refrain from actions which lead or may lead to a conflict between their interests and the interests of the Joint-Stock Company, and in case of such conflict of an obligation to inform the Board of Directors accordingly.	Observed	Such requirements are set forth in the Terms of Reference of the Board of Directors, of the Management Board, of the President, and in the Policy on contracts with the President and Members of the Management Board of Sistema JSFC.
7 A JSC's charter or internal regulations should set out the criteria to select the management company (manager).	Not applicable	It is not necessary because there is no managing company and there are no plans to engage the same to perform the functions of Sistema JSFC's sole executive body.
8. A JSC's Board of Directors should receive monthly reports from the executive bodies on their work.	Observed	The Board of Directors of Sistema JSFC reviews its financial results on a regular (quarterly) basis. The Company's management weekly compiles a report on the key events and

		submits it to the members of the Board of Directors of Sistema JSFC.
9. Agreements executed by a JSC with the CEO (management organization, manager) should provide for a liability for failure to comply with regulations of the use of confidential and inside information.	Observed	There is a requirement regarding protection of confidential information in the agreements with the President and members of the Management Board of Sistema JSFC.
<b>Corporate Secretary</b>		
1. A JSC should have an official (Corporate Secretary) whose duty is to ensure compliance of the Joint-Stock Company's bodies and officials with procedural requirements which guarantee implementation of rights and legal interests of the Company's shareholders	Observed	Sistema JSFC has a Corporate Secretary.
2. JSC's Charter or internal regulations should set out a procedure for appointment (election) of the Corporate Secretary (CS) and his/her responsibilities.	Observed	The Board of Directors of Sistema JSFC has approved the Terms of Reference of the Corporate Secretary which sets out the responsibilities of the Corporate Secretary and the procedure of his/her appointment.
3 JSC's Charter should contain the requirements to the Corporate Secretary.	Partially observed	Such requirements are included in the Terms of Reference of the Corporate Secretary of Sistema JSFC.
<b>Material corporate actions</b>		
1. The Joint-Stock Company's Charter or internal regulations should include a requirement to approve major transactions prior to their closure.	Partially observed	Regardless of formal absence of this norm in the Charter of Sistema JSFC, this requirement is always observed in practice.
2. Mandatory engagement of an independent appraiser for assessing the market value of the property which is a subject of JSC's major transaction.	Observed	In the above cases the Board of Directors of Sistema JSFC engages an independent appraiser.
3. Joint-Stock Company's Charter should prohibit any actions during acquisition of large stakes of the Joint-Stock Company's shares (merger) which aim to protect the interests of executive bodies (members of such bodies) and members of the Board of Directors of the Joint-Stock Company and actions which aggravate the shareholders' position (in particular, prohibiting the Board of Directors from passing, before the end of the period allocated for shares acquisition, resolutions on issuing additional shares, securities convertible to shares or securities granting the right to acquire the Company's shares, even if the right to adopt such resolutions is given to the Board of Directors by the Charter).	Not observed	Since Sistema JSFC has a controlling shareholder, such actions seem implausible.

4. Joint-Stock Company's charter or internal regulations should include a requirement regarding mandatory engagement of an independent appraiser to determine the ratio for conversion of shares during reorganization	Not observed	There are no such provisions in the Charter of Sistema JSFC, but in case of reorganization, in accordance with the Terms of Reference of the Board of Directors, the BoD of Sistema JSFC will take the decision on defining the ratio for conversion of shares only if there are substantial grounds for this, for example, the opinion of an independent appraiser.
--	--------------	--

#### Disclosure of Information

1. A JSC should have an internal regulation approved by the Board of Directors that determined JSC's rules and approaches to disclosure of information.	Observed	The Board of Directors of Sistema JSFC approved a Regulation on the Information Policy of the Corporation.
2. JSC's internal documents should contain a list of information, documents and materials which should be provided to shareholders for taking decisions on the agenda items presented to AGM.	Observed	The list of information to be provided is included in the Code of Corporate Conduct, the Regulation on the Information Policy and the Terms of Reference of the Annual General Meeting of Shareholders of Sistema JSFC.
3. Disclosure of financial information on the Joint-Stock Company's operations.	Observed	The RAS financial accounts of Sistema JSFC are disclosed on an annual basis. The US GAAP financial accounts of Sistema JSFC are disclosed on a quarterly basis.
4. The use of additional forms and methods of information disclosure at the JSC.	Observed	Sistema JSFC has formed an IR Department. It regularly holds meetings with investors and organizes road shows. It maintains a corporate website on the Internet ( <a href="http://www.sistema.ru">www.sistema.ru</a> / <a href="http://www.sistema.com">www.sistema.com</a> ) which contains extensive information on the operations of Sistema JSFC.
5. The issuer should disclose information about the remuneration received by members of the Board of Directors, members of the collective executive body and by the person who performs the functions of the sole executive body, including the management company and the manager.	Observed	The information about the remuneration received by members of the Board of Directors, members of the collective executive body and by the person who performs the functions of the sole executive body is disclosed in the Annual Report and the quarterly report of Sistema JSFC.
6. A JSC should have a website on the Internet and regularly disclose the information about the JSC on such website.	Observed	The address of the Sistema JSFC website on the Internet: ( <a href="http://www.sistema.ru">www.sistema.ru</a> / <a href="http://www.sistema.com">www.sistema.com</a> )
7. JSC's internal documents should contain a requirement for disclosure of information on JSC's transactions with the persons who, in accordance with the Charter, are considered to be JSC's top officials as well as on JSC's transactions with companies where JSC's top officials directly or indirectly own 20 or more percent of its authorized capital or on which such persons may otherwise exert substantial influence.	Partially observed	Observed according to the legal requirements to related party transactions.



8	JSC's internal documents should contain a requirement to disclose information about all the transactions that may have an impact on the market value of JSC's shares.	Observed	Observed according to the requirements of the Russian legislation on security markets and the requirements of the UK security market regulator. Disclosure principles are set out in the Regulations on the Information Policy of Sistema JSFC.
9.	A JSC should have an internal regulation approved by the Board of Directors for the use of material information on the Joint-Stock Company's activities, shares and other securities of the Company and transactions with them when such information is not publicly available and when its disclosure may exert substantial influence on the market value of the Joint-Stock Company's shares and other securities.	Observed	The Board of Directors of the Corporation has approved a Regulation on the Information Policy of Sistema JSFC (Minutes No. 04-10 dtd 21 April 2010).

### Control of financial and business activities

1.	A JSC should have internal control procedures approved by the Board of Directors.	Observed	The internal control procedures are recorded in all the internal regulations of Sistema JSFC subject to approval by the Board of Directors and the President of the Corporation.
2.	A JSC should have a special division which ensures compliance with the internal control procedures (control and audit function).	Observed	Sistema JSFC has formed an Internal Control and Audit Department that functionally reports to the Board of Directors of Sistema JSFC.
3.	JSC's internal regulations should contain a requirement for the Board of Directors to determine the structure and composition of its control and audit function.	Partially observed	Head of the Internal Control and Audit Department is approved subject to approval by the Audit, Finance and Risks Committee and the Ethics and Control Committee of the Board of Directors of Sistema.
4.	A JSC's control and audit function should not include persons with criminal record for economic crimes or crimes against the state, interests of the state and local governments or on whom administrative penalties were imposed for offenses in the area of entrepreneurial activity, finances, taxes and duties or equity market.	Observed	The Internal Control and Audit Department does not include such persons.
5.	Control and audit functions should not include persons being shareholders, general directors (managers), members of a governing body or employees of a legal entity which competes with the Joint-Stock Company.	Observed	The Internal Control and Audit Department does not include such persons.
6.	JSC's internal regulations should set out a deadline for submission to the control and audit function of documents and materials for assessing financial and business transactions, as well as a liability of the Joint-Stock Company's officials and employees for their failure to present the same by the deadline.	Observed	The employees of the Internal Control and Audit Department of Sistema JSFC have a right to request and obtain any information about financial and business transactions and to set the deadlines for provision of such information at their own discretion.

7. JSC's internal regulations should determine the responsibility of the control and audit function to inform the Audit committee, and if the latter is not available – the JSC's Board of Directors, about the identified irregularities.	Observed	In line with the Terms of Reference of the Audit, Finance and Risks Committee of the Board of Directors of Sistema JSFC, in order to support development of the internal audit function and to control its performance the Committee reviews the results achieved by the Internal Control and Audit Department on a regular basis. In line with the Terms of Reference of the Ethics and Control Committee of the Board of Directors of Sistema JSFC, the Committee's responsibilities include reviewing the findings of the comprehensive audits of the Corporation conducted by the Internal Control and audit Department, reviewing the remedial action plan, and controlling its execution.
8. A JSC should have requirements to have the control and audit service perform preliminary assessment of the feasibility of transactions that were not included in the JSC's financial and business plans.	Observed	Feasibility assessment of the transactions that were not included in the Corporation's financial and business plans is performed in accordance with the Code of Tender and Procurement Procedures. Procurement commissions should include employees from the Internal Control and Audit Department.
9. A JSC should have an internal regulation that determines the procedure for an auditing commission to audit the JSC's financial and business activities.	Observed	The Board of Directors and the General Meeting of Shareholders of the Corporation have approved the Terms of Reference of the Auditing Commission of Sistema JSFC (Minutes No. 2-04 dtd 01 September 2004).
10. The Audit Committee of the Board of Directors should assess the auditors' opinion prior to its presentation to the shareholders at AGM.	Observed	Pursuant to the Terms of Reference of the Audit, Finance and Risks Committee of the Board of Directors of Sistema JSFC, in cooperation with the auditors of the Corporation, the Audit and Finance Committee analyses and appraises the work of external auditors and considers their comments.

#### Dividends

1. A JSC should have an internal regulation approved by the Board of Directors that the BoD would follow when making recommendations regarding the amount of dividends.	Observed	Sistema JSFC has approved the Policy on the Dividend Policy.
---	----------	--

## 9.8. Information on the Company's compliance with the key requirements of the UK Corporate Governance Code

<i>Provisions of the Code</i>	<i>Observed / not observed</i>	<i>Note</i>
<b>A. GOVERNANCE</b>		
<b>A.1. Governance bodies</b>		
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 indemnification of BoD members.	Observed	According to the Terms of Reference of the 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.
<b>A.2. Division of powers between the Chairman of the Board of Directors and the President</b>		
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	Observed	The Russian legislation and the Charter of Sistema JSFC envisage that a person performing the functions of the sole

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.		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.
--	--	--

### 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.
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	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. 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.

All Board members of Sistema JSFC are provided with a copy of minutes of every Board meeting.

## B. EFFICIENCY

### B.1. Board of Directors membership

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. <sup>1</sup>	Observed	Information on each non-executive director that meets the independence criteria is included in the 2013 Annual Report of Sistema JSFC (p.6.2.). 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.
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 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.
A majority of members of the board nomination committee should be non-executive directors meeting the independence	Observed	Half of the members of the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors of

<sup>1</sup> 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.

criteria.		Sistema JSFC are independent directors (R. Kocharyan (Chairman), J. Krecke, R. Munnings).
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	The Nomination, Remuneration and Corporate Governance Committee of the Board of Directors of Sistema JSFC is independent non-executive director R. Kocharyan.
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	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 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 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>
B.2.4. A separate section of the annual report should describe the powers and scope of authority of the nomination committee, the	Partially observed	The 2013 Annual Report of Sistema JSFC (p.6.2) includes information on the powers and scope of authority of the Nomination,

<p>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>		<p>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) <sup>1</sup> , non-executive (4) <sup>2</sup> and independent (8) <sup>3</sup> 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

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.	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>
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 report.	Observed	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 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	<p>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 (<a href="http://www.sistema.ru">www.sistema.ru</a> / <a href="http://www.sistema.com">www.sistema.com</a>) 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.</p> <p>According to the Russian legislation all Board members are elected for 1 year and</p>

<sup>1</sup> M. Shamolin

<sup>2</sup> V. Evtushenkov, A. Goncharuk, S. Boev, D. Zubov

<sup>3</sup> B. Dickie, R. Kocharyan, J. Krecké, P. Mandelson, R. Munnings, M. Holtzman, S. Tchuruk, D. Iakobachvili

		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	<p>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.</p> <p>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, consent to follow all the requirements of the internal regulations of Sistema JSFC applicable to the Board members.</p> <p>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.</p>
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	<p>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.</p> <p>All candidates for election to the Board of Directors complete candidate questionnaires thus providing the Company with necessary information.</p> <p>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.</p>
B.3.3. Executive directors should not have either the status of non-executive directors or hold the position of Board Chairman in more than one major FTSE 100 companies.	Observed	<p>As of 31 December 2013 the Board of Directors of Sistema JSFC consists of 13 members, 1 of which holds the position of executive director (M. Shamolin)</p> <p>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.</p> <p>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</p>



---

**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	<p>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.</p> <p>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.</p> <p>The induction procedure for new Board members outlined above is not formalised.</p>
B.4.2. The Chairman of the Board of Directors should discuss and agree with Board members their individual training and development needs.	Observed	<p>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.</p>

---

**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	<p>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.</p>
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	<p>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.</p>

---

**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	<p>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</p>
---	----------	--

---

		work of the Board of Directors: membership and structure of the Board, procedures and organisation of the work of the Board, its Committees, and 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 assessment of the Board of Directors' Chairman is carried out during the assessment of the performance of the Board of Directors as a whole.
<b>B.7. Re-election.</b>		
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	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

members.		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,	Observed	The Board of Directors annually reviews
---	----------	---

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.

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.

A report from the Auditing Commission is attached to the materials of every Annual General Meeting of Sistema JSFC.

### 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

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.

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.

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:

- 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 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

Observed in all material aspects

The responsibilities of the Audit, Finance and Risk Committee of the Board of Directors of Sistema 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 Audit, Finance and Risk Committee meets the recommendations of section C.3.2 of the UK Corporate Governance Code.

<p>presenting recommendations on such actions; and - presenting reports on the performance of the respective responsibilities to the Board.</p>		
<p>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.</p>	<p>Observed</p>	<p>The responsibilities of the Audit, Finance and Risk Committee of Sistema JSFC were set out in the Terms of Reference of the Committee.</p>
<p>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.</p>	<p>Observed</p>	<p>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.</p>
<p>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.</p>	<p>Observed</p>	<p>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.</p>
<p>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.</p>	<p>Observed</p>	<p>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.</p>
<p>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-appointing an auditor, includes a rationale for the recommendations given and states reasons behind the decision taken by the Board.</p>	<p>Observed</p>	<p>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.</p>
<p>C.3.8. A separate section of the annual report should be devoted to the performance of</p>	<p>Observed</p>	<p>The 2013 Annual Report of Sistema JSFC includes information on the policy for</p>

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;

preserving the impartiality and independence of the Company's auditor.

## 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 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.).	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.

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.
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.

## D.2. Procedures

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 formed 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).
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 ( <a href="http://www.sistema.ru">www.sistema.ru</a> / <a href="http://www.sistema.com">www.sistema.com</a> ) and may be provided to shareholders upon request. .
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.
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 Committee should develop the required amendments.
The remuneration committee of the Board should also monitor the level and structure of	Observed	One of the key functions of the Nomination, Remuneration and Corporate

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.		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, 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.
<b>E.2. Constructive approach to the AGM</b>		
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**

**M. Shamolin**

**Chief Accountant**

**I. Borisenkova**