SISTEMA'S POSITION REGARDING SPECIFIC POINTS OF THE CLAIM

Rosneft and Bashneft (plaintiffs) filed a lawsuit against Sistema PJSFC and its subsidiary JSC Sistema Invest (defendants) with the Arbitration Court of the Republic of Bashkortostan.

The subject of the lawsuit is the recovery of losses in the amount of RUB 106.6bn from the defendants in favour of Bashneft. The claims in the lawsuit are based on the assumption that the defendants carried out reorganisation of Bashneft in 2013 – 2014 as a result of which:

No.	***The plaintiffs' arguments***	***Sistema's objections***	***Comments***
1	Bashneft has lost indirect ownership of the shares in OJSC Bashkirenergo and OJSC Ufaorgsintez (Lawsuit claim for RUB 57.2bn)	Bashneft, even indirectly, was not the majority shareholder of Bashkirenergo and Ufaorgsintez, i.e. it did not control these assets and could not manage them. Demerger of non-core assets is a normal and widespread practice for the purposes of preparing a company for the placement of shares on stock exchanges. Demerger of non-core assets did not cause damage to Bashneft but, in fact, significantly increased the value of Bashneft, which is confirmed by the growth of the company's stock price after the completion of the reorganisation. In addition, the plaintiffs completely ignored the fact that the stake in OJSC Ufaorgsintez was transferred by Sistema Group to Bashneft back in 2016 at the cost commensurate with its valuation for the purposes of demerger during the reorganisation. **Total justified and substantiated claims: RUB 0**	The purpose of reorganisation is to optimise the business activity of a legal entity and increase its income: • *Ruling of the Presidium of the Supreme Arbitration Court of the Russian Federation No. 16246/12 dated 28 May 2013 in the case No. A56-65460/2011: http://arbitr.ru/bras.net/f.aspx?id_casedoc=1_1_bad2255b-162e-4319-83f2-55cdf885cd57;* • *Ruling of the Ninth Arbitration Court of Appeal No. 09АП-7157/2007-АК dated 26 October 2007 in the case No. A40-28715/06-142-211: http://kad.arbitr.ru/PdfDocument/912c64b0-1194-4a99-994c-62c8741f97e7/A40-28715-2006_20071026_Postanovlenie%20apelljacionnoj%20instancii.pdf;* • *Ruling of the Fourth Arbitration Court of Appeal No. 04АП-3435/2015 dated 22 July 2015 in the case No. A19-1344/2015: http://kad.arbitr.ru/PdfDocument/cba58ec9-59d2-424d-8d80-778c9d433d22/A19-1344-2015_20150722_Reshenija%20i%20postanovlenija.pdf;* Reorganisation of a company for the purpose of a demerger of non-core assets is economically viable • *Ruling of the Fourteenth Arbitration Court of Appeal dated 09 September 2008 in the case No. A05-56/2008: http://kad.arbitr.ru/PdfDocument/182a2532-0f3b-4cee-*

			b496-22dbb5a1f81e/A05-56-2008_20080609_Postanovlenie%20apelljacionnoj%20instancii.pdf). In accordance with the legal opinion of the Constitutional Court of the Russian Federation, judicial control is intended to protect the rights and freedoms of shareholders, but not to audit the economic viability of decisions taken by the Board of Directors and the General Meeting of Shareholders: • *Ruling of the Constitutional Court of the Russian Federation No. 3 dated 24 February 2004: http://doc.ksrf.ru/decision/KSRFDecision30298.pdf;* • *Order of the Constitutional Court of the Russian Federation No. 1-O dated 17 January 2017: http://doc.ksrf.ru/decision/KSRFDecision260091.pdf);* From the economic point of view, the parent company and its subsidiary are a single business entity. Various forms of redistribution of property (resources) between the parent company and its subsidiary are available for the purposes of optimisation of their activities, which is recognized as legitimate. The interests of minority shareholders who disagree with certain transactions are protected by special provisions of the laws on joint-stock companies, e.g., rights to claim redemption of their shares: • *(Ruling of the Presidium of the Supreme Arbitration Court of the Russian Federation No. 8989/12 dated 04 December 2012: http://www.arbitr.ru/bras.net/f.aspx?id_casedoc=1_1_841be62d-5f57-4263-9d1e-d7e00edd79cc);* In addition, the Federal Agency for State Property Management has published *Guidelines for identification and disposal of non-core assets* (https://rosim.ru/Attachment.aspx?Id=58637), according to which joint-stock companies with state participation also carry out reorganisation in the form of demerger of non-core assets with a view to optimise

			activities and increase capitalisation of companies. Demerger of non-core assets during reorganisation is economically viable.
2	Financial resources were withdrawn from Bashneft through the liquidation of loans issued by Bashneft to Sistema Invest (Lawsuit claim for RUB 36.9bn)	In accordance with the separation balance sheet, all the assets and liabilities of the reorganised companies, including Sistema Invest's liabilities to Bashneft and Sistema, were proportionally divided between Bashneft and Sistema in full compliance and strict correspondence with their stakes in reorganised companies. It should be noted that the total amount of liabilities of the reorganised company to the shareholders was RUB 153.9bn as of the date of the reorganisation completion, which amount was divided among the shareholders in proportion to the assets being divided: RUB 73.3bn to Sistema Group and RUB 80.6bn to Bashneft. Thus, the amount of the loan referred to by the plaintiff is only a part of the liabilities of the reorganised company to its shareholders distributed among all the shareholders. **Total justified and substantiated claims: RUB 0**	The data in separation balance sheets were fully confirmed by independent appraisers, the tax service of the Russian Federation and an international auditor.

3	Bashneft received its own shares in consideration for the transferred assets	Bashneft received its own shares in accordance with the separation balance sheet at the fair market value of such shares in full accordance with the weight of all assets due to be allocated to Bashneft. Buyback by an issuer of its own shares is a widespread global corporate practice (examples in Russia are: Novatek, Norilsk Nickel, Uralkali, etc.).	A joint-stock company has a legitimate right to buyback its own shares, as it clearly follows from the article 72 of the Law on Joint-Stock Companies. The claims for recovering losses related to the share buyback of the company are also unsubstantiated: • *Ruling of the Arbitration Court of East-Siberian District No. Ф02-4934/2015 dated 01 October 2015 in the case No. A33-22500/2014: http://kad.arbitr.ru/PdfDocument/ce1b78cf-08ad-43f5-a399-53b92d1658d0/A33-22500-2014_20151001_Postanovlenie%20kassacionnoj%20instancii.pdf.*
4	Bashneft purchased a portion of its own shares from minority shareholders (Lawsuit claim for RUB 12.5bn)	The shares were purchased by Bashneft from minority shareholders in strict compliance with the Law "On Joint-Stock Companies"; it was the Company's obligation to conduct such a buyback. The legality of the buyout of shares from minority shareholders of Bashneft has been confirmed, without limitation, by the legally effective ruling of the Arbitration Court of the Republic of Bashkortostan dated 07 November 2014 in the case No. A07-12929/2014. **Total justified and substantiated claims: RUB 0**	As a result of the share buyback the company obtains a certain number of economic and other benefits • *The procedure of a new share issue provides more flexibility to the company, in particular, the term for issuing new shares may last for up to 3 years (cl. 5 of article 24 of the Federal Law "On the Securities Market"), while the term for reselling the shares that were purchased back by the issuer is 1 year (cl. 3 of article 72 of the Federal Law "On Joint-Stock Companies").* • *Moreover, a new share issue provides better protection for the rights of shareholders that have a pre-emptive right for purchasing new* shares (cl. 1 of article 40 of the Federal Law "On Joint-Stock Companies"). In the event of Bashneft selling the shares purchased during a buyback no shareholders have a preemptive right in accordance with cl. 3 of article 72 of the Federal Law "On Joint-Stock Companies". • *Ruling of the Ninth Arbitration Court of Appeal No. 09АП-4785/2015 dated 17 March 2015 in the case No. A40-135423/14: http://kad.arbitr.ru/PdfDocument/314cbdd3-c47f-4352-9ccf-25493cc78913/A40-135423-2014_20150317_Postanovlenie%20apelljacionnoj%20instancii.p*

			df);
5	The received treasury shares of Bashneft were cancelled (instead of being sold to third parties in the market, for example)	5.1. The cancellation of treasury shares does not contradict the interests of the issuer which: - decreases dividend payments on the cancelled shares; - retains the right to re-issue shares, which allows it to raise funds with a premium for the growth of the share price. Bashneft's right to issue additional shares is stipulated in cl. 12.6 of the company's Charter. On 3 July 2014, Bashneft exercised its right to issue additional shares (http://www.bashneft.ru/files/iblock/9c2/decision.pdf) after the Board of Directors of the company took the decision to increase its authorised capital by issuing 37,000,000 ordinary registered shares (which is comparable to the number of shares cancelled during reorganisation). Growth in the price of Bashneft shares on the stock exchange from the beginning of May 2014 (RUB 2,170/1 ordinary share) till 03 July 2014 (RUB 2,600 /1 ordinary share) gave the company an opportunity to receive additional profit of more than 17%. Due to the right decisions taken by the company with respect to cancelling the shares and then issuing new shares, in two months' time Bashneft would have received more than RUB 16bn in net income exclusively from the growth of share price. 5.2. Cancellation of own treasury shares by the company is a standard action provided for by the Federal Law	Cancellation of treasury shares does not violate the rights of shareholders, moreover, it leads to an increase of the stake in the share capital of an issuer owned by each shareholder: • *Ruling of FAS of the Central District No. Ф10-3512/08 dated 05 August 2008 in the case No. А23-3944/07г-6-283: http://kad.arbitr.ru/PdfDocument/c5d25a17-bc7b-48ba-8c26-4032044de52a/A23-3944-2007_20080805_Reshenija%20i%20postanovlenija.pdf,* • *Ruling of the Twentieth Arbitration Court of Appeal dated 25 April 2008 in the case No. А23-3944/07Г-6-283: http://kad.arbitr.ru/PdfDocument/b2e7b51a-d163-4133-9620-90e22f54de95/A23-3944-2007_20080425_Postanovlenie%20apelljacionnoj%20instancii.pdf)* In accordance with IFRS guidelines, no income or loss made as a result of buying, selling, issuing or cancelling own shares by a company may be recognised as income or loss in the company's accounts (http://minfin.ru/common/upload/library/2016/02/main/RU_BlueBook_GVT_2015_IAS_32.pdf). There is also other legal practice which testifies to the lawfulness of the procedure of cancelling own shares: • sub-*clauses 7, 11 and 21 of the Ruling of the Plenary Assembly of the Russian Supreme Arbitration Court No. 19 dated 18 November 2003 (amendment dated 16 May 2014) "On some matters of application of the Federal Law "On Joint-Stock Companies": http://www.consultant.ru/document/cons_doc_LAW_45494/5bc9abc2a193c5de0e1adfe71cf0dd970c0eaeff/* • *Order of the Constitutional Court of the Russian Federation dated 17 July 2014 No. 1688-O:*

		"On Joint-Stock Companies", which is widely used in Russian and international corporate practices. By making a claim about the losses allegedly incurred by the company as a result of cancellation of its own shares Rosneft thus calls into question the lawfulness of the decision of the Government of the Russian Federation made in March 2015, whereby 2,724,173 ordinary shares of Bashneft were cancelled. An explanatory note on this decision of the Government confirmed that there were no negative consequences for Bashneft as a result of such cancellation of Bashneft own shares (http://bashneft.ru/files/iblock/e96/Obosnovanie_uslovij_i_porjadka_umenshenija_UK.pdf).	*http://doc.ksrf.ru/decision/KSRFDecision172416.pdf* • *Ruling of FAS of the Volga District dated 11 February 2011 in the case No. A72-2347/2010: http://kad.arbitr.ru/PdfDocument/4fa3f836-a4b2-4c81-8a3e-1e4817aa20f1/A72-2347-2010_20110211_Postanovlenie%20kassacionnoj%20instancii.pdf*

The plaintiffs also committed numerous violations of procedural laws

6.	Rosneft and Bashneft act as co-plaintiffs, seeking recovery of damages in favour of Bashneft	None of the co-plaintiffs has the right to file the lawsuit. Rosneft is not a permitted plaintiff, because it holds the same stake of shares that belonged to the Defendants - Sistema PJSFC and Sistema Invest - which voted for the resolutions on reorganisation. This means that Rosneft is the legal successor of the Defendants and, consequently, may not file a claim against the Defendants (itself) on recovery of damages caused by corporate resolutions passed by its legal predecessors. Rosneft may defend the rights it considers violated by filing lawsuits against the seller of the stake. The claims against Sistema and Sistema Invest under Clause 3 of Article 6 of the law "On Joint-Stock	

		Companies" were filed by both Bashneft and Rosneft (the statement of claim is signed by representatives of both companies). However, neither the law "On Joint-Stock Companies", nor the prior provision of Article 105 of the Civil Code of Russia nor Article 67.3 Clause 3 of the Civil Code that replaced it provides for a subsidiary filing a lawsuit to recover damages from its parent company (*"Shareholders of a subsidiary are entitled to seek from its parent company (partnership) recovery of damages caused to the subsidiary by the parent company"*). Use of an improper (not prescribed by law) remedy is a standalone ground for rejection of a claim.	This argument is explicitly supported in two rulings of the Moscow district's courts: • *Ruling of the Moscow district's Federal Arbitration Court No. КГ-А40/2523-07 dated 12 April 2007 in the case No. А40-53572/06-138-390;* • *Ruling of the Ninth Arbitration Court of Appeal No. 09АП-5769/2007-ГК dated 07 June 2007 in the case No. А40-62921/06-137-524.* This actually means that (i) a subsidiary does not have an autonomous right to claim under Clause 3 of Article 6 of the law "On Joint-Stock Companies" (because filing of an unsustainable lawsuit will scienter not result in restoration of a right), (ii) this is an inappropriate remedy for Bashneft (Article 12 of the Russian Civil Code).
7.	Limitation period	The plaintiffs missed the three-year limitation period stipulated by the Article 196 Clause 1 of the Russian Civil Code, which is a standalone ground for dismissal of a claim. The terms and conditions of the contested reorganisation	In accordance with Clause 10 of Ruling No. 62 of the Plenary Assembly of the Russian Supreme Arbitration Court dated 30 July 2013, the limitation period for claims for recovery of damages filed by a shareholder in a legal entity starts from the day when the legal predecessor of such shareholder became aware or should have become aware of the violation.

		were posted on a public information disclosure server in December 2013, were approved by the board of directors of Bashneft on 17 December 2013 and by the extraordinary general meeting of shareholders of Bashneft on 03 February 2014. Corresponding corporate resolutions of Bashneft were also published. Besides, as regards Article 201 of the Russian Civil Code, the limitation period for claims of a shareholder in a legal entity starts from the day when the legal predecessor of such shareholder became aware or should have become aware of the violation. In this case, the Defendants – Sistema and Sistema Invest – are such legal predecessors, and they voted for the resolutions on reorganisation and were aware of its terms and conditions.	This clarification refers to claims filed under cl. 3 of Article 53 of the Russian Civil Code (in the version that was in place before amendments were introduced by Federal Law No.99-FZ dated 05 May 2014), but can by analogy apply to lawsuits filed under Article 6 of the Law.
8.	The plaintiffs seek to recover damages both from Sistema and Sistema Invest	Substantiating their joint claim to Sistema and Sistema Invest, Rosneft (as a shareholder) and Bashneft (as a joint-stock company) cite provisions of Clause 3 of Article 6 of the law "On Joint-Stock Companies". In accordance with aforesaid provisions, shareholders of a subsidiary may claim from the parent company recovery of damages caused to the subsidiary by the parent company. Sistema Invest has never been the parent company of Bashneft.	• *Order of the Russian Supreme Court No. 303-ЭС14-7854 dated 20 May 2015 in the case No. A51-15241/2013: http://kad.arbitr.ru/PdfDocument/90f77330-e483-4cff-86cf-cdf41f08b94d/A51-15241-2013_20150520_Opredelenie.pdf* • *Ruling No. 19 of the Plenary Assembly of the Russian Supreme Arbitration Court dated 18 November 2003 (as amended on 16 May 2014) "On certain matters of application of the Federal Law 'On Joint-Stock Companies'":* http://www.consultant.ru/document/cons_doc_LAW_45494/5bc9abc2a193c5de0e1adfe71cf0dd970c0eaeff/