



2015

Annual report

Contents

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

>20
years

Years of track record



>13
sectors

Sectors of investments and expertise

RUB 709 bln

Revenue for 2015

RUB 176 bln

Adjusted OIBDA for 2015

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Sistema today

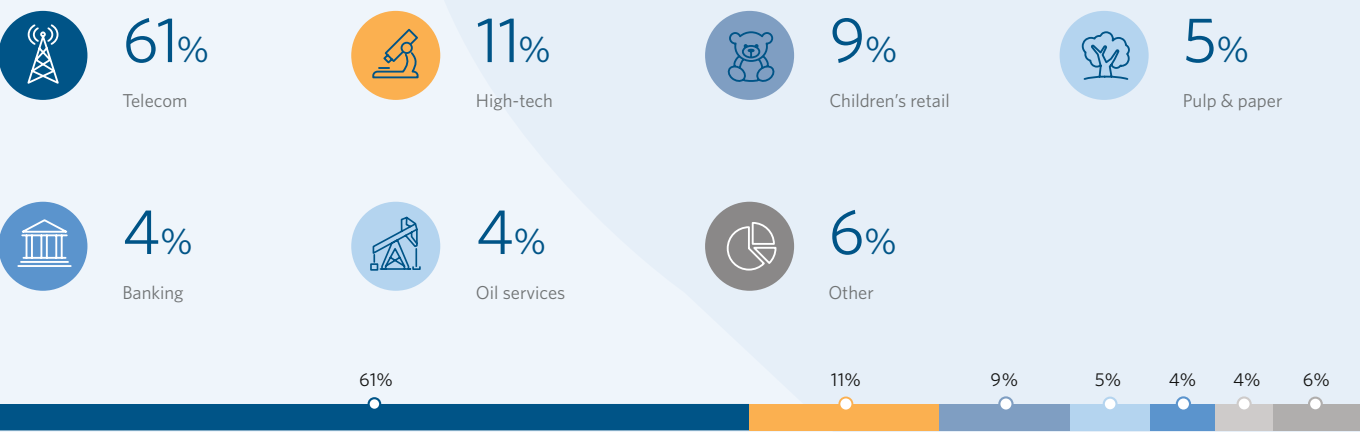
Sistema JSFC is Russia’s largest public financial corporation. Incorporated in 1993, Sistema JSFC is today one of Russia’s 10 biggest companies by revenue and one of the world’s largest publicly traded investment companies. Sistema’s investment portfolio is dominated by companies operating in various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



STRATEGY

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

SISTEMA’S PORTFOLIO⁽¹⁾



Sistema is a reliable partner for states and foreign businesses.

Partner: Allianz

Investment: ROSNO

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

Partner: Thomas Cook

Investment: Intourist

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

⁽¹⁾ Based on Sistema’s consolidated revenues.



COMPETENCE

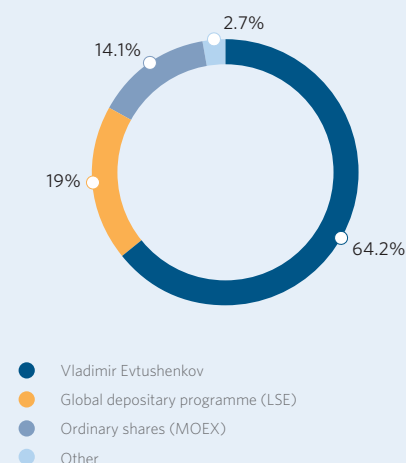
Sistema's approach focuses on improving the operating efficiency of its assets through restructuring and cooperation with industrial partners to enhance expertise and mitigate financial risks.



SHARES

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

Share capital structure



KEY FIGURES 2015

>13
sectors of operation



Industry presence

>160
patented solutions



Patented innovations

>100 mln
consumers



Consumers of the Group's companies production

150,000
employees



Responsible employer

>20 years



In the high-tech market

RUB 709 bln



Revenue

Partner: Deutsche Telekom

Investment: MTS

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

Partner: Russian government

Investment: SSTL

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

Partner: Louis Dreyfus

Investment: RZ Agro

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

CEO's statement



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

Mikhail Shamolin
Sistema's President

Dear shareholders,

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

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

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

Detsky Mir strengthened its leadership position as Russia's top children's goods retailer as it continued to pursue an aggressive growth strategy. In 2015 Detsky Mir Group opened 104 new stores, bringing its retail chain to 425 stores. At the end of 2015 Sistema sold a 23.1% stake in Detsky Mir to the Russia-China Investment Fund. This transaction is a good example of successful monetisation of our investments and a testament to the effective development of this asset.

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

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

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

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

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

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

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

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

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

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

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



41%
Non-listed
subsidiaries share
in consolidated
revenue in 4Q 2015.

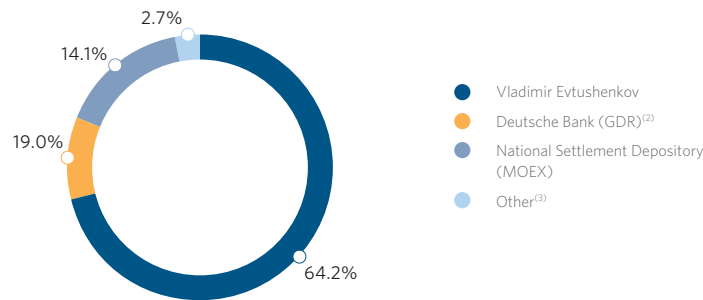


MTS and other major Sistema companies confirmed their status as leaders in their respective industries.

Shareholder capital

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

Sistema's shareholding structure⁽¹⁾



+54.8%
share price

Sistema's ordinary shares growth in 2015 r.



+13.2%
GDR's price

Sistema's GDR growth in 2015 r.



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

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

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

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

The Chairman of Sistema's Board of Directors, Vladimir Evtushenkov, is the principal shareholder of the company, and owns 64.2% of the equity.

⁽¹⁾ As of 31 December 2015.
⁽²⁾ 1.4% of Sistema's authorised capital is represented by GDRs owned by Sistema Group companies.
⁽³⁾ 0.3% of Sistema's authorised capital is represented by ordinary shares owned by Sistema Group companies.

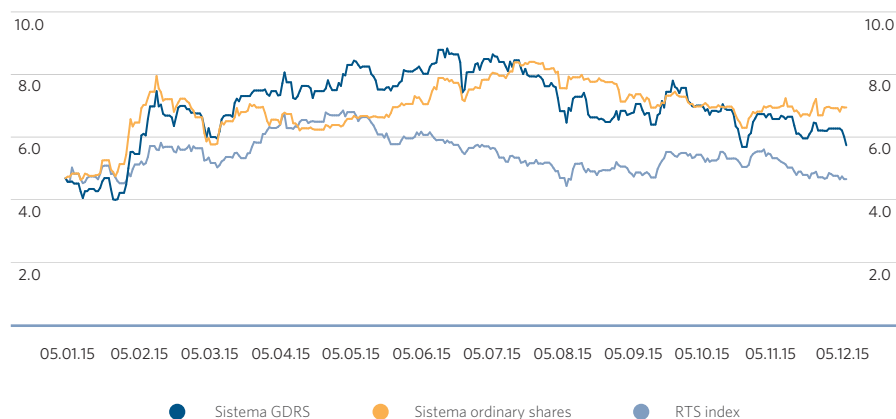
SISTEMA'S SHARE PRICES PERFORMANCE⁽¹⁾

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

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

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

The dynamics of Sistema's GDRs and ordinary shares ⁽¹⁾



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

Mission and strategy



Mission

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



KEY LONG-TERM GOALS

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



MEDIUM-TERM GOALS OF SISTEMA AS AN INVESTMENT COMPANY

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



SISTEMA’S OBJECTIVES FOR 2016

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



Value creation model

The model selected by Sistema as an investment company envisages portfolio monetisation by accumulation of cash from incoming dividends and sale of assets at their peak value, and further:

- distribution of profit among Sistema's shareholders through dividends;
- investment in the development of existing assets to increase their value;
- investment in new, promising investment projects which are capable of providing high return on capital.

Basic principles of the investment strategy:

Generation of returns on investments above the cost of capital ($IRR > WACC$) with a five-to-seven-year payback period.

Focus on investments that can yield positive net cash flow to Sistema over the medium term

Acquire assets with an acceptable debt level ($Debt/OIBDA < 3.0x$) to maintain the Group's stable financial position

Pay considerable amounts of dividends to shareholders in compliance with the dividend policy

Investment criteria set forth by Sistema's portfolio strategy:

- **Sectors and industries:** The Group mostly buys assets in sectors that are complementary to the ones in which it already operates and that allow available competences to be used and synergies with the existing portfolio to be unlocked. It also invests in new economically attractive industries, including export-oriented ones, where it has expertise or industrial partners.
- **Geography:** The Group sees Russia and other CIS countries as top-priority investment locations, and also remains open to opportunities to further expand its business geography for the sake of diversification of its currency and country risks.
- **Asset size:** Sistema focuses on large and mid-size assets with the potential to become market leaders through synergies, industry consolidation, and efficient investment and operational strategies.

Asset-management principles:

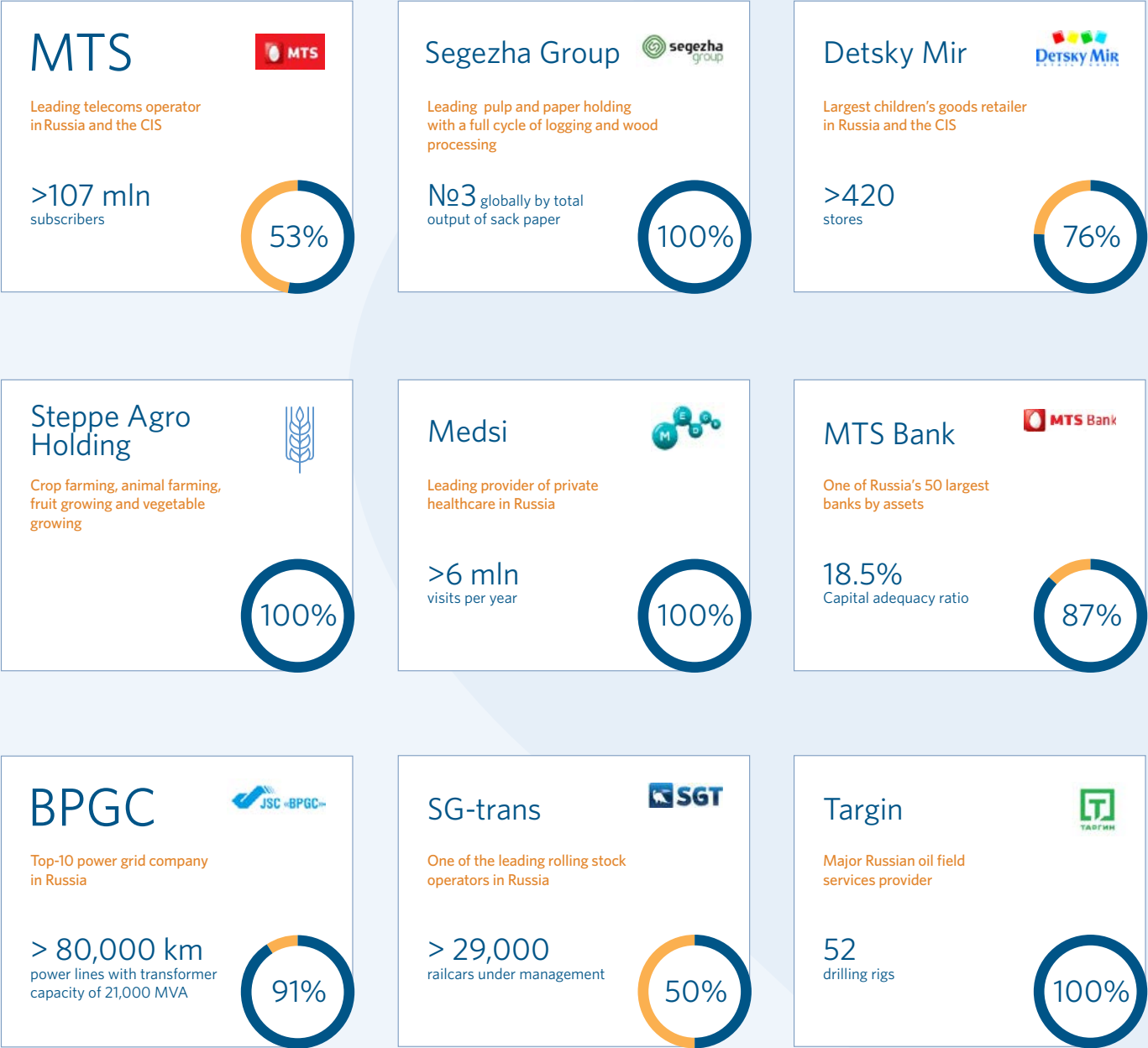
Sistema improves assets' operational efficiency through restructuring, implementing corporate governance best practices and working with industrial partners to enhance expertise and mitigate financial risks;

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

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

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

Investment portfolio



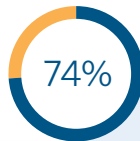
Binnopharm



Pharmaceutical company operating one of Russia's largest full-cycle facilities manufacturing biotechnological drugs

6 mln

supplied doses of Hepatitis B vaccines annually



Real estate assets



Sistema's strategy in real estate is focused on increasing the value of its portfolio and subsequent monetisation through rentals, development and sale



RZ Agro



Major producer of grain and oil crops in southern Russia

>100,000 ha



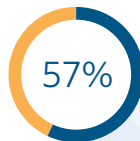
SSTL



High-speed data transmission services

>800

towns of India

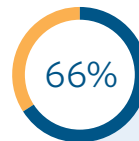


Intourist



Russia's largest tourist holding, successfully operating in the hotel business for many years

2,501 rooms
under management



RTI



One of Russia's largest industrial groups, a developer and producer of high-tech products and infrastructure solutions

5.8 mln

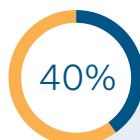
industrial microchips annually



Concept Group



Fast-growing retailer and a leader in the Russian market for women's and children's clothing



Kronshtadt Group



Leading designer and manufacturer of high-tech products



OZON Group



Russia's leading e-commerce platform with a strong brand and own logistics service



Growth prospects and strategic development

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



Key highlights of 2015

Developments after the transfer of Bashneft shares to the government



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

In March 2015, Sistema JSFC and LLC Ural-Invest signed a settlement agreement under which Ural-Invest would transfer to Sistema

RUB 46.5 bln in cash assets, constituting all of Ural-Invest's property at that moment.

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

Investments and M&A transactions



Development of Segezha Group

In February 2016, LLC LesInvest, a Segezha Group company, acquired a controlling equity interest in OJSC Lesosibirsk Woodworking Plant No.1, one of Russia's largest producers of sawn timber, fibreboards, planed timber, and furniture

from Angara pine, based in the Krasnodar region. LWVP No.1 processes more than a mln cbm of round timber annually and has access to an allowable cut of 2.9 mln cbm a year.



Monetisation of a stake in Detsky Mir

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

23.1%
of equity shares



Was sold to the Russian-China investment fund



Increase of ownership in Medsi Group to 100%

In October 2015, Sistema acquired 25.02% of shares in CJSC Medsi Group from State Unitary Enterprise Medical Center of the Moscow Mayor and Government Administration («GUP») for RUB 6,116 bln, with half to be paid on a one-year instalment

plan. The increased ownership in Medsi Group will give Sistema more flexibility in expanding the chain of private clinics, building new facilities, and making the company more manageable.



Sale of NVision Group

In July 2015, Sistema's subsidiaries - LLC Sistema Telecom Assets and OJSC RTI - sold 100% of JSC NVision Group's equity to telecoms operator PJSC MTS.

The transaction value including NVision Group's debt was around RUB 15 bln.



Merger of telecom assets in India

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

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

Once the deal is closed, RCom will assume obligations towards the Indian Department of Telecommunications (DoT) to pay

spectrum fees due from SSTL. If the DoT confirms that SSTL's spectrum may be used for the roll-out of 4G networks at no extra charge, SSTL will be entitled to an additional earn-out payment of US\$ 300 mln.

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

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



Acquisition of Kronshtadt Group

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

The Group has a number of key technological competences and unique intellectual potential in mathematical

modelling and engineering of complex informational systems as well as engineering and production of commercial unmanned aerial vehicles (UAVs), modern comprehensive training simulators, visualisation systems, and on-board & land-based electronic navigation equipment. Because Kronshtadt Group's competences are highly complementary to RTI (another Sistema subsidiary), the companies will work in synergy to strengthen their market position and create a platform for future growth.



Investments in real estate

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

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

Corporate events



Loan facility agreement

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

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



Issue registration-exempt series 001P-03 bonds

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

The first coupon rate is 12.70% p.a., and all further coupon rates will be calculated as the Bank of Russia's key interest rate plus 170 bps.



Issue registration-exempt series 001P-02

In November 2015, Sistema issued RUB 1.7 bln worth of registration-exempt series 001P-02 bonds. The bonds mature in 10 years, but bondholders are provided

with put options exercisable four years after the float. The coupon rate on the bonds is 10.90% p.a.



Issue registration-exempt series 001P-01

In October 2015, Sistema issued RUB 5 bln worth of registration-exempt series 001P-01 bonds. The bonds mature in 10 years, but

bondholders are provided with put options exercisable three years after the float. The coupon rate on the bonds is 12.50% p.a.



Issue registration-exempt series BO-01

In February 2015, Sistema issued RUB 10 bln worth of certificated interest-bearing non-convertible registration-exempt series BO-01 bonds with a principal value of RUB 1,000 apiece. Despite the challenging

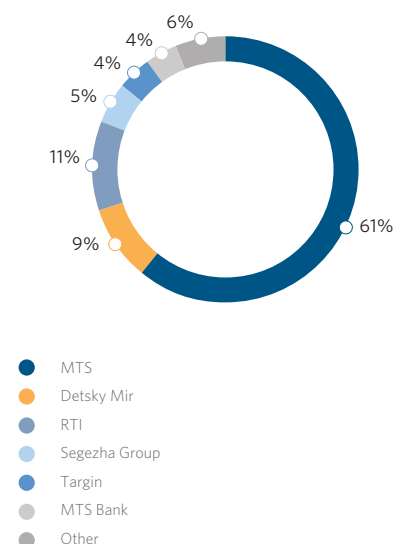
market environment, the bonds were in high demand, with the book built at a coupon rate of 17% p.a., payable semi-annually. The bonds mature in 15 years but are puttable at 18 months after the issue date.

Financial performance in 2015

Sistema's consolidated financial results in accordance with IFRS

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

Revenue breakdown by assets

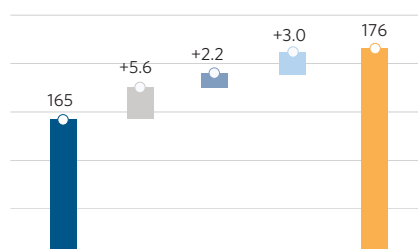


In 2015, the Group's revenues increased by 9.7% due to consolidation of Segezha Group since the fourth quarter of 2014, robust growth in MTS data traffic revenues and handset sales and continued expansion of Detsky Mir in the Russian market. The share of Sistema's non-public assets in the consolidated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

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

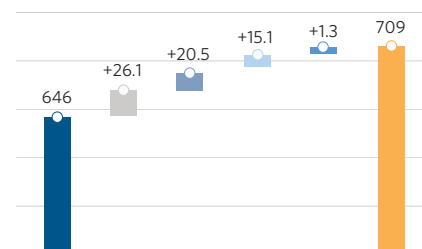
In 2015, selling, general and administrative expenses (SG&A) grew by 7.7% year-on-year, which is lower than the rate of inflation in Russia over the same period, despite consolidation of Segezha Group and other new assets in 2015. Depreciation and amortisation expenses increased by 8.6% year-on-year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

Adjusted OIBDA analysis, RUB bln



- OIBDA 2014
- Consolidation of Segezha Group Growth
- RTI OIBDA growth
- Detsky Mir OIBDA growth and other
- OIBDA 2015

Consolidated revenue analysis, RUB bln



- Revenue 2014
- Consolidation of Segezha Group
- MTS revenue Growth
- Detsky Mir revenue growth
- Other
- Revenue in 2015

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

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

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

The core business of Sistema's JSFC is management of interests in commercial organisations. Sistema's revenue in 2015 is down 52%, or RUB 28,710,195,000. The revenue drop results from the Group's interest in Bashneft being seized and made the property of the Russian Federation by court order dd 07 December 2014.

Financial performance according to Russian Accounting Standards (RAS)

(RUB th.)	2015	2014
Revenue	30,843,245	59,553,440
Sales profit	20,632,717	50,824,355
Net income (loss) in the reporting period	34,461,228	(307,202,105)

Revenue structure

(RUB th.)	2015	2014
Equity holdings in other companies	30,794,973	59,425,402
Other operating income (property rent, agency services and sureties)	48,272	128,038
TOTAL	30,843,245	59,553,440

Structure of other incomes and expenses

(RUB th.)	2015	2014
Interest receivable	8,908,439	3,349,784
Interest payable	(9,073,920)	(5,829,656)
Other incomes	97,047,630	21,922,856
Other expenses	(71,367,743)	(387,064,514)
TOTAL	25,514,406	(367,621,530)

Operational performance

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

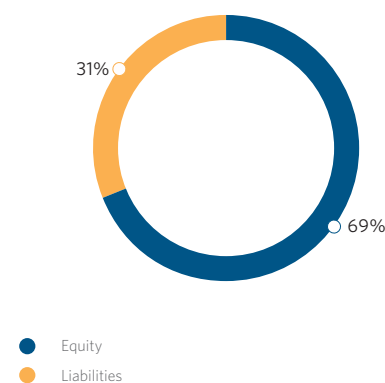
Financial stability

	2015	2014
Net working capital, RUB th.	59,739,476	31,944,852
Current ratio	2.50	2.64
Quick ratio	2.50	2.63

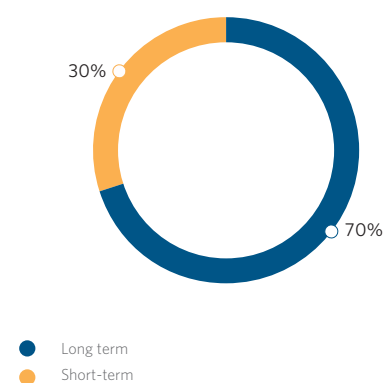
Sistema's liquidity and solvency parameters are seen as satisfactory. Equity is sufficient for meeting short-term liabilities and covering operating costs.

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

Equity capital and liabilities



Structure of liabilities



Credit ratings



Standard & Poor's
Rating agency

Date of most recent rating update
18 December 2015

Long-term credit rating
BB

Forecast
Stable




Moody's
Rating agency

Date of most recent rating update
22 January 2016

Long-term credit rating
Ba3

Forecast
Stable



Fitch
Rating agency

Date of most recent rating update
18 March 2015

Long-term credit rating
BB-

Forecast
Stable

Dividends

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

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

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

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

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

Amount of dividends accrued and paid from 2011 to 2015

	2011	2012	2013	2014	2015
Total amount of dividends, RUB m	2,509.0	2,702.0	9,264.0	19,879.0	4,535.5
Amount of dividends per share, RUB	0.26	0.28	0.96	2.06	0.47
Declaration date	25.06.2011	30.06.2012	29.06.2013	28.06.2014	27.06.2015
Payment date	23.08.2011	24.08.2012	26.08.2013	31.07.2014	29.07.2015

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

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

Sistema seeks to distribute dividends twice per year. Sistema's calculation of the average dividend yield on its ordinary shares is based on the weighted average price of one ordinary share of the Company traded on Moscow Exchange in the respective reporting period: full year or six months.

MTS

Mobile TeleSystems (MTS) is a leading telecoms operator in Russia and the CIS. Together with its subsidiaries, MTS services approximately 107 mln mobile subscribers in Russia, Armenia, Ukraine, Turkmenistan, Uzbekistan and Belarus. MTS and its subsidiaries also provides fixed telephony and cable TV services in Moscow (MGTS), all federal districts of Russia and in Ukraine. In 2015, MTS entered the market of systems integration and satellite TV.



53%

Effective shareholding



Management:

Andrey Dubovskov
(President)

Ron Sommer
(Chairman of the Board of Directors)

Financial results of MTS

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



⁽¹⁾ Including share in net losses of MTS Bank.

INDUSTRY⁽¹⁾

Despite the unfavourable macroeconomic environment, the combined profits of the telecoms market rose by 2.1% year-on-year in 2015 driven by growth of mobile data, pay TV and fixed broadband services.

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

The penetration of OTT services in Moscow reached 15% in 2015 and continues to grow. The launch of own-brand messaging applications⁽²⁾ by telecoms operators (IP telephony, message and file sharing) and associated regulatory changes to be introduced by the Ministry of Communications in 2016 may help boost operator's incomes and enhance customer loyalty.

Mobile data consumption remained the key driver of revenue and increased by 20% in 2015 due to greater penetration of smartphones and tablets, including 4G-enabled devices (the number of LTE users increased from 6.5 mln in 2014 to 11 mln⁽³⁾), promotion of bundled tariffs, and development of data networks and distribution channels.

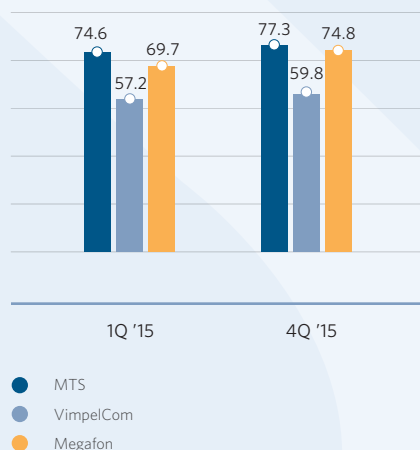
Changes introduced to communications regulations at the end of 2015 will facilitate the further development of LTE technology. The changes enabled operators to unite LTE frequencies in the 900MHz, 1800 MHz and 2.2GHz spectrum bands, which will increase Internet access speeds and reduce costs. Voice-over-LTE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

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

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

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

Mobile subscriber base of MTS in Russia, mln



431

RUB bln



Revenues in 2015

>20

years



In the telecommunications market

77,3

mln

MTS subscriber base in Russia

2015	77.3
2014	74.6

⁽¹⁾ Source: Company data, as well as TMT-Consulting, Comnews.

⁽²⁾ MTC In December 2015 MTS launched MTS Connect Messenger, which deploys the Rich Communication Suite (RCS) standard. Megafon has been developing its Multifon project since 2010. Vimpelcom in partnership with WhatsApp offers free-of-charge messenger traffic to subscribers of its bundled tariffs (October 2015).

⁽³⁾ Forecast by TMT consulting.

⁽⁴⁾ VoLTE (voice-over-LTE) and Wi-Fi calling technologies. Before the introduction of the new regulations LTE networks were used only for data transfer, while GSM and 3G networks were used for voice services.

⁽⁵⁾ Preliminary data of Euroset, Svyaznoy and MTS. News dd 13, 14 January 2016.

MTS

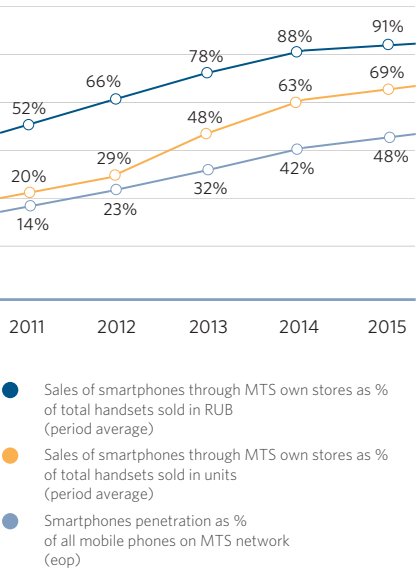
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SUSTAINABLE GROWTH OF MTS AND KEY EVENTS IN 2015

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

In Q4 2015 MTS Russia’s revenue from sales of smartphones and other devices rose by 50% year-on-year due to a flexible pricing policy and marketing activities⁽¹⁾, cooperation with leading equipment manufacturers and the development of MTS’s own retail chain. In 2015, MTS’s retail chain expanded by 22% and reached 5,136 retail outlets.

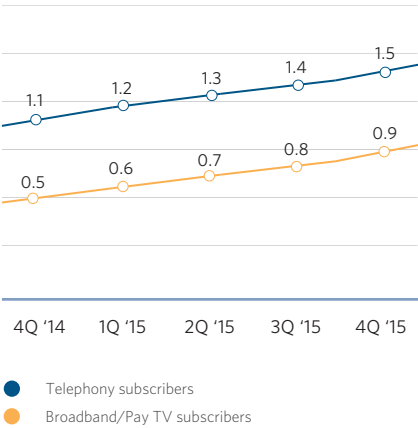
Smartphones Sales and Penetration, 2011 – 2015



In response to competitors’ activities, in the middle of 2015 MTS revised its retail development strategy and increased the number of new retail outlets to be opened in order to boost revenues from this segment⁽²⁾. By the end of 2015, MTS’s retail chain had become the biggest in Russia’s mobile retail segment. In April, retail prices of mobile phones, smartphones and tablets were reduced by an average of 30% with the aim of stimulating Internet traffic consumption and boosting the company’s revenue. MTS’s website entered the 20 most-visited websites in Russia. Internet sales doubled year-on-year.⁽³⁾

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

GPON Subscribers of MTS, (mln)



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

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

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

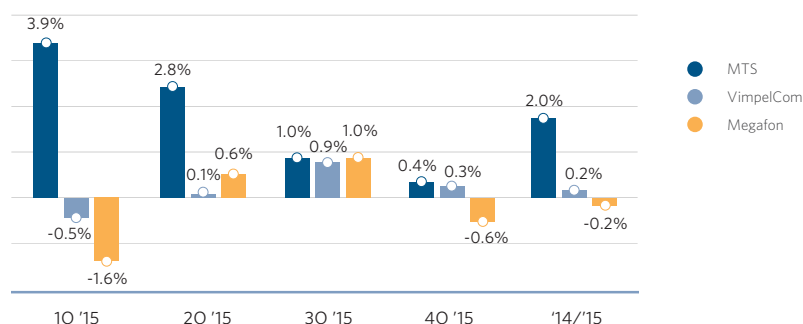
In 2015, MTS’s fixed-line telephony business grew by 3.1% year-on-year due to the growth of the broadband and TV subscriber base driven by modernisation of networks using target technologies (GPON and fibre-to-the-building (FTTB)), development of convergent services (including mobile virtual network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

In April 2015, MTS launched satellite TV services, initially for residents of the Moscow region and later for other regions across Russia (potential coverage of 90% of Russia’s population). The launch of a hybrid platform in September 2015 enabled MTS to expand the capabilities of traditional digital and satellite TV by adding interactive services.

MTS and Vodafone conducted a rebranding of MTS Ukraine, with the Vodafone brand from now being used for construction of 3G networks and provision of communication services. As of the end of December 2015, the 3G network had been launched in 18 regional centres of Ukraine and in Kiev.

⁽¹⁾ Discounts of up to 30% on phones, bonuses, branded MTS devices, advertising campaigns.
⁽²⁾ Source: Vedomosti, <http://www.vedomosti.ru/technology/articles/2015/11/30>.
⁽³⁾ MTS’ marketing strategy for 2016.
⁽⁴⁾ MGTS is subsidiary of MTS.

Mobile service revenue growth rate, %, YoY



Please see table on page 24.

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

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

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

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

STRATEGY

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

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

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

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

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

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

⁽¹⁾ Russian Telephone Company, subsidiary of MTS.

Detsky Mir

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



76%

Effective shareholding



Management

Vladimir Chirakhov
(CEO)

Christopher Baxter
(Chairman of the Board of Directors)

Financial results of Detsky Mir

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

No1
retailer



Russian retailer of children goods and fashion



INDUSTRY

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

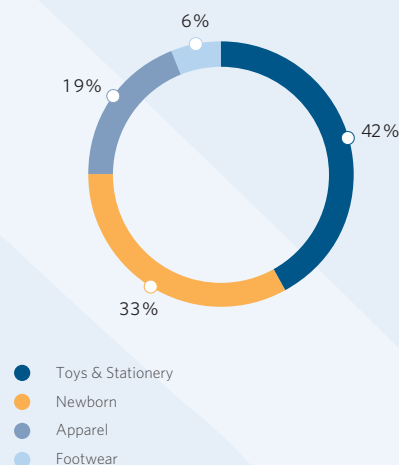
The demographic situation continues to play a key role in the development of the market. Government support for families and mothers, including the Maternity Capital programme, has made a sizable contribution to higher birth rates. In 2015, 1.9 mln babies were born in Russia⁽²⁾, the same as in 2014,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

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

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

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

Detsky Mir's retail stores revenue breakdown



60.5
RUB bln



Revenue in 2015

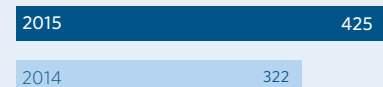
104
new stores



Opened by Detsky Mir in 2015

425
stores

Detsky Mir stores, totally



491
Retail space, th. sq m

Detsky Mir total retail space



⁽¹⁾ Source: ComconSynovate.

⁽²⁾ Source: Rosstat.

⁽³⁾ Source: ComconSynovate.

Detsky Mir

(continued)

SUSTAINABLE GROWTH OF DETSKY MIR AND KEY EVENTS IN 2015

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

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

With the aim of minimising expenses related to leasing selling space, Detsky Mir Group set new fixed ruble tariffs in contracts with retail space owners.

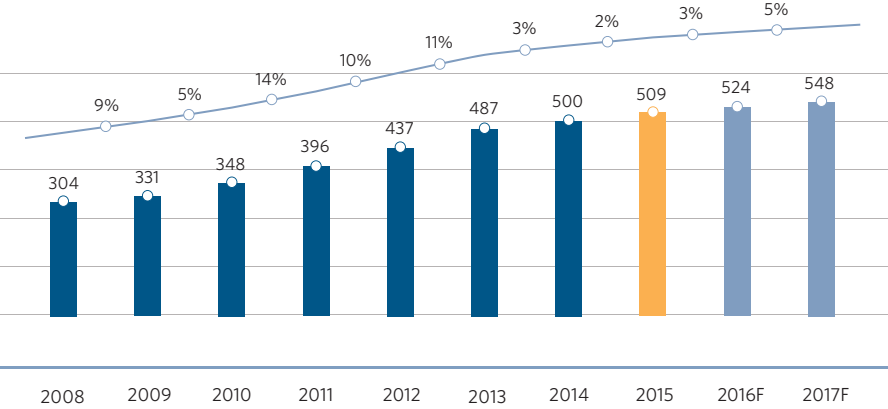
Thanks to its strong negotiating position, the company's management successfully cut rental expenses by 10%-15%.

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

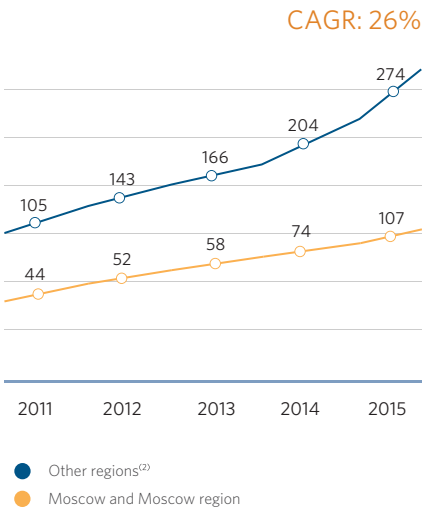
In 2015, the Group opened a record 104 new stores. Total selling space of stores under management increased by 26% (from 390 thousand to 491 thousand sqm). All new Detsky Mir stores were opened in accordance with a new retail concept, including new trade equipment, merchandising channels and play zones.

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

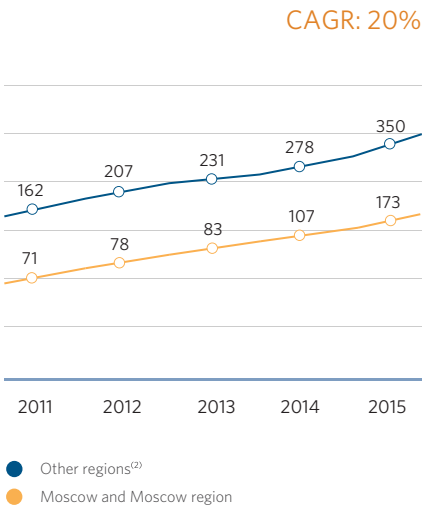
Children's market dynamics⁽³⁾, RUB bln



Number of Detsky Mir stores⁽¹⁾ 2011-2015



Detsky Mir selling space (sqm)⁽¹⁾



⁽¹⁾ Calculated for DM stores excl. ELC stores and Yakimankastores.

⁽²⁾ Includes Kazakhstan.

⁽³⁾ Source: ComconSynovate

STRATEGY

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

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

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

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

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

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

FINANCIAL RESULTS OF DETSKY MIR



Please see table on page 28.

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

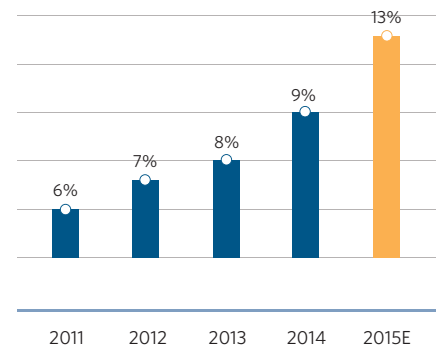
Adjusted OIBDA increased by 38.6% for the full year 2015 as a result of improved operational efficiency. The ratio of administrative expenses to revenues declined from 29.4% in 2014 to 27.8% in 2015 as efficiencies came on line, including further automatisisation of key business processes.

>132 mln

Visits per year



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



Segezha Group

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

No1
in Russia



Producer of high-end paper sacks

No2
in Europe



Producer of high-end paper sacks



100%

Effective shareholding



Management:

Sergey Pomelov
(President)

Ali Uzdenov
(Chairman of the Board of Directors)

Financial results of Segezha Group⁽¹⁾

(RUB mln)	FY 2015
Revenues	33,436
OIBDA	6,805
Operating income	4,639
Net income attributable to Sistema	2,787



⁽¹⁾ Sistema acquired Segezha Group on September 30, 2014, and has consolidated it starting from the fourth quarter of 2014.

INDUSTRY: SACK PAPER⁽¹⁾

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

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

INDUSTRY: PAPER SACKS

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

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

INDUSTRY: BIRCH PLYWOOD

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

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

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

INDUSTRY: SAWN TIMBER

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

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

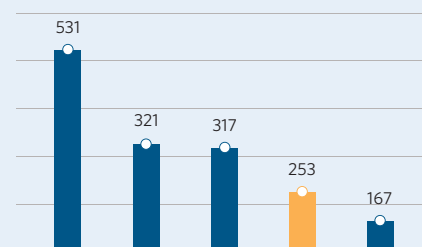
33.4

RUB bln



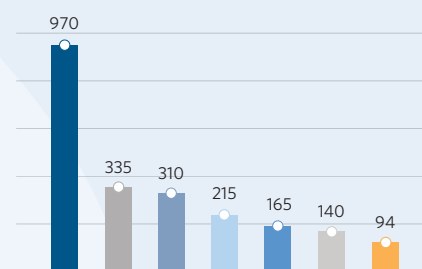
Revenue in 2015

Segezha Pulp and Paper Mill:
№4 of world sack paper producers,
th. tonnes



Mondi Bellerud Korsnas KapStone Segezha Group Smurfit Kappa

Competition of world plywood market, th. m cu



● Sveza
 ● UPM (Finland, Estonia, RF)
 ● Latvijas Finieris
 ● Syktyvkar Plywood Mill
 ● Zheshart Plywood Mill
 ● Mets Wood
 ● Vyatka Plywood Mill (Segezha Group)

⁽¹⁾ Source: BCG, RISI, Vision Hunters, Poyry, Indufur, Eurosac, FAOSTAT.

Segezha Group

(continued)

INDUSTRY: HOUSE-BUILDING

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

INDUSTRY: WOOD RESOURCES

Global wood reserves total 527 bln cu. m, of which Russia accounts for 16%. Russia also has the world's biggest reserves of soft timber. Russia has a high logging area growth potential: Its annual allowable cut is three times the current logging volume.

SUSTAINABLE GROWTH OF SEGEZHA GROUP AND KEY EVENTS IN 2015

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

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

Wood resources

In 2015, as part of its Wood Supply project, the company purchased modern logging equipment, including 12 state-of-the-art logging complexes, and 50 log trucks.

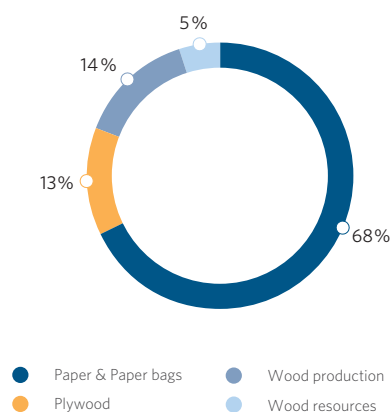
Total investment in the project was RUB 1.3 bln. Acquisition of new equipment made it possible to significantly increase the volume of logging at Segezha Group facilities and ensure efficient use of the forest resource base. Wood resources are the main item in Segezha Group's production costs (accounting for 30% to 62% of the total). The project made it possible for the Group's production facilities to increase the share of own logging in their raw material base to 72%.

Segezha PPM – sack paper

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

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

Segezha Group's revenue by business segments, 2015



Operating results of Segezha Group

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

Segezha Packaging – paper sacks

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

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

Vyatka Plywood Mill – birch plywood

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

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

Sawn timber

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

STRATEGY

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

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

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

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

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

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

FINANCIAL RESULTS OF SEGEZHA GROUP

 Please see table on page 32

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

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

RTI

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



85%

Effective shareholding



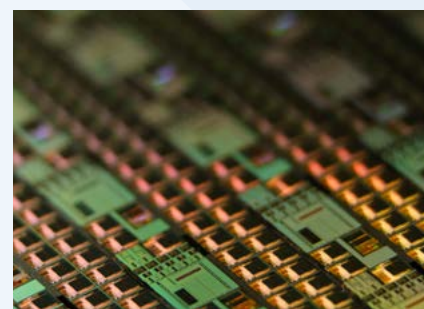
Management

Sergei Boev
(CEO)

Evgeny Novitsky
(Chairman of the Board)

Financial results of RTI

(RUB mln)	FY 2015	FY 2014	Change
Revenues	77,287	8-1,028	(4.6%)
Adjusted OIBDA	7,030	4,816	46.0%
Operating income	4,548	4,067	11.8%
Adjusted net income attributable to Sistema	(2,074)	(5,622)	-
Net income attributable to Sistema	(2,074)	(3,476)	-



INDUSTRY

The defence sector is expected to see considerable growth in demand for high-tech products. Under the National Arms Programme through 2020, state defence spending will amount to about RUB 20 tln, with up to 70% expected to be invested in acquisitions of new defence systems and equipment.

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

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

SUSTAINABLE GROWTH OF RTI AND KEY EVENTS IN 2015

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

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

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

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

77.3

RUB bln



Revenue in 2015

3.11

RUB trln

Russia's government national defence spending in 2015

2015	3.11
2014	2.47

RTI

(continued)

A new division of RTI, the Mikron Design Centre, which develops microelectronic equipment, in 2015 successfully completed a pilot project for design, software development, assembly, start-up and commissioning of the Regional System for processing of unified social e-cards in Mordovia.

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


STRATEGY

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

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


Overall, in 2015 Mikron:

>350 mln
transport cards



Issued transport cards

1.5 mln
chips



Delivered for biometric foreign passports

5,8 mln
industrial microchips



Supplied to Russian customers

39 types
of curcuits

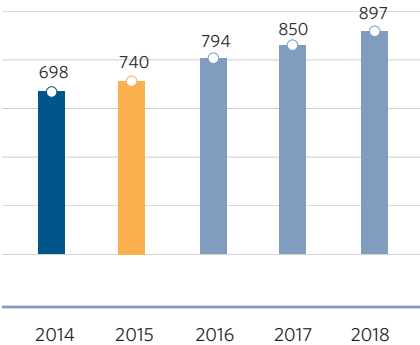


Developed to industrial and commercial companies

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

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

Information technologies market, bln RUB



750 mln chips

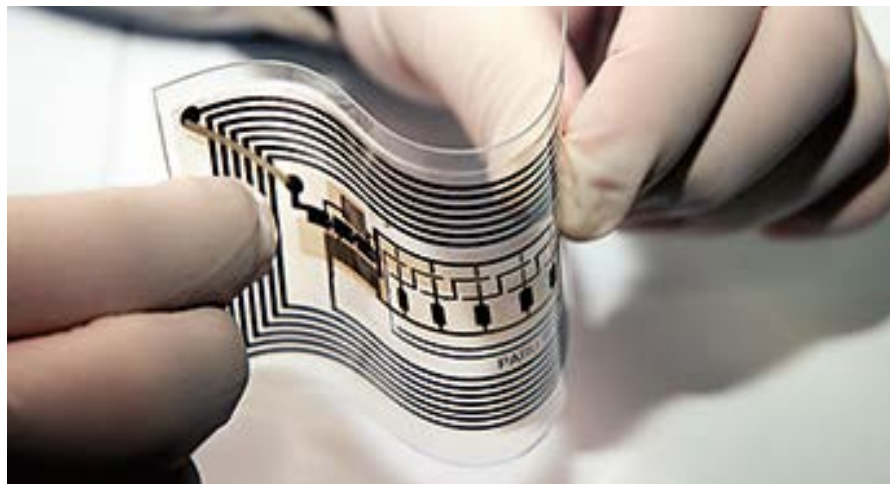


Exported to assembly plants in Southeast Asia and Europe

45 types of integral circuits



Set up production for different purposes



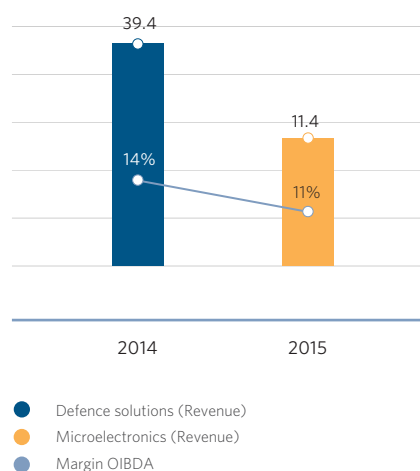
FINANCIAL RESULTS OF RTI

Please see table on page 36.

RTI's revenues declined for the full year 2015 and in the fourth quarter of 2015 year-on-year due to uneven revenue recognition on a number of long-term contracts, as well as decreased revenues in the Information and Communication Technologies business unit (ICT, mainly represented by NVision) in particular as a result of disposal of NVision in 2015. Excluding the ICT unit, RTI's revenues grew by 11.8% year-on-year in 2015. Revenue of the Defence Solutions business unit increased by 25% year-on-year in 2015.

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

Results by RTI business segments in 2015



Bashkirian Power Grid Company

Bashkirian Power Grid Company (BPGC) is one of Russia's biggest power grid companies and a sector leader on a number of indicators. The company's assets comprise distribution and transmission assets located in Bashkortostan.



91%

Effective shareholding



Management:

Dmitry Sharovатов
(CEO)

Andrey Makarov
(Chairman of the Board)

Financial results of BPGC

(RUB mln)	FY 2015	FY 2014	Change
Revenues	14,816	14,061	5.4%
OIBDA	4,325	5,083	(14.9%)
Operating income	2,088	3,279	(36.3%)
Net income attributable to Sistema	2,027	2,626	(22.8%)

Operational results of BPGC

	2015	2014	%
Power losses in transmission grids, %	1.38%	1.49%	-0.11 p.p.
Power losses in distribution grids, %	8.22%	8.46%	-0.24 p.p.
Net supply from distribution grids, m kWh	20,013	19,683	1.7%



INDUSTRY⁽¹⁾

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

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

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

⁽¹⁾ Source: OJSC SO UES.

SUSTAINABLE GROWTH OF BPGC AND KEY EVENTS IN 2015

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

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

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

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

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

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

STRATEGY

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

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

FINANCIAL RESULTS OF BPGC



Please see table on page 40.

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

OIBDA and net income declined for the year as a result of the decreased gains from the sale of non-core assets, combined with the additional provisions to cover potential customer disputes. BPGC's net income excluding these effects for 2015 increased by 2.5%.

14,8
RUB bln



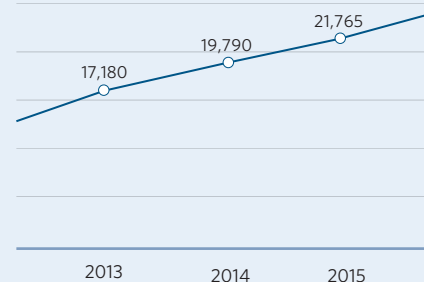
Revenue in 2015

80
th. km

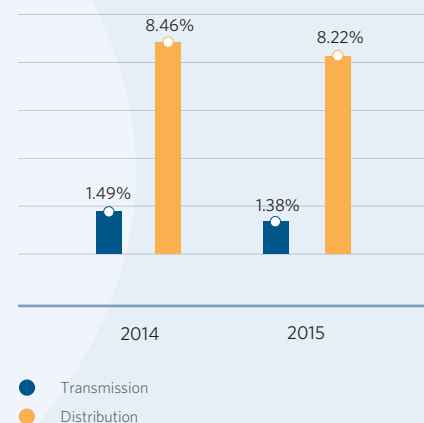


Circuit length of BGGC

Number of new connections
of BPGC per year, pcs



Losses on distribution
and transmission grids



Medsì

Medsì Group is one of Russia's largest nationwide private healthcare providers, offering a full range of preventive, diagnostic and treatment services, including rehabilitation services for children and adults.

Financial results of Medsi

(RUB mln)	FY 2015	FY 2014	Change
Revenues	8,227	9,764	(15.7%)
OIBDA	471	843	(44.1%)
Operating income	(161)	249	-
Net income attributable to Sistema	(127)	261	-

Medsì's operating highlights	2015	2014	Change
Area, thousand sqm	233.2	228.7	1.98%
Visits, thousand	7,265.8	7,663.1	-5.18%
Rendered services, thousand	11,403.3	13,384.8	-14.80%
Average cheque, RUB	1,132.3	1,274.5	-11.16%
Revenue per sqm, thousand RUB	35.3	42.7	-17.40%



100%

Effective shareholding



Management

Elena Brusilova
(President)

Vasil Latsanich
(Chairman of the Board of Directors)

One of Russia's
largest private
healthcare providers



INDUSTRY⁽¹⁾

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

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

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

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

SUSTAINABLE GROWTH OF MEDSI AND KEY EVENTS IN 2015

In early 2015, Medsi Group encountered a number of external challenges that affected its development strategy in the medium term. Termination of state contracts on 1 January 2015 as a result of monetisation of benefits to civil servants and a slowdown in the private healthcare market were the key drivers for a restructuring of Medsi's asset portfolio and a greater emphasis on sales to individuals. This enabled the company to maintain its leading position in the VMI segment. Substituting lost revenues from state contracts in the inpatient care segment will require more time, due to high levels of competition between private and municipal hospitals offering the lowest tariffs. Despite this, Medsi managed to increase the number of commercial hospital admissions by more than 49%, while the number of surgeries increased by 30% and the average length of stay in hospitals was reduced from four and a half to three and a half days.

High standards of healthcare services



20
medical clinics,
55
medical posts

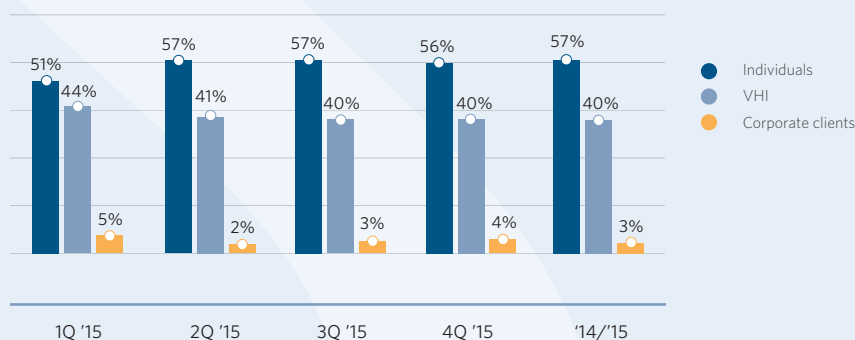


>230
th. sqm



Healthcare facilities

The structure of legal commerce medical industry in Moscow



⁽¹⁾ Source: Company data.

⁽²⁾ Source: Superjob.ru.

Medsi

(continued)

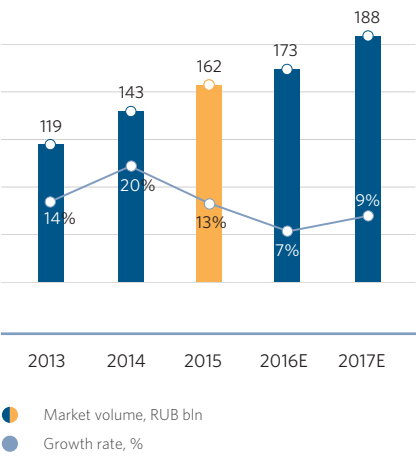
As part of the reorganisation of its asset portfolio, Medsi plans to sell its non-strategic non-core assets and reinvest the proceeds in the development of its core healthcare business. To ensure the implementation of its investment plans the company is considering engaging strategic partners not only to co-invest in Medsi projects but also to enhance the company's competences in project implementation and management and to contribute additional medical expertise to the company's day-to-day operations.

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

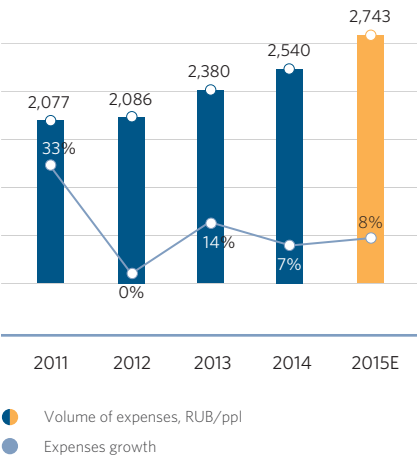
One of the most important events was the launch of the second flagship clinical and diagnostic centre (CDC) at Krasnaya Presnya in December 2015. The CDC is designed to service 1.8 mln patients per year, and its advanced technological capabilities means it is able to provide a wide range of outpatient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



Market volume of legal commerce medical industry (incl. VHI)



Average medical expenses growth for a person



STRATEGY

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

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

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

FINANCIAL RESULTS OF MEDSI



Please see table on page 42.

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

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

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

>1,800
doctors



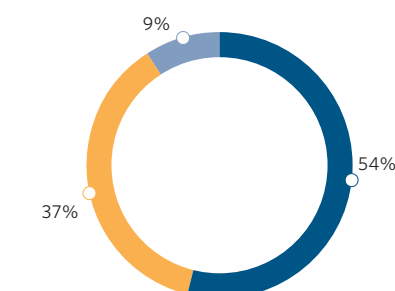
Work in Medsi centres

>7,800
surgeries



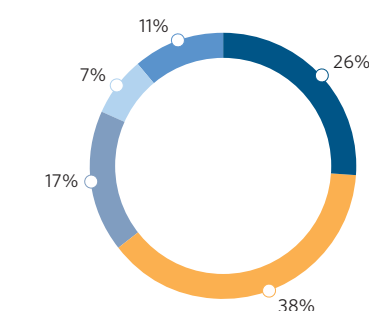
Performed in 2015

MEDSI's Revenue by clients 2015



- Corporate
- Individuals
- Insurance

MEDSI's Revenue by assets 2015



- CDC at Belorusskaya
- Clinics
- Children's
- Hospitals
- Other

Agricultural businesses

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



50%

Effective shareholding in RZ Agro



Management of RZ Agro:

Stephane MacFarlane
(CEO)

T. Schultz
(Chairman of the Board of Directors)



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



100%

Effective shareholding in Steppe Agro



Management of Steppe Agro Holding:

Konstantin Averin
(CEO)

A. Uzdénov
(Chairman of the Board of Directors)



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

INDUSTRY⁽¹⁾

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

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

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

However, exporters may have to face an obstacle created by the government, which in February 2015 introduced a protective duty on grain exports. This resulted in a significant decline of shipments in the 2014-2015 marketing year. In May 2015, the protective duty was replaced with a flexible formula, which will not hinder exports in 2015-2016. However, the fact that the government is attempting to curb exports has created uncertainty on the market and does not help encourage investment in the sector.

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

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

⁽¹⁾ Source: Agricultural Ministry, FAS USDA, WASDE - 500, Rosstat.



Krasnodar region is Russia's main agricultural region:

7% of gross agricultural output

Gross agricultural output of Russia



40% of fruit output

Leader in terms of fruit output



10% of gross grain output

Leader in terms of gross grain output



15% of sunflower seeds output

Major producer of sunflower seeds



17.3% of sugar beet output

Leader in terms of sugar beet output

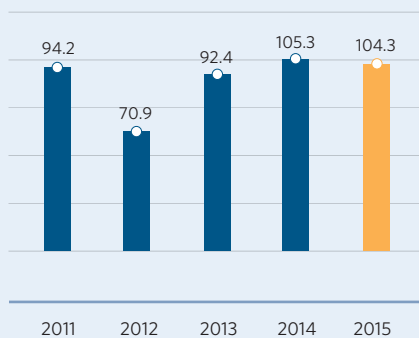


37% of wines output

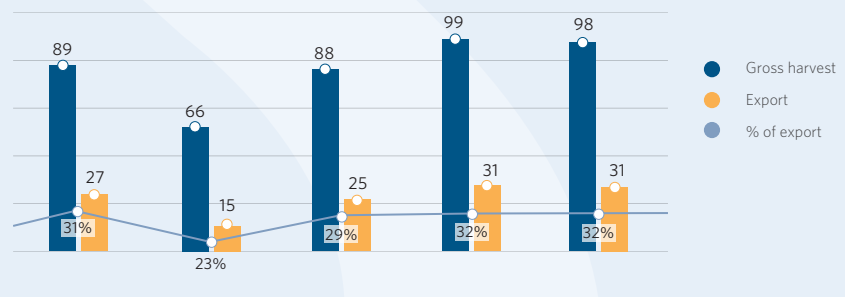
Leader in terms of wines output



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



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



Agricultural businesses

(continued)

Further development of the sector will depend on the government taking measured actions to support domestic producers and exporters at a time when macroeconomic risks are high. The drastic deterioration of the macroeconomic environment in 2014-2015 and high exchange-rate volatility have had negative consequences for agricultural producers including reduced ability to borrow and a significant rise in prices of basic production tools. The regulator's unpredictable policy towards export duties hinders producers from unlocking their full export potential.

STEPPE AGRO IN 2015

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

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

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

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

NEW AGRICULTURAL ASSETS

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



Crop farming	Livestock production	Fruit growing	Vegetable growing
(Krasnodar region)	(Krasnodar region)	(Krasnodar region)	(Karachaevo-Cherkessiya)
5 companies	1 company (acquired by Steppe Agro in December 2015)	2 companies (acquired by Steppe Agro in November 2015)	1 company (acquired by Steppe Agro in December 2015)
Sistema's stake 85%	Sistema's stake 85%	Sistema's stake 85%	Sistema's stake 100%

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

Crop	2015	2014	%	Average for Krasnodar region, 2015
Sugar beet	50.0	54.1	-7.6%	46.6
Winter wheat	6.8	6.7	+1.5%	5.6
Winter barley	6.6	5.9	+11.9%	5.9
Corn	7.5	7.7	-2.6%	5.6

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

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

Vegetables

JSC Yuzhny Agricultural Complex

(Ust-Dzheguta, Karachayevo-Cherkessiya)

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

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

Fruit

OJSC Trudovoye LLC Sady Kubani

(Leningradsky district, Krasnodar region)

1. Diversification of Sistema's agricultural business. Entering an import-substituting agricultural segment.
2. OJSC Trudovoye is a fruit orchards owner and a fruit producer. It is one of Russia's top five apple producers. High-quality table apples account for ca. 97% of the output.

LLC Sady Kubani owns fruit storage and processing infrastructure.

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

Dairy

OJSC Rodina

(Kanevsky district, Krasnodar region)

1. Reducing crop farming risks through vertical integration. Entering an import-substituting agricultural segment.
2. OJSC Rodina is a leading milk producer in Krasnodar region. Its output in 2015 was 31,100 tonnes. It has Russia's highest milk yield, with 10.8 tonnes per lactating cow.

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

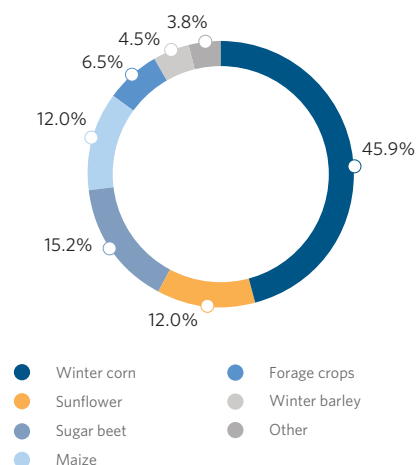
Farm infrastructure for 8,000 cows, including:

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

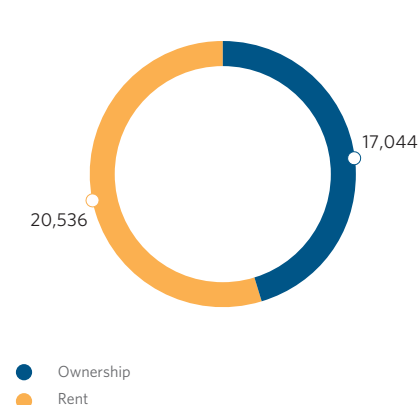
Own stock reproduction capacity.

Production of own quality fodder.

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



Land bank of Agroholding Steppe, ha



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

Agricultural businesses

(continued)

RZ AGRO IN 2015

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

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

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

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

RZ Agro's sales strategy in the 2015-2016 marketing year, which ends in June 2016, has been developed taking into account the current situation on the global grain market, where prices have come down as a result of the high yields of recent years.

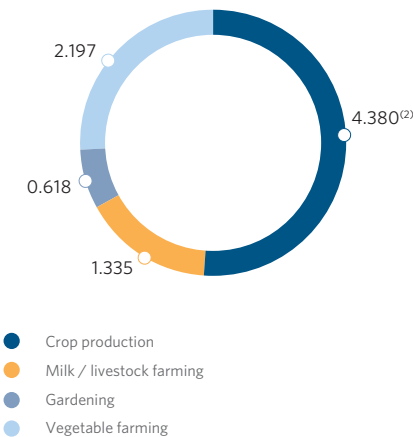
Relying on its experience and tools for forecasting global price trends, RZ Agro's commercial department organised timely sales of the bulk of the harvest to minimise the reduction in margins caused by falling prices. To mitigate risks related to global price fluctuations, the company hedged grain prices on international exchanges.

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

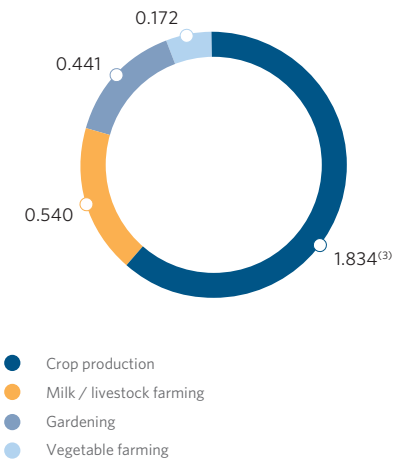
In 2015, RZ Agro expanded its export geography. Apart from traditional destinations such as Turkey, Egypt and Armenia, the company began exporting to Lebanon, Albania and Africa.

RZ Agro's opearting results	2015	2014	%
Total land, ha	100,000	100,000	0%
Owned land, %	68%	66%	+2%
Arable land under cultivation, %	91%	91%	0%
Gross output, k t	272	300	-9%
Wheat yield, t/ha	4.1	4.5	-9%
Sunflower yield, t/ha	2.3	2.3	0%
Corn yield, t/ha	4.7	3.6	+31%

Sistema agriculture assets (aggregated)⁽¹⁾
Revenue 2015



Sistema agriculture assets (aggregated)⁽¹⁾
OIBDA 2015



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

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

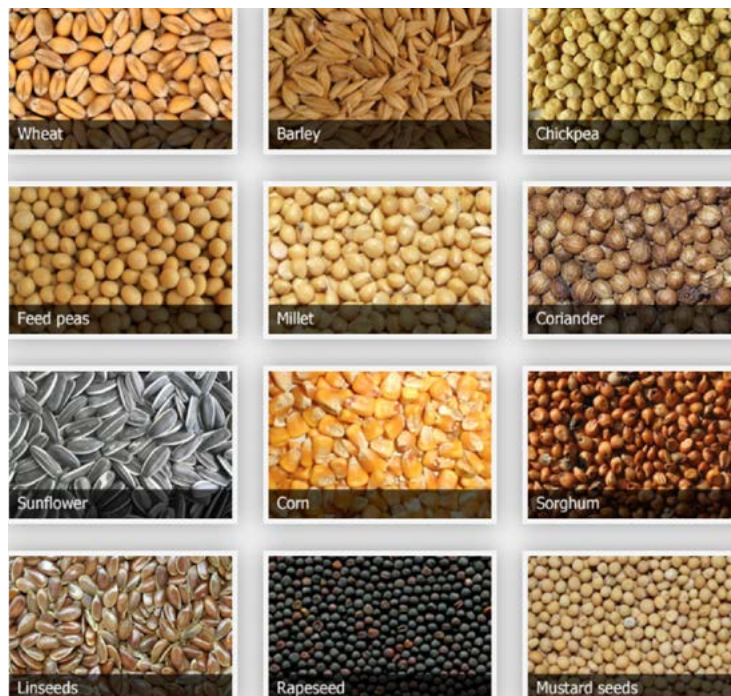
⁽³⁾ OIBDA of RZ Agro amounted to RUB 1.1 bln, crop production segm-ent's OIBDA was RUB 0.7 bln.

In 2015, RZ Agro for the first time participated in a government tender for wheat supply and won, delivering 27,000 tonnes to the intervention fund.

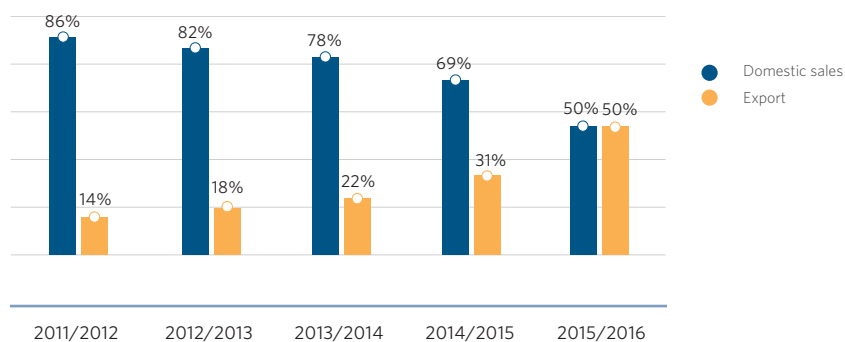
In a ranking of Russian agricultural companies released in September 2015 and based on the 2014 performance, RZ Agro was among the top three companies by EBITDA margin and among the top five by net margin.

RZ AGRO'S STRATEGY

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



Domestic and export sales of RZ Agro



Targin

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

Financial results of Targin

(RUB mln)	FY 2015	FY 2014	Change
Revenues	25,538	27,516	(7.2%)
OIBDA	3,330	3,109	7.1%
Operating income	1,711	1,786	(4.2%)
Net income/(loss) attributable to Sistema	1,156	1,032	12.0%



100%

Effective shareholding



Management:

Kamil Zakirov
(CEO)

Mikhail Cherny
(Chairman of the Board of Directors)



INDUSTRY⁽¹⁾

The Russian oilfield services market grew by 8% in 2015 in ruble terms, from RUB 880 bln to RUB 950 bln. Spending on oilfield services is expected to increase further despite conservative oil price expectations. A large portion of the market (40%) is serviced by vertically integrated oil companies.

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

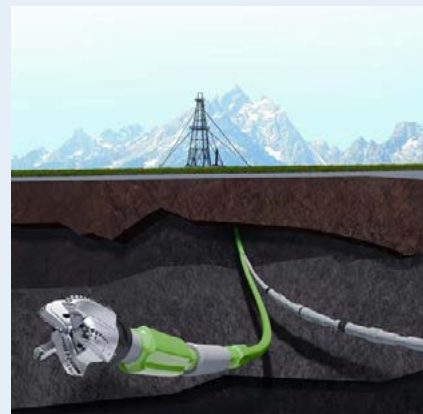
Other key trends in the oilfield services market in 2015 include production at traditional oilfields; growing extraction volumes; rescheduling of operations at new oilfields (East Siberia); development of hard-to-recover and offshore reserves; price pressure from consumers due to general growth of spending;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

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

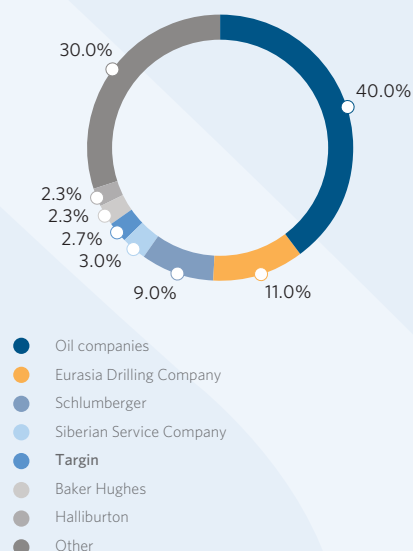
The development of the coil tubing segment is primarily driven by growth of fracking and the introduction of new sophisticated fracking technologies, as well as drilling of new wells.

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

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



Key players of Russia's oilfield services market



25.2
RUB bln



Revenue of key business segments⁽²⁾

18,000
employees



Work in Targin

>130
services



Number of oilfield services

⁽¹⁾ Sources: www.rbc.ru, www.renergy.ru, www.cttimes.org, www.kommersant.ru.

⁽²⁾ Excluding disposed construction segment.

Targin

(continued)

SUSTAINABLE GROWTH OF TARGIN AND KEY EVENTS IN 2015

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

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

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

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

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

Targin's operating highlights	Units	2015	2014	%
Drilling				
Drilling crews	units	38	37	2%
Meters drilled	th. m	480	407	18%
Wells commissioned	units	240	193	24%
Well Servicing and Workover				
Well servicing and workover crews	units	154	153	1%
Work plan	th. hours	1,168	1,158	1%
Transport				
Vehicles	units	4,824	5,009	-4%
Work plan	th. hours	12,482	12,466	0%
Mechanical services				
Overhaul of oilfield equipment, coil tubing, and pump rodse	th. units	612	532	15%
Oilfield equipment maintenance	'th. units	30	33	-9%
Polymer coating of pipes	'th. m	621	579	7%

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

⁽¹⁾ Excluding disposed construction segment.

STRATEGY

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

FINANCIAL RESULTS OF SSTL



Please see table on page 52.

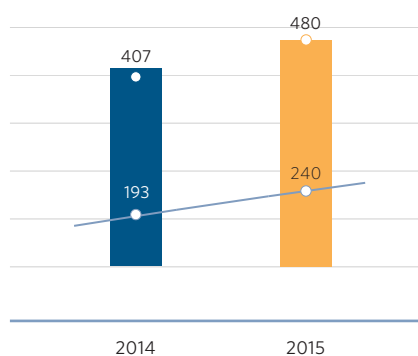
Targin's revenues decreased year-on-year in the fourth quarter and for the reporting year following disposal of its construction segment. Revenue from key business segments (excluding the construction segment) in 2015 increased by 7.1% largely driven by growth in Targin's core drilling segment, where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

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

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



Results of the drilling business segment



Wells commissioned, units
 Drilled, th. m

+7.1%

Growth of OIBDA in 2015



+12%

Growth of net income in 2015



Sistema Shyam TeleServices Limited (SSTL)

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



57%

Effective shareholding



Management:

Sergey Savchenko
(CEO)

Alexander Gorbunov
(Chairman of the Board of Directors)

Financial results of SSTL

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

INDUSTRY

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

The CDMA subscriber base and market share shrank by 1.1%. Although several operators left the market in 2012-2013, 12 mobile companies continue to operate, of which eight provide only GSM-based services, three offer both the GSM and CDMA standards and one (SSTL) uses only CDMA. The "big three" Indian operators (Bharti Airtel, Vodafone and Idea) strengthened their positions in 2015, with their total market share by subscribers exceeding 59.7%.

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

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

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



⁽¹⁾ ITSource: GSMA report. The Mobile Economy of India 2015.
⁽²⁾ Source: CMR.

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

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

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

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

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

SSTL'S DEVELOPMENT AND KEY EVENTS OF 2015

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

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

SSTL's total subscriber base⁽¹⁾ fell by 11% year-on-year to 8.1 mln due to higher churn of voice subscribers: the subscriber base shrank by 1.2 mln to 6.2 mln. Measures aimed at retaining voice subscribers (M-Bonus, and the new STV 27/28 voice tariff) reduced subscriber churn to 4% in December 2015 against 6% in Q3 2015

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

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


In 2015, the company tightened its cost-control measures. As a result, costs related to acquisition of new subscribers fell by 16%

for data subs and by 20% for voice subs year-on-year. These measures helped reduce the OIBDA loss in rupees by 49% year-on-year.

STRATEGY

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

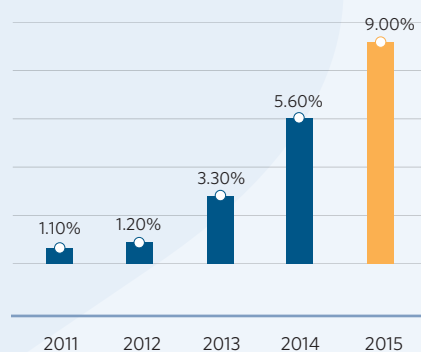
FINANCIAL RESULTS OF SSTL

 Please see table on page 56.

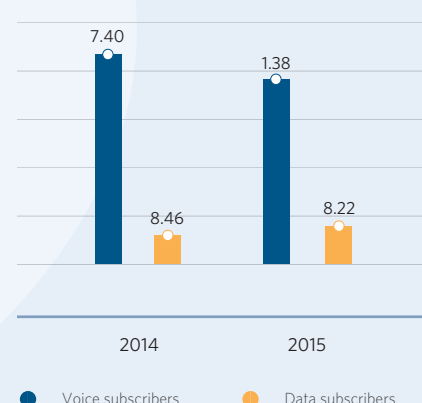
SSTL's revenues increased by 35.6% year-on-year in the fourth quarter and by 64.7% for the full year 2015, mainly driven by rouble depreciation in 2015 and higher data service revenues. In the fourth quarter, total non-voice revenues grew by 28% year-on-year in Indian rupees.

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

Data services penetration in India



SSTL subscriber base, mln



⁽¹⁾ Based on 6M subscriber activity.

Binnopharm

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

The company's priority focus is on the development and mass manufacturing of drugs for the treatment of socially dangerous diseases (respiratory, pulmonary and kidney conditions, plus infections). Binnopharm comprises LLC Alium, a modern plant producing infusion solutions, and Binnopharm Distribution, an in-house distributor of medicines produced both by Binnopharm/Alium and by third parties, mostly to hospitals.



74%

Effective shareholding



Management:

Alexey Chupin
(CEO)

Dmitry Zubov
(Chairman of the Board of Directors)

Financial results of Binnopharm

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

INDUSTRY⁽¹⁾

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

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

The Russian market remains heavily dependent on imported medicines, which account for about 75% of total pharma sales (in money terms). However, import substitution in the pharma market remains a priority for the Russian government.



⁽¹⁾ Source: DSM.

To support local producers, in 2015 the government issued a decree banning foreign pharma producers from participating in governmental tenders where two or more bids have been received from local producers.

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

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

SUSTAINABLE GROWTH OF BINNOPHARM AND KEY EVENTS IN 2015

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

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

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

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


In December 2015, Binnopharm received a subsidy from the Moscow City Government as compensation for interest the company had paid on loans. The subsidy is part of a federal support programme.

STRATEGY

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

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

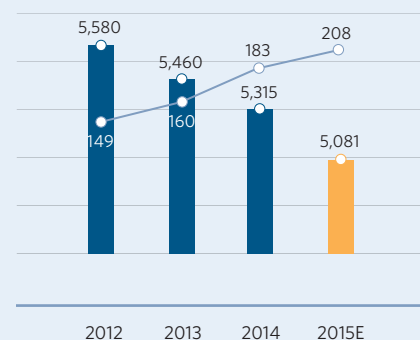
FINANCIAL RESULTS OF BINNOPHARM



 Please see table on page 58.

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

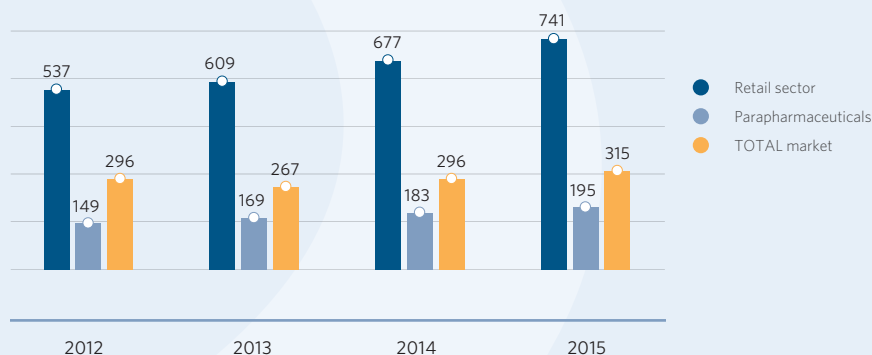
The reason for OIBDA decline in 2015, apart from the lower revenue, was an increase in SG&A, as well as expenses to set up the sales and marketing function. Binnopharm's OIBDA was restored in the fourth quarter of 2015, following increased share of sales from its own products. Earlier in 2015, Binnopharm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

Quantity of packs, mln pack



 Quantity of packs, mln pack
 Average price of pack, RUB/pack

Russian medicine market, RUB bln



MTS Bank

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



87%

Effective shareholding



Management:

Vsevolod Rozanov
(Chairman of the Board of Directors)

Ilya Filatov
(Chairman of the Management Board)

Financial results of MTS Bank

(RUB mln)	FY 2015	FY 2014	Change
Revenues	25,619	26,965	(5.0%)
OIBDA	(16,969)	(14,571)	-
Operating loss	(17,658)	(15,252)	-
Net loss attributable to Sistema	(15,282)	(12,392)	-



INDUSTRY⁽¹⁾

Russia's banking sector was under significant pressure throughout 2015 that weighed on banks' profitability. These factors include Western sanctions, a decline in GDP of almost 4%, withdrawal of banking licences and the need for additional loan.

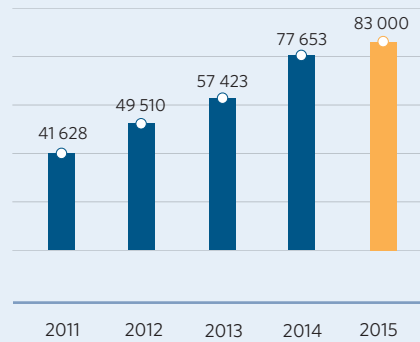
As a result of the ruble depreciation, the banking sector suffered from a decline in capital adequacy, which came close to minimum required levels.

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

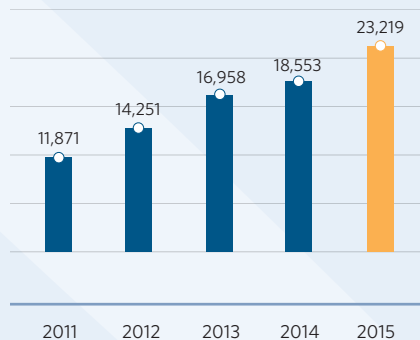
The Central Bank lowered its key interest rate in a series of rate cuts from 17% in December 2014 to 11% by August 2015, thus reducing the cost of liabilities for lending institutions. However, the increasing cost of capital negatively affected the borrowing appetites of end customers. Banks are now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

Faced with the urgent need to improve efficiency, Russian banks in 2015 focused on strategic cost-cutting, technological innovation and efficient risk management.

Assets of the banking sector, RUB bln



Retail deposits in Russia, RUB bln

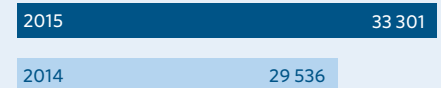


Key Central Bank rate, %



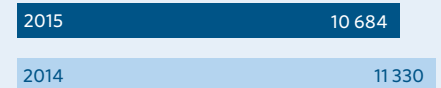
33 301 RUB bln

Corporate loans, Russia



10 684 RUB mln

Retail loans, Russia



⁽¹⁾ Source: Review of the Banking Sector of the Russian Federation by the Bank of Russia (regular information and analytics report).

MTS Bank

(continued)

SUSTAINABLE GROWTH OF MTS BANK AND KEY EVENTS IN 2015

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

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

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

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

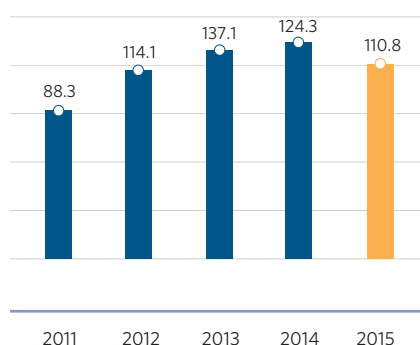
In December 2015 the bank received a tier II capital injection of RUB 7.2 bln from the national Deposit Insurance Agency (DIA). The DIA provided the funds on condition that MTS Bank dedicate at least 1% of its monthly lending portfolio to loans for SMEs and businesses in industries deemed strategically important to the Russian economy, as well as mortgage loans. In December 2015, MTS Bank's retail lending portfolio reached the pre-crisis level registered in August 2014.

STRATEGY

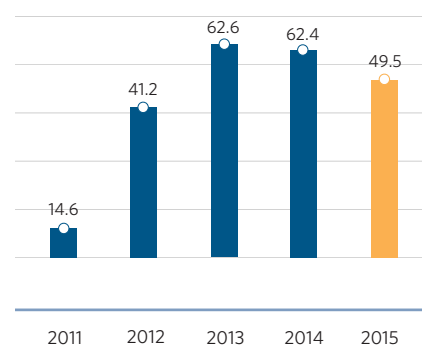
The bank's operating strategy is to maintain a diverse portfolio and lend to a wide spectrum of private and corporate customers while staying as risk-intolerant as possible. The bank uses a special technological platform enabling close cooperation with mobile operator MTS to offer transactional products.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

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

Gross loan portfolio of MTS Bank, RUB bln



Retail loans portfolio of MTS Bank, RUB bln



The funds received from the DIA in 2015 helped the bank intensify corporate lending to businesses in the defence sector, food and chemical industries, heavy engineering, instrumentation technologies and infrastructure, among others.

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

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



FINANCIAL RESULTS OF MTS BANK

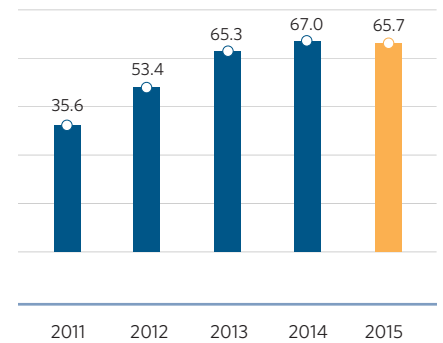
 Please see table on page 60.

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

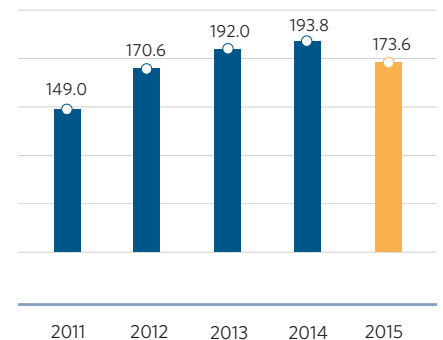
The bank continued to cut costs throughout the year. Administrative expenses declined by 16.2% year-on-year in the fourth quarter and by 9.2% for the year.

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

Retail deposits of MTS Bank, RUB bln



Assets of MTS Bank (total, RUB bln)



⁽¹⁾ On a stand-alone basis.

Real-estate assets

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

113.8
th. contracts



Sale and purchase contracts concluded in 2015⁽¹⁾

19.6
th. contracts



Equity participation agreements⁽¹⁾



Management
of Leader-Invest:

Evgeny Rubtsov
(President)

Евтушенков Ф.В.
(Chairman of the Board of Directors)



Management
of Mosdachtrest:

Igor Kashcheev
(CEO)
(before September 2015: Sergei Gavrilenko)

Шишкин С.А.
(Chairman of the Board of Directors)(before July 2015: Sergei Drozdov)



Management
of Business Nedvizhimost:

Igor Shabdurasulov
(CEO)

Моносов Л.А.
(Chairman of the Board of Directors)



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



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



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

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

INDUSTRY

Office real estate

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

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

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

Given tenants' low activity and an excess of supply, owners were forced to adjust rent rates to meet effective demand. Average rent rates of high-quality offices declined throughout the year.

However, after a rapid fall of rental rates in Q4 2014 and Q1 2015, the pace of decline slowed in the second half of the year.

Housing market

Last year saw a substantial increase in supply on the new housing market, to a large extent due to active development of Moscow's former industrial sites. Most residential developments commissioned in 2015 were large-scale projects on such sites. The total number of apartments on sale rose by 65% over the year, from 15,750 to 26,000.⁽¹⁾

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

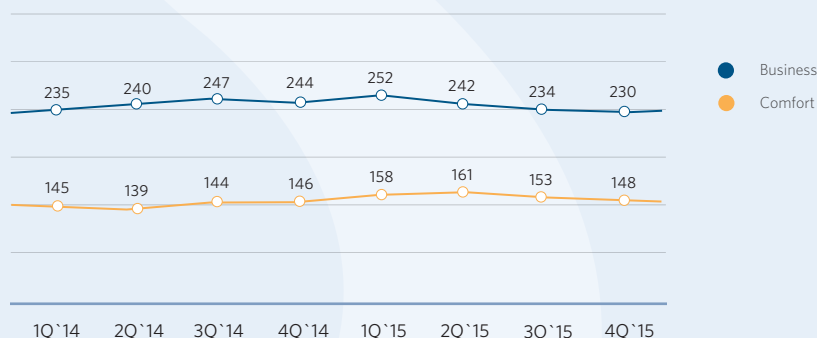
According to the Federal Service for State Registration, Cadaster and Cartography (Rosreestr), demand for existing housing in Moscow plunged by 30%: the number of sale and purchase contracts concluded in 2015 was 113,769 vs. 162,038 in 2014. The new housing market avoided such a serious decline thanks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

Premium housing rent market

The rent rates for premium housing in the Moscow region dropped in 2015 to the level of 2009, a crisis year.⁽⁴⁾ Compared to 2013, average rates fell by 40%. In 2016, the number of premium real estate transactions in Moscow is projected to be the same as in 2015.⁽⁵⁾ Rental rates will remain affected by exchange rates. However, a drastic correction is not expected.

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

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



⁽¹⁾ Source: Metrium Group.

⁽²⁾ Source: Metrium Group.

⁽³⁾ Source: Rosreestr.

⁽⁴⁾ Source: RBC Real Estate (quoting Savills).

⁽⁵⁾ Source: Savills Russia.

⁽⁶⁾ Source: Pilgrim Development.

Real-estate assets

(continued)

SUSTAINABLE GROWTH OF REAL ESTATE BUSINESS AND KEY EVENTS IN 2015

Business Nedvizhimost

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

Leader-Invest

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

Mosdachrest

The main assets of Mosdachrest are land plots in Serebryany Bor (19.9 ha) with 187 cottages (total area 38,948 sqm).

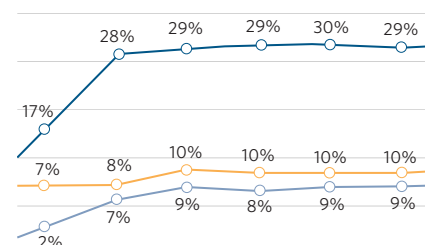
Most of the properties in Serebryany Bor are in reasonably good condition, but some show signs of obsolescence and deterioration. Mosdachrest's main task for this year is to repair and upgrade the cottages. To maintain the rent pool in a good condition, the company is developing a plan of detailed stock-taking of all properties and a schedule for repairs and overhaul, which will help to retain tenants.

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

Business Nedvizhimost

Operating highlights of Business Nedvizhimost	2015	2014	%
Area under management, thousand sqm	446	569	- 22%
Rented by MGTS, thousand sqm	141.2 ⁽¹⁾	228.8	- 38%
Rented by external counterparties, thousand sqm	116.3	91.8	+ 27%

Vacancy rates



Leader-Invest

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

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

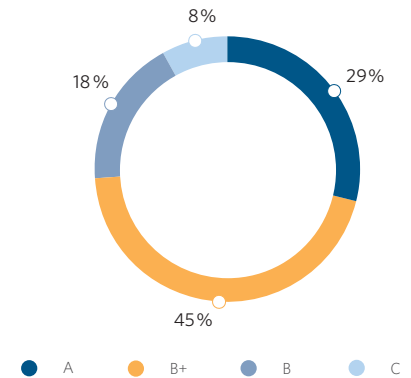
STRATEGY

The restructuring of Business Nedvizhimost, during which it will be merged with Rent Nedvizhimost, will be completed in 1H 2016. Following the consolidation, Business Nedvizhimost will become the owner of about 430,000 sqm of commercial real estate. In 2016, it plans to conduct partial repairs at 33 properties and reconstruct the building at Milyutinsky 5, with total investment planned at RUB 400m. Repairs at other properties will mostly include renovations of entrance lobbies and utility systems. A total of 44 properties will be rented out as is. In accordance with the development strategy, several properties will be sold in 2016. The sale of the building at 15/17 1st Krasnoselsky lane, bld. 1, will be closed in 1H 2016.

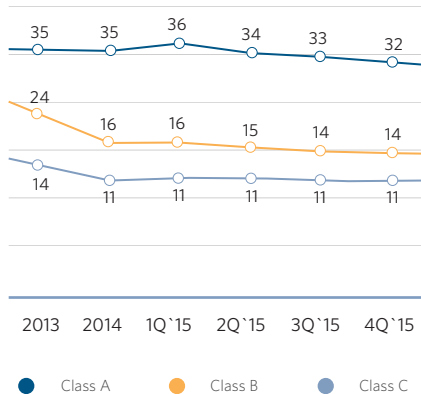
In accordance with its goals for 2016, Leader-Invest plans to commission five apartment blocks with an area of 87,400 sqm and launch construction of another 17 with a total area of at least 200,000 sqm. Two large-scale projects – Nagatino i-Land and Lobachevskogo 120 – are in the pre-design stage. Sales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

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

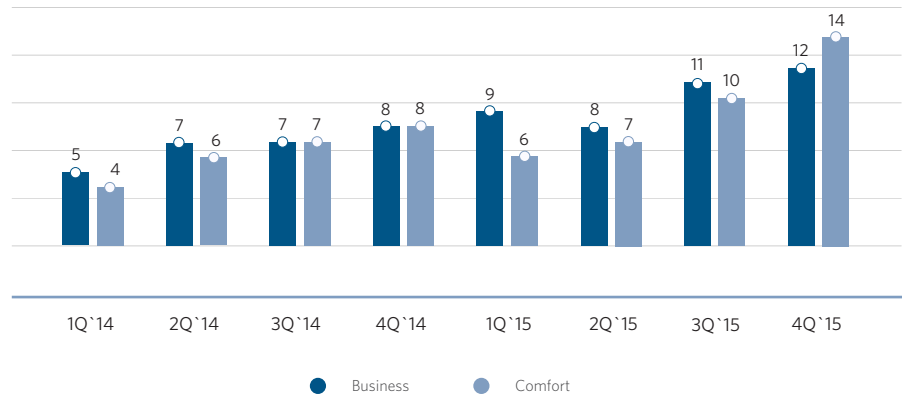
The structure of office real estate supply at the end of 2015



Rent rates, RUB/sqm/year



New building supply 2014-2015, '000 pieces



SG-trans

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

INDUSTRY

Rail freight volumes in Russia in 2015 declined 1.1% year-on-year, to 1,215 bln tonnes⁽¹⁾. Freight volumes in Russia have been declining for three consecutive years, driven by an unfavourable economic situation as well as a downturn in local production volumes. Shippers of construction materials, scrap metals, ferrous metals and oil have been hit hardest. A 2.3% drop in rail shipments of oil and oil products resulted from the “tax manoeuvre” that caused output to fall,

as well as the addition of new pipeline capacity. In contrast, shipments of coal, mineral fertilisers, non-ferrous ores and timber all increased from 2014. An upward trend continued in transportation of LPG, SG-trans’s most important business segment, which grew 4.4% over the year. SG-trans’s LPG shipments grew faster than the rest of the market, leading to an increase in the company’s market share from 30% in 2014 to 32% in 2015.



50%

Effective shareholding



Management:

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

Ali Uzdenov
(Chairman of the Board of Directors)

Higher LPG⁽²⁾ production stabilised demand for gas tanks, which increased utilisation of the company’s gas tanks and meant daily rent rates⁽³⁾ rose by an average 10% year-on-year. Although the company’s gondola cars are invariably underutilised, new legislation adopted at the end of 2015 to ban the practice of extending operations of railcars beyond their standard service lives may reverse this trend.



⁽¹⁾ Source: Russian Railways.
⁽²⁾ Source: Central Dispatching Department of Fuel Energy Complex.
⁽³⁾ Source: Promyshlennye Gruz (magazine).

SUSTAINABLE GROWTH OF SG-TRANS AND KEY EVENTS IN 2015

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

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

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

STRATEGY

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

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

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

36.6

bln tonnes/km

JSC SG-trans turnover



19.7

thous. tonnes

JSC SG-trans loading volumes



19.6

mln tonnes

LPG transportation volumes on the Russian Railways network



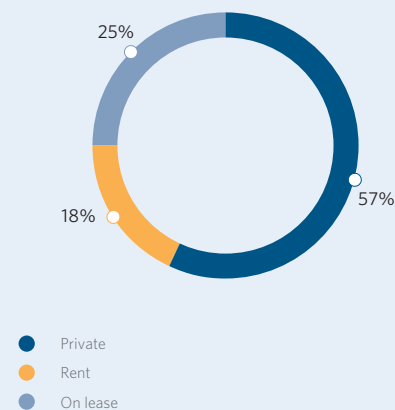
19.4

RUB bln



Revenues in 2015⁽¹⁾

Rail car fleet managed by SG-Trans
by ownership type



- Private
- Rent
- On lease

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

Other investments

CONCEPT GROUP

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

9.8
RUB bln



The Group's revenue in 2015

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

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

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



In 2015, the Group opened 73 Acoola stores (54 branded and 19 franchise outlets) and 21 Concept Club stores (eight branded and 13 franchise outlets). In 2015, like-for-like (LFL) sales gained 23% at Acoola and 7% at Concept Club, despite declines in the women's and children's clothing markets of 5% and 7% , respectively. Concept Club is headquartered in St Petersburg⁽¹⁾.

INTELLECT TELECOM

Intellect Telecom is Sistema's innovation and research centre for telecommunications.

In 2015, Intellect Telecom completed its scheduled consultancy projects and entered the final phase of R&D for GSM900 capacity transfer repeaters in cooperation with Izhevsk Radio Plant, the partner selected to produce the first batch. Much of the company's focus in 2015 was on crafting a new strategy to make the transition from a business model dominated by consultancy services to full-scale production and sales of sought-after, highly efficient, innovative products.

To make the preparation and launch of the new strategy possible, the company underwent a restructuring; acquired expertise in marketing, sales and design; streamlined its workflow to become a full-fledged R&D centre; carried out detailed market research and forecasting in telecoms equipment and systems; identified attractive market segments (RAN/HetNet); identified small base stations as the target end product; and started preparing the materials and technological base for design work.

SISTEMA MASS MEDIA

In 2015, Sistema Mass Media (SMM) continued its strategy of optimising its asset portfolio and improving operational efficiency

Despite market changes and an overall deterioration in the traditional media environment, the group managed to achieve annual revenue growth and an improvement in returns. SMM demerged production business (RWVS) in April 2015. Another achievement was a reduction in headquarters expenses. Despite a reduction of SMM's asset portfolio, its revenue in 2015 remained at the same level as 2014, while OIBDA improved.

The company sees its further development prospects in entering new attractive digital markets. In October 2015, Sistema announced its plans to transform Sistema Mass Media into a venture capital fund specialising in online projects. The initiative is seen as a way to fuel business development and value growth.

⁽¹⁾ Source: Euromonitor.

OZON HOLDINGS LIMITED

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

13.5
RUB bln



The Group's revenue in 2015

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

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



INTOURIST

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

7 hotels



Company runs hotels with 2,501 rooms with chain diversified across several Russian cities

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

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

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

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

KRONSHTADT GROUP

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

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

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

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

Description of main risk factors

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

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

SISTEMA GROUP'S INTEGRATED ERM SYSTEM

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

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

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

External Risks

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



FINANCIAL RISKS

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

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

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

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

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

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

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



POLITICAL AND SOCIAL RISKS

The influence of geopolitical risks on the Group and its portfolio companies has significantly intensified over the reporting period, as protectionism and economic sanctions are increasingly being used as a tool for achieving geopolitical goals.

The risk of inter-state conflicts has risen significantly since the beginning of 2014, both in terms of probability and in terms of potential effect on various areas of Sistema Group's activities. For example, insurance companies may set higher insurance premiums for Sistema Group or refuse to insure against specific risks, which may lead to a deterioration of the Group's financial results.

Imposition of sanctions against Russia or Russian companies may result in disruption to international payment systems, which in turn may prevent the Group and its portfolio companies from making settlements and reduce Sistema's investment appeal.

A potential rise in social unrest in the regions where the Group operates may threaten its profits.



LEGAL RISKS

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

1. possible discrepancies and ambiguities in:
 - federal and other laws;
 - bylaws issued by executive authorities of states where Sistema Group operates;
 - regional and local laws, rules and requirements;
2. gaps in legislation and lack of court and administrative guidelines regarding the interpretation of some laws, as well as conflicting court guidelines and rulings;
3. influence of political, social and commercial factors on the judicial system;
4. potential selective or arbitrary actions of government authorities.

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

There is a risk of amendments to legislation in countries where Sistema Group companies operate, due to potential changes that may be introduced by foreign states or international organisations to legislation or regulations governing international trade

and investments. For example, Russia's accession to the World Trade Organisation may result in certain unpredictable legislative and other changes in markets where Sistema's companies operate.

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

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

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



TAXATION

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

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

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



SECURITIES MARKETS

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

Risks related to activities of Sistema



IMPLEMENTATION OF BUSINESS STRATEGY

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

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



ACQUISITION, INTEGRATION, DISPOSAL OR RESTRUCTURING OF ASSETS

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

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

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

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

- inability to efficiently integrate operating assets and personnel of the acquired company;

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

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

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

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

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



MANAGEMENT AND KEY PERSONNEL

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



CASH FLOWS FROM SUBSIDIARIES AND AFFILIATES

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



BORROWINGS

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



OVERDEPENDENCE ON MTS

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



LOAN COVENANTS

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



LICENCES AND PERMITS

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



PRIVATISED COMPANIES

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

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



ANTI-CORRUPTION RULES

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



COMPETITION

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



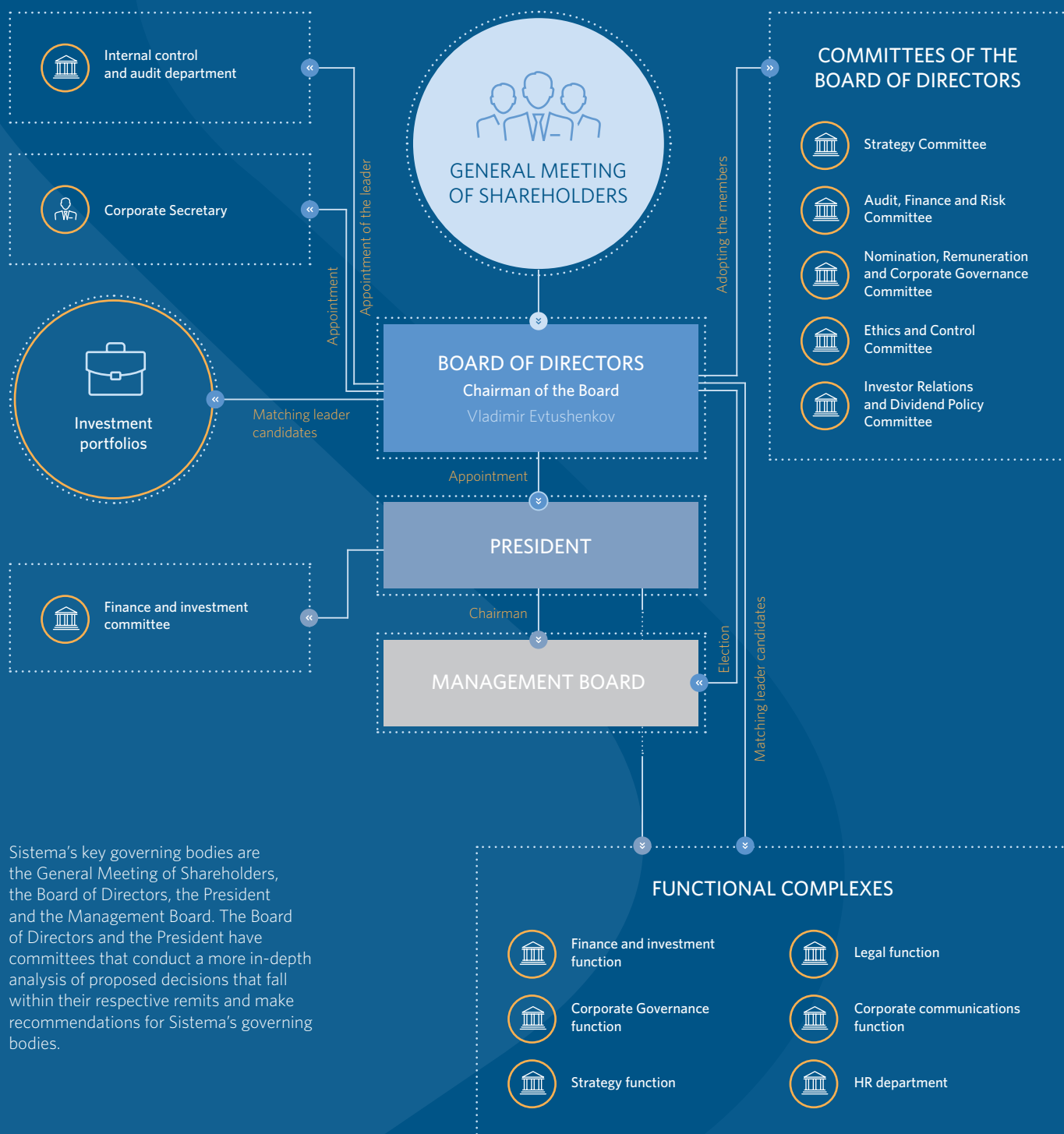
BRAND QUALITY AND REPUTATION

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

Corporate Governance

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Sistema JSFC's Corporate Governance Structure⁽¹⁾



Sistema's key governing bodies are the General Meeting of Shareholders, the Board of Directors, the President and the Management Board. The Board of Directors and the President have committees that conduct a more in-depth analysis of proposed decisions that fall within their respective remits and make recommendations for Sistema's governing bodies.

⁽¹⁾ As of 31 December 2015.

Corporate Governance Principles

Maintaining an efficient system of corporate governance and ensuring transparency in accordance with international best practices are crucial elements of Sistema JSFC’s strategy as an investment company. Pursuing such policies enables Sistema to attract partners and investors to work together in an atmosphere of mutual trust and to increase returns on equity by implementing highly effective management solutions.

To achieve these goals, Sistema’s corporate governance policy is based on the following fundamental principles:

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

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

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

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

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

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

⁽¹⁾ The text of the Corporate Governance Code is available at: http://www.cbr.ru/sbrfr_new/files/legislation/letters/2014/Inf_apr_1014.pdf.
⁽²⁾ The text of the UK Corporate Governance Code is available at: <https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf>.

General Meeting of Shareholders

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

PRINCIPLES OF OPERATION

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

All materials for General Meetings are made available to shareholders in both Russian and English and are published on Sistema's website (www.sistema.ru; www.sistema.com). In addition to a notice regarding an upcoming meeting, shareholders also receive their ballots. The venues for Sistema's General Meetings of Shareholders are usually located in the vicinity of the Group's head office and, over the last three years (2013-2015), have been held at Sistema's head office.

OBSERVANCE OF SHAREHOLDERS' RIGHTS

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

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

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

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

Holders of Sistema global depository receipts (GDRs) may vote on agenda items at a General Meeting of Shareholders by means of a proxy vote in line with the established procedure via a depository bank servicing Sistema's GDR programme. In 2015, Sistema's depository bank was Deutsche Bank AG, which the Company is planning to replace in 2016.

The votes of GDR holders – information about such votes is disclosed to the depositary – are collected by the depositary bank via clearing systems and are included in the general ballot with all the votes cast for or against a proposed draft resolution or abstaining.

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

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

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

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

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

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

DIVIDEND POLICY

To determine the recommended amount of dividends that will be payable, the Group's Board of Directors abides by the dividend policy approved in October 2011. In compliance with this policy, the amount of dividends payable shall be at least 10% of Sistema Group's net income generated during the preceding financial year as per its financial statements prepared in compliance with International Financial Reporting Standards and at least 10% of the net cash income generated by the Group's investment transactions over the same period (special dividend).

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

A more detailed report on the amount of allocated and paid dividends for the period from 2010 to 2015 is provided in Section 3.6. of this annual report.

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

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

GENERAL MEETINGS OF SHAREHOLDERS HELD IN 2015 AND THEIR RESULTS

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

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

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

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

- approval of meeting procedures;
- approval of the annual report and annual financial statements, including the Group's profit and loss account for 2014;

- distribution of income, approval of the amount of dividends payable on the Group's shares, the form and procedure for the dividend payment, the date for determining the shareholders entitled to dividends;
- election of members of the Group's Audit Commission;
- election of members of the Board of Directors;
- approval of the Company's auditors;
- approval of the revised Terms of Reference of the General Meeting of Shareholders of Sistema JSFC;
- approval of the revised Terms of Reference of the Board of Directors of Sistema JSFC;
- approval of the revised Policy on Remuneration and Compensation payable to members of the Board of Directors of Sistema JSFC;
- determination of the number of members of the Board of Directors of Sistema JSFC.

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

The Annual General Meeting of Shareholders:

Approved the Annual report and financial statements for 2014

Allocated RUB 4,535.500 mln for dividend payout, which amounted to RUB 0.47 per ordinary share of Sistema JSFC

Elected the Audit Commission and the Board of Directors

Approved the appointment of auditors

Took a decision to approve the revised versions of the Terms of Reference of the General Meeting of Shareholders, the Terms of Reference of the Board of Directors and the Policy on Remuneration and Compensation payable to members of the Board of Directors of Sistema JSFC

Board of Directors

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

Membership of Sistema’s Board of Directors elected on 27 June 2015⁽¹⁾



Vladimir Evtushenkov
Chairman of the Board



Sergey Boev
Deputy Chairman of the Board



Brian Dickie⁽²⁾



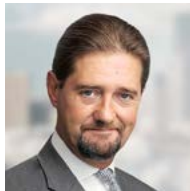
Andrey Dubovskov



Felix Evtushenkov



Dmitry Zubov



Patrick Clanwilliam⁽¹⁾



Robert Kocharyan⁽¹⁾



Jeannot Krecké⁽¹⁾



Peter Mandelson⁽¹⁾



Roger Munnings⁽¹⁾



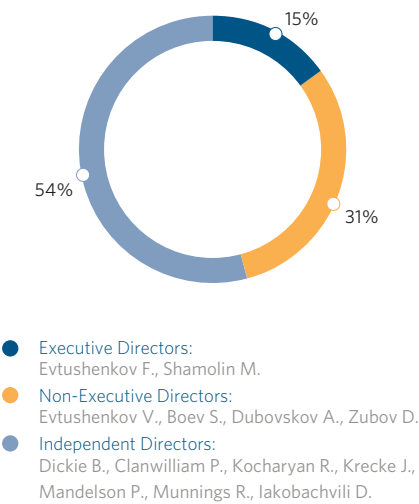
Mikhail Shamolin



David Iakobachvili⁽¹⁾

MEMBERSHIP OF THE BOARD OF DIRECTORS

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



⁽¹⁾ Short biographies of the members of the Board of Directors and information about their shareholdings in Sistema JSFC are available in Annex 1.
⁽²⁾ Independent directors meeting the independence criteria established by the Moscow Exchange Listing Rules.

CHANGES TO THE MEMBERSHIP OF THE BOARD OF DIRECTORS

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

MEETINGS OF THE BOARD OF DIRECTORS

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

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

1. Sistema's development strategy.
2. Sistema's asset portfolio structure.
3. Sistema Group's strategic planning cycle.
4. The Company's investment policy and priority investment areas in 2015-2016.
5. Sistema's strategy for development and value creation for its key portfolio assets:
 - telecoms;
 - oilfield services;
 - banking;
 - transport;
 - high-tech;
 - real estate;
 - healthcare;
 - pharmaceuticals;
 - power grid;
 - agriculture;
 - hotels;
 - timber processing and pulp and paper;
 - consumer (retail), including e-commerce.
6. Sistema's performance results and budget execution.
7. Sistema's budget planning, approval of its consolidated budget and key performance indicators for management for 2016.
8. Functional strategy in finance management and financial planning.
9. Placement of securities (registration exempt bonds).
10. Risk and opportunity management within the Group.
11. Report of the Internal Control and Audit Department.
12. HR issues, HR management and personnel motivation.
13. Investor and public relations functional strategy.
14. Reduction of Sistema's discount.
15. Functional strategy on corporate security.
16. Assessment of corporate governance, including the self-assessment results of Sistema's Board of Directors and Board Committees.
17. Corporate social responsibility.
18. Mandatory corporate procedures, including the calling of the Annual General Meeting of Shareholders and developing the work plan for the Board of Directors.
19. Membership of Board Committees.
20. Approval of internal regulations.
21. Approval of transactions.
22. Holdings in investment funds.

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

8 meetings

Number of in-person meetings



3 meetings

Number of meetings by absentee voting



40 items

Number of items in accordance with the Board's work plan

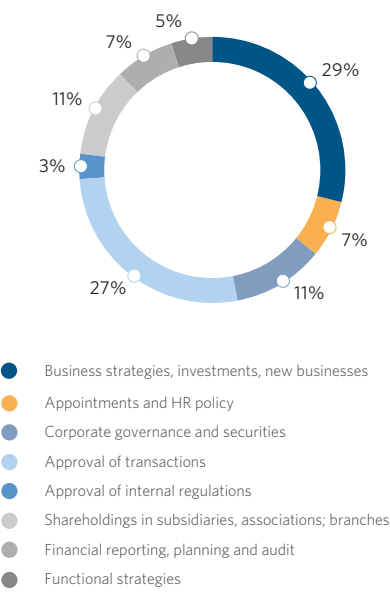


91 items

Number of items reviewed at Board meetings



Items reviewed by the Board of Directors in 2015



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

26 items

Business strategies, investments, new businesses



6 items

Appointments and HR policy



10 items

Corporate governance and securities



25 items

Approval of transactions



3 items

Approval of internal regulations



10 items

Shareholdings in subsidiaries, associations; branches



6 items

Financial reporting, planning and audit



5 items

Functional strategies



PREPARATION FOR MEETINGS AND QUORUM OF THE BOARD OF DIRECTORS

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

Most agenda items (including approval of transactions) have to be provisionally discussed at meetings of the Board Committees.

Members of the Board routinely meet those scheduled to speak at meetings and also members of the management at a business dinner the evening before a meeting. In the course of these meetings, Board members have an opportunity to receive additional explanations on each agenda item and clarify the provisional voting positions of the parties.

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

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

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

¹ The first number denotes the number of meetings attended by the Board member, while the second number is the total number of meetings the member could have participated in.

² This member left the Board of Directors on 27 June 2015.

³ This member joined the Board of Directors on 27 June 2015.

Committees of the Board of Directors

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

Sistema's Board of Directors has five committees:

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

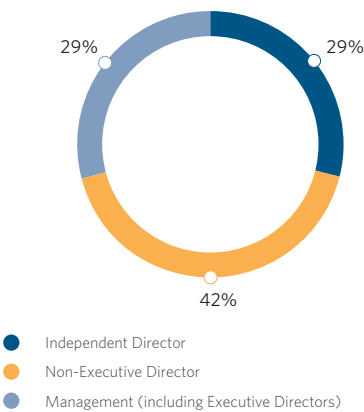
The main role of the Committees is to provide assistance to the Board in preparing and adopting decisions in its respective functional areas, as well as to ensure that matters brought for consideration by the Board of Directors are scrutinised prior to Board meetings. The meetings of the Committees (except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

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

STRATEGY COMMITTEE

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

Share of Independent Directors in the Committee



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

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

The Committee is responsible for a provisional review of:

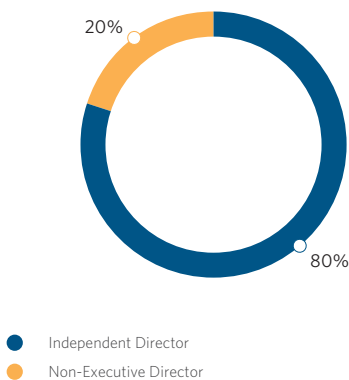
- all M&A transactions within Sistema Group with a value exceeding US\$ 100 mln;
- all Sistema Group projects related to entering new regions or industries;
- all Sistema Group projects with significant government participation.

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

AUDIT, FINANCE AND RISK COMMITTEE

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

Share of Independent Directors in the Committee



Roger Munnings, Chairman of the Audit, Finance and Risk Committee, has vast experience in the field of financial audit.

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

- preparation and audit of the Company's financial statements;
- interaction with external auditors;
- assessment of the risk management system and compliance with the applicable legal requirements in financial reporting, audit and planning;
- budgeting and financial modelling;
- internal audit;

- functioning of a whistle-blowing system aimed at reporting potential instances of wrongdoing;
- provisional appraisal of transactions submitted to the Board of Directors.

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

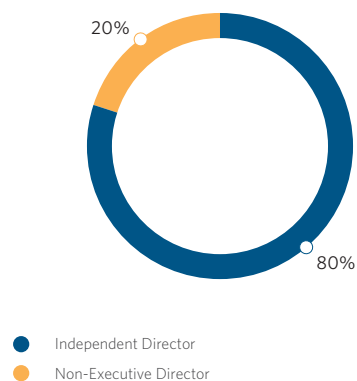
- 32 items related to appraisal of individual transactions submitted for consideration by the Sistema Board of Directors;
- 13 items related to the preparation and audit of financial statements and supervision of these processes;
- 7 items related to financial planning and risk management;
- 6 items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

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

KNOMINATION, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE

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

Share of Independent Directors in the Committee



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

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

- for the Boards of Directors of portfolio companies;
- for the position of the Group's Corporate Secretary;

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

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

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

Sistema's Nomination, Remuneration and Corporate Governance Committee determines the Board's self-assessment procedure. An assessment is carried out for 10 key criteria in order to identify those areas of the Board's work that are in need of improvement. The Committee uses the results of this self-assessment to formulate an annual plan aimed at developing Sistema's corporate governance systems, which is then submitted to the Board of Directors for approval.

4,02 points

The Board's performance
(on a five-point scale)



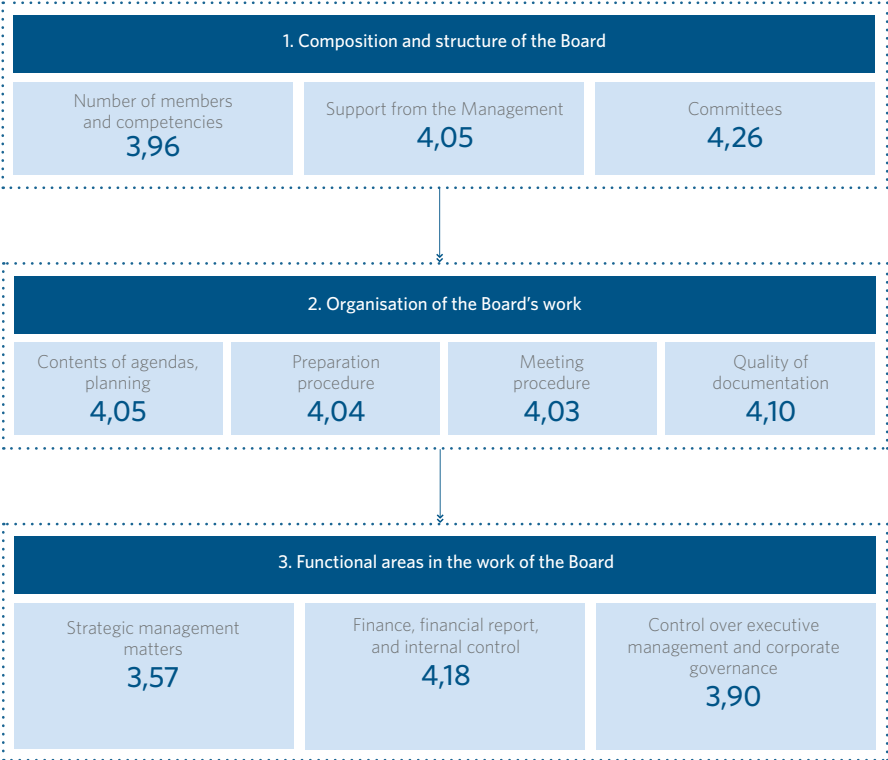
The most recent assessment of the Board of Directors' work was performed in May 2015. The Board's performance was rated as 4.02 (compared to 4.19 in 2014) on a five-point scale.

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

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

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

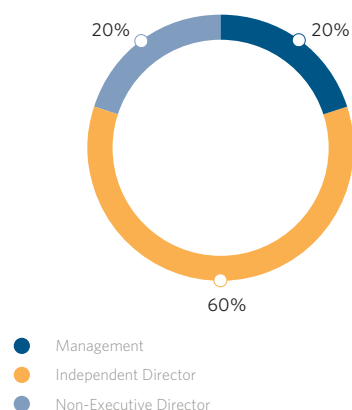
The Committee conducts regular monitoring of Sistema's potential HR needs and succession pool.



ETHICS AND CONTROL COMMITTEE

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

Share of Independent Directors in the Committee



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

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

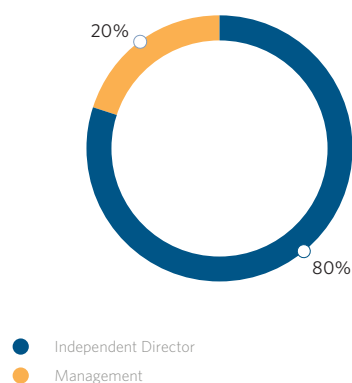
In 2015, the Ethics and Control Committee held seven meetings at which 21 items were reviewed, including the following:

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

INVESTOR RELATIONS AND DIVIDEND POLICY COMMITTEE

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

Share of Independent Directors in the Committee



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

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

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

- 6 items related to market monitoring and measures aimed at capitalisation growth;
- 3 items related to interaction with the investment community and recommendations for the amount of dividends payable;
- 1 item related to corporate social responsibility;
- 1 housekeeping matter.

President

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



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

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

Mr Mikhail Shamolin was born in 1970 in Moscow.

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

In 1993, from the Russian Presidential Academy of Public Administration.

In 1996-1997, he took a finance and management course for senior executives at the Wharton School of Business.

In 1998-2004, he worked for McKinsey&Co, an international consultancy company.

In 2004-2005, he was Managing Director for Ferroalloys at Interpipe Corp (Ukraine).

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

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

Mr Mikhail Shamolin sits on the Board of Trustees of the Sistema Charitable Foundation.

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

Management Board

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

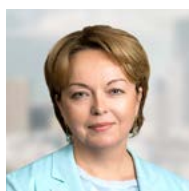
Members of the Management Board of Sistema JSFC⁽¹⁾



Mikhail Shamolin
Chairman
of the Management Board



Nikolay Vasilkov⁽²⁾



Elena Vitshak



Felix Evtushenkov

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



Valentin Korchunov



Leonid Monosov



Oleg Mubarakshin



Alexander Gorbunov



Vsevolod Rozanov



Ali Uzdenov



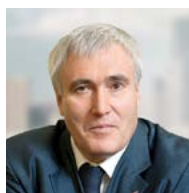
Mikhail Cherny



Evgeny Chuikov



Sergey Shishkin



Vladimir Shukshin

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

⁽²⁾ Mr Nikolay Vasilkov's membership on the Board was terminated after the reporting period, in March 2016.

31 meetings



Meetings conducted in 2015

72 items



Items, reviewed on agenda

1.

Preliminary review of matters to be submitted to the Board of Directors, including:
 - Sistema’s development strategy;
 - Sistema’s asset portfolio structure;
 - Sistema Group’s strategic planning cycle;
 - development and value creation strategies for Sistema’s key assets;
 - Sistema’s functional strategies;
 - performance against budgets and budget planning;
 - corporate social responsibility at Sistema JSFC;
 - approval of internal regulations;
 - approval of specific deals;
2.

Debt and liquidity management.
3.

Risk management and preparation of risk maps.
4.

Participation in investment projects.
5.

Review of deals requiring no approval from the Board of Directors or the General Meeting of Shareholders.

CHANGES MADE TO SISTEMA’S MANAGEMENT BOARD IN 2015

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

Nikolay Vasilkov	7 February 2015	Elected as a Board member. Appointed Vice President, Head of the Strategy Function of Sistema JFSC.
Michael Hecker	10 February 2015	Membership terminated.
Anton Abugov	27 June 2015	Membership terminated.
Christopher Baxter	27 June 2015	Membership terminated.
Andrey Terebenin	13 September 2015	Membership terminated.
Evgeny Chuikov	13 September 2015	Elected as a Board member. Appointed Vice President, Head of the Corporate Communications Function of Sistema JFSC.
Vladimir Shukshin	13 September 2015	Elected as a Board member.
Alexander Gorbunov	11 December 2015	Elected as a Board member. Appointed Vice President of Sistema JFSC.
Valentin Korchunov	11 December 2015	Elected as a Board member. Appointed Vice President, Investment Portfolio Manager of Sistema JFSC.
Mikhail Cherny	11 December 2015.	Elected as a Board member. Appointed Vice President, Investment Portfolio Manager of Sistema JFSC.
Sergey Shishkin	11 December 2015	Elected as a Board member. Appointed Vice President, Head of the Corporate Governance Function of Sistema JFSC.
Sergey Drozdov	11 December 2015	Membership terminated.

President's Committees

The President's committees are permanent consultative collective bodies tasked with producing detailed analyses of current affairs and processes within their remit and assisting the President in decision-making.

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

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

FINANCE AND INVESTMENT COMMITTEE

The Finance and Investment Committee performs the following tasks:

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

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

In 2015, the Committee met 56 times.

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

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

In 2015, the Risk Subcommittee met 10 times.

TENDER COMMITTEE

The Tender Committee performs the following tasks:

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

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

In 2015, the Tender Committee met 36 times.

HR COMMITTEE

The HR Committee performs the following tasks:

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

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

In 2015, the Committee met 18 times.

SECURITY COMMITTEE

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

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

In 2015, the Committee met 4 times.

INTERNAL CONTROL COMMITTEE

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

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

In 2015, the Committee met 6 times.

DISCIPLINE COMMITTEE

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

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

In 2015, the Committee met 3 times.

Risk management, internal control and internal audit systems

RISK MANAGEMENT

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

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

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

Sistema's risk management procedures are implemented by a dedicated Risk Management Unit.

The Group's risks are monitored on a quarterly basis by Sistema's Management Board and Risk Subcommittee, who review the effects of mitigation and response measures taken and reassess persisting and/or new risks.

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

INTERNAL CONTROL SYSTEM

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

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

The key objectives of the internal control system are:

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

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

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

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

INTERNAL AUDIT

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

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

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

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

- performing independent audits of individual operations, processes and units;
- assessing the efficiency of the internal control system;

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

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

The Internal Control and Audit Department interacts closely with independent auditors, coordinates audits and offers consultations in the course of the preparation of the Department's annual audit plans in regard of the assessment of the efficiency of internal controls applied to financial statements, as well as during discussions and assessments of identified risks.

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

Reports on the results of the activities performed by the Internal Control and Audit Department in H1 2015 and FY2015 were submitted to the Audit, Finance and Risk Committee and to the Ethics and Control Committee of Sistema's Board of Directors⁽¹⁾. A report on the work performed by the Internal Control and Audit Committee in 2015 was made to Sistema's Board of Directors on 12 March 2016.

EXTERNAL AUDIT

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

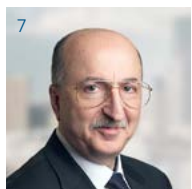
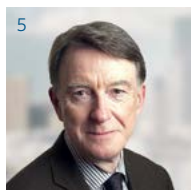
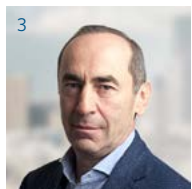
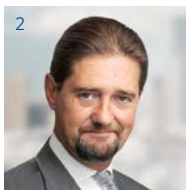
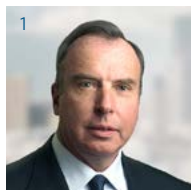
⁽¹⁾ At a joint meeting of the two committees.

Development of the corporate governance in 2015

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

The current Board comprises the following independent directors:

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



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

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

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

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

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

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

Remuneration policy applied to Board members and senior Management

REMUNERATION POLICY REGARDING MEMBERS OF THE BOARD OF DIRECTORS

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

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

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

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

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

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

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

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

REMUNERATION POLICY REGARDING MANAGEMENT

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

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

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

⁽¹⁾ This target was met in 2015, since the arithmetic mean of TSR and iTSR for the year is 26.9% and CoE is 14.6%. CoE stands for the minimum rate of return that a company ought to provide to its shareholders for the risk they take. CoE is calculated as the sum of a risk-free rate of return (e.g. the return on government bonds) and a premium for the risk related to investing in the stock market, taking into account the capital structure of the asset and country-specific risks.

Participants are assigned a certain number of phantom shares that are transferred to them in installments, upon achievement of targets set by Sistema's shareholders. Share transfers take place annually over the course of five years from the launch of the programme.

No extra compensation above the level stipulated by Russian labour legislation is paid to the President or other senior executives in case of termination of employment.

Sistema does not pay remuneration to members of executive bodies for serving on the Management Board.

The Group does not grant loans to senior executives.

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

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

Cash remuneration	RUB 630,769,427 ⁽²⁾	Remuneration for work as the Board of Directors and for additional duties performed for the Board, as well as salaries and bonuses for 2015 ⁽³⁾ .
Remuneration in the form of Sistema's ordinary shares	RUB 187,381,041	Shares granted to Board members for the 2014-2015 corporate year and remuneration under the long-term incentive programme.
Reimbursement of expenses incurred by Board members in connection with their duties	RUB 2,771,634	

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

Cash remuneration	RUB 2,639,907,058	This amount includes fixed salaries and bonuses for 2015 ⁽⁶⁾ .
Remuneration in the form of Sistema's ordinary shares	RUB 632,975,030	The shares were paid under the long-term incentive programme.

⁽¹⁾ All figures in this section are given before applicable income tax.

⁽²⁾ The amount represents total remuneration paid to all members of the board for the 2014-2015 corporate year, being the ruble equivalent of fixed amounts in US\$, calculated at the Russian Central Bank's exchange rate on the date of payment (see above in this section).

⁽³⁾ Excluding members of Sistema's Board of Directors who were also members of its Management Board.

⁽⁴⁾ The ruble equivalent of fixed amounts in US dollars, calculated at the Russian Central Bank's exchange rate on the date of payment (see above in this section).

⁽⁵⁾ Including the President of Sistema JSFC.

⁽⁶⁾ Bonuses for 2015 were paid to Sistema's employees in January 2016.

Social responsibility

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



1.35
RUB bln

Sistema's social investments



TOP-5
ranking

Leaders of Corporate Charity



RESPONSIBLE INVESTOR

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

Sistema's CSR principles include:

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

Building mutually beneficial relationships with interested parties based on business ethics

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

Ensuring occupational safety and investing in human potential

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

Openness and transparency, and development of social reporting



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

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

Responsible investor

Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.	Sistema Group includes a number of high-tech companies implementing telecoms and electricity infrastructure projects, and developing and manufacturing knowledge-based products in segments such as microelectronics and radio technology. To help drive the modernisation of the Russian economy, Sistema joined efforts with Rosatom, the Russian Federal Nuclear Centre VNIIEF and RUSNANO to develop the Sarov Technopark project. The project is implementing a unique public-private financing programme and serves as a platform for Innovation Technology Center Sistema Sarov, a Sistema R&D centre. In 2015, the number of Technopark residents reached 60, with total staff numbers exceeding 730 and total revenue of RUB 1.2 bln. Sarov Technopark mostly specialises in information technologies, energy efficiency, sensors and automation, and new materials.
Make cities and human settlements inclusive, safe, resilient and sustainable.	Sistema and its subsidiaries are developing and implementing high-tech solutions aimed at creating a smart and safe environment across Russia. For example, Sitronics KASU has developed a comprehensive automated security system and intelligent transport systems for the city of Moscow.
Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.	<p>Sistema Group includes Segezha Group, one of the largest forest users in the European part of Russia, which pursues an active reforestation policy in its regions of operation. More than 94% of the forest leased by Segezha has been certified under the international environmental standards adopted by the Forest Stewardship Council (FSC).</p> <p>To support biological diversity Sistema is participating in a project to research and conserve the population of Amur leopards, one of the rarest leopard subspecies on our planet and classified as critically endangered.</p>

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

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

The Group fully embraces the social responsibility concept outlined by the Russian Union of Industrialists and Entrepreneurs in the Social Charter of Russian Business, as well as the international standard ISO 26000:2010 (Guidance on Social Responsibility). Reports on corporate social responsibility and charitable activities are regularly reviewed by Sistema's Board of Directors, which determines strategic goals and assesses the efficiency of the Group's social investments. Overall guidelines for responsible business practices are determined by the Code of Ethics, which was revised by the Group's Board of Directors on 31 October 2015. Sistema's social responsibility and charity policies were also amended to include anticorruption procedures.

To improve CSR activities and sustainable development, strengthen integration between subsidiaries and implement best CSR practices, in July 2015 Sistema and MTS conducted a joint seminar on CSR as a platform for sustainable business development, which was attended by more than 50 representatives of Sistema subsidiaries. During the seminar Sistema presented the results of the CSR audit of Sistema Group conducted in 2015, and named the best CSR projects of its subsidiaries.

Social investments and charity



In 2003, Sistema JSFC established Sistema Charitable Foundation (SCF), which today is one of the 10 biggest charitable organisations in Russia and which serves as Sistema's main social investment tool. The key objective of SCF is to ensure maximum efficiency of the Group's social and charitable investment. SCF develops a social investment policy; organises large-scale corporate programmes; raises necessary funds; forms a portfolio of projects encompassing science and education, culture and art, conservation of cultural heritage, healthcare and social support, fitness and sports; and oversees the implementation of such projects. The Foundation gives priority to large-scale infrastructure projects that are implemented across Russia and deliver significant improvements in the social sphere.

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

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

540
RUB mln



Invested in charity projects

in TOP-5
ranking



Leaders of corporate charity

Lift to the Future: innovations and talents for high-tech industries

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

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

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

technologies, healthcare and biotechnologies, transport, manufacturing technologies and new materials, the living environment and energy.

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

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

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

The Chess in Schools project launched by the World Chess Federation (FIDE) and supported by Sistema Charitable Foundation has become an integral part of Lift to the Future.

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

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

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

MTS Group joined forces with some Sistema subsidiaries (MTS Bank, Medsi, Stream, etc.) to develop Telecom Idea, a cross-functional platform aimed at finding and supporting talented young people working on ICT projects for the private and public sectors of the Russian economy.



Since 2011, about 900 teams have taken part in a youth innovations contest organised by Telecom Idea, and more than a dozen of projects have been granted support. Telecom Idea's geographical footprint and partner network continues to grow. In 2015, Telecom Idea organised an IT start-up competition in Belarus, while the Russian competition was integrated with the national GenerationS technology start-up accelerator sponsored by Russian Venture Company (RVC). Projects selected after a multi-stage appraisal were granted considerable fund-raising opportunities.

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

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

In 2015, oil services holding Targin and BPGC signed an agreement with Ufa State Oil Technology University to work together on education, research and innovations, vocational training and career guidance for graduates. Targin also signed an agreement with the Skolkovo Foundation on establishing an R&D centre. To find promising innovative solutions and develop the skills of start-up teams implementing high-tech projects, Targin also became a partner of the Russian Startup Tour (RST) organised by the Skolkovo Foundation, the Federal Agency for Youth Affairs, the Foundation for Assistance to Small Innovative Enterprises in Science and Technology, the Association

>150
th. people



Total audience of the Lift to the Future project

>500
companies



Are partners of Lift to the Future project

of Innovative Regions of Russia, the Agency for Strategic Initiatives, RVC and the Rusnano Fund for Infrastructure and Educational Programmes.

Medsi Group was a key partner in the Digital Health open discussion panel organised by the Higher School of Marketing and Business Development at the Higher School of Economics to stimulate the digital medicine market in Russia by exchanging knowledge and by involving the expert medical community, innovators and investors in the search for new ideas.

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

Taking Care of Veterans - social partnership and preserving the memory of the Second World War

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

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

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

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

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

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

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

More than 400 employees of Sistema Group’s companies took part in these and other activities devoted to Victory Day.



Culture, historical and religious heritage

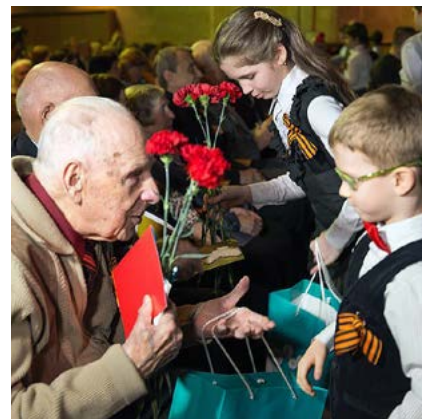
For many years, Sistema and SCF have taken part in large-scale projects aimed at promoting Russian culture, preserving historical monuments and art, and developing inter-cultural relations. SCF supports leading Russian museums, musical bands and theatres, finances restoration of architectural monuments, and helps children's cinema.

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

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

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

SCF also contributed to the establishment of Russia's first open-air shooting range for armoured vehicles at the Prokhorovskoye Field State Memorial Estate in Belgorod region, the site of one of the biggest tank battles in World War II. The decision to establish the training ground was made in 2014 by the Victory organisational committee chaired by the Russian President, and was inaugurated by Deputy Prime Minister Dmitry Rogozin on 16 May 2015.



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

Corporate volunteer movement

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

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

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



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

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

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

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

⁽¹⁾ Source: The Public Opinion Foundation



7%
involved

In charity movement



55
campaigns

Conducted volunteer campaigns in 2015



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

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

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

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

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

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

In May 2015, SCF signed an agreement with the National Sambo Federation to cooperate in organising a National Sambo Day. Events to promote this national sport took place on 15-18 November 2015 in more than 100 towns and cities across Russia. The Foundation was also a general partner of the President's Sambo Cup in Manchester.

Shared values and social marketing

Sistema’s strategic approach to CSR is based on the principles of synergy and shared values, and aims to involve as many subsidiaries as possible to help causes that address social issues while also helping develop the Group’s businesses.

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

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

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



>320 th.
people



Involved audience of MTS campaigns within 5 years

145
RUB mln



Donated Detskiy Mir to charity



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

As a programme evolving its remote banking system while also promoting charitable giving, MTS Bank now offers users of its online banking system and mobile app a feature that enables online fee-free contributions to Sistema Charitable Foundation. The first fundraising project



promoted via remote banking channels was Backpack for a First-Grader. In addition, MTS Bank continued its efforts to raise financial literacy nationwide, conducting a series of learning events on digital technology in banking and personal finance management at NAUKA O+, a national science festival organised with support from the Ministry of Education, and acting as a partner for a national knowledge competition among high school students on the topic of financial markets and basic consumer rights.

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

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

Green economy and environmental protection

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

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

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

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

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

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



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

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

Resources used in 2015

(Corporate Centre data)

Resources	2015		2014	
	Amount	RUB th. (VAT incl.)	Amount	RUB th. (VAT incl.)
Heating, Gcal	3,465.44	5,256.47	2,643.23	4,147.30
Electricity, th. Kw	2,684	9,069.52	3,223	12,865.29
Total:		14,325.99		17,012.59

NIIME & Mikron, an RTI Group company, implemented a comprehensive energy management system certified according to ISO 50001:2011, an international energy management standard. Mikron was among the first Russian businesses to adhere to the standard and has by now been re-certified based on a favourable audit opinion from Bureau Veritas Certification. Over four years of use, the system has allowed Mikron to cut electric power consumption by 27.2%, heat power consumption by 15.5%, and installed electrical load by 27.3%. Another area of the company's conservation focus is production of cutting-edge energy-saving microelectronic products (such as LED drivers) meeting the highest environmental standards.

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

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

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



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

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

>12 th. ha
forestland

Regenerated by Segezha Group in 2015



>10
RUB mln

Donated Sistema to the Russian Geography Society



Responsibility towards employees

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

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

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

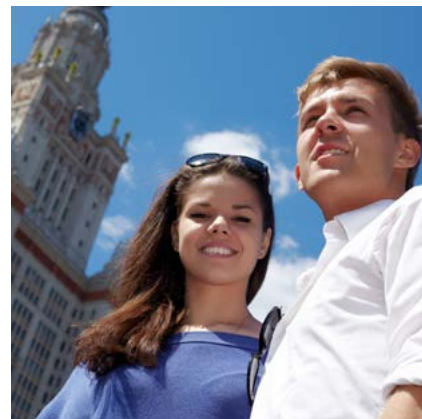
HR potential, skill levels, professionalism and a responsible tone at the top are crucial competitive advantages in a post-industrial economy. The heaviest focus of the HR strategy in 2015 was on HR programmes and projects designed to improve the personal efficiency of executives, promote a culture of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



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

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

In October 2015, Sistema’s Corporate University launched a professional advanced training programme, Leadership in Development, for executives of Leader-Invest at Moscow State University’s Higher School of Management and Innovation. Sistema has also developed new education programmes in innovation studies (management in engineering systems) to be deployed in partnership with other departments of Moscow State University (Physics, Chemistry, Biology, Computational Mathematics & Cybernetics and the Mechanics Research Institute) that will make their labs and equipment available for practical training.



The Group also gave a new impetus to the tried-and-trusted Strategic Management and Innovation master's programme, with a new modular format that provides managers from Sistema's subsidiaries an opportunity to study at Moscow State University. Last but not least, Sistema's employees are offered various advanced training courses at Moscow State University's Higher School of Management and Innovation free of charge.

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

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

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

>2th.
employees



Sistema's succession pool in 2015

in TOP-5
ranking



HR Brand in Russia

Annex

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Brief biographies of Sistema’s Board members, President, Management Board members, and Corporate Secretary. Their shareholding interests⁽¹⁾ in Sistema JSFC.

Members of the Board of Directors

Name, position	Brief biography
Vladimir Evtushenkov Chairman of the Board of Directors Non-executive director	<p>Born in 1948 in the Smolensk Region.</p> <p>In 1973, 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.</p> <p>1975 – 1982 Shop manager; deputy director; chief engineer, the Karacharovo Plastics Factory.</p> <p>1982 – 1987 Chief engineer, first deputy CEO, the Polymerbyt Research and Manufacturing Association.</p> <p>1987 – 1988 Head of the Technical Department, then head of the Main Department of Science and Technology, the Moscow City Executive Committee.</p> <p>1990 Chairman of the Moscow Municipal Committee for Science and Technology.</p> <p>1993 Founded Sistema Joint-Stock Financial Corporation together with a group of associates.</p> <p>Principal shareholder, Chairman of the Board of Directors and Chairman of the Strategy Committee of the Board of Directors of Sistema JSFC.</p> <p>Member of a number of government commissions, actively involved in decision-making for improvement of competitiveness of the Russian industry, development of high technologies and innovations, science and culture; chairman of the Russian-Arab Business Council, member of the management boards of the main associations of entrepreneurs in Russia - the Russian Union of Industrialists and Entrepreneurs and the Russian Chamber of Commerce and Industry.</p> <p>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 Sistema Charitable Foundation.</p> <p>Share in the authorised capital of Sistema JSFC – 64.1890%.</p>
Sergey Boev Deputy Chairman of the Board of Directors Non-executive director	<p>Born in 1953 in Moscow.</p> <p>In 1978, graduated from the All-Union Correspondence Law Institute, in 1984, from the Moscow Ordzhonikidze Institute of Management. Holds a PhD degree in Economics. Professor, honoured economist of the Russian Federation.</p> <p>Full member of the Academy of Military Science. Head of department at the National Research University of the Moscow Institute of Physics and Technology. Winner of the 2012 State Prize in science and technologies.</p> <p>Member of the Russian President’s Council for Economic Modernisation and Innovative 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.</p> <p>Co-Chairman of the working group for innovations of the EU-Russia Industrialists’ Round Table.</p> <p>Member of the Public Council of the Committee of Science and Science-Intensive Technologies of the State Duma of the Russian Federal Assembly and also of the Science and Technology Council of the Military and Industrial Commission of the Russian Government.</p> <p>1971 – 1999 Worked at the Mintz Radio Technology Institute where he made a career from fitter’s apprentice to CEO.</p>

⁽¹⁾ As of 31 December 2015.

2000 – 2008 CEO, OJSC RTI Concern.

2008 – 2011 Vice President, Head of the High Technology and Industry Business Unit, Sistema JSFC.

Since 2011 CEO, OJSC 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 of Sistema Charitable Foundation, Russian Admirals' Club, and the Suvorov Military School in Tver.

Member of the Board of Directors of Sistema JSFC since 2013. Chairman of the Ethics and Control Committee, member of the Strategy Committee, and the Audit, Finance and Risks Committee of the Board.

Share in the authorised capital of Sistema JSFC – 0.0176%.

Brian Dickie

Independent Director

Born in 1955 in Belfast, the United Kingdom.

Master of Arts in English literature, Oxford University; MBA, Harvard Business School.

1981 – 1998 Work at Booz Allen Hamilton Inc., an international management consulting company.

1993 – 1998 President, chairman of the board of the company's New York branch; 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.

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).

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 or member of the board of directors of a number of European and Middle Eastern companies.

Member of the Board of Directors of Sistema JSFC since 2012. Member of the Nomination, Remuneration and Corporate Governance Committee and the Ethics and Control Committee of the Board.

Share in the authorised capital of Sistema JSFC – 0.0050%.

Andrey Dubovskov

Non-executive director

Born in 1966.

In 1993, graduated from the Gerasimov State Institute of Cinematography with a degree in Film Direction.

Mr Dubovskov has an extensive experience in the telecom sector: Since 1993, he has held various managerial positions at Millicom International Cellular S.A., Millicom International Cellular B.V., LLC Regional Cellular Telecommunications, CJSC 800, and other companies in Moscow, Almaty, Nizhny Novgorod, Yekaterinburg, Perm, and Kiev.

2002 – 2004 CEO, Tele2 (Nizhny Novgorod).

2004 – 2006 Director, the Nizhny Novgorod branch, OJSC MTS.

2006 – 2007 Director, the Ural Macro Region, OJSC MTS.

November 2007 Appointed First Deputy CEO, CJSC UMS (MTS Ukraine).

January 2008 Appointed head of CJSC UMS and MTS Ukraine.

March 2011 Appointed President and Chairman of the Management Board, OJSC MTS. His term as MTS' President was renewed for another 3 (three) years starting from 05 March 2014 by decision of MTS' Board of Directors dd 13 February 2014.

Andrey Dubovskov
Non-executive director
(Continue)

He is also the Chairman of the Board of Directors of PJSC MGTS, Chairman of the Supervisory Board of MTS Ukraine, Chairman of the Board of Directors of JLLC Mobile TeleSystems, member of the Board of Directors of International Cell Holding LTD and CJSC Russian Telephone Company, and Director and Chairman of the Nomination and Remuneration Committee of SISTEMA SHYAM TELESERVICES LIMITED.

Member of the Board of Directors of Sistema JSFC since 2015. Member of the Strategy Committee of the Board.

Share in the authorised capital of Sistema JSFC – 0%.

Felix Evtushenkov
Executive Director
Management Board member

Born in 1978 in Moscow.

In 2000, graduated from the Griboyedov Institute of International Law and Economics with a degree in law.

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.

From 2012 First Vice President, Sistema JSFC.

Chairman of the Board of Directors of OJSC BPGC and some other companies.

Member of the Board of Directors of Sistema JSFC since 2015. Member of the Strategy Committee and the Ethics and Control Committee of the Board.

Share in the authorised capital of Sistema JSFC – 0.0929%.

Dmitry Zubov
Non-executive director

Born in 1954 in the Gorky Region.

In 1977, graduated from Moscow Ordzhonikidze Aviation Institute. Holds a PhD degree in Economics.

1992 – 1999 CEO of CJSC Alon, then held executive positions at MosEximBank, OJSC IBN Sistema and CJSC PromChemInvest.

Member of the Board of Directors of Sistema JSFC since 1999. Member of the Nomination, Remuneration and Corporate Governance Committee of the Board. Member of the Board of Trustees of Sistema Charitable Foundation.

Share in the authorised capital of Sistema JSFC – 1.0023%.

Patrick Clanwilliam
Independent Director

Born in 1960 in London.

Educated at Eton College and Royal Military Academy Sandhurst.

1990 – 1998 Councillor in the Royal Borough of Kensington and Chelsea (two successive terms).

1993 – now Founding Partner at Meade Hall & Associates, a political, strategic, financial and legal communication consultancy.

2002 – 2005 Chairman of the Transport Committee, the London Chamber of Commerce and Industry. Also served as chairman of the board of Cleveland Bridge UK Ltd., a leading global engineering company.

2006 – 2014 Non-executive member of the board of directors, OJSC Polyus Gold, Russia's biggest gold producer (by market share).

Since 2007 Chairman of the board, LLC Eurasia Drilling, Eurasia's biggest provider of drilling and well workover services.

Since 2011 Member of the expert council, MILIO International, a multinational company specialising in upstream, midstream and downstream fuel operations.

Since 2012 Non-executive director, NMC Healthcare PLC (UAE), a healthcare company.

Since 2013 Non-executive director, SOMA Oil & Gas (UK), a private company pursuing oil and gas exploration on continental shelf.

Member of the Board of Directors of Sistema JSFC since 2015. Member of the Investor Relations and Dividend Policy Committee of the Board.

Share in the authorised capital of Sistema JSFC – 0%.

Robert Kocharyan

Independent Director

Born in 1954 in Stepanakert, Nagorno-Karabakh Autonomous Region.

In 1982, graduated from the Yerevan Polytechnic Institute.

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.

1994 – 1997 President of the NKR.

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 Strategy Committee and the Ethics and Control Committee of the Board.

Share in the authorised capital of Sistema JSFC – 0.0082%.

Jeannot Krecké

Independent Director

Born in 1950 in Luxembourg.

Graduated from the Free University of Brussels. Further education 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, Luxembourg.

2004 – 2011 Minister of Economics and Foreign Trade, 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 Foundation.

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 the Board.

Share in the authorised capital of Sistema JSFC – 0.0055%.

Peter Mandelson

Independent Director

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 the UK.

1992 – 2004 Member of the UK Parliament.

July 1998 - December 1998 British Secretary of State for Trade and Industry.

1999 – 2001 Secretary of State for Northern Ireland.

2004 – 2008 European Commissioner for Trade.

2008 – 2010 Secretary of State for Business, Innovation and Skills; First Secretary of State.

Life peer in the House of Lords since 2008.

2010 Became chairman of Global Counsel, a consultancy firm, and senior advisor to Lazard Ltd.

President of the Policy Network think tank.

Member of the Board of Directors of Sistema JSFC since 2013. Member of the Investor Relations and Dividend Policy Committee of the Board.

Share in the authorised capital of Sistema JSFC – 0.0037%.

Roger Munnings

Independent Director

Born in 1950 in the United Kingdom.

Graduated from the Oxford University with a degree of Master of Arts in Politics, Philosophy, Economics.

Member of the UK Government's working group on trade and investments between Great Britain and Russia, Chairman of the Institute of Audit Committees of Russia.

Roger Munnings
Independent Director
(Continue)

Roger has had a long and successful career with the international auditor KPMG (1974-2008), including 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). Member of the Institute of Certified Accountants of England and Wales.

Member of the Board of Directors of Sistema JSFC since 2010. Chairman of the Audit, Finance and Risks Committee, member of the Investor Relations and Dividend Policy Committee and the Ethics and Control Committee of the Board.

Share in the authorised capital of Sistema JSFC – 0.0072%.

Mikhail Shamolin

Executive Director
President
Chairman of the Management Board

Born in 1970 in Moscow.

In 1992, graduated from the Moscow Automobile and Road Technical Institute, and in 1993, from the Russian Presidential Academy of Public Administration.

In 1996-1997, he took a finance and management course for senior executives at the Wharton School of Business.

1998-2004 Work at McKinsey&Co, the international consultancy.

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

Chairman of the Management Board of Sistema JSFC. Member of the Strategy Committee and the Investor Relations and Dividend Policy Committee of the Board. Member of the Board of Trustees of Sistema Charitable Foundation.

Share in the authorised capital of Sistema JSFC – 0.1946%.

David Iakobachvili

Independent Director

Born in 1957 in Georgia.

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 food producing company, Wimm-Bill-Dann.

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

President of LLC Orion Naslediye. Member of the boards of directors of a number of companies.

Member of managing bodies of various Russian and international organisations: Vice President and member of the Management Bureau of the Russian Union of Industrialists and Entrepreneurs (RSPP), head of the RSPP Committee for Corporate Social Responsibility and Demographic Policy, chairman of the RSPP United Ethics Committee, chairman of the 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 Strategy Committee, the Nomination, Remuneration and Corporate Governance Committee, and the Audit, Finance and Risk Committee of the Board.

Share in the authorised capital of Sistema JSFC – 0.0120%.

President and Management Board member

Name, position	Brief biography
Mikhail Shamolin President of Sistema JSFC Chairman of the Management Board of Sistema JSFC	<p>Born in 1970 in Moscow.</p> <p>In 1992, graduated from the Moscow Automobile and Road Technical Institute, and in 1993, from the Russian Presidential Academy of Public Administration.</p> <p>In 1996-1997, he took a finance and management course for senior executives at the Wharton School of Business.</p> <p>1998-2004 Work at McKinsey&Co, the international consultancy.</p> <p>2004 – 2005 Managing Director for the Ferroalloys Division, Interpipe Corp (Ukraine).</p> <p>2005 – 2011 Vice President for Sales and Customer Service, then Vice President, Head of Business Unit, President of OJSC MTS Russia.</p> <p>10 March 2011 Appointed President of Sistema JSFC. On 15 March 2014 the Board of Directors reappointed Mr Shamolin President and Chairman of the Management Board of Sistema for a new three-year term.</p> <p>Chairman of the Management Board of Sistema JSFC. Member of the Strategy Committee and the Investor Relations and Dividend Policy Committee of the Board. Member of the Board of Trustees of Sistema Charitable Foundation.</p> <p>Share in the authorised capital of Sistema JSFC – 0.1946%.</p>
Nikolay Vasilkov Vice President, Head of the Strategy Function of Sistema JSFC ⁽¹⁾	<p>Born in 1980 in Moscow.</p> <p>In 2004, graduated from the Moscow State University with a master's degree in management. A degree with honours. Was awarded a gold medal of the Moscow State University.</p> <p>2004 – 2005 Analyst of the investment banking division, JSC Corporate Finance Advisory (France).</p> <p>2005 – 2012 Vice President for Financial Consulting, LLC Renaissance Capital - Financial Consultant.</p> <p>2012 – 2015 Investment Director at an Investment Portfolio of Sistema JSFC.</p> <p>February 2015 - March 2016 Vice President, Head of the Strategy Function, Sistema JSFC.</p> <p>Share in the authorised capital of Sistema JSFC – 0.0149%.</p>
Elena Vitchak Vice President, Head of the HR Department, Sistema JSFC	<p>Born in 1971 in Moscow.</p> <p>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.</p> <p>Member of the Expert Council of the National Union of HR Specialists of Russia.</p> <p>Member of the HR Committee of the Association of Russian Banks.</p> <p>2002 – 2008 Head of the HR Department, Capital Insurance Group.</p> <p>2008 – 2010 Director of the HR Department, Member of the Management Board, OJSC Sistema Hals.</p> <p>2010 – 2012 Senior Vice President, Director of the HR Department, OJSC MTS Bank.</p> <p>2012 – 2013 Executive Vice President, Head of the HR Department, Sistema JSFC.</p> <p>From December 2013 Vice President, Head of the HR Department, Sistema JSFC.</p> <p>Share in the authorised capital of Sistema JSFC – 0.0283%.</p>
Elena Vitchak Vice President, Head of the HR Department, Sistema JSFC	<p>Born in 1971 in Moscow.</p> <p>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.</p> <p>Member of the Expert Council of the National Union of HR Specialists of Russia.</p>

⁽¹⁾ Relieved of his duties as Vice President, Head of the Strategy Function of Sistema JSFC in March 2016.

Elena Vitshak
Vice President, Head of the HR Department,
Sistema JSFC
(Continue)

Member of the HR Committee of the Association of Russian Banks.
2002 – 2008 Head of the HR Department, 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.
From December 2013 Vice President, Head of the HR Department, Sistema JSFC.
Share in the authorised capital of Sistema JSFC – 0.0283%.

Alexander Gorbunov

Vice President, Manager of Sistema’s
Telecom Assets

Born in 1967 in Moscow.
In 1992, graduated from the Moscow Engineering and Physics Institute with a degree in
experimental nuclear and plasma physics. In 1999, received an MBA degree from Harvard
University.
2002 – 2003 Deputy CEO, Intellect Telecom.
2003 – 2005 Head of Strategic Analysis Department, Director for Strategy at the Strategic
Analysis Department, OJSC MTS.
2005 – 2006 Head of the Corporate Development Department, Acting First Vice President,
Head of the Strategy and Development Function, Sistema JSFC.
2006 – 2010 Vice President for Strategy and Development, OJSC Comstar United
TeleSystems.
September - December 2010 Advisor to the president of OJSC Sitronics.
2010 – 2012 Executive Vice President of the Telecom Assets Business Unit, Executive Vice
President for Telecom Assets Development at the Core Assets Business Unit, Sistema JSFC.
2012 – 2015 Executive Vice President of an Investment Portfolio of Sistema JSFC.
From December 2015 Vice President, Sistema JSFC.
Share in the authorised capital of Sistema JSFC – 0.0049%.

Felix Evtushenkov

First Vice President, Investment Portfolio
Manager of Sistema JSFC

Born in 1978 in Moscow.
In 2000, graduated from the Griboyedov Institute of International Law and Economics with a
degree in law.
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.
From 2012 First Vice President, Sistema JSFC.
Chairman of the Board of Directors of OJSC BPGC and some other companies.
Share in the authorised capital of Sistema JSFC – 0.0929%.

Valentin Korchunov

Vice President, Investment Portfolio
Manager of Sistema JSFC

Born in 1982 in Moscow.
In 2005, graduated from the St Petersburg Polytechnic University with a degree in computer
science; in 2015, obtained an MBA degree from the Chicago School of Business.
2006 – 2009 Analyst, the Corporate Finance Department, Alfa Bank.
2009 – 2012 Head of Investment Analysis and Transactions, VTB Capital
2012 – 2015 Investment Director at an Investment Portfolio of Sistema JSFC.
From December 2015 Vice President, Sistema JSFC.
Share in the authorised capital of Sistema JSFC – 0.0124%.

Leonid Monosov

Vice President, Investment Portfolio
Manager of Sistema JSFC

Born in 1958 in Mozyr, Belarus.

In 1980, graduated from the Moscow Institute of Railway Engineers with a degree in industrial and civil construction.

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 Olympstroy.

2012 – 2013 Executive Vice President of the Developing Assets Business Unit, Executive Vice President, Sistema JSFC.

From December 2013 Vice President, Sistema JSFC.

Share in the authorised capital of Sistema JSFC – 0.0550%.

Oleg Mubarakshin

Senior Vice-President, Head of the Legal
Function, Sistema JSFC

Born in 1968 in the Saratov region.

In 2000, graduated from the Moscow State Academy of Law with a degree in law; in 2002, from the Finance Academy of the Government of the Russian Federation with a degree in finance. 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, EastOne Investment and Consulting Group (Ukraine, Great Britain).

2013 – 2015 Vice-President, Head of the Legal Function, Sistema JSFC.

From December 2015 Senior Vice-President, Head of the Legal Function, Sistema JSFC.

Share in the authorised capital of Sistema JSFC – 0.0713%.

Vsevolod Rozanov

Senior Vice President, Head of the Finance
and Investment Function of Sistema JSFC

Born in 1971 in Moscow.

Graduated from the Economics Department of the Lomonosov Moscow State University with a degree in economics.

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.

From June 2013 Senior Vice President, Head of the Finance and Investment Function of Sistema JSFC. Share in the authorised capital of Sistema JSFC – 0.0774%.

Ali Uzdenov

Senior Vice President, Investment Portfolio
Manager of Sistema JSFC

Born in 1962 in Kislovodsk, the Stavropol territory.

In 1985, graduated from the Rostov Institute of Railway Engineers.

In 1990, continued his education at the International Survival School (Italy).

1994 – 1997 Head of the Rostov Commodity Exchange.

1997 – 1998 CEO of LLC Ayaks.

1998 – 2001 CEO of the Rostov branch, OJSC Bashneft.

2001 – 2007 Chairman of the Board of Directors, OJSC Kormmash.

2007 – 2009 CEO of LLC Rostovregiongaz.

2009 – 2012 First Vice President for Refining and Sales, OJSC Bashneft.

2012 – 2013 Vice President, Sistema JSFC.

From December 2013 Senior Vice President, Sistema JSFC.

Share in the authorised capital of Sistema JSFC – 0.0729%.

Mikhail Cherny

Vice President, Investment Portfolio
Manager of Sistema JSFC

Born in 1971 in Saratov.
In 1994, graduated from the Moscow State University of International Relations of Russia's Ministry of Foreign Affairs (MGIMO) with a degree in international economics with the knowledge of a foreign language. In 2004, obtained an MBA degree from Washington University.
2006 – 2009 Vice President, head of the division for work with energy companies, LLC Morgan Stanley Bank.
2009 – 2011 Deputy CEO for Strategy and Energy Markets, OJSC Bashkirenergo.
2011 – 2015 Executive Vice President of an Investment Portfolio of Sistema JSFC.
From December 2015 Vice President, Sistema JSFC.
Share in the authorised capital of Sistema JSFC – 0.0122%.

Evgeny Chuikov

Vice President, Head of the Corporate
Communications Function of Sistema JSFC

Born in 1984 in Kiev.
In 2005, received a BA degree from Courtauld Institute of Art.
2008 – 2009 Anti-crisis manager at Imperial Energy (an independent oil company) and Ferrexpo (one of the leading producers of iron ore in the world).
2009 – 2010 Co-Director of Pelham Bell Pottinger, a financial PR Agency in the UK.
2010 – 2015 Managing Director for Investor Relations, Corporate Communications Function, Sistema JSFC.
From September 2015 Vice President, Head of the Corporate Communications Function, Sistema JSFC.
Share in the authorised capital of Sistema JSFC – 0.0108%.

Sergey Shishkin

Vice President, Head of the Corporate
Governance Function of Sistema JSFC

Born in 1970 in Moscow.
In 1992, graduated with honours from the Lomonosov Moscow State University with a degree in law. In 1996, received a PhD in Law.
1998 – 2000 Director at the Foundation of International Institute for Development of Legal Economy.
2001 – 2003 Member of the bar association of Moscow.
2005 – 2011 Head of the Property Department, Director of the Department of Property Projects, Sistema JSFC.
2011 – 2015 Executive Vice President for Corporate Projects, Sistema JSFC.
October 2014 - December 2015 Acting Senior Vice President, Head of the Corporate Governance Function, Sistema JSFC.
From December 2015 Vice President, Head of the Corporate Governance Function of Sistema JSFC.
Share in the authorised capital of Sistema JSFC – 0.0180%.

Vladimir Shukshin

Vice President, Head of the Security and IT
Department of Sistema JSFC

Born in 1959 in the Kovylninsky district of Mordovia, Russia.
In 1991, graduated from the State Institute of Physical Training, in 1999, from the Academy of the Federal Security Service with a degree in law, in 2003, from the Russian Presidential Academy of National Economy and Public Administration with a degree in state and municipal administration. PhD degree in Political Science.
1998 – 2005 Advisor to the Mayor of Moscow.
2005 – 2010 Deputy head of staff of the Moscow city administration.
2010 – 2011 Deputy Mayor of Moscow in the Moscow city administration for coordination with law-enforcement agencies.
January 2012 - June 2012 Deputy CEO for Security, IDGC Holding.
2012 - 2013 Deputy Chairman of the Management Board, Federal Grid Company of United Energy System (part-time).
2013 - 2014 Deputy CEO for Security, OJSC Russian Grids.
2014 – 2015 Executive Vice President, Head of the Security and IT Department, Sistema JSFC.
From March 2015 Vice President, Head of the Security and IT Department, Sistema JSFC.
Share in the authorised capital of Sistema JSFC – 0.0083%.

Corporate Secretary

Name, position	Brief biography
Igor Petrov Corporate Secretary of Sistema JSFC	<p>Born in 1978 in Leningrad.</p> <p>In 1999, graduated from the St Petersburg State University with a degree in Oriental and African studies.</p> <p>In 2000, obtained a degree in philology from the same university.</p> <p>In 2004, graduated from the Utrecht University (the Netherlands) with a degree in international law.</p> <p>In 2009, obtained a degree in corporate finance and financial analysis from the Russian Academy of National Economy, Moscow.</p> <p>2005 – Lawyer, Freshfields Bruckhaus Deringer, Amsterdam.</p> <p>2005 – 2006 – Legal Advisor, LLC ICICI Bank Eurasia.</p> <p>Corporate Secretary of Sistema JSFC since 2006.</p> <p>Share in the authorised capital of Sistema JSFC – 0.0045%.</p>

Transactions with Sistema shares carried out by Sistema's Board members, President, and Management Board members during 01 January - 31 December 2015⁽¹⁾

Sistema shares received by Sistema's officers on 11 December 2015 as part of the long-term incentive programme

Name	Number of Sistema shares
Nikolay Vasilkov ⁽²⁾	964,930
Elena Vitchak	1,626,355
Alexander Gorbunov	469,835
Felix Evtushenkov	3,903,253
Dmitry Zubov	4,228,882
Valentin Korchunov	724,270
Leonid Monosov	2,168,473
Oleg Mubarakshin	2,968,072
Vsevolod Rozanov	3,903,253
Ali Uzdenov	3,902,454
Mikhail Cherny	1,174,589
Evgeny Chuikov	1,046,463
Mikhail Shamolin	5,724,770
Sergey Shishkin	1,068,204
Vladimir Shukshin	797,727

Sistema shares received by members of Sistema's Board of Directors on 08 July 2015 as remuneration for serving on Sistema's Board

Name	Number of Sistema shares
Vladimir Evtushenkov	271,875
Sergey Boev	271,875
Brian Dickie	284,375
Dmitry Zubov	271,875
Robert Kocharyan	284,375
Jeannot Krecké	284,375
Peter Mandelson	284,375
Roger Munnings	284,375
Mikhail Shamolin	271,875
David Iakobachvili	284,375

Divestment of Sistema shares by members of the Board of Directors, President and members of the Management Board of Sistema JSFC

Name	Number of Sistema shares	Dates of transactions
Christopher Baxter ⁽³⁾	2,129,770	30 January 2015

Acquisition of Sistema shares by members of the Board of Directors, President and members of the Management Board of Sistema JSFC

Name	Number of Sistema shares	Dates of transactions
Oleg Mubarakshin	3,196,800	30 January 2015

⁽¹⁾ Information provided herein coincides with the information included in the notices of transactions with the Corporation's securities sent to Sistema JSFC by the Board members, President and Management Board members.

⁽²⁾ Mr Vasilkov is not an officer of the Corporation since March 2016.

⁽³⁾ Mr Baxter is not an officer of the Corporation since June 2015.

List of transactions carried out by Sistema JSFC

in the reporting year that are recognised as major transactions according to the Federal Law On Joint-Stock Companies, and other transactions subject to the major transactions approval procedure pursuant to the Company's Charter.

During 2015 Sistema JSFC did not carry out any transactions are recognised as major transactions according to the Federal Law On Joint-Stock Companies or other transactions subject to the major transactions approval procedure pursuant to the Company's Charter.

List of transactions carried out by Sistema JSFC

in the reporting year that are recognised as related party transactions under the Federal Law On Joint-Stock Companies

All the transactions closed by Sistema JSFC in 2015 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.

No	No. of BoD meeting minutes and date of resolution	Subject of the transaction	Counterparties ⁽¹⁾	Сумма сделки	Заинтересованные лица
1	07-14 13 September 2014	Contribution of ordinary registered shares of OJSC Detsky Mir - Retail Assets in the amount equalling 100% of the authorised capital of OJSC Detsky Mir - Retail Assets, as payment for ordinary registered shares of CJSC Business Nedvizhimost additionally issued as part of increase of the authorised capital of Business Nedvizhimost	CJSC Business Nedvizhimost	RUB 2,213,704,000.00	OJSC Sistema Finance, L. Monosov
2	07-14 13 September 2014	Acquisition of additionally issued ordinary registered shares of CJSC Leader-Invest	CJSC Leader-Invest	up to RUB 650,000,000.00	OJSC Sistema Finance, V. Evtushenkov, S. Drozdov, F. Evtushenkov, L. Monosov, V. Rozanov
3	07-14 13 September 2014	Acquisition of additionally issued shares of TCF Project PTE LTD	TCF Project PTE LTD	USD 323,400,000.00	OJSC Sistema Finance
4	08-14 25 October 2014	Acquisition of 484,606,080 ordinary registered shares of OJSC Intellect Telecom	OJSC MGTS	RUB 344,000,000.00	OJSC Sistema Finance
5	08-14 25 October 2014	Acquisition of 485,500,000 ordinary registered shares of OJSC Intellect Telecom	OJSC Sitronics	RUB 330,000,000.00	OJSC Sistema Finance
6	08-14 25 October 2014	Disposal of 55,910 ordinary registered shares of OJSC NIS	OJSC MGTS	RUB 44,000,000.00	OJSC Sistema Finance
7	08-14 25 October 2014	Granting an interest-bearing loan to OJSC Sistema Finance	OJSC Sistema Finance	RUB 3,060,300,000.00	OJSC Sistema Finance

⁽¹⁾ Names of the counterparties are given as of the date of approval of respective transactions.

⁽²⁾ As of the date of approval of respective transactions.

8	10-14 13 December 2014	Signing of a surety agreement to guarantee the liabilities of CJSC NVision Group under the loan agreements signed between OJSC Bank VTB and CJSC NVision Group	OJSC Bank VTB	up to RUB 1,973,272,000.00	OJSC Sistema Finance, F. Evtushenkov, M. Hecker
9	10-14 13 December 2014	Signing of a corporate guarantee agreement for liabilities of TCF Projects PTE. LTD under the Letter of Credit Agreement and the Letter of Credit Security Agreement signed between TCF PROJECTS PTE. LTD. and ING Bank N.V. to guarantee liabilities of Sistema Shyam TeleServices Limited under the loan agreement with ING Bank Vysya Limited	ING BANK N.V.	up to USD 115,000,000.00	OJSC Sistema Finance, A. Abugov, V. Rozanov
10	02-15 13 March 2015	Novation (replacement) of NVision Group's liability to Sistema JSFC for repayment of the principal debt and accrued interest with a loan liability of NVision Group to repay Sistema the amount of the principal debt and accrued interest	NVision Group	RUB 4,546,282,191.78	OJSC Sistema Finance, V. Evtushenkov, F. Evtushenkov
11	02-15 13 March 2015	Change of the interest rate under the agreement on provision of an interest-bearing loan between Sistema JSFC and OJSC NPK NIIDAR	OJSC NPK NIIDAR	up to RUB 4,100,000,000.00	OJSC Sistema Finance, S. Boev
12	02-15 13 March 2015	Provision of an interest-bearing loan to JSC Intellect Telecom	Intellect Telecom	RUB 108,402,216.45	OJSC Sistema Finance, V. Evtushenkov, F. Evtushenkov
13	04-15 23 May 2015	Provision of an interest-bearing loan to CJSC Business Nedvizhimost	Business Nedvizhimost	RUB 800,000,000.00	OJSC Sistema Finance, L. Monosov
14	05-15 27 June 2015	Ensuring solvency and discharge of liabilities of LLC Sistema Telecom Assets under agreements with LLC Telecom Projects, Baggio Holding B.V.	LLC Telecom Projects, Baggio Holding B.V.	RUB 8,500,000,000.00	OJSC Sistema Finance
15	05-15 27 June 2015	Termination of the pledge agreement and surety agreements with LLC NVision Special Projects, JSC NVision Group, CJSC Sitronics Telecom Solutions, NVision Czech Republic a.s.	LLC NVision Special Projects, JSC NVision Group, CJSC Sitronics Telecom Solutions, NVision Czech Republic a.s.	up to RUB 1,800,000,000.00	OJSC Sistema Finance
16	07-15 27 August 2015	Making a commitment to the Deposit Insurance Agency to increase the authorised capital of PJSC MTS Bank	Deposit Insurance Agency (state-owned corporation)	RUB 3,600,000,000.00	OJSC Sistema Finance, V. Evtushenkov, F. Evtushenkov, V. Rozanov
17	07-15 27 August 2015	Provision of an interest-bearing loan to JSC Kronshtadt Group	JSC Kronshtadt Group	RUB 316,000,000.00	OJSC Sistema Finance
18	07-15 27 August 2015	Provision by CJSC Sistema Invest of independent guarantees for liabilities of Sistema JSFC	CJSC Sistema Invest	up to RUB 52,000,000.00	OJSC Sistema Finance
19	07-15 27 August 2015	Change of the interest rate under the agreement with OJSC NPK NIIDAR on provision of an interest-bearing loan	OJSC NPK NIIDAR	up to RUB 4,100,000,000.00	OJSC Sistema Finance, S. Boev
20	07-15 27 August 2015	Novation of a loan liability of OJSC NPK NIIDAR to Sistema JSFC	OJSC NPK NIIDAR	RUB 1,141,819,000.00	OJSC Sistema Finance, S. Boev
21	07-15 27 August 2015	Novation of a loan liability of CJSC RTI Microelectronics to Sistema JSFC	CJSC RTI Microelectronics	RUB 2,300,000,000.00	OJSC Sistema Finance, S. Boev
22	07-15 27 August 2015	Partial early discharge of a loan liability of CJSC RTI Microelectronics to Sistema JSFC	CJSC RTI Microelectronics	RUB 800,000,000.00	OJSC Sistema Finance, S. Boev
23	07-15 27 August 2015	Pledge of property to the Bank of Moscow	The Bank of Moscow	RUB 6,600,000,000.00	OJSC Sistema Finance, S. Boyev, F. Evtushenkov, V. Rozanov
24	07-15 27 August 2015	Provision of an interest-bearing loan to LLC RTI Airspace Systems	RTI Airspace Systems	RUB 2,150,000,000.00	OJSC Sistema Finance

25	07-15 27 August 2015	Provision of an interest-bearing loan to JSC Leader-Invest	Leader-Invest	RUB 1,718,043,600.00	OJSC Sistema Finance
26	07-15 27 August 2015	Acquisition of shares of Ecu Gest Holding S.A.	Ecu Gest Holding S.A.	USD 32,500,000.00	OJSC Sistema Finance, S. Drozdov, V. Rozanov
27	07-15 27 August 2015	Change of the interest rate under the agreement with JSC Intellect Telecom on provision of an interest-bearing loan	JSC Intellect Telecom	RUB 108,403,000.00	OJSC Sistema Finance, V. Evtushenkov, F. Evtushenkov
28	08-15 30 October 2015	Acquisition of ordinary registered shares of JSC Krasnodar Agro	JSC Krasnodar Agro	RUB 8,900,000,000.00	OJSC Sistema Finance, A. Uzdenov
29	08-15 30 October 2015	Signing of the Merger Agreement and the Shareholders' Agreement	SSTL, RCOM, Reliance Telecom Infrainvest Private Limited (Formerly known as Telecom Infrastructure Finance Private Limited), Reliance Communications Enterprises Private Limited (Formerly known as AAA Communication Private Limited), Reliance Wind Turbine Installators Industries Private Limited (Formerly known as AAA Industries Private Limited), Reliance Ornatus Enterprises and Ventures Private Limited (Formerly known as ADA Enterprises and Ventures Private Limited), Shreeji Comtrade LLP, Shrikrishna Tradecom LLP, Reliance Innoventures Private Limited, Shri Anil D. Ambani	up to USD 100,000,000.00	OJSC Sistema Finance, A. Dubovskov, V. Rozanov
30	08-15 30 October 2015	Issue of a letter of credit by ING Bank (Eurasia) to guarantee discharge of the liabilities of Insitel Services Private Limited	JSC ING Bank (Eurasia)	Up to INR 400,000,000.00	OJSC Sistema Finance, V. Rozanov
31	08-15 30 October 2015	Letter of Credit Agreement with ING Bank (Eurasia) in favour of Insitel Services Private Limited	Insitel Services Private Limited	Up to INR 400,000,000.00	OJSC Sistema Finance, V. Rozanov
32	08-15 30 October 2015	Signing a letter of credit agreement between Sistema JSFC and ING Bank (Eurasia) to guarantee the liabilities of SSTL	JSC ING Bank (Eurasia)	Up to INR 2,500,000,000.00	OJSC Sistema Finance, V. Rozanov
33	08-15 30 October 2015	Pledge of ordinary shares of Rangecroft Limited to PJSC Sberbank to guarantee the liabilities of LLC Concept Group	PJSC Sberbank	RUB 543,000,000.00	OJSC Sistema Finance
34	08-15 30 October 2015	A waiver and consent deed for the shareholders' agreement between Sistema JSFC, White Park Holdings Limited, Lenox International Holdings Ltd and Rangecroft Limited in respect of Rangecroft Limited	White Park Holdings Limited, Lenox International Holdings LTD, Rangecroft Limited	up to RUB 600,000,000.00	OJSC Sistema Finance
35	08-15 30 October 2015	Release of the pledged ordinary shares of Rangecroft Limited owned by Lenox International Holdings LTD in order to immediately pledge the released shares to PJSC Sberbank to guarantee the liabilities of LLC Concept Group	Lenox International Holdings LTD	RUB 644,000,000.00	OJSC Sistema Finance
36	08-15 30 October 2015	Provision of an interest-bearing loan to JSC Krasnodar Agro	Sitronics IT B.V.	RUB 2,337,500,000.00	OJSC Sistema Finance, A. Uzdenov

37	08-15 30 October 2015	Transfer of assets as payment for equity holding in RTI Airspace Systems	LLC RTI AS	RUB 3,708,115,621.34	OJSC Sistema Finance
38	08-15 30 October 2015	Issue of a surety in favour of BACA HYDRA Leasing GmbH to guarantee the liabilities of Kapali Overseas Corporation	BACA HYDRA Leasing GmbH	up to USD 29,150,000.00	OJSC Sistema Finance
39	09-15 11 November 2015	Signing of the Framework Shareholders' Agreement between the shareholders of OJSC Detsky Mir	CJSC DM Finance, LLC Sistema Telecom Assets, OJSC Detsky Mir - Retail Assets, Sistema Finance S.A., Floette Holdings Limited	up to RUB 3,950,000,000.00	OJSC Sistema Finance
40	09-15 11 November 2015	Signing of the corporate agreement (shareholders' agreement) with regard to Detsky Mir between its shareholders	CJSC DM Finance, LLC Sistema Telecom Assets, OJSC Detsky Mir - Retail Assets, Sistema Finance S.A., Floette Holdings Limited, V. Chirakhov	up to RUB 3,950,000,000.00	OJSC Sistema Finance
41	09-15 11 November 2015	Provision by Sistema JSFC of a surety on liabilities of CJSC DM Finance to OJSC Detsky Mir	Detsky Mir	up to RUB 3,000,000,000.00	OJSC Sistema Finance, O. Mubarakshin
42	09-15 11 November 2015	Provision by Sistema JSFC of a surety on liabilities of CJSC DM Finance to OJSC Detsky Mir	CJSC DM Finance	up to RUB 135,000,000.00	OJSC Sistema Finance, O. Mubarakshin
43	10-15 11 December 2015	Amending the terms of the transaction consisting in provision by Sistema JSFC of a surety on liabilities of CJSC DM Finance to OJSC Detsky Mir	Detsky Mir	Up to RUB 3,000,000,000.00	OJSC Sistema Finance, O. Mubarakshin
44	10-15 11 December 2015	Provision of an interest-bearing loan to JSC Steppe Agro Holding	JSC Steppe Agro Holding	RUB 2,847,500,000.00	OJSC Sistema Finance, A. Uzdenov
45	10-15 11 December 2015	Change of the interest rate and the loan term under the agreement on provision of an interest-bearing loan between JSC Leader-Invest and Sistema JSFC	Leader-Invest	up to RUB 1,200,000,000.00	OJSC Sistema Finance, V. Evtushenkov, F. Evtushenkov, V. Rozanov
46	10-15 11 December 2015	Provision of an interest-bearing loan to JSC Mosdachtrest	JSC MOSDACHTREST	RUB 1,605,375,121.00	OJSC Sistema Finance, L. Monosov
47	11-15 28 December 2015	Provision of an interest-bearing loan to JSC Steppe Agro Holding	JSC Steppe Agro Holding	RUB 3,274,560,600.00	OJSC Sistema Finance, A. Uzdenov

Report on compliance with the Corporate Governance Code recommended by the Bank of Russia.

In the opinion of Sistema's Board of Directors, the Corporation complies with the principles and the guidelines of the Corporate Governance Code recommended by the Bank of Russia (hereinafter – the «Code») with the reservations mentioned herein below.

When assessing compliance of Sistema's corporate governance practices with the Code's recommendations, the Board assessed both formal and actual adherence to the principles and recommendations of the Code by the Corporation and its officers, including achievement of the general level of corporate governance standards stipulated by the Code, even through alternative mechanisms.

No	Corporate governance principle	Criteria for assessment	Compliance	Notes
I. SHAREHOLDER RIGHTS AND EQUALITY FOR EXERCISE OF THEIR RIGHTS				
1.1.	I. Shareholder rights and equality for exercise of their rights			
1.1.1.	The company should create the most favourable conditions for participation in the general meeting, for developing a substantiated position on the general meeting's agenda items, coordinating their actions, and expressing their opinions on the items under consideration.	1. An internal document of the company approved by the general meeting of shareholders and regulating procedures of the general meeting is publicly disclosed. 2. The company offers an available means of communication with the company, such as a hotline, e-mail or a web forum, that allows shareholders to express their opinions and submit queries about the agenda during preparations for the general meeting. These actions were taken by the company ahead of each general meeting held in the reporting period.	Observed	The procedure for convening, preparing and conducting the General Meeting of the Shareholders of the Corporation is regulated by the Terms of Reference of the General Meeting of Shareholders that was approved by the General Meeting of Shareholders of Sistema JSFC (Minutes No. 2-10 dd. 30 June 2010) and is freely available on the Corporation's website. When holding each general meeting of shareholders, the Corporation communicates to its shareholders an e-mail address to which they may send their opinions or questions with regard to the general meeting, including its agenda.
1.1.2.	The procedure for notification of the general meeting and provision of materials for the general meeting should enable the shareholders to prepare for the meeting as appropriate.	1. A notice of the conduct of the general meeting of shareholders is published on the website at least 30 days before the date of the meeting. 2. The notice specifies the venue and documents needed for admission to the meeting. 3. The shareholders are provided access to information about persons that proposed agenda items and nominated candidates to the board of directors and the auditing commission of the company.	Observed	In accordance with Sistema's Charter, a notice of the general meeting of shareholders, including the date, time and venue of the meeting and documents needed for admission, is circulated at least 30 days before the meeting. The same notice and materials for the general meeting are made available on the Corporation's website (www.sistema.ru/ www.sistema.com) in electronic format, both in Russian and in English, within the same timeframe.

1.1.3.	During preparation and conducting of the general meeting, the shareholders should be able to receive information about the meeting and the relevant materials in a timely manner and without any hindrance, put questions to executive bodies and members of the company's board of directors and to communicate with each other.	<p>1. In the reporting period, the shareholders had an opportunity to ask members of the Company's governance bodies and board of directors questions ahead of the general meeting or during the meeting.</p> <p>2. The stance of the board of directors (including dissenting opinions included in the minutes) on each agenda item of the general meetings held in the reporting period was included in materials for the general meetings.</p> <p>3. The company provided to eligible shareholders access to the list of persons that have the right to participate in the general meeting from the date it was obtained by the company, in all instances of holding general meetings in the reporting period.</p>	Observed	<p>During preparations for a general meeting, the shareholders are entitled to receive answers to their questions sent to a special email address (osa@sistema.ru), which is included in the notice of the general meeting. Shareholders participating in the general meeting may put questions to members of the governance bodies, of the board of directors and the management board and the President who are also present at the meeting.</p> <p>The stance of the board of directors on the agenda items of the general meeting is included in the explanatory note for each agenda item.</p> <p>In accordance with the Terms of Reference of the General Meeting of Shareholders of Sistema JSFC, its shareholders are entitled to see the list of persons that have a right to participate in the general meeting by contacting Sistema's corporate secretary.</p>
1.1.4.	Exercise of a shareholder's right to request convention of the general meeting, nominate candidates to the company's governance bodies and to make proposals for the general meeting's agenda should not be fraught with needless complexities.	<p>1. In the reporting period, shareholders had the opportunity within at least 60 days after the end of the respective calendar year to propose items for the agenda of the annual general meeting.</p> <p>2. In the reporting period, the company did not refuse to accept items proposed for the agenda or nominees to the company's governance bodies for reasons of typos or other insignificant deficiencies in a shareholder's proposal.</p>	Observed	<p>The Charter of Sistema JSFC sets a deadline for submission of shareholders' proposals for the general meeting's agenda to 100 days after the end of the financial year.</p> <p>Should a shareholder's proposals contain material deficiencies, the Corporation informs the shareholder accordingly in advance, so that such deficiencies could be eliminated before the Board of Directors has approved the general meeting's agenda and the list of candidates for election to the governance bodies.</p>
1.1.5.	Each shareholder should be able to exercise their voting right in the easiest and most convenient way for the shareholder, without any hindrances.	1. The company's internal regulations (internal policy) include provisions that entitle each participant of the general meeting to request a copy of his/her filled-in voting ballot certified by the teller committee before the end of the general meeting.	Observed	The provision that a person filling in the voting ballot is entitled to have a copy of his/her filled-in voting ballot certified by the teller committee before the end of the general meeting is included in the Terms of Reference of the Annual General Meeting of Shareholders of Sistema JSFC.
1.1.6.	The procedure of general meetings adopted by the company should ensure equal opportunities for all the persons present at the meeting to express their opinions and to ask their questions.	<p>1. General meetings of shareholders held in the format of a meeting (joint presence of shareholders) in the reporting period allocated sufficient time for reports on agenda items and discussions.</p> <p>2. Candidates to the company's governance and control bodies were available for answering shareholders' questions at the meeting at which their nominations were to be voted on.</p>	Observed	<p>General meetings of shareholders allocated up to 20 minutes for a report on each agenda item and time for discussion of such items.</p> <p>The candidates nominated to the Board of Directors and the Auditing Commission are present at the respective general meeting.</p> <p>Participants of the general meeting have the possibility to communicate and consult with each other on the agenda items.</p>

		3. When making decisions related to preparation and conduct of general meetings of shareholders, the board of directors considered use of telecom technologies to give shareholders remote access to general meetings in the reporting period.		The Corporation is not using telecom technologies to provide its shareholders with remote access to the general meeting of shareholders, but it provides a sufficiently big room that accommodates all the persons willing to participate in the general meeting.
1.2.	The shareholders should be given equal and fair opportunities to share in the company's net income via dividends.			
1.2.1.	The company should develop and implement a transparent and clear mechanism for determining the amount or dividends and their distribution.	<p>1. The company has developed a dividend policy, which has been approved by the board of directors and publicly disclosed.</p> <p>2. If the company's dividend policy uses the indicators in the company's financial statements to determine the dividend amount, the relevant provisions of the dividend policy are based on consolidated financial statements.</p>	Observed	The Corporation's Board of Directors approved a Dividend Policy (Minutes No.09-11 dd. 01 November 2011), according to which, subject to positive net income, the Corporation shall distribute at least 10% of its consolidated net income according to international accounting standards (net of special dividends paid). Upon recommendations of the Board of Directors, the Company may also pay special dividends in the minimum amount of 10% of net income from transactions with an incoming cash flow, such as sale of assets. The Dividend Policy of Sistema JSFC is published on its corporate website.
1.2.2.	It is not recommended for companies to take a decision to distribute dividends if such decision, while formally being within the restrictions imposed by the government, is economically unreasonable and can lead to misrepresentation of the company's business.	The company's dividend policy clearly specifies financial/ economic circumstances under which it should not pay dividends.	Partially observed	<p>In accordance with the Dividend Policy, the Corporation reserves the right to deviate from the criteria for determining dividend amounts stipulated by the Dividend Policy provided it discloses the reasons behind such deviation.</p> <p>The Corporation does not declare dividends if net income or cash flow are insufficient (liquidity shortage) or if it is economically unreasonable.</p>
1.2.3.	Companies should not allow the dividend entitlements of existing shareholders to be downgraded.	1. The company did not take actions that would downgrade the dividend entitlements of existing shareholders in the reporting period.	Observed	<p>The Corporation has issued only one type of ordinary shares. Holders of global depositary receipts are entitled to dividends on a par with holders of ordinary shares.</p> <p>In the reporting period, the Corporation did not take actions that would downgrade dividend entitlements of holders of ordinary shares and/or global depositary receipts.</p>
1.2.4.	Companies should strive to avoid situations where shareholders receive from the company any types of profit (income) other than dividends or disposal value.	1. In order to rule out situations when shareholders receive any types of profit (income) from the company other than dividends or disposal value, the company's internal regulations envisage control mechanisms that ensure timely identification and approval procedures for transactions with persons affiliated with material shareholders (persons entitled to dispose of votes allocated to voting shares) in cases when such transactions are not formally recognised as related party transactions by law.	Observed	The Corporation adopted the Ethics Code, which stipulates that officers responsible for transactions shall timely report any conflicts of interest related to a transaction to the Board of Directors.

1.3. Corporate governance system and practices should ensure equal footing for all shareholders that hold shares of the same category (type), including minority and foreign shareholders, and equal treatment of them by the company.

1.3.1.	Companies should create conditions for fair treatment of each shareholder by the governance bodies and the controlling persons of the company, including prevention of abuse of power by major shareholders in respect of minority shareholders.	1. In the reporting period, the procedures for managing major shareholders' potential conflicts of interest were efficient, and the board of directors paid sufficient attention to conflicts between shareholders, if there were any.	Observed	<p>The Corporation has created all the conditions necessary to prevent shareholder's actions that are intended to harm other shareholders or the Corporation as well as other abuse of shareholder rights.</p> <p>There were no recorded conflicts between the Corporation's shareholders in the reporting period.</p>
1.3.2.	Companies should not take actions that will or may lead to artificial redistribution of corporate control.	Quasi-treasury shares are absent or do not participate in voting in the reporting period.	Partially observed	<p>The internal regulations of the Corporation do not contain any prohibition on voting with the shares of the Corporation held by legal entities under the Corporation's control.</p> <p>In the Corporation's shareholder structure, there is a controlling shareholder who is not part of the executive management, which eliminates the possibility of the management using quasi-treasury shares for artificial redistribution of corporate control.</p>

1.4. Shareholders should be provided with reliable and efficient ways to register rights to the shares, and the ability to dispose of their shares freely and easily.

1.4.	Shareholders should be provided with reliable and efficient ways to register rights to the shares, and the ability to dispose of their shares freely and easily.	1. The quality and reliability of services provided by the company's registrar to keep the shareholder register meet the needs of the company and its shareholders.	Observed	<p>The Registrar of the Corporation has a strong reputation, proven and reliable technologies that provide the most efficient way to ensure registration of proprietary rights and exercise of shareholder rights.</p> <p>Jointly with the Registrar, the Corporation is undertaking measures aimed at updating information about the shareholders recorded in the shareholder register.</p>
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II. BOARD OF DIRECTORS

2.1 The board of directors is in charge of strategic management of the company, determines the main principles and approaches to organising the company's risk control and internal control systems, controls the work of its executive bodies and performs other key functions.

2.1.1.	The board of directors should bear responsibility for decisions relating to appointment and dismissal of executive bodies, including cases of dismissal due to improper performance of their duties. The board of directors should also control that the company's executive bodies act in compliance with the approved development strategy and the core areas of the company's business.	<p>1. The powers of the board of directors to appoint and dismiss members of executive bodies and determine the terms of their employment agreements are set out in the charter.</p> <p>2. The board of directors reviewed a report (reports) of the sole executive body and members of the collective executive body on implementation of the company's strategy.</p>	Observed	<p>The Charter of Sistema JSFC stipulates that the authority of the Board of Directors includes appointment of the President of the Corporation, election of members of the Management Board and early termination of the President's and Management Board members' employment, as well as the terms of agreements with the President and members of the Management Board.</p> <p>The Nomination, Remuneration and Corporate Governance Committee of the Board of Directors approves candidates to the positions of sole executive bodies of subsidiaries and approves nomination of candidates to boards of directors of subsidiaries.</p>
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2.1.2.	The board of directors should set the key long-term priorities for the company's business, assess and approve key performance indicators and key business goals of the company, evaluation and approve strategies and business plans for the core businesses of the Company.	1. In the reporting period, the board of directors reviewed items on implementation status and update of the strategy, approval of the company's financial plan (budget) and criteria and indicators (including interim ones) of implementation of the company's strategy and business plans.	Observed	<p>The Board of Directors controls and supports each stage of the process of strategy development and execution at the Corporation, evaluates its execution status and feasibility, and make adjustments, if necessary.</p> <p>The strategy and business plans of the Corporation approved by the Board of Directors contain clear criteria, most of which are expressed in quantitative indicators, with interim control indicators.</p> <p>The Board of Directors approves the budget of the Corporation on an annual basis.</p> <p>At least once a year, the Board of Directors reviews the Corporation's strategy and assesses its implementation status and need for updating.</p>
2.1.3.	The board of directors should determine the principles of and approaches to organising the risk management and internal control systems at the company.	<p>1. The board of directors determined the principles of and approaches to organising the risk management and internal control systems at the company.</p> <p>2. The board of directors assessed the risk management and internal control systems of the company in the reporting period.</p>	Observed	<p>The Charter of Sistema JSFC includes approval of risk management principles in the remit of the Board of Directors. The Corporation also adopted the Risk Management Code.</p> <p>The Board of Directors reviews a risk management report and a report on the work of the internal control system at the Corporation at least once a year and issues its opinion.</p>
2.1.4.	The board of directors should determine the company's policy with regard to remuneration and (or) reimbursement of expenses to Board members, executive bodies and other key executives of the company.	<p>1. The company developed and introduced a policy (policies), approved by the board of directors, on remuneration and compensation of expenses of members of the board of directors, executive bodies of the company and other senior executives</p> <p>2. The board of directors reviewed items pertaining to this policy (policies) in the reporting period.</p>	Observed	<p>The General Meeting of shareholders of the Corporation approved the Policy on remuneration and compensations payable to members of the Board of Directors of Sistema JSFC (Minutes No.1-06 dd 30 June 2006).</p> <p>The Board of Directors of the Corporation approved the HR policy and policies on remuneration payable to the employees of Sistema JSFC. Employees' remuneration includes a fixed part, a bonus for execution of projects and generation of cash income, and long-term incentives.</p> <p>The Board of Directors also approved the rules for reimbursement of expenses to the top executives of the Corporation.</p>

2.1.5.	The board of directors should play a key role in preventing, identifying and settling internal conflicts between the company's governance bodies, shareholders and employees.	<p>1. The board of directors plays a key role in preventing, identifying and settling internal conflicts.</p> <p>2. The company has created a system for identifying transactions related to conflicts of interest and measures aimed at resolving such conflicts.</p>	Observed	<p>The Board of Directors takes all the measures necessary to prevent and settle internal conflicts.</p> <p>The Corporation regularly collects information about related and affiliated persons of the members of its Board of Directors and executive bodies.</p> <p>Resolutions on related party transactions are made by persons that are not involved in the relevant conflict of interest.</p> <p>Employees' compliance with the regulations for resolution of conflicts of interests is secured with disciplinary measures.</p>
2.1.6.	The board of directors should play a key role in securing transparency of the company, timely and full disclosure of the company's information, unhindered access of shareholders to the company's documents.	<p>1. The board of directors adopted a regulation on the information policy.</p> <p>2. The company has designated persons responsible for implementation of the information policy.</p>	Observed	<p>The Board of Directors of the Corporation approved the Regulation on the Information Policy (Minutes No. 04-10 dd. 17 April 2010).</p> <p>The responsibility to control compliance with the Information Policy lies with the Corporate Secretary reporting to the Board of Directors of the Corporation.</p>
2.1.7.	The board of directors should control the corporate governance practices at the company and play a key role in material corporate events of the company.	1. In the reporting period, the board of directors reviewed an item on corporate governance practices at the company.	Observed	Based on the results of annual appraisal of the Corporation's corporate governance practices, the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors formulates proposals aimed at improving corporate governance practices for review and approval by the Board of Directors.
2.2. The board of directors should be accountable to the company's shareholders.				
2.2.1.	Information about the work of the board of directors shall be disclosed and provided to shareholders.	<p>1. The company's annual report for the reporting period includes information about directors' attendance of the meetings of the board and board committees.</p> <p>2. The annual report includes information about the key results of appraisal of the board's work conducted in the reporting period.</p>	Observed	<p>The Annual Report and the Corporation's website (www.sistema.ru/www.sistema.com) disclose information about the number of meetings of the Board of Directors and its Committees held in the past year, specifying the forms of meetings and Board members' attendance.</p> <p>The main results of the Board's performance assessment and that of its executive bodies are disclosed in the Annual Report of the Corporation.</p>
2.2.2.	Chairman of the board of directors should be available for communication with the company's shareholders.	1. The company has a transparent procedure that gives shareholders a possibility to put questions to the board chairman and to communicate their stance on such matters.	Observed	Shareholders can put questions to the Chairman of the Board of Directors regarding issues within the remit of the Board of Directors, and inform him about their opinions (positions) on such matters via the Corporate Secretary.

2.3. The board of directors should be an efficient and professional governance body of the company, capable of passing objective independent judgments and taking decisions aligned with the interests of the company and its shareholders.

2.3.1.	It is recommended to elect to the board of directors persons that have an impeccable business and personal reputation and possess the knowledge, skills and experience necessary for making decisions on the matters falling within the remit of the Board of Directors and required for efficient discharge of its functions.	<p>1. The procedure for assessing the board's efficiency adopted by the company includes assessment of the professional skills of the board members.</p> <p>2. In the reporting period, the board of directors (or its nomination committee) assessed candidates to the board in terms of their possessing relevant experience, knowledge, business reputation, absence of a conflict of interest, etc.</p>	Observed	<p>The annual assessment of the Board of Directors includes assessment of the Board's competences.</p> <p>The Board's Nomination, Remuneration and Corporate Governance Committee assesses all candidates nominated to the Board of Directors for different criteria, the crucial ones being a candidate's sufficient experience, strong reputation and lack of conflicts of interest.</p>
2.3.2.	Members of the board of directors should be elected in a transparent procedure enabling shareholders to receive information about the candidates that is sufficient to form an opinion of their personal and professional qualities.	1. In all instances in the reporting period when the agenda included items on election of board members, the company provided the shareholders with biographies of all candidates to the board, results of such candidates' assessment by the board (or its nomination committee), information on whether such candidates meet the independence criteria, in accordance with recommendations 102-107 of the Code, and the candidates' written consent to be elected to the board of directors.	Observed	The biographies of candidates to the Board of Directors and recommendations of the Board's Nomination, Remuneration and Corporate Governance Committee with regard to voting on such candidates, as well as information about their meeting the independence criteria are included in materials for General Meetings of shareholders whose agendas include an item on election of the Board of Directors.
2.3.3.	The composition of the board of directors should be well balanced, in terms of qualification, experience, expertise and business qualities, and board members should enjoy the confidence of shareholders.	1. As part of the assessment of the board's work in the reporting period, the board of directors analysed its needs in terms of professional and business skills and experience.	Observed	The status of newly elected members of the Board of Directors and their independence are confirmed at the first meeting of the Board after election.
2.3.4.	The number of members on the company's board of directors should make it possible to organise the work of the board of directors in the most efficient manner, allowing for formation of board committees and giving the opportunity to material minority shareholders of the company to elect candidates they vote for to the board of directors.	1. As part of the assessment of the board of directors conducted in the reporting period, the board of directors considered whether the number of the board members met the company's needs and shareholders' interests.	Observed	The annual assessment of the Board of Directors includes assessment of the number of the Board members.

2.4. The board of directors should have a sufficient number of independent directors.

2.4.1.	It is recommended to acknowledge as independent directors the persons that have sufficient expertise, competence, experience, and independence for formulation of their own positions; that are capable of making objective and conscientious judgments; and that are independent from the company's governance bodies, particular groups of shareholders, or other interested parties. It should be noted that a candidate is not normally considered to be independent if he/she is affiliated with the company, its material shareholder, material counterparty or competitor or with the state.	1. In the reporting period, all independent board members met all the independence criteria set out in recommendations 102-107 of the Code or were recognised as independent by resolution of the board of directors.	Observed	The criteria of independence of members of the Corporation's board of directors are aligned with the criteria recommended by the Corporate Governance Code and the Listing Rules of Moscow Stock Exchange.
2.4.2.	It is recommended to assess compliance of candidates to the board of directors with the independence criteria and to analyse compliance of independent directors on the board with the independence criteria on a regular basis. In such assessment, contents should prevail over form.	<p>1. In the reporting period, the board of directors (or its nomination committee) formed an opinion about the independence of each candidate to the board and presented it to shareholders.</p> <p>2. In the reporting period, the board of directors (or its nomination committee) reviewed the independence of incumbent board members specified as independent in the company's annual report at least once.</p> <p>3. The company has procedures in place that provide for actions a board member has to take if he/she stops being an independent director, including timely notifying the board.</p>	Observed	<p>The Nomination, Remuneration and Corporate Governance Committee of the Board of Directors (hereinafter – «the Committee») issues an opinion on the independence of candidates to the Board of Directors.</p> <p>At the first meeting of the Board of Directors following the General Meeting of shareholders where such new Board of Directors was elected, the Board of Directors determines the status of independent members of the Board of Directors.</p> <p>The Committee analyses compliance of the independent directors on the Board with the independence criteria on a regular basis.</p> <p>When elected to the Board, Board members undertake in writing to notify the Corporation of any circumstances that may effect their ability to have independent judgment on items reviewed by the Board of Directors.</p>
2.4.3.	It is recommended that independent directors constitute at least one third of elected board of directors.	Independent directors shall constitute at least one third of the board of directors.	Observed	7 of 13 members of the Board of Directors are independent.
2.4.4.	Independent directors should play a key role in preventing internal conflicts in the company and in the performance of significant corporate actions by the company.	Independent directors (not having a conflict of interest) give preliminary assessment to material corporate actions related to a potential conflict of interest, the results of which are submitted to the board.	Observed	<p>Independent directors perform a preliminary assessment of potential actions and draft resolutions of the Corporation that may lead to a conflict as they prepare for meetings of the Board or Board Committees. Notably, the Audit, Finance and Risk Committee pre-approves all related party transactions.</p> <p>Opinions of Board members are incorporated in the meeting materials.</p>

2.5. Chairman of the board of directors should facilitate the most efficient discharge of functions that fall within the remit of the board of directors.

2.5.1.	It is recommended to elect an independent director as chairman, or to select a senior independent director among the elected independent directors who would coordinate the work of independent directors and interact with the chairman of the board of directors.	Председатель совета директоров является независимым директором, или же среди независимых директоров определен старший независимый директор. Роль, права и обязанности председателя совета директоров (и, если применимо, старшего независимого директора) должным образом определены во внутренних документах общества.	Partially observed.	The role of the Board Chairman is set out in the Terms of Reference of the Board of Directors of Sistema JSFC. The Terms of Reference also define the role of the Deputy Chairman of the Board, who, together with the Corporate Secretary, ensures interaction between independent directors and the Board Chairman. Each independent director also has direct access to the Board Chairman.
2.5.2.	The board chairman should ensure a constructive atmosphere of the meetings, free discussions of the matters on the meeting agenda, and control over execution of resolutions passed by the board of directors.	Performance of the board chairman is assessed during assessment of the performance of the board as a whole.	Observed	The annual assessment of the Board of Directors includes assessment of the efficiency of interaction between Board members and the Board Chairman.
2.5.3.	The board chairman should take necessary measures to provide board members with information required for making decisions on the agenda items in a timely manner.	The duty of the board chairman to procure timely provision of materials on agenda items for board members is stipulated by the company's internal regulations.	Observed	In accordance with the Procedure of the Board of Directors, the Board Chairman takes necessary measures to provide Board members with information required for making decisions on the agenda items in a timely manner. The Board Chairman maintains regular contacts with other governance bodies and executives of the Corporation.

2.6. Members of the board of directors should act in good faith and reasonably, in the best interests of the company and its shareholders proceeding from sufficient amount of information, with due care and diligence.

2.6.1.	Reasonable and bona fide actions of the board members imply that decisions are made with due consideration of all available information, without conflicts of interest, with equal treatment of the company's shareholders, within usual entrepreneurial risks.	The company's internal regulations stipulate that a board member shall notify the board of directors if he/she is in the situation of a conflict of interest in respect of any item on the agenda of a board or committee meeting before the start of discussion of the respective agenda item. The company's internal regulations stipulate that a board member shall not vote on any agenda item where he/she has a conflict of interest. The company has a procedure in place that allows the board of directors to receive professional advice on matters within its remit at the expense of the company.	Observed	The Terms of Reference of the Board of Directors and the Ethics Code of Sistema JSFC stipulate that Board members shall timely notify the Corporation if a conflict of interest arises and shall not make decisions on any matter where they have a conflict of interest. The Board of Directors is entitled to engage external experts for project examination at the Corporation's expense.
2.6.2.	The rights and obligations of board members should be clearly formulated and recorded in the internal regulations of the company.	The company has an internal document in place that clearly defines the rights and obligations of board members.	Observed	Rights and obligations of Board members are recorded in the Charter of Sistema JSFC, the Terms of Reference of the Board of Directors of Sistema JSFC, and the Procedure on the Board of Directors.

2.6.3.	Board members should have enough time to perform their duties.	Individual attendance of board and committee meetings and the time spent preparing for the meetings is taken into account during the board's assessment procedure in the reporting period. In accordance with the company's internal regulations, board members are obligated to notify the board of their intention to join governance bodies of other entities (except for the company's subsidiaries and affiliates) and of the fact of such appointment.	Observed	The annual assessment of the Board of Directors includes assessment of the organisation and attendance of the Board meetings. When elected to the Board, Board members fill in questionnaires envisaged by the Terms of Reference of the Board of Directors, where they must specify companies where they are members of governance bodies or where they intend to be elected.
2.6.4.	All members of the board of directors should have equal possibilities to access the company's documents and information. Newly elected members of the board of directors should be provided with sufficient information about the company and the work of the board of directors as soon as possible.	The company's internal documents stipulate the right of board members to get access to documents and make inquiries related to the company and organisations controlled by the company, and the obligation of the company's executive bodies to provide them with such information and documents. The company has a formal induction programme for newly elected board members.	Observed	Sistema's Board members are able to promptly receive answers to their queries and any information they may require from the executive management directly or via the Corporate Secretary. The employees' obligation to provide such information is recorded in the internal regulations of the Corporation. The Corporate Secretary familiarises newly elected Board members with the activities of the Board in accordance with the Terms of Reference of the Board of Directors.
2.7.	Meetings of the board of directors, preparation therefor, and participation of board members therein should provide for efficient work of the board of directors.			
2.7.1.	It is recommended to hold meetings of the board of directors as necessary, taking into account the scale of business and the company's objectives in a certain period of time.	The board of directors held at least six meetings in the reporting year.	Observed	Meetings of the Board of Directors are held at least six times a year in accordance with the work plan of the Board of Directors. 11 meetings of the Board of Directors were held in 2015.
2.7.2.	It is recommended to develop and include in the company's internal regulations the procedure for preparing and conducting meetings of the board of directors that would give the board members the possibility to prepare for the meeting.	The company adopted an internal document that regulates the procedure for preparing and holding board meetings, which, among other things, stipulates that the notice of a meeting shall, as a rule, be sent at least 5 days before the meeting.	Observed	The Procedure of the Board of Directors determines the procedure and the time of sending a voting ballot to each member of the Board of Directors and for obtaining the filled-in ballot in case the meeting is held in absentia. Board members have permanent access to the work plan of the Board of Directors. All information for Board meetings is available on the portal of the Board of Directors (to which all Board members are connected) 10 days before the Board meeting.
2.7.3.	The form of board meetings should be determined with consideration of the importance of agenda items. The most important items should be discussed at meetings in presentia.	The company's charter or internal regulations stipulate that the most important items (according to the list set out in recommendation 168 of the Code) shall be reviewed at meetings in presentia.	Observed	All scheduled meetings of the Board of Directors are held in presentia. Meetings in absentia are held when some urgent issues arise. The Procedure of the Board of Directors stipulate that the most important items shall be reviewed at meetings in presentia.

2.7.4.	It is recommended that decisions on the most essential aspects of the company's business are made by a qualified majority or a simple majority of votes of all the elected Board members.	The company's charter stipulates that resolutions on the most important items, which are set out in recommendation 170 of the Code, shall be adopted at board meetings by a qualified majority of at least three fourths of votes or by a simple majority of all the elected Board members.	Partially observed.	<p>According to the Charter of Sistema JSFC, decisions on items relating to increase of authorised capital, placement of certain types of securities, approval of material and related party transactions are made in compliance with special voting rules.</p> <p>Decisions on other agenda items are made by simple majority of votes of the Board members.</p> <p>Independent directors constitute a majority on Sistema's Board, and the attendance rate is very high. Given such work organisation, it would be difficult to justify introduction of special voting rules for separate agenda items.</p>
2.8. The board of directors should form committees for preview of the most important matters pertaining to the company's business.				
2.8.1.	For provisional review of matters pertaining to the company's financial activities, it is recommended to form an audit committee consisting of independent directors.	<p>The board of directors set up an audit committee consisting only of independent directors.</p> <p>The company's internal regulations determine the objectives of the audit committee, including objectives set out in recommendation 172 of the Code.</p> <p>At least one member of the audit committee, who is an independent director, has experience and expertise in preparation, analysis, evaluation and audit of statutory (financial) accounts.</p> <p>The audit committee met at least once per quarter in the reporting period.</p>	Observed	<p>The Corporation has formed the Audit, Finance and Risk Committee of the Board of Directors (hereinafter, «the Committee») and approved the Terms of Reference of the Committee. The objectives of the Committee as recorded in the Terms of Reference are aligned with the recommendations of the Corporate Governance Code.</p> <p>Independent director constitute the majority of Committee members (4 out of 5). The Committee is chaired by an independent director, R. Munnings, who has a vast experience and expertise in preparation, analysis, evaluation and audit of statutory (financial) accounts.</p> <p>12 meetings of the Committee were held in 2015.</p>
2.8.2.	For provisional review of issues relating to development of efficient and transparent practices in the sphere of remuneration, it is recommended to form a remuneration committee consisting of independent directors and chaired by an independent director who is not the chairman of the board of directors.	<p>The board of directors set up a remuneration committee consisting only of independent directors.</p> <p>The remuneration committee is chaired by an independent director who is not board chairman.</p> <p>The company's internal regulations determine the objectives of the remuneration committee, including objectives set out in recommendation 180 of the Code.</p>	Observed	<p>The Corporation has formed the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors (hereinafter, «the Committee») and approved the Terms of Reference of the Committee. The objectives of the Committee as recorded in the Terms of Reference are aligned with the recommendations of the Corporate Governance Code.</p> <p>Independent directors constitute a majority of the Committee members (4 out of 5). The Committee is chaired by an independent director who is not the Board Chairman.</p>

2.8.3.	It is recommended to form a nomination (HR) committee to preview issues relating to HR (continuity) planning, composition and efficiency of the board of directors. Most of the members of such committee should be independent directors.	<p>The board of directors set up a nomination committee (or its objectives set out in recommendation 186 of the Code are pursued by another committee) consisting mostly of independent directors.</p> <p>The company's internal regulations determine the objectives of the nomination committee (or another committee that carries out its functions), including objectives set out in recommendation 186 of the Code.</p>	Observed	<p>The Corporation has formed the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors (hereinafter, «the Committee») and approved the Terms of Reference of the Committee. The objectives of the Committee as recorded in the Terms of Reference are aligned with the recommendations of the Corporate Governance Code.</p> <p>Independent directors constitute a majority of the Committee members (4 out of 5).</p>
2.8.4.	Depending on the scale of business and the level of risks the company is exposed to, it is recommended to form other committees of the board of directors (strategy committee, corporate governance committee, ethics committee, risk management committee, budget committee, EH&S committee, etc.)	In the reporting period, the company's board of directors reviewed an item on whether the composition of the board committees is aligned with the objectives of the board and the company's goals. Additional committees either were set up or were found not needed.	Observed	The Corporation's Board annually, at the first meeting after its election, forms Board Committees in accordance with the Corporation's goals and objectives.
2.8.5.	It is recommended to determine the composition of committees so as to allow for a thorough discussion of the items under preliminary consideration, taking into account various opinions.	<p>Board committees are chaired by independent directors.</p> <p>The company's internal regulations (policies) include provisions that stipulate that persons who are not members of the audit committee, the nomination committee and the remuneration committee may attend committee meetings only if invited by the chairman of the respective committee.</p>	Observed	<p>Each Committee of the Board of Directors consists of at least 5 members of the Board of Directors.</p> <p>The Audit, Finance and Risk Committee, the Nomination, Remuneration and Corporate Governance Committee and the Investor Relations and Dividend Policy Committee are chaired by independent directors. Two of the Board Committees are chaired by non-executive directors (the Strategy Committee and the Ethics and Control Committee).</p> <p>The maximum number of committees in which a member of the Corporation's Board of Directors can take part is not determined, however, Board members are usually involved in the work of three committees at the most.</p> <p>Persons who are not members of the Audit, Finance and Risk Committee or the Nomination, Remuneration and Corporate Governance Committee may attend meetings of such Committees only upon invitation from their respective Chairmen.</p>
2.8.6.	Committee chairmen should inform the board of directors and its chairman about the work of their committees on a regular basis.	In the reporting period, committee chairmen regularly reported to the board about the work of their committees.	Observed	<p>Chairmen of the Committees inform the Chairman of the Corporation's Board of Directors about the work of their Committees on a regular basis.</p> <p>The Committees present regular reports on their work to the Board of Directors.</p>

2.9. The board of directors should ensure performance review of the board of directors, its committees and members of the board of directors.

2.9.1.	Performance review of the board of directors should be aimed at determining the efficiency of the board of directors, its committees and members of the board of directors, adequacy of their performance for the needs of the company's development, activation of the board's work or identifying areas for improvement.	Self-appraisal or external assessment of the board of directors conducted in the reporting period including assessment of the committees, individual board members and the board as a whole. The results of the self-appraisal or external assessment conducted in the reporting period were reviewed at a board meeting in presentia.	Observed	<p>Performance review of the Board of Directors is provided for in the Terms of Reference of the Board of Directors of Sistema JSFC.</p> <p>The assessment procedure for the Board of Directors was developed by the Corporation and approved by the Board of Directors proceeding from their extensive experience and includes appraisal of the Board's performance, organisation of its work, and of the work of its Committees.</p> <p>The criteria used to assess the performance of the Board of Directors provide for assessment of the professional and personal qualities of members of the Board of Directors, their independence, teamwork and personal contribution, as well as other factors that have an impact on the performance of the Board of Directors.</p> <p>Self-appraisal results are reviewed at a meeting of the Board of Directors held in presentia.</p> <p>Proceeding from such results, the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors formulates suggestions for improvement of the performance of the Board of Directors and its Committees.</p>
2.9.2.	Performance review of the board of directors, its committees and members should be conducted on a regular basis at least once a year. It is recommended to engage a third party (consultant) to perform an independent assessment of the board's performance on a regular basis, not less than once every three years.	The company engaged a third party (consultant) to conduct independent assessment of the work of the board of directors at least once in the last three reporting periods.	Observed	Performance review of the Board of Directors and its Committees is performed annually. The Corporation is planning to engage an independent consultant within three years.

III. CORPORATE SECRETARY OF THE COMPANY

3.1 The corporate secretary should provide efficient day-to-day interactions with the shareholders, coordination of the company's activities aimed at protecting the shareholders' rights and interests, facilitation of the work of the board of directors.

3.1.1.	The corporate secretary should have the expertise, experience and qualification sufficient for execution of his/her professional duties, an impeccable reputation, and enjoy the confidence of shareholders.	<p>The company adopted and disclosed an internal document, terms of reference of the corporate secretary.</p> <p>The company's website and annual report include the corporate secretary's biography in as much detail as is given for the biographies of the board members and executive management of the company.</p>	Observed	<p>The Board of Directors of the Corporation approved the Policy on the Corporation Secretary of Sistema JSFC (Minutes No. 10-14 dd. 17 December 2014). The Policy specifies the requirements to the person who may hold the position of the Corporate Secretary, in line with the guidelines of the Corporate Governance Code.</p> <p>Information about the Corporate Secretary is disclosed in the Annual Report.</p>
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3.1.2.	The corporate secretary should have sufficient independence from the company's executive bodies and the authority and resources required to fulfill his/her professional duties.	The board of directors approves appointment, dismissal and additional remuneration of the corporate secretary.	Observed	<p>The Corporate Secretary reports directly to the Board of Directors, and is appointed or dismissed by the Board of Directors.</p> <p>The Board of Directors of the Corporation has approved a Policy on the Corporate Secretary of Sistema JSFC setting the requirements to the candidacies to the position of Corporate Secretary, the appointment and dismissal procedures, reporting lines, procedure for the Corporate Secretary's interactions with the governance bodies and the subdivisions, his/her functions, rights and obligations, the terms and procedure of remuneration and the liabilities of the Corporate Secretary.</p>
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IV. REMUNERATION OF MEMBERS OF THE BOARD, EXECUTIVE BODIES AND KEY MANAGEMENT OF THE COMPANY.

4.1.	The level of remuneration paid by the Company should be sufficient for engaging, motivating and retaining employees possessing the competencies and qualifications required by the Company. The remuneration of the Board members, executive bodies and key management shall be paid in accordance with the remuneration policy adopted by the Company.			
4.1.1.	It is recommended that the level of remuneration paid by the Company to the Board members, executive bodies and other key management, should provide sufficient motivation for their efficient work enabling the Company to engage and retain competent and highly qualified specialists. At the same time, the Company should avoid paying excessive remuneration or having an unjustifiably big gap between the remuneration levels of the persons specified above and other employees.	The company adopted an internal document(s), a policy (policies) on remuneration of members of the board, executive bodies and other key senior executives, which clearly defines approaches to their remuneration.	Observed	<p>The approaches to remuneration of the Board members are defined in the Policy on Remuneration and Compensations for Members of the Board of Directors of Sistema JSFC (approved by Sistema's General Meeting of shareholders on 27 June 2015). The document is available on the Corporation's website.</p> <p>Remuneration of key executives is regulated by the Corporation's internal documents that stipulate principles and approaches to remuneration of all the employees.</p> <p>The level of remuneration paid to the Board members, executive bodies of the Company and other key management correspond to the remuneration levels at peer companies.</p>
4.1.2.	The company's remuneration policy should be developed by the remuneration committee and approved by the company's board of directors. The board of directors with the support of the remuneration committee shall ensure oversight over the implementation of the remuneration policy by the company and, if necessary, shall revise and amend this policy.	In the reporting period, the remuneration committee reviewed the remuneration policy (policies) and the practice of its (their) implementation and, if necessary, provided recommendations for the board of directors.	Observed	<p>The Company's remuneration policy is developed by the Nomination, Remuneration and Corporate Governance Committee (hereinafter, «the Committee») of the Company and approved by the Board of Directors.</p> <p>The Board of Directors has approved the internal regulations of the Company in the area of remuneration and long-term incentives of the executive bodies or other key management of the Company.</p> <p>The Committee annually reviews the results of implementation of the Corporation's remuneration policy and, if necessary, makes recommendations for the Board of Directors.</p>

4.1.3.	The Company's remuneration policy should contain transparent mechanisms for determining the amount of remuneration payable to the Board members, executive bodies and other key management of the Company, as well as regulate all types of payments, benefits and compensation granted to the specified persons.	The Company's remuneration policy envisages transparent mechanisms for determining the amount of remuneration payable to the Board members, executive bodies and other key management of the Company, as well as regulates all types of payments, benefits and compensation granted to the specified persons.	Observed	<p>The Company's internal regulations provide detailed guidelines on the procedure for determining the amount of remuneration and for making the respective payments of all remuneration components, as well as any other compensation.</p> <p>Decisions on the amount of remuneration payable to specific employees are taken without the participation of the respective employee and are not discussed with him or her.</p>
4.1.4.	It is recommended that the Company should develop a policy for expenses compensation, specifying the list of costs to be reimbursed and the level of services to which the Board members, executive bodies and other key management of the Company may be entitled. Thus policy should become an integral part of the Company's remuneration policy.	The remuneration policy (policies) or other internal documents of the company stipulate the rules for compensating the board members, executive management and other key executives of the company for their expenses.	Observed	<p>According to the Company's internal regulations compensation is due only for the expenses incurred by the members of corporate governance bodies and other employees of the Company that are directly related to activities performed in the interests of the Company. There are strict regulations on the level of services to which the Board members, the President, the Management Board members and other key employees are entitled.</p> <p>The travel expenses of such persons related to the need to attend the Company's meetings and make any other business trips as part of performing their job responsibilities shall be reimbursed.</p>
4.2.	The remuneration system of the Board members should ensure that the financial interests of the directors are closely correlated with the long-term financial interests of the shareholders.			
4.2.1.	Fixed annual remuneration is a preferable form of cash remuneration payable to the Board members. It is inadvisable to pay remuneration for participation in isolated meetings of the Board or its Committees. It is not recommended applying any forms of short-term incentives and additional financial motivation to the Board members.	The fixed annual remuneration was the only form of monetary remuneration of board members for serving on the board of directors in the reporting period.	Observed	<p>In accordance with the Policy on Remuneration and Compensations for Members of the Board of Directors of Sistema JSFC (both the version in place till 27 June 2015 and the version approved by the General Meeting of shareholders on 27 June 2015), the main form of remuneration of the Board members is fixed remuneration.</p> <p>The Company also pays additional remuneration to the Board members for achievement of the Corporation's investment goals. The amount of such additional remuneration is also fixed.</p>
4.2.2.	A long-term ownership of the Company's shares is the best tool facilitating the proximity of the financial interests of the Board members and the long-term interests of the shareholders. At the same time, it is not recommended that the right to sell shares be linked to the achievement of specific operating targets of the Company, nor is the participation of Board members in stock option schemes recommended.	If the company's internal document(s) - remuneration policy (policies) - envisage payment of the company's shares to board members, the company shall adopt and disclose clear rules for board members' ownership of its shares, aimed at encouraging long-term ownership of such shares.	Partially observed.	<p>A portion of the remuneration of the Board members (additional remuneration) is paid in shares. Long-term ownership of shares by the Board members is encouraged, and in practice most of the Board members hold their shares until they leave the Board.</p> <p>No restrictions are imposed on the Board members' transactions with their shares, as this may be deemed an infringement of their right to dispose of their property.</p> <p>The Board members have no obligation to refrain from using hedging mechanisms.</p>

4.2.3.	It is inadvisable to allow paying any additional remuneration or compensation to the Board members in the event of early termination of their contract due to a change of the controlling shareholder or other circumstances.	The company does not envisage payment of any additional remuneration or compensation to board members in the event of early termination of their contract due to a change of the controlling shareholder or other circumstances.	Observed	There are no provisions on the Board members' entitlement to any additional remuneration or compensation (severance payments) in the event of early termination of their powers due to a change of the controlling shareholder or any other circumstances.
4.3.	The remuneration system of the executive bodies and key management of the Company should ensure correlation of their remuneration and the results of the Company, as well as their personal contribution to the achievement of this result.			
4.3.1.	Remuneration of the executive bodies and other key management of the Company should be determined in such a way as to ensure a reasonable and justifiable ratio of the fixed and variable parts of the remuneration linked to the results of the Company and personal (individual) contribution of the employee in the final result.	<p>In the reporting period, the annual performance indicators approved by the board of directors were used for determining the amount of the variable part of remuneration of members of executive bodies and other key managers of the company.</p> <p>During the latest conducted assessment of the remuneration system of members of executive bodies and other key managers of the company, the board of directors (the remuneration committee) was satisfied that the company uses an efficacious ratio of the fixed and variable parts of remuneration.</p> <p>The company has a procedure in place that ensures that bonuses wrongly received by members of executive bodies and other key managers of the company are repaid to the company.</p>	Observed	<p>The Corporation has a short-term and long-term incentive system for the members of the executive bodies and other key managers, approved by the Board of Directors. The Board of Directors approves key performance indicators as an element of the incentive system.</p> <p>The Nomination, Remuneration and Corporate Governance Committee is involved in the development of key indicators used as the basis for the short-term and long-term incentive systems and analyses the ratio of the fixed and variable parts of remuneration.</p> <p>According to the provisions of the short-term incentive system the results of the employees are assessed at the end of the year.</p> <p>The assessment of the Corporation's year-end performance as part of the short-term and long-term incentive systems takes into account the risks carried by the Corporation.</p> <p>In the event of discovering any instances of manipulation with accounting figures or any other types of wrongdoing committed by employees that jeopardise the interests of the shareholders, the respective employees shall be penalised and shall have to compensate the Corporation for its losses in compliance with the current laws.</p>
4.3.2.	It is recommended that the companies whose shares are traded on a stock exchange, should implement a long-term incentive scheme for the executive bodies of the Company and other key management based on the shares of the Company (stock options or other derivative financial instruments whose underlying asset is the company's shares).	<p>The company adopted a long-term incentive programme for members of executive bodies and other key managers of the company using the company's shares (financial tools based on the company's shares).</p> <p>The long-term incentive programme for members of executive bodies and other key managers of the company stipulates that the right to sell the shares or other financial tools provided under such programme shall not arise until at least three years from the award. This right shall be triggered by the company's achievement of certain performance targets.</p>	Observed	<p>The Corporation has a long-term incentive scheme for the top management and other key employees of the Company based on the shares of the Company.</p> <p>Under the long-term incentive scheme the shares are awarded during a five-year period with annual deferral, depending on the results achieved over the previous two years. There are no further restrictions on the disposal of shares.</p> <p>In view of the fact that under the long-term incentive scheme shares are granted with a deferral, the scheme does not provide for any additional restrictions on the sale of shares in the event of early termination of powers and (or) termination of the employment contract.</p>

4.3.3.	Severance payments (golden parachutes) paid by the Company in the event of early termination of the powers of executive bodies or key management should not exceed the double amount of their fixed annual remuneration, provided that such early termination was prompted by the Company and that the respective employee was not guilty of any wrongdoing.	Severance payments (golden parachutes) paid by the Company in the event of early termination of the powers of executive bodies or key management did not exceed the double amount of their fixed annual remuneration in the reporting period, provided that such early termination was prompted by the Company and that the respective employee was not guilty of any wrongdoing.	Observed	The amount of severance payment made by the Corporation in the event of an early dismissal of members of executive bodies or other key managers prompted by the Corporation does not exceed the mandatory amount set by the law and does not exceed the double amount of fixed annual remuneration.
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V. RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

5.1. The Company should have an effective risk management and control system aimed at providing reasonable assurance in the achievement of the goals set for the Company.

5.1.1.	The Company's Board of Directors should determine the principles of and approaches to organising the risk management and internal control systems at the Company.	The powers of different governance bodies and divisions of the company in risk management and internal control are clearly determined by internal regulations/a respective policy of the company approved by the board of directors.	Observed	<p>The Board of Directors approved the Internal Audit Policy of Sistema JSFC and the Internal Control Policy of Sistema JSFC. The Corporation also adopted the Risk Management Code. All the regulations were developed in accordance with the COSO integrated concept on internal control.</p> <p>The risk management and internal control systems function at operational and organisational levels.</p> <p>The roles and objectives of various governance bodies of the Corporation in this process are set out in the above-mentioned documents.</p>
5.1.2.	The Company's executive bodies should ensure the establishment and maintenance of effective risk management and internal control systems at the Company.	The company's executive bodies ensure distribution of powers with regard to risk management and internal control between heads of divisions and departments that report to them.	Observed	<p>A dedicated risk management subdivision was set up within the Finance and Investment Function.</p> <p>Heads of the Corporation's subdivisions shall, in line with their functional duties, be responsible for developing, documenting, implementing, monitoring and upgrading the risk management and internal control systems in the respective functional areas.</p>
5.1.3.	The risk management and internal control systems of the Company should ensure objective, fair and clear understanding of the current status and prospects of the Company, the integrity and transparency of the Company's financial reporting, the reasonableness and acceptability of the risks assumed by the Company.	<p>The company has adopted an anti-corruption policy.</p> <p>The company provides for a way to inform the board of directors or the board's audit committee about breaches of laws, internal procedures or the company's code of ethics.</p>	Observed	<p>The internal control and risk management system enables the Corporation to timely respond to the newly emerged risks.</p> <p>The Board of Directors approved the Anticorruption Policy of Sistema JSFC.</p> <p>The Corporation has a single whistleblower hotline enabling any employee of the Corporation to report any offences committed by the Corporation and/or its officers. The whistleblowers are protected from any types of pressure (including dismissal, persecution and any forms of discrimination).</p>

5.1.4.	It is recommended that the Board of Directors should take all necessary and sufficient measures to make sure that the existing risk management and internal control system of the Company meets the respective principles and approaches approved by the Board of Directors and is functioning efficiently.	In the reporting period, the board of directors or the board's audit committee assessed the efficiency of the company's risk management and internal control system. Information about the key results of such assessment are included in the company's annual report.	Observed	The Board of Directors reviews the matters of organisation, functioning and efficiency of the risk management and internal control systems and, if necessary, gives recommendations for their improvement on a regular basis (at least once a year). Information on the results of the review held by the Board of Directors into the matters of risk management and internal control is provided to the shareholders as part of an Annual Report.
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5.2. To ensure a regular and independent assessment of the reliability and efficiency of its risk management and internal control systems and corporate governance practices the Company should organise internal audits.

5.2.1.	It is recommended that internal audits should be organised by means of establishing a dedicated subdivision (internal audit unit) or engaging an independent external auditor. In order to ensure the independence of the internal audit unit its functional and administrative reporting lines should be divided. It is advisable that the internal audit unit should functionally report to the Board of Directors and administratively – directly to the Company's sole executive body.	For the purposes of internal audits, the company established a separate internal audit unit that functionally reports to the board of directors or the audit committee or engaged an independent external company with similar reporting principles.	Observed	<p>The Corporation has set up the Internal Control and Audit Department operating on the basis of the Terms of References of the Internal Control and Audit Department.</p> <p>The Department functionally reports to the Board of Directors and administratively – to the Corporation's President.</p> <p>Head of the Department is appointed and dismissed by the President based on the resolution of the Board of Directors.</p>
5.2.2.	It is recommended that the internal audit function should perform an assessment of the efficiency of the internal control and risk management systems, corporate governance, and conform to the generally accepted standards in internal audit.	<p>In the reporting period, an internal audit was conducted that gave assessment to the efficiency of the internal control and risk management system.</p> <p>The company uses generally accepted approaches to internal control and risk management.</p>	Observed	<p>The Corporation's internal audit procedures comply with the International Internal Audit Standards of the Institute of Internal Auditors.</p> <p>The Corporation's internal audit procedures include:</p> <ul style="list-style-type: none"> assessing the efficiency of the internal control system, assessing the efficiency of the risk management system, assessing the corporate governance system.

VI. DISCLOSING INFORMATION ABOUT THE COMPANY, INFORMATION POLICY OF THE COMPANY

6.1. The company and its operations should be transparent for the shareholders, investors and other interested parties.

6.1.1.	The company should develop and implement an information policy ensuring efficient interaction of the company, shareholders, investors and other interested parties.	<p>1. The company's board approved an information policy that was developed taking into account the Code's recommendations.</p> <p>2. The board (or a board committee) reviewed the company's compliance with its information policy at least once in the reporting period.</p>	Соблюдается.	<p>The Corporation has developed and implemented an Informational policy which was approved by the Board of Directors.</p> <p>The executive bodies of the Corporation and its Corporate Secretary are responsible for the implementation of the Information Policy. The Board of Directors oversees compliance with the Information Policy.</p> <p>Members of the executive bodies hold meetings with analysts on a regular basis to accompany the disclosure (publication) of the Corporation's financial statements or to comment on the key investment projects and development plans of the Corporation.</p>
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6.1.2.	The company should disclose information on the corporate governance system and practices, including detailed information on compliance with the principles and recommendations of this Code.	<p>1. The company discloses information about its corporate governance system and general principles of corporate governance used by the company, including on its website.</p> <p>2. The company discloses information about the members of its executive bodies and the board of directors, the independence of board members and their membership in board committees (as defined in the Code).</p> <p>3. If there is an entity controlling the company, the company publishes a memorandum of the controlling entity disclosing its plans with regard to corporate governance at the company.</p>	Observed	<p>The Corporation publishes information about its governance bodies and their composition, including the biographies of the members of governance bodies, on the Company's website (www.sistema.ru/ www.sistema.com).</p> <p>The Corporation has adopted the Corporate Governance Code of Sistema JSFC (hereinafter – «the Code») setting out the key principles of corporate governance and the obligations assumed by the Board of Directors including representatives of the principal shareholder with respect to the Corporation.</p> <p>The Code has been published on the Corporation's website.</p> <p>The Corporation's controlling shareholder is the Board Chairman and his plans with regard to corporate governance at the Corporation are reflected in publicly disclosed documents approved by the Board of Directors and the General Meeting of shareholders of the Corporation.</p>
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6.2. The Company should timely disclose complete, relevant and reliable information about the Company in order to enable its shareholders and investors to take informed decisions.

6.2.1.	The Company should disclose information regularly, consistently and promptly and ensure the accessibility, reliability, completeness and comparability of the disclosed data.	<p>In the reporting period, the company disclosed its annual and semi-annual financial reports prepared in accordance with the IFRS. The company's annual report for the reporting period includes its annual financial statement prepared in accordance with the IFRS, together with the auditors' opinion.</p> <p>The company discloses full information about the structure of the company's capital in accordance with recommendation 290 of the Code in its annual report and on its website.</p>	Observed	<p>The Corporation's informational policy makes it possible to coordinate the work of all units and subdivisions of the Corporation dealing with information disclosures.</p> <p>The Corporation discloses information in the shortest possible time.</p> <p>The Corporation's material information is disclosed for Russian and foreign investors simultaneously and in equal volumes in the Russian and English languages.</p> <p>The Corporation promptly responds to any rumours and/or unreliable information about its activities.</p> <p>The Corporation uses its website (www.sistema.ru/ www.sistema.com) and the Interfax news feed for disclosing information.</p> <p>The Corporation is aiming to make sure that the disclosed information is unambiguous, objective and neutral and it does not avoid disclosing negative information.</p>
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6.2.2.	It is recommended that the company should avoid adopting a purely technical approach when disclosing information and should disclose all material information about its activities even if the disclosure of such information is no required by the law.	<p>In the reporting period, the company disclosed its annual and semi-annual financial reports prepared in accordance with the IFRS. The company's annual report for the reporting period includes its annual financial statement prepared in accordance with the IFRS, together with the auditors' opinion.</p> <p>The company discloses full information about the structure of the company's capital in accordance with recommendation 290 of the Code in its annual report and on its website.</p>	Observed	<p>The Corporation discloses all material information not only about itself but also about its controlled legal entities.</p> <p>The Corporation discloses the following additional information:</p> <ul style="list-style-type: none">▪ mission, strategy and objectives of the Corporation,▪ financial operations and financial status of the Corporation,▪ capital structure of the Corporation,▪ social responsibility of the Corporation.
6.2.3.	The annual report, being one of the most important tools of informational interaction with shareholders and other interested parties, should contain information making it possible to assess the company's annual results.	<p>The company's annual report includes information about the key aspects of the company's operations and its financial performance.</p> <p>The company's annual report includes information about the environmental and social aspects of the company's operations.</p>	Observed	<p>The Corporation discloses all material information in the Annual Report in accordance with the recommendations of the Corporate Governance Code.</p> <p>The Annual Report includes all material data from the annual statutory and financial reports, as well as information about the Corporation's CSR efforts.</p>
6.3.	The Company should ensure that all shareholders have equal and unhindered access to information and documents upon their request.			
6.3.1.	The shareholders should be able to exercise their right to access documents and information without any unjustifiable difficulties.	The company's information policy stipulates an easy procedure for providing shareholders with access to information, including information of the company's controlled legal entities, upon shareholders' request.	Observed	<p>When giving shareholders access to its documents and information, the Corporation is guided by applicable legislation and seeks to avoid creating unnecessary difficulties. The Corporation's informational policy sets out the procedure for granting such access.</p> <p>The Corporation does not overstate the costs related to making and sending the copies of such documents.</p> <p>The matters of providing information about controlled legal entities are not regulated by the Informational policy, since the companies controlled by the Corporation conduct independent operations and Sistema JSFC does not take any operational decisions with respect to such companies.</p>
6.3.2.	It is recommended that when providing information to the shareholders the company should ensure a reasonable balance of interests of specific shareholders and the company itself, which is interested in maintaining confidentiality of crucial commercial information that may have a significant impact on its competitiveness.	<p>In the reporting period, the company did not refuse to accommodate shareholders' requests for information or such refusals were justified.</p> <p>In instances stipulated by the company's information policy, shareholders are notified about the confidential nature of information and assume the obligation to maintain its confidentiality.</p>	Observed	A shareholder may be granted access to confidential information about the Corporation only provided that the shareholder is aware of the confidential nature of such information and assumes the obligation to maintain its confidentiality in accordance with applicable laws.

VII. MATERIAL CORPORATE ACTIONS

7.1. Actions that have or may have a significant impact on the structure of the shareholders' equity or the financial position of the Company and accordingly the position of its shareholders (material corporate actions) should be taken on fair terms providing for the protection of the rights and interests of the shareholders and other interested parties.

7.1.1.	Material corporate actions include company reorganisation, acquisition of 30 and more percent of company voting shares (a takeover), entering into material transactions, increasing or decreasing the authorised capital of the company, listing and delisting the company's shares, and other actions that may result in a significant change of shareholder rights or have a detrimental effect on their interests. It is recommended that the Company's Charter should determine the list (criteria) of transactions or other actions constituting material corporate actions and vest the board of directors of the company with the exclusive powers to take decisions on such matters.	<p>The company's charter sets out a list of transactions and other actions that constitute material corporate actions and criteria for identifying them. Decisions with regard to material corporate actions are within the remit of the board of directors. If law expressly stipulates that such corporate actions shall be within the remit of the general meeting of shareholders, the board of directors gives shareholders appropriate recommendations.</p> <p>The company's charter stipulates that at least the following actions constitute material corporate actions: the company's reorganisation, acquisition of 30 or more % of the company's voting shares (takeover), material transactions, increase or decrease of the company's authorised capital, listing or delisting of the company's shares.</p>	Observed	<p>In accordance with the legislation, decisions on listing and delisting of shares, as well as decisions on reorganisation and approval of major transactions in accordance with applicable laws are within the remit of the General Meeting of shareholders. In accordance with the Charter of Sistema JSFC decision-making on all other actions specified in the Corporate Governance Code falls within the remit of the Board of Directors.</p>
7.1.2.	The Board of Directors should play a key role in taking decisions or developing recommendations on material corporate actions on the basis of the opinions of independent directors of the Company.	The company has a procedure in place that allows independent directors to state their position on material corporate actions before their approval.	Observed	<p>Prior to being considered by the Board of Directors, related party transactions are provisionally reviewed by the Audit, Finance and Risk Committee (hereinafter, «the Committee»), which consists mostly of independent directors. The Committee's opinion is discussed when the transactions are reviewed at a Board meeting.</p> <p>Decisions on approval of related-party transactions are taken by those Board members that do not have any conflict of interest with respect to such transactions.</p>
7.1.3.	It is recommended that in the course of taking material corporate actions influencing the rights and lawful interests of the shareholders, equal terms should be provided to all the company shareholders, and when the mechanisms provided by the law are insufficient, additional measures should be taken to protect the rights and lawful interests of the Company's shareholders. At the same time, the company should be guided not only by formal requirements of the law, but also by the principles of corporate governance set out in the Code.	<p>The company's charter, taking into account the specifics of its business, sets lower minimum criteria for recognising transactions as material corporate actions than those envisaged by applicable laws.</p> <p>In the reporting period, all material corporate actions passed the approval procedure before they were carried out.</p>	Observed	<p>The Board of Directors reviews all material matters of the Corporation in accordance with procedures envisaged by the Corporation's internal documents.</p> <p>In 2015, all actions that are recognised as material corporate actions in accordance with the Corporate Governance Code were approved by the Board of Directors before they were carried out.</p>

7.2.	The Company should establish such procedures for taking corporate actions that would enable the shareholders to timely receive information on such actions, and provide them with the opportunity to influence such actions and guarantee an adequate level of protection of the shareholder's rights.			
7.2.1.	Disclosures of information on material corporate actions should contain explanations of the reasons, terms and consequences of such actions.	In the reporting period, the company timely and thoroughly disclosed information about its material corporate actions, including the reasons for and the timeframe of such actions.	Observed	Being a public company, the Corporation discloses the maximum possible amount of information on any corporate actions, including those that may influence the dividend and/or any other rights of the shareholders.
7.2.2.	It is recommended that the rules and procedures related to the Company's taking material corporate actions should be set out in the internal regulations of the Company.	<p>The company's internal documents stipulate a procedure for engaging an independent appraiser for determining the value of assets to be disposed or acquired in a major transaction or in a related party transaction.</p> <p>The company's internal documents stipulate a procedure for engaging an independent appraiser for determining the price of acquiring and buying back the company's shares.</p> <p>The company's internal documents set out an extensive list of reasons for recognising board members and other persons as stipulated by law as related parties in the company's transactions.</p>	Observed	<p>To the extent that the rules and procedures related to the Corporation's taking material corporate actions are not provided for by the applicable laws, such rules and procedures are set forth in the internal regulations of the Corporation.</p> <p>When reviewing material transactions at Board meetings, an independent appraiser or an investment consultant is engaged to determine the price of such transactions.</p> <p>Only Board members that do not have any conflict of interest vote on items on approval of related party transactions.</p>

Report on compliance with key requirements of the UK Corporate Governance Code.

Provisions of the Code	Compliance	Note
A. GOVERNANCE		
A.1. Governance bodies		
A.1.1. Work of the Board of Directors ("the Board") should be organised efficiently, which implies holding a sufficient number of regular Board 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 powers and responsibilities of the Board of Directors are 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 Annual Report of Sistema JSFC includes information on the procedures of the Board of Directors, including a report on the key items decisions on which were made by the Board of Directors and the Management Board (cl. 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 the Board committees.	Observed	<p>Sistema's Annual Report 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.</p> <p>The Annual Report also includes information on the President and Chairmen and members of the Board Committees.</p> <p>The Corporation's statutory documents do not provide for the position of a senior independent director.</p>
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	Sistema's Annual Report includes information on the number of meetings of the Board of Directors and Board Committees, as well as their attendance by members (cl. 6.2).
A.1.3. The corporation should ensure relevant indemnification of BoD members.	Observed	In accordance with the Terms of Reference of the Board of Directors, the Corporation 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 Directors of Sistema JSFC or its affiliates (D&O Policy).
A.2. Division of powers between the Chairman of the Board of Directors and the President		
A.2.1. The same person cannot at the same time hold the position of the chairman of the board of directors and the president. The division of powers between the board chairman and the president should be clearly established and set out in the Corporation's internal documents approved by the BoD.	Observed	The Russian legislation and the Charter of Sistema JSFC stipulate that a person performing the functions of the sole executive body cannot simultaneously hold the position of the Chairman of the Board of Directors of Sistema JSFC (cl. 31.1 of Sistema's 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 since his is the Corporation's majority shareholder.
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	<p>The Russian legislation and the Charter of Sistema JSFC envisage that a person performing the functions of the sole executive body cannot simultaneously hold the position of the Chairman of the Board of Directors of Sistema JSFC (cl. 31.3 of Sistema's Charter).</p> <p>The powers of the Board Chairman and the President are clearly divided in the Charter of Sistema JSFC.</p>

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.	Partially observed	Formal meetings of the Board of Directors of Sistema JSFC without the executive directors' presence are not held, but there are meetings of the Board Chairman with independent directors.
A.4.2. From time to time the board chairman should hold meetings with non-executive directors without the executive directors being present.		Sistema's internal regulations provide for the position of a deputy board chairman, which is currently held by a non-executive director. The Corporation's regulations 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 a 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 Board's work.
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	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.	Соблюдается.	Information on each non-executive director that meets the independence criteria is included in Sistema's Annual Report.
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.		There are 7 directors among members of the Board of Directors that meet the independence criteria:
The Board should justify its decision on awarding the status of an independent director if there are relations or circumstances that could influence this status. ⁽¹⁾		B. Dickie, P. Clanwilliam, R. Kocharyan, J. Krecké, P. Mandelson, R. Munnings, 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, 7 of its Board Members, or over 50%, 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 in the Terms of Reference of the Nomination, Remuneration and Corporate Governance Committee of Sistema JSFC approved on 13 December 2014. 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 as part of preparation for the Annual General Meeting of shareholders.
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⁽¹⁾ 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.

A majority of members of the board nomination committee should be non-executive directors meeting the independence criteria.	Observed	Independent directors constitute a majority of the Nomination, Remuneration and Corporate Governance Committee (R. Kocharyan (Chairman), B. Dickie, R. Munnings, D. Iakobachvili).
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.	Observed	<p>Candidates to the Board of Directors are nominated by shareholders of Sistema JSFC.</p> <p>Requirements for candidates to the Board are set out in the Terms of Reference of the Board of Directors of Sistema JSFC. Notably, candidates must have a sufficient professional experience.</p> <p>The Nomination, Remuneration and Corporate Governance Committee (hereinafter, «the Committee») annually reviews and decides whether the Corporation's Board of Directors needs additional competences.</p> <p>The Committee also considers candidates nominated for election to the Board of Directors as part of preparation 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 1 year (for the period till the next Annual General Meeting of shareholders) and can be re-elected 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	According to the Russian legislation, Board members are elected at the Annual General Meeting of shareholders for 1 year (for the period till the next Annual General Meeting of shareholders) and can be re-elected unlimited number of times.
B.2.4. A separate section of the annual report should describe the powers and scope of authority of the nomination committee, the procedures and key items considered by it, including the process it has used to nominate candidates to the board.	Observed	Sistema's Annual Report includes information on the powers and scope of authority of the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors and on key items considered by the Committee, including the rules it used for selecting and assessing candidates to the Board.
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.		In 2015, the Committee did not use the services of an external consultant.
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.		
A separate section of the annual report should include confirmation of the principle of a balanced board being applied.	Observed	The Board of Directors of Sistema JSFC has a balance of executive (2) ⁽¹⁾ , non-executive (4) ⁽²⁾ and independent (7) ⁽³⁾ 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 includes a 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 board chairman is elected by all Board members at the first meeting after the Annual General Meeting of shareholders.</p>
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⁽¹⁾ F. Evtushenkov, M. Shamolin.

⁽²⁾ V. Evtushenkov, S. Boev, A. Dubovskov, D. Zubov.

⁽³⁾ B. Dickie, P. Clanwilliam, R. Kocharyan, J. Krecké, P. Mandelson, R. Munnings, D. Iakobachvili.

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 Sistema's Board Chairman is disclosed and included in its Annual Report. Chairman of Sistema's Board of Directors V. Evtushenkov does not hold the position of Chairman at any other significant company 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 (www.sistema.ru / www.sistema.com) and at the office of Sistema JSFC, the information is also available to the participants of the AGM of Sistema JSFC in the course of the meeting.</p> <p>According to the Russian legislation all Board members are elected for 1 year and have a right to be re-elected for an unlimited number of times.</p>
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>During the induction procedure, the Company's Corporate Secretary explains to every new member of the Board its procedures and approximate time commitments for their fulfillment. Before the election, all candidates sign a document confirming their consent to the nomination that includes, inter alia, a consent to follow all the requirements of the internal regulations of the Corporation applicable to the Board members.</p> <p>Attendance of meetings and involvement of the Board members in discussion of agenda items is recorded and analyzed for subsequently including this information into 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 2015, the Board of Directors of Sistema JSFC consisted of 13 members, 2 of which held the positions of executive directors (F. Evtushenkov, M. Shamolin).</p> <p>They serve as members on boards of some of Sistema Group's companies that are not included in FTSE 100.</p> <p>Membership in the boards of directors of the subsidiaries of Sistema Group is one of the main duties of executive directors, therefore, this does not create any conflict of interest for work at the Corporation.</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 Corporation's strategy, business, markets of presence and financial reports.</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>Sistema's Board members have the right to prepare and implement an individual development plan.</p> <p>The main tool, with consent of the Board Chairman, is their participation in international conferences and professional associations on behalf of the Corporation.</p>

B.5. Information support

B.5.1. The Board of Directors shall provide its members with the opportunity to receive independent professional advice at the expense of the company when fulfilling their professional duties.	Observed	The Terms of Reference of the Board of Directors of Sistema JSFC give Board members the right to engage external independent experts for assessing materials and decisions on any agenda items. Such independent appraisal is organised by the Secretariat of the Board of Directors.
B.5.2. If needed, all board members should have access to the advice and services of the Corporate Secretary, who is responsible to the board for ensuring that board procedures are complied with.	Observed	In accordance with the Terms of Reference of the Corporate Secretary of Sistema JSFC, one of the functions of the Corporate Secretary is to provide support to the work of the Board of Directors, including: providing Board members with requested information and documents regarding the Company's business operations, distributing among Board members the materials for the Board meetings, facilitating the work of the Board Committees.

B.6. Performance appraisal

B.6.1. The Annual Report shall contain information on procedures for assessing the performance of the Board of Directors, its Committees and each director.	Observed	The procedure for assessing the work of the Board of Directors of Sistema JSFC is described in the Company's Annual Report. The Board of Directors' self-appraisal procedure was introduced in 2009. Board members assess the organisation of work of the Board of Directors using the following parameters: membership and structure of the Board, procedures and organisation of the work of the Board, its Committees, the quality of decisions taken by the Board in different functional areas. The Secretariat of the Board of Directors conducts an annual survey of the Board members, analyses the results and submits the final analysis to the Nomination, Remuneration and Corporate Governance Committee, the Board Chairman and the members of the Board of Directors of Sistema JSFC.
B.6.2. At least every 3 years the work of the Board of Directors of a company included in the 350 FTSE list, should be assessed by an independent external consultant specified in the annual report.	Not applicable	Sistema JSFC is not included in the FTSE 350 list.
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.		
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	<p>The Company's statutory documents do not provide for the position of a senior independent director.</p> <p>Performance evaluation of the Board Chairman is carried out during assessment of performance of the Board of Directors as a whole.</p>

B.7. Re-election.		
B.7.1. All Board candidates should be approved at the respective AGM. Thereafter, Board members shall be re-elected at least once every three years.	Observed	According to the Russian legislation, Board members are elected at the Annual General Meeting of shareholders for 1 year (for the period till the next Annual General Meeting of shareholders) and can be re-elected 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 1 year (for the period till the next Annual General Meeting of shareholders) and can be re-elected unlimited number of times. The Terms of Reference of the Board of Directors sets out independence criteria for Board members.
Information about the Board candidates should include biographical data of the candidates and/or any other information to enable the shareholders to take an informed decision on electing or re-electing the Board members.	Observed	Information on the Board candidates including their biographies is provided among other materials for the Annual General Meeting of shareholders, which elects members of the Board of Directors.
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.	Observed	The shareholders are provided with the candidates' biographies and information about their track record and expertise, along with a recommendation of the Nomination, Remuneration and Corporate Governance Committee, based on which shareholders made an independent decision on voting in election of 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.	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. The shareholders are provided with the candidates' biographies and information about their track record and expertise, along with a recommendation of the Nomination, Remuneration and Corporate Governance Committee, based on which shareholders made an independent decision on voting in election of the Board.

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.	Observed	The Corporation's Annual Report and statutory statement is pre-approved at meetings of the Board and the Audit, Finance and Risk Committee.
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. The annual and semi-annual reports should include an explanation from the Board on whether the Board considered the relevance of the going concern assumption for the preparation of the reports and description of any material factors of uncertainty with regard to the company's ability to continue as a going concern within at least 12 months from the date when the reports are approved.	Observed	The Audit, Finance and Risk Committee analyses this when reviewing the accounts. If necessary, respective reservations are included in the opinion/report of the independent auditor, which are integral parts 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 annual report should include a confirmation from the Board with regard to complete assessment of the company's major risks, including risks for the business model, future performance, solvency and liquidity. Such risks should be described and the risk management and mitigation system should be explained.	Observed	The Annual Report has a separate section devoted to description of risks for the Corporation's business and of the risk management system. The Board regularly reviews items on risk management at the Corporation.
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C.2.2. The annual report should include an explanation with the Board of its assessment of the company's prospects, the period for which the assessment is made and reasons for its relevance, taking into account the current situation and major risks. It should specify whether there are reasonable grounds to expect that the company will be able to continue its activities and discharge its liabilities that should be discharged in the specified period, with reservations and assumptions as necessary.	Observed	The Annual Report includes a detailed description of the situation and prospects of the Corporation and its portfolio companies, taking into account existing risks.
C.2.3. The Board should control the company's risk management and internal control systems at least once a year and analyse their efficiency. The annual report should include information on such analysis.	Observed	The Board reviews reports from divisions responsible for risk management and internal control at the Corporation at least once a year. This information is disclosed in the Annual Report.

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.	Observed in all material aspects	<p>The Audit, Finance and Risk Committee of Sistema JSFC has been established and is active. The Committee consists of 5 members of the Board of Directors, 4 of which meet independence criteria: J. Krecké, P. Mandelson, R. Munnings, D. Iakobachvili.</p> <p>The Chairman of the Audit, Finance and Risk Committee of the Board of Directors of Sistema JSFC is R. Munnings, who has extensive experience in the area of financial audit.</p>
<p>C.3.2. The main functions of the audit committee should be set out in the Terms of Reference of the Committee and should include:</p> <ul style="list-style-type: none"> • audit of the fairness of the company's financial statements and any public statements on the financial indicators of the company, review of any material judgment on the company's financial statements; • analysis of the company's internal financial control system and, provided that this issue is not expressly within the remit of a specific risk committee of the Board consisting of independent members or of the Board of Directors itself, analysis of the internal control and risk management systems of the company; • control and analysis of the efficiency of the internal audit function of the company; • presenting recommendations for the Board of Directors for their further submittal to the AGM with respect to the appointment, re-appointment or termination of the powers of external auditors, and approval of the remuneration and the terms of appointment of an external auditor; • analysis and monitoring of the independence and impartiality of the external auditor, and • the efficiency of the audit process taking into account the respective professional and regulatory requirements; • development and implementation of a policy for hiring an external auditor to provide consulting services taking into consideration ethical recommendations on the provision of such services by an external audit company; and submitting to the Board of Directors reports outlining the areas requiring improvements or specific actions, and presenting recommendations on such actions; and • presenting reports on the performance of the respective responsibilities to the Board. 	Observed	<p>The responsibilities of the Audit, Finance and Risk Committee of the Board of Directors of Sistema is set out in the Terms of Reference of the Committee approved by the Corporation's Board of Directors on 13 December 2014.</p> <p>The Terms of Reference of the Audit, Finance and Risk Committee meets the recommendations of section C.3.2 of the UK Corporate Governance Code.</p>

C.3.3. В компании должно действовать положение о комитете по аудиту, закрепляющее основные полномочия и обязанности, делегированные комитету советом директоров.	Соблюдается.	Компетенция Комитета по аудиту, финансам и рискам Совета директоров ОАО АФК «Система» закреплена в Положении о Комитете, утвержденном Советом директоров Корпорации 13 декабря 2014 года.
C.3.3. A company should have Terms of Reference of the audit committee setting out the main powers and responsibilities delegated to the committee by the Board of Directors.	Observed	The responsibilities of the Audit, Finance and Risk Committee of the Board of Directors of Sistema is set out in the Terms of Reference of the Committee approved by the Corporation's Board of Directors on 13 December 2014.
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 position and results of the Company, its business model and strategy.	Observed	The Audit, Finance and Risk Committee reviews the Annual Report and the financial statements for their reliability and completeness.
C.3.5. The audit committee should analyse the procedures available to the company's employees for anonymously expressing their concern about any potential violations in the area of financial reporting and other areas. The task of the Audit Committee is to ensure the implementation of the respective procedures to conduct a proper independent investigation into such violations and take measures aimed at their elimination.	Observed	The Audit, Finance and Risk Committee reviews issues related to the operation of the hot line used by the Corporation's employees and other interested parties for raising concerns about any potential financial malpractice on a confidential basis.
C.3.6. The audit committee should monitor and analyse the efficiency of the internal audit procedures.	Observed	In accordance with the Terms of Reference of the Audit, Finance and Risk Committee of the Board of Directors of Sistema JSFC, one of the main functions of this Committee is to oversee the internal audit system of the Corporation as implemented by the Internal Control and Audit Department. The Audit and Finance Committee, together with the head of the above-mentioned Department and the Company's management, analyses implemented activities aimed at removing deficiencies in internal business processes.
C.3.7. The audit committee is directly responsible for the provision of recommendations on appointment, re-appointment and termination of the powers of external auditors. Companies included in the FTSE 350 list should hold a tender for the provision of external audit services at least every 10 years. If the Board does not accept the recommendations of the audit committee, the committee should make sure that the annual report and other documents containing recommendations for appointing or re-appointing an auditor, includes a rationale for the recommendations given and states reasons behind the decision taken by the Board.	Observed	<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>The Committee organises a tender for external auditor's services at least once in five years.</p>

D. REMUNERATION

D.1. Amount 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. The company should be able to recover paid remuneration or refuse to pay remuneration. It should stipulate circumstances when such recovery or non-payment are allowed.	Observed	<p>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 members.</p> <p>All instances when the Corporation may refuse to pay some part of remuneration are stipulated by its internal documents.</p> <p>Comments on specific sections of Schedule A are provided below.</p>
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D.1.2. If the company's internal regulations 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	<p>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.</p> <p>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.</p>
<p>D.1.3. The size of remuneration payable to non-executive directors should depend, inter alia, on their duties and the level of responsibility.</p> <p>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.</p> <p>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.).</p>	Observed	<p>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.</p> <p>Stock options are not granted for serving on the Board of Directors.</p>
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. Procedure		
D.2.1. The Board of Directors should form a remuneration committee consisting of at least three independent non-executive directors (for large companies).	Observed in all material aspects	The Nomination, Remuneration and Corporate Governance Committee of Sistema JSFC has been set up and is active. The Committee consists of 5 directors, 1 of which (D. Zubov) is a non-executive director and 4 (B. Dickie, R. Kocharyan, R. Munnings, D. Iakobachvili) are independent directors (meet the 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 13 December 2014. The Terms of Reference of the above-mentioned Committee are available on the corporate web site of the Company (www.sistema.ru / www.sistema.com) and may be provided to shareholders upon request.
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 2015 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	<p>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</p> <p>If amendments should be made to the above-mentioned Policy, the Nomination, Remuneration and Corporate Governance Committee should develop the required amendments.</p>

<p>The remuneration committee of the Board should also monitor the level and structure of remuneration for senior management and make the respective recommendations.</p> <p>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.</p>	Observed	<p>In accordance with the Terms of Reference of the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors of Sistema JSFC, the Committee's functions include:</p> <p>preliminary review of employment agreements to be entered into with the President and members of the Management Board of the Corporation, which are submitted for the Board's approval;</p> <p>Assessment of the top managers' performance and determination of their respective bonuses.</p>
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 Members of the Board of Directors of Sistema JSFC stipulates a formula for calculating the remuneration and compensations payable to the Corporation's Board members. A special decision of the Nomination, Remuneration and Corporate Governance Committee for such payments is not required.
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 systems 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

<p>E.1.1. The views of shareholders on the development of the company should be communicated to the Board.</p> <p>The Board Chairman should regularly discuss the issues of company development with the main shareholders.</p> <p>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.</p>	Observed	<p>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.</p> <p>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.</p>
The senior independent director should hold regular meetings with shareholders to discuss the development of the company.	Not applicable	<p>The Company's statutory documents do not provide for the position of a senior independent director.</p> <p>Prior to every Board meeting, independent directors hold a meeting, which is also attended by the Corporation's management.</p> <p>Information on the Board members meeting the independence criteria is available to the shareholders on Sistema's website (www.sistema.ru / www.sistema.com), so that the shareholders may contact any of them if they have any questions.</p>
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	Sistema's Annual Report includes a description of the Corporation's development strategy that reflects the opinion of the Board and the major shareholders.

E.2. Constructive solutions for the AGM

E.2.1. Each agenda item of the AGM should be accompanied with a draft resolution with 'for', 'against' and 'abstained' voting options.	Observed	According to the Russian legislation and the Company's Charter, every agenda item at the AGM is accompanied by a separate draft resolution with 'for', 'against' and 'abstained' voting options.
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E.2.2. The company should ensure that the votes of all persons that participated in the AGM are properly recorded.	Observed	All votes of the shareholders are registered by the Teller Committee and this information is included in the Minutes of the Annual General Meeting of shareholders.
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».		All «for», «against» and «abstained» votes on every agenda item are recorded separately, voting results for every item are disclosed publicly.
If the Board believes that a significant number of votes at the general meeting is cast against a resolution, the company should, when announcing the voting results, announce which measures it will take to understand such outcome of the vote.		In the reporting year, the number of votes cast against resolutions at the General Meeting of shareholders was not significant.
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	In accordance with the Terms of Reference of the Board of Directors of Sistema JSFC, all members of the Board of Directors are obligated to 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.