



Sustainability report 2017



CONTENTS

| | | | |
|---|-----|---------------------------------------|-----|
| Chairman's statement | 4 | ANNEX | |
| Key performance indicators | 6 | Information about the Report | 162 |
| Recognition | 8 | Awards and achievements | 171 |
| PROFILE OF SISTEMA | | Glossary and acronyms | 174 |
| Overview | 12 | Consolidated indicators | 179 |
| Mission and values | 13 | GRI index | 183 |
| International cooperation | 14 | Compliance with the UN Global Compact | 190 |
| Membership in public organisations | 16 | Contact details | 196 |
| RESPONSIBLE INVESTMENT | | | |
| Policy and principles | 20 | | |
| Business model and asset management | 26 | | |
| Sustainable development and corporate responsibility | 32 | | |
| Social investment | 37 | | |
| EFFICIENT MANAGEMENT | | | |
| Economic performance | 40 | | |
| Investment programmes | 51 | | |
| Innovations | 54 | | |
| Risk management | 58 | | |
| Ethics and anti-corruption | 62 | | |
| Procurement and supply chains | 68 | | |
| HR management | 76 | | |
| Environmental impact | 88 | | |
| SUSTAINABLE DEVELOPMENT PRACTICES OF PORTFOLIO COMPANIES | 98 | | |
| Telecoms and digital services | 100 | | |
| High technology | | | |
| Forest industry | 116 | | |
| Healthcare and pharmaceuticals | 122 | | |
| Consumer sector | 129 | | |
| Agriculture | 134 | | |
| Real estate | 139 | | |
| Electric power | 143 | | |
| Hospitality business | 150 | | |
| Banking and finance | 154 | | |

We support



**United Nations
Global Compact**



**Social Charter
of the Russian
Business**



For more details, see:
www.sistema.com

CHAIRMAN'S STATEMENT



GRI 102-14

Sustainable development is one of the key priorities of Sistema PJSC. More than 15 years ago Sistema became one of the first companies in Russia to join the UN Global Compact, and since then we have been doing our best to integrate socially responsible approaches into our investment activity to ensure long-term value creation for our shareholders and all interested parties: the state, our employees, partners and society as a whole.

In 2017, the Corporation confirmed its commitment to the fundamental principles of ethical and responsible business conduct in the area of human rights, employment relations, environment and prevention of corruption by joining the UN Global Compact Association in Russia and becoming a member of the Social Charter of Russian Business.

Despite the major macroeconomic challenges faced by the company in 2017, Sistema and all its key assets demonstrated high sustainability and strong financial performance, and maintained stable levels of social investment. For the last several years, Sistema has been investing over 1 billion roubles annually in social development. At the same time, the scale and scope of our charity and volunteer projects, as well as the number of our beneficiaries and social partners keep growing. In 2017, the total number of the Corporation's volunteers exceeded 10 thousand people, with most of them working at MTS, Detsky Mir and Medsi.

Tax payments to the national budget and social, pension and health insurance funds increased by more than 13%, making Sistema one of the biggest tax payers in Russia. We are confident that our success depends on our partners and people around us. Therefore, one of our key goals is to ensure the welfare and security of our employees by offering them equal opportunities and competitive employment conditions in various industries and regions. Sistema provides employment to about 0.2% of the entire Russian workforce aged above 18.

A responsible approach to managing funds and assets, cooperation with employees, suppliers, local communities is an integral part of our investment process. While following the concept of responsible investment, Sistema determines the key risk factors and opportunities of each asset and industry in order to monitor the economic, social and environmental impact of the assets in each region where the company operates. We also encourage partnerships between the companies of the Group, which enables us to exchange experience and implement best CSR practices.

We invest in promising high-tech businesses and innovative start-ups both directly and through investment funds or partnerships. New technologies, innovations, digitalisation of various industries and areas of life constitute the main investment focus of Sistema. We invest in the development and promotion of innovations because we understand that new technologies drive economic and technological growth, improve the quality of life and help build a better future by contributing to the achievement of global Sustainable Development Goals by 2030.

Sistema's high-tech assets enable the company to be at the cutting edge of digital economy. The companies of the Group are actively participating in the development of smart grid infrastructure and a platform for industrial Internet of Things, which may be used for managing the equipment of production facilities, as well as utility, development, construction and service companies which operate in the housing and other spheres. The RFID tags manufactured by Mikron are widely used for automation of processes in retail, logistics, healthcare and other segments. The company develops microchips for transport and bank cards, systems for wireless collection of data from utility meters, etc. RTI Concern and Sitronics are conducting R&D work to enhance the security of urban environment. MTS Bank and Sistema Capital are working to improve financial and investment services via digital and mobile technologies. As a result, the joint efforts of Sistema and our portfolio companies become a major driver for development of smart cities and digitalisation of various industries.

For the last few years Sistema has been investing over 100 billion roubles annually in Russian economy. This makes it possible to modernise the manufacturing and agricultural industries, create new jobs and improve people's quality of life in the regions where the company operates. Sistema acts as one of the anchor investors in the social and economic sphere in a number of regions of the Russian Federation – from Moscow to Arkhangelsk, Vologda, Rostov, Krasnodar, Krasnoyarsk, Stavropol

Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

and other regions. For example, Segezha Group's investment in the upgrade of the Segezha Pulp and Paper Mill and construction of the Vyatka Plywood Mill helped create about 600 new jobs in Karelia and the Kirov region. Detsky Mir's large retail chain operating across 219 Russian cities ensures immediate availability of socially important goods to the people and expands employment opportunities in retail and logistics. Our company is keeping pace with modern trends and actively developing its e-commerce business: the average revenue growth rate of the online store selling goods for children exceeded 120% in 2011-2017.

Development of healthcare is particularly important for improving the quality of people's lives. The Medsi chain of clinics founded 20 years ago and the effective medicines manufactured by Binnopharm help patients receive quality and high-tech medical care. In 2017, we established a cancer centre on the basis of Medsi to provide a full range of medical services to cancer patients, including early diagnostics and rehabilitation, and launched a Medical Academy to enhance the qualifications and competences of doctors. Medsi's Academic Council has for many years been conducting active R&D and academic work.

The companies of Sistema Group give a lot of attention to the matters of quality education and implement projects aimed at professional development and training of school children and college students, especially in the field of engineering and technologies. For this purpose we created a system for finding and preparing future technology leaders as part of our flagship programme "Lift to the Future". However, we believe that the objectives of education are much broader and, therefore, invest in promotion of science and culture by using new technologies. We adopted this approach for setting up a unique virtual network of branches of the Russian Museum that we have been supporting for 15 years. For more than 10 years Kronstadt Group has been developing and supplying high-tech equipment and multimedia solutions to various museums of Russia and the world,

making it possible to create interactive exhibitions. Similar technologies are used for creating multimedia classes in schools and colleges. Every year MTS and MTS Bank take part in social and educational activities aimed to promote mobile and financial literacy, forming a new generation of consumers of digital services and helping elderly people to adapt to the new reality.

The companies of Sistema Group are increasing their investments in environmental projects, thus proving their commitment to the state of environment and climate. Development of the "green market" and forming the culture of responsible consumption, raising people's awareness about environmental issues, promoting sustainable production models, preservation of natural resources and compliance with international standards – all these initiatives take Sistema's assets to a new level of environmental performance.

As part of the Year of Ecology the production assets of the Corporation focused on implementing internal and external activities aimed at protection of the environment, while Sistema Charitable Foundation organised two large-scale environmental festivals in the Republics of Altay and Karelia. Leader Invest, a real estate developer, provides training for its employees in the area of energy efficiency. The company is actively involved in the development of "green" construction, the important element of which is implementation of modern technologies of wooden multi-storey housing construction under the leadership of Segezha Group. The company takes a responsible approach to forest management: almost all the forests leased by Segezha Group (more than 6m ha) have been certified by the Forest Stewardship Council (FSC).

I firmly believe that openness and transparency are key to successful business and social cooperation. We are happy to present the fifth sustainable development report of Sistema prepared in compliance with GRI standards. In this report we show how the corporate social responsibility agenda has been incorporated into our investment processes and the activities of our portfolio companies.



>100 RUB bn

Corporation invests annually in Russian economy

>20 RUB bn

in social sphere in form of tax payments to off-budget social funds and charity

This year Sistema became the only Russian private issuer from the list of the largest public companies Forbes Global 2000 that received a maximum reputation score based on such criteria as reliability and integrity, social responsibility, the quality of products and services, and being a good employer based on a survey of 15 thousand respondents from 60 countries of the world. We will do our best to meet the expectations of all stakeholders and will continue improving our performance.

Vladimir Evtushenkov

Chairman of the Board of Directors
Sistema PJSC

KEY PERFORMANCE INDICATORS

Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

GRI 102-7 GRI 102-8



① Adjusted OIBDA.

② The ranking, which was established in 2001, is annually published by the Managers' Association and the Kommersant Publishing House and aims to identify the most talented managers of Russia.

③ Including financing of own charity and social projects of Sistema and its portfolio companies, financing of the programmes of Sistema Charitable Foundation, the operating expenses of the corporate charitable foundation and allocations from Sistema and its portfolio companies to the foundation.

RECOGNITION

Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

GRI 103-3

RUEI indices in the area of sustainable development and social responsibility

Sistema is among the leaders of two sustainable development indices (**Responsibility and Transparency, and Sustainable Development Vector**) compiled by the Russian Union of Industrialists and Entrepreneurs (RUIE). The survey carried out by the RUIE covered 124 largest companies and Sistema was among 14 companies with the highest scores in the key areas that characterise good business practice, including economic, environmental, social and managerial aspects.

Non-financial reporting and corporate transparency

Sistema won the national contest **"Russian Business Leaders: Dynamics and Responsibility 2017"** organised by the RUIE in the category "High Quality of Sustainability Reporting."

№1

in the national contest **"Russian Business Leaders: Dynamics and Responsibility 2017"**

Sistema was ranked among **top 3** companies for **transparency among private businesses and financial and investment firms** and one of the **top 10** among listed and strategic companies based on the results of an annual corporate transparency survey conducted among leading Russian companies by the Russian Regional Network for Integrated Reporting. The Corporation received the highest score on corporate governance among all other participants of the ranking. Detsky Mir became the leader for transparency in the retail segment and won in the Debut of the Year category.

TOP-3

companies for transparency among private businesses and financial and investment firms

Sistema's corporate practices of identifying material topics for disclosure in the non-financial statement won it the first Russian professional award **"Change Management. Visioners"**, which aims at introducing a system of comprehensive efficiency assessment to the social investment market.

Sistema Charitable Foundation won in 4 categories of the 8th Russian national competition of voluntary public annual reports of non-profits **Point of Reference**, which is designed to increase the transparency and openness of the non-profit sector in Russia. SCF was given the highest mark in the competition, the so-called "Gold Standard."

Corporate governance

According to **the 2017 National Corporate Governance Index** compiled by the TopCompetence centre for corporate development with the support of the Moscow Exchange, Sistema and MTS are among the top 10 companies with the best corporate governance practices.

The Independent Directors Association included Sistema's Board members Anna Belova, Roger Munnings and David Iakobachvili in the list of **50 best independent directors** compiled as part of the Director of the Year National Award.

Efficient procurement

The top managers of Sistema Group made it to the first independent ranking of procurement professionals compiled by **the Association of Procurement Directors and RAEX** rating agency. Procurement directors of the Corporation and its assets received awards in the categories "Optimisation of Procurement Processes" (Sistema), "Management of Supplier Relations" (MTS) and "Automation of Procurement" (MGTS).

The number of the Group's companies whose executives are included in **the Russian national ranking of procurement directors compiled by AK&M** has increased from three to eight: Sistema, MTS, MGTS, BPGC, Medsi, Steppe AgroHolding, Segezha Group, Binnopharm.

MTS, MGTS and Detsky Mir were awarded "High Transparency" status based on **the 2017 National Rating +of Transparency in Procurement**.

Charity and volunteering

Vladimir Evtushenkov, Chairman of Sistema's Board of Directors, was awarded the main prize of the national initiative **Patron of the Year 2017** for the long-term programme of support for the State Russian Museum.

In 2017, Sistema became one of the **top 5** companies in the annual ranking of **Russia's Leaders of Corporate Charity** compiled by the Donors Forum, Vedomosti newspaper and PwC. The list includes 52 largest Russian and international companies with a turnover of more than RUB 100m that carry out charitable activities in Russia.

TOP-5

companies in the annual ranking of Russia's Leaders of Corporate Charity

Sistema won **the Good Cause Champion** national contest of corporate volunteering projects in the Complex Project category with its regional charity festival, Solony.

Social communications

Sistema was named among the platinum winners of the international corporate communications contest **MarCom Awards** in the category Strategic Communications / Public Relations / Corporate Social Responsibility and won the national competition of corporate media resources Silver Cords 2017 for its multimedia light show **Victory** demonstrated at 13 Mokhovaya St. ahead of 9 May as part of the company's efforts to support war veterans and promote patriotism among young people.



A nation-wide campaign **#ThankYourTeacher** launched by Sistema Charitable Foundation became a finalist in the contest of advertising and marketing communications **Effie Awards Russia 2017** and a winner of the 6th annual Russian contest **Event Breakthrough** in the category "Social initiative".



HR potential

Representatives from Sistema, MTS, MGTS, Detsky Mir, Medsi and Segezha Group were included in the third annual national ranking of **top 50 corporate social responsibility managers** compiled by the Russian Managers' Association.

TOP-50

corporate social responsibility managers

Three Moscow-based assets of Sistema were named among the best employers in a contest organised by the Moscow Labour and Social Security Department, the Moscow Federation of Trade Unions and the Moscow Confederation of Industrialists and Entrepreneurs (Employers). The Cosmos Hotel managed by Cosmos Group won in the category Further Professional Training of Employees rising from the second place in 2016, while Binnopharm took second place in the category Ensuring Work/Family Balance for Employees with Children, and Mikron received an award for Providing Temporary Employment and Organising Public Work for Young People.



For more information about the key awards and achievements of portfolio companies, see Annex 2 to the Report.



PROFILE OF SISTEMA

| | |
|------------------------------------|----|
| Overview | 12 |
| Mission and values | 13 |
| International cooperation | 14 |
| Membership in public organisations | 16 |

The Corporation, whose investment portfolio includes assets in more than **10 industries** of the real sector and finance, is among Russia's systemically important enterprises[Ⓞ] and is a major player in the international investment market.

[Ⓞ] <http://economy.gov.ru/minec/about/structure/depsectoreconom/2015020801>

OVERVIEW

Sistema PJSC (hereinafter also, "Sistema", "the Corporation") is one of Russia's largest private investment companies whose shares are traded on the Moscow Exchange and on the London Stock Exchange in the form of global depositary receipts (GDRs).

GRI 102-1



The Corporation is one of the

TOP 15

Russian companies in terms of sales



>7.8

RUB bn

was paid in dividends to the shareholders as of 31 December 2017

① <https://www.forbes.com/global2000/list/#country:Russia>.
 ② <http://www.forbes.ru/rating/350675-200-krupneyshih-rossiyskih-kompaniy-2017>.
 ③ <https://raexpert.ru/ratings/expert400/2018>.
 ④ <https://www.rbc.ru/rbc500/>.
 ⑤ http://expert.ru/ratings/rejting-krupnejshih-kompanij-po-rossii-po-ob_emu-realizovannoj-produktsii/.

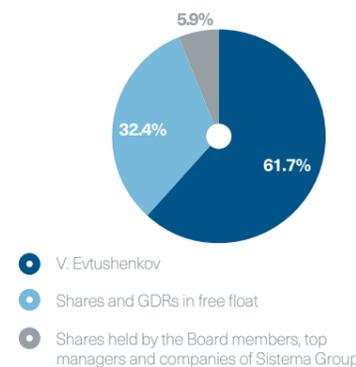
GRI 102-4 GRI 102-5 GRI 102-10

The subsidiaries and investment funds controlled by Sistema operate in many countries of the world and across Russia, the key market of the Corporation, and generate about 1% of the GDP and all private investments in the national economy.

Sistema, as one of Russia's 20 biggest private companies, was included in the Forbes Global 2000 list^①.

The Corporation and its assets (MTS, Detsky Mir, RTI, Segezha Group, MTS Bank) are among the biggest companies of Russia by revenue according to the national ratings Forbes 2000^②, RAEX-600^③, RBC 500^④, Expert 400^⑤.

Structure of shareholders' equity



Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

The principal shareholder of Sistema is the Chairman of its Board of Directors Vladimir Evtushenkov, who owns 61.7% of shares. The Board members and top managers of the Corporation, as well as the companies of Sistema Group, hold another 6% of shares. More than 30% of Sistema's stock is held by minority shareholders including institutional investors and individuals. In 2017, the total number of such shareholders reached 29.3 thousand.

Sistema's shares are included in the calculation base of the key indices of the Moscow Exchange, while the securities of MTS along with the stock of other 20 largest Russian companies are included in the MSCI Russia Index, which serves as a benchmark for many international investors into Russian assets.

Since 2016, FTSE Russell, a provider of stock market indices and data services owned by the London Stock Exchange (LSE), has been including Sistema in its FTSE4Good Index designed to measure the performance of issuers demonstrating strong Environmental, Social and Governance (ESG) practices based on an analysis of more than 110 indicators, including labour relations, observance of human rights, impact on local communities, anti-corruption, responsible supply chain management and impact on climate and environment.

Mission

Sistema's mission is building a classical investment company with multi-industry expertise and a positive track record in managing shareholder and third-party funds with investment mostly focused on new and innovative industries.

Our mission is the long-term growth of shareholder value through efficient and responsible management of the asset portfolio and achievement of high returns on investment. The most important aspects of the strategy are diversification of the business portfolio, financial stability and efficiency of investments, business transparency and advanced corporate culture.

As a controlling shareholder Sistema strives to turn its portfolio assets into industry leaders through restructuring, improving corporate governance, developing business strategies, attracting investments and partners and reducing financial and non-financial risks.

GRI 102-16

Values

Responsibility towards shareholders and all interested parties is one of the core values of Sistema, which became one of the first Russian companies to join the United Nations Global Compact (in 2002) and strictly abide by the principles of sustainable development enshrined therein.

Sistema is among the participants of the UN Global Compact Network in Russia and it fully embraces the social responsibility concept outlined by the Russian Union of Industrialists and Entrepreneurs in the Social Charter of Russian Business that the Corporation joined in 2017. In its business activities the Corporation is guided by the provisions of the international social responsibility standard ISO 26000:2010, Principles for Responsible Investment (PRI) and the United Nations Guiding Principles on Business and Human Rights.

OUR TEAM:

we create value through high competences

OUR WORK PRINCIPLES:

effective structure and clear goals

OUR STRATEGY:

we are goal-oriented

OUR REMUNERATION:

depends on the company's real income

OUR RESPONSIBILITY:

we develop the economy and create value for society

GRI 102-12 GRI 102-13

The Company supports:

The UN sustainable development goals until 2030



ISO 26000



Principles for responsible investment



The United Nations Guiding Principles on Business and Human Rights



In 2017, Sistema was among the

TOP 15

companies included in the social performance ranking of Russia's biggest companies, which was compiled by the AK&M rating agency. The ranking is based on an integrated assessment of the social performance and the environmental impact of the companies

INTERNATIONAL COOPERATION

Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

GRI 102-43

Sistema has a good track record in building partnerships with international strategic investors and is actively developing cooperation with other countries in order to attract investments into the Russian economy and develop the export potential of the Russian business through the Corporation's projects. To achieve this goal Sistema joins efforts with the Russian Direct Investment Fund (RDIF) and other partners in the timber and pulp and paper industries, agriculture, healthcare, residential development, consumer retail, etc, and co-invests in growing companies through its venture and private equity funds.

Priority areas of international cooperation for Sistema in 2017:

- Europe
- South East Asia
- Middle East
- Far East

Key activities

In January 2017, representatives of a big Iranian company **Mostazafan Foundation visited Sistema's head office**. The main subjects of negotiations were agriculture and timber processing. In the course of a return visit in February, a delegation from Segezha Group reached an agreement with the Iranian side on supplies of the company's products to Iran.

In February 2017, a delegation from Sistema headed by V. Evtushenkov visited the United Arab Emirates. During the visit the two sides discussed potential cooperation in agriculture, tourism and healthcare.

In March 2017, the management of Sistema visited New Delhi (India) and Japan. Meetings were held with major Japanese companies: Itochu, Sumitomo Corporation, Marubeni Corporation, Iida Group Holdings, Sojitz

Corporation, Namura bank and a branch of HSBC bank. Subsequent meetings with the representatives of the Japanese business were held during the visit of Japan's Prime Minister Shinzo Abe to Russia at the end of April 2017 and during the Eastern Economic Forum in September 2017.

In April 2017, one of Sistema's largest partners, China Investment Corporation (CIC)①, came to Moscow with a business visit. As part of the visit the Chairman of Sistema's Board of Directors and the President of CIC held talks, visited Detsky Mir's flagship store and Medsi's clinicodiagnostic centre at Krasnaya Presnya.

In May 2017, during the visit of the President of the Republic of the Philippines to Moscow, **a business delegation from the Philippines visited Sistema's head office**. During the negotiations the parties discussed opportunities for joint investments.

In October 2017, during the visit of the king of Saudi Arabia to Russia **an extended meeting of the Russian-Arab Business Council (RABC) and the Russia-Saudi investment business forum were held**. On the sidelines of the forum an agreement was signed between the largest producers of grain and oil crops in the south of Russia, RZ Agro Holding Group, a joint venture of Sistema and the Louis Dreyfus family, and a Saudi agricultural and livestock investment company SALIC that is considering investing in RZ Agro Holding Ltd.

In November 2017, Sistema's representatives travelled to Singapore in order to present the Corporation's opportunities to the local entrepreneurs.

International conferences and forums:

International economic forum in Davos

Sistema is a permanent participant of the forum representing the Russian business. In 2017, the Chairman of Sistema's Board of Directors and the top managers of the Corporation held more than 30 meetings with the representatives of business and political circles, the largest global banks, investment and manufacturing companies in the US, UK, Switzerland and some other countries in Europe, Asia and the Middle East.

St Petersburg International Economic Forum

The forum's discussions of the development prospects of the Russian economy in 2017 with participation

of Sistema's top managers were focused on the subjects of import substitution and production modernisation and creation of the "Made in Russia" national brand. Sistema held talks with foreign partners to discuss potential investments in the projects of Sistema Group in agriculture, timber processing, construction and pharmaceuticals.

Eastern Economic Forum

The forum is used for establishing business contacts with Asian partners and developing the Corporation's projects in the Far East. Following the meetings held in 2017 Sistema took decisions in relation to expansion of its business in the region in the following sectors: tourism, construction, telecommunications and microelectronics.

① China Investment Corporation is one of the largest shareholders of Detsky Mir through the Russia-China Investment Fund.

MEMBERSHIP IN PUBLIC ORGANISATIONS

Sistema and its representatives take part in activity of wide range of business and public organizations:

Russian organisations and associations:

- Russian Union of Industrialists and Entrepreneurs;
- Russian public organisation Business Russia
- Chamber of Commerce and Industry of the Russian Federation;
- Russian Institute of Directors;
- Independent Directors Association;
- Russian Managers Association;
- Agency for Strategic Initiatives (ASI);
- the Moscow Exchange Share Issuers Committee;
- Russian Risk Management Society;
- Corporate Lawyers Association;
- National Association of Corporate Secretaries and Club of Corporate Secretaries.

International organisations and associations:

- EU-Russia Industrialists' Roundtable;
- Business Council for Cooperation With India;
- Russian-Chinese Business Council;
- Russian-Arab Business Council;
- Russo-British Chamber of Commerce;
- Belgian-Luxembourg Chamber of Commerce in Russia;
- World Economic Forum.

Commissions:

- The India-Russia Intergovernmental Commission on Trade, Economic, Scientific, Technical and Cultural Cooperation;
- The Russia-Singapore Intergovernmental Commission.

Sistema's Board Chairman Vladimir Evtushenkov is a member of:

- Management Bureau of the Russian Union of Industrialists and Entrepreneurs (head of the Committee for Industrial Policy);
- Council of the Russian Chamber of Commerce and Industry (chairman of the Committee on Scientific and Technical Innovations and High Technology);
- Russian-Arab Business Council (chairman) and Russian-Saudi Business Council;
- National Council on Corporate Governance;
- Board of the Moscow Confederation of Industrialists and Entrepreneurs (Employers);
- Boards of Trustees:**
- Fund for Development of the State Russian Museum "Friends of the Russian Museum" (Chairman);
- The Lomonosov Moscow State University and its Institute of Russian Language and Culture;
- Higher School of Management of St Petersburg State University;
- The National Research University Higher School of Economics (from 2017);
- Russian Geographical Society;
- Russian Olympians Foundation;
- Handball Federation of Russia;
- M-ART Foundation for Support and Development of Art, Culture, Environmental Projects, Science and Sport;



Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

The representatives of Sistema take part in the work of specialised advisory bodies of the government authorities, industry associations and public organisations, including those related to CSR:

- Committee for Corporate Social Responsibility and Demographic Policy of the Russian Union of Industrialists and Entrepreneurs;
- Corporate Social Responsibility Committee of the Managers Association (the Corporation was a partner of the HR Committee in 2017);

The Intergovernmental Working Group of the Russian Ministry of Economic Development for implementing the concept of public non-financial statements in Russia.

Sistema Charitable Foundation is a member of the Donors Forum, National Council on Corporate Volunteering and Association of Volunteer Centres of Russia.

The President of Sistema Charitable Foundation is also a member of the Russian Government's Social Protection Council.



RESPONSIBLE INVESTMENT

| | |
|--|----|
| Investment policy and principles | 20 |
| Business model and asset management | 26 |
| Sustainable development and corporate responsibility | 32 |
| Social investment | 37 |

Andrey Dubovskov

President of Sistema PJSC



"We will continue investing in the "new economy" because that is where we can create maximum shareholder value. Global economic and technological growth is currently concentrated in new technologies, which have a really big impact on the world's economic situation. Our goal is to make sure that the main asset of the Corporations is expertise in the field of new technologies that are changing our lives".

RESPONSIBLE INVESTMENT POLICY

Creation of value for stakeholders, thorough assessment of the company's impact on society and environment, effective management of non-financial (ESG) risks and opportunities are necessary for ensuring sustainable development, generating high returns on investment for shareholders and growing the value of portfolio assets.



Sistema's responsible investment principles

Best practices

- Meeting the priorities of socio-economic development of countries and regions of the company's presence and working towards the global sustainable development goals
- Observing human rights and complying with applicable laws at all stages of investment activity
- Ensuring zero tolerance to corruption and conflicts of interest in investment and asset management practices
- Meeting the requirements of international ESG guidelines and business transparency

Addressing ESG risks and opportunities

Taking into account the potential impact of investment projects and operations of portfolio companies on the economy, environment, employees and communities when taking decisions on investments, asset management and exits

Efficient management

- Introduction of uniform standards in corporate governance and business ethics in portfolio companies
- Involving portfolio companies in a regular strategic planning cycle, setting common goals for the Corporation's companies and ensuring coordinated management of the key sustainable development areas in portfolio companies (human resources, risks, procurement and supply chains, social responsibility and corporate charity)
- Implementation and certification of management systems under international standards
- Formation of a homogeneous corporate culture and responsible business practices based on ethical values, respect for employees, shareholders and consumers, and care for people and the environment

Monitoring and control

- Ensuring regular Board oversight over implementation of strategies, efficiency of management systems and reporting processes in portfolio companies
 - Monitoring incidents in portfolio companies as part of risk management system
 - Promoting innovations and organisational improvements in portfolio companies
- In accordance with the concept of responsible investment Sistema selects new areas for investment and develops strategies for its portfolio companies taking into account the ESG factors in order to assess the potential impact of assets on industrial, social and environmental spheres in the regions of operations.

Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

Sistema's investment process is governed by strict internal regulations and procedures. All potential investment projects are registered in an electronic Bank of Ideas, thoroughly analysed and should be approved by the Strategy Department, Finance and Investment Department and Corporate Governance & Legal Affairs Department before being reviewed by the Expert Council and a relevant committee.

All key investment deals and projects proposed by portfolio companies undergo an in-depth review as part of Sistema's multi-stage investment process. In addition to financial and industrial analysis lying at the basis of decision-making on each project, such elements as quality of management, HR processes, production base, infrastructure, technologies, social responsibility and environmental risks are also taken into account. External consultants are engaged when it is necessary to conduct comprehensive due diligence.

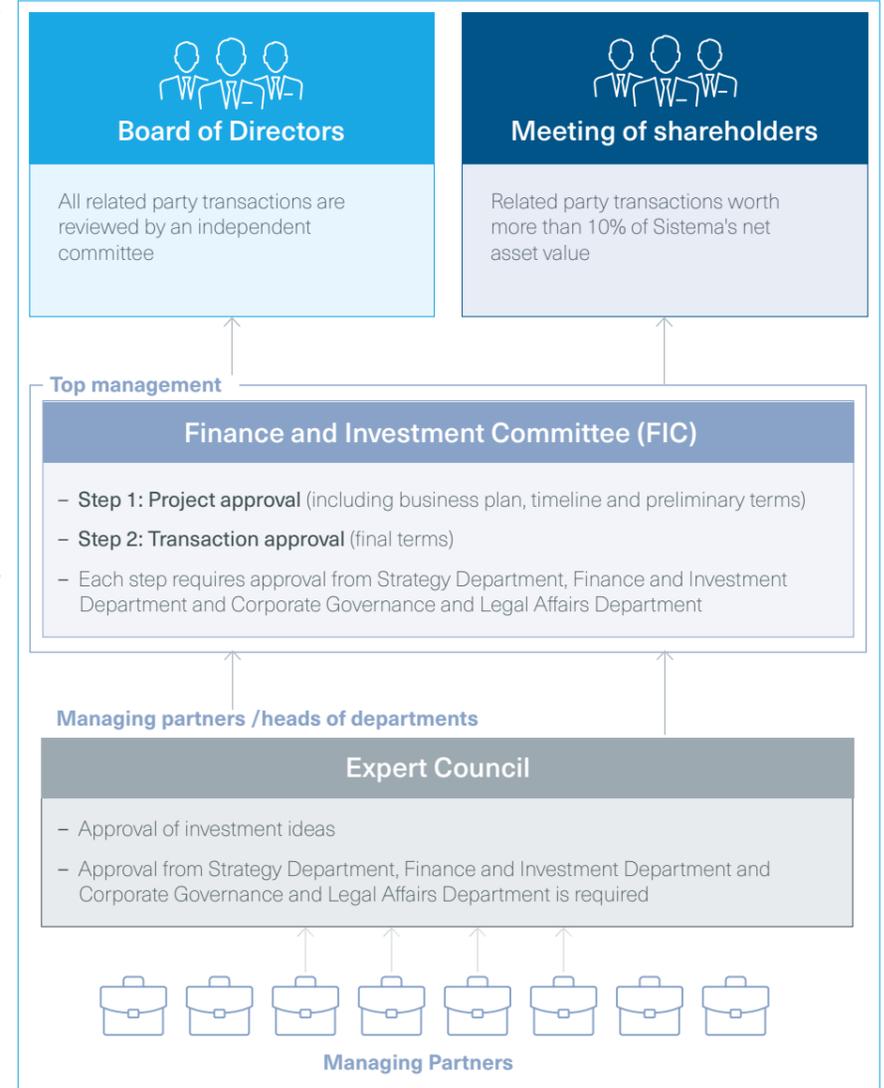
The Corporation promotes the principles of responsible investment in the expert and professional investment communities through cooperation with the UN Global Compact Association in Russia and other non-governmental organisations in which Sistema is a member.

Investment ecosystem

The investment ecosystem of the Corporation is a model of a non-resource-based (not related to production and sale of mineral resources and hydrocarbons) modern economy that is founded on high-tech businesses and efficiency enhancement in traditional industries through introduction of innovations and new technologies.

Sistema's asset portfolio includes both enterprises and vertically integrated industrial holdings in which Sistema directly holds majority stakes, and investments through funds and companies under Sistema's control, primarily in the growing digital sector.

Процесс инвестиционного отбора в АФК «Система»



In accordance with its strategy the Corporation invests mostly through funds created in partnership with other co-investors and focused on new technologies and promising industries, including fast-growing startups at mature stages with no limitations as to geography or industry.

≈10%

of M&A projects originated and analysed by Managing Partners are submitted to the Expert Council and Finance and Investment Committee

GRI 102-2 | GRI 102-6

| SISTEMA'S PE INVESTMENTS | | INVESTMENTS THROUGH VENTURE AND PE FUNDS | | Investments through portfolio companies |
|--------------------------|--|---|--|---|
| Approach | Investments in big and medium assets with potential for creating industry leaders | Investments in promising technological businesses, including startups with partners | | Growth of business and market shares through M&As, entry into new markets with potential for synergies. |
| Strategic focus | Making major investments mostly in the segments where the company already operates, engaging industrial partners and co-investors for existing and new projects, including through stock market mechanisms | Developing existing funds and creating new ones with a focus on new technologies as an additional source of value, capital and income, finding co-investors | | |

| Sector | Public assets | Non-public assets | Fund/Investment | Specialisation | Examples of investments: |
|---------------------------------------|---|---|--|----------------|--|
| Telecoms and digital services |  <p>– PJSC MTS is the leading telecommunications operator and digital service provider in Russia and CIS countries</p> | | Sistema Venture Capital  <p>Deep Tech startups specialising in knowledge-based technologies that are hard to replicate: machine learning, computer vision, Big Data.</p> | | Examples of investments: Ticketland.ru, Ponominalu.ru – ticket distributors   |
| High technology |     <p>– RTI is the largest holding operating in the segment of radio systems, microelectronics and comprehensive communication systems – Kronstadt Group is a Russian leader in development and manufacturing of high-tech products – Sitronics is a large-scale intelligent systems creator and intergrator – Sarov Technopark^① – Innovation Technology Centre Sistema Sarov</p> | |  <p>– Russia's leading multi-category online retailer^①</p>  <p>– Scientific and educational products based on VR/AR technologies.</p>  <p>– Developer of products in the segment of network infrastructure virtualisation on the basis of NFV/SDN technologies</p>  <p>– A mobile app that enables users to book flights and hotels and rent cars at the lowest possible price.</p>  <p>– A training platform for cyber athletes and players of multi-player online games</p>  <p>– Online and mobile service connecting customers with service providers for performing household errands and business tasks</p> | | |
| Forest industry |  <p>– Segezha Group is the largest vertically integrated forest holding in Russia</p> | | | | |
| Healthcare and pharmaceuticals |   <p>– Medsi Group is the leading federal chain of healthcare facilities, offering a full range of medical services – Binnopharm is one of Russia's largest full-cycle biopharmaceutical companies</p> | | | | |
| Consumer sector |   <p>– Detsky Mir Group is the largest children's goods retailer in Russia and Kazakhstan</p> | <p>– Concept Group is one of the leading monobrand retailers in the segment of children's and women's clothes and underwear in Russia, Belarus, Kazakhstan, Armenia, Azerbaijan and India</p> | | | |
| Agriculture |   <p>– Steppe AgroHolding is one of leading agricultural companies in the South of Russia specialising in crop farming, dairy farming, fruit and vegetable growing – RZ Agro Holding – Biryulya Maral Farm</p> | | | | |
| Real estate |  <p>– Leader Invest is a full cycle development company, the leader in the number of projects in Moscow – Business Nedvizhimost leases out its own real estate assets and the real estate assets under its management</p> | | | | |
| Electric power |  <p>– Bashkir Power Grid Company (BPGC) is a large regional power grid company (Russia, the Republic of Bashkortostan)</p> | | | | |
| Hospitality business |  <p>– Cosmos Group is one of Russia's leading hotel management companies</p> | | | | |
| Banking and finance |   <p>– MTS Bank is a universal financial organisation that provides banking services^② – Sistema Capital is a management company that provides asset management services on global financial markets for individual and corporate customers^②</p> | | Sistema Asia Fund  <p>Consumer Tech: consumer sector technologies including e-commerce, healthcare, transport, media, finance and education. Enterprise Tech: Internet of Things (IoT), virtual and augmented reality (VR/AR), platform solutions, Big Data, artificial intelligence (AI), machine learning (ML).</p>  <p>– Enterprise Digital Rights Management system</p>  <p>– A supplier of corporate cloud software in the segment of gift cards</p>  <p>– A mobile platform for selling women's clothing</p>  <p>– India's biggest digital fitness platform</p>  <p>– India's biggest online pharmacy</p>  <p>– A marketing platform for restaurants</p> | | |
| | | | Rusnano Sistema SICAR  <p>Hard Tech: information technologies, software and cloud technologies, renewable energy and microelectronics. A developer of unique 3D construction printers</p>  <p>– A developer of unique 3D construction printers</p>  <p>– A developer of technologies for analysis of oil wells</p> | | |

① Sarov Technopark was set up as a result of a public-private partnership; RTI is in charge of the Technopark's strategic management within Sistema Group.

② A joint investment of Sistema and MTS.

① A joint investment of MTS and Sistema Venture Capital.

Development of a venture ecosystem

Sistema_VC is an active member of Russia's venture ecosystem. The investment fund organises and supports business, technology and innovation events designed to promote scientific and technological progress. Such events provide a platform for exchange of experience within business communities and for introducing portfolio startups to the market participants.

In 2017, Sistema_VC jointly with its portfolio company VisionLabs hosted the first international summit on computer vision in Russia and the CIS ("Machines Can See").

Computer vision is an element of artificial intelligence which enables a computer to recognise images, describe them and extract the most important information from the collected data. Teaching a machine to see and understand images, events and the surrounding environment is one of the most complicated tasks faced by scientists in the last decade.

The summit was attended by world-famous scientists and research groups that have significant influence on the development of robotics, unmanned transport, augmented reality, medical diagnostics and many other industries.

On the basis of its Asian investment unit Sistema created a platform called "Sistema Business Scalerator", helping companies at the stage of growth to increase sales, enter new regions and markets of Russia, India, Singapore and other countries of South-East Asia.



Promotion of self-employment in Russia

According to various estimates, there are from 15 to 20 million self-employed people in Russia working without the official status of a sole trader. At the same time, some categories of the population (students, young mothers, disabled and retired people) are often excluded from the traditional economic system and are not able to remain a part of active workforce. An optimum solution for providing employment to such groups of people in the modern digital sharing economy is to use online aggregators that connect service providers with their customers.

Sistema_VC and MTS invested into Russia's largest service YouDo that enables users to quickly find reliable providers of various household and business services, helping customers to save time and money and self-employed people to find new clients and earn a living. The platform is taking part in the pilot project of Russia's Federal Tax Service aimed at testing the new tax status of self-employed

people, and may become one of the key tools for developing the market and culture of self-employment. All providers are checked by the online service and assessed by users, which guarantees a high quality of their work. The procedure of verification and identification of new service providers is conducted with the help of neural networks and Big Data analysis. YouDo may be accessed through a website or a mobile application. In 2017, the service became available not only to the residents of Moscow and St. Petersburg, but also to people from Kazan, Nizhny Novgorod, and Yekaterinburg. Moreover, the aggregator can now be used by corporate clients and sole traders. In the near future the service will be launched in all regions of Russia.

The most popular services provided via YouDo: minor repairs, home cleaning, food delivery, cargo transportation, furniture assembly, courier services, creation of websites, photography and video services, computer help, etc.



2.5 m users

600 K providers

16 service categories

5 cities



3.9 RUB bn

income for service providers

Support of small enterprises in India

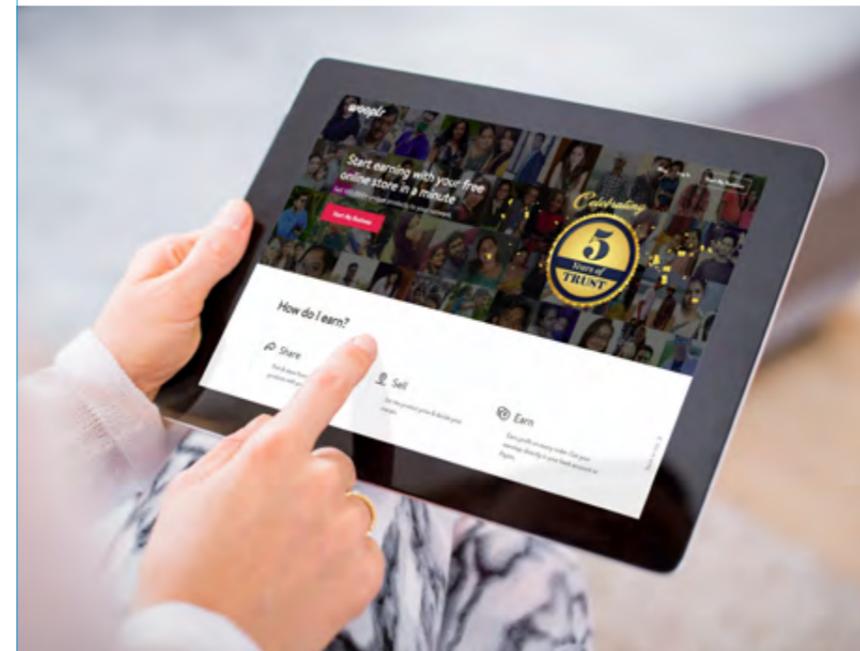
Sistema Asia Fund made an investment in an Indian social e-commerce platform Wooplr, which makes a significant contribution to development of private entrepreneurship in India. According to statistics, a little bit more than 30% of Indian women aged from 15 to 49 are officially employed. Many of them live in small towns where career opportunities are limited. Many women have to quit their jobs after getting married or having children. That is why women account for more than 60% of all distributors working via social shopping platforms in India.

Wooplr helps women from small Indian towns to make money, turning them into small individual entrepreneurs. How it works:

Large and small Indian producers publish catalogues of fashion and home goods on Wooplr and distributors find buyers through social media and messengers (Facebook, WhatsApp, etc.) for a commission ranging from 15% to 25% of the product price. In this way the sellers, who act as opinion leaders, attract customers and boost sales, are able to earn about INR 25,000-50,000

(RUB 22,500 – 45,000) a month. All logistical matters are handled by Wooplr and commission is transferred to the seller's account on a weekly basis.

For many potential customers in India, especially those living in small towns, doing online shopping may be an uncomfortable experience. Placing an order with a friend through social media is much easier than searching for products and buying them on the producer's website. Moreover, a seller may give recommendations and save the customer's time.



• National Family Health Survey 2015-2016

BUSINESS MODEL AND ASSET MANAGEMENT

Based on a clear strategic vision, strong expertise and more than 20 years of experience in various industries, Sistema accumulates and distributes financial capital in such a way as to ensure high returns on investment through the preservation and augmentation of the productive, intellectual, human, reputational and natural capital to ensure sustainable development of business and society in the long term.



Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

Sistema is focused on strategic development of its investment portfolio as a whole, aims to minimise direct intervention in the operations of its controlled businesses and takes a differentiated approach to corporate governance, taking into account the level of assets' organisational maturity. Depending on the assets' ability to ensure sustainable development and efficiency enhancement the Corporation implements uniform corporate governance principles and standards in compliance with best practices and manages portfolio companies through their boards of directors, which include representatives from Sistema. The Corporation also conducts monitoring and control of key business processes at the initial stage of their formation in developing companies. The Corporation's plans for developing corporate governance systems at portfolio companies include expansion of the boards' powers and responsibilities and appointment of more independent directors.

The level of organisational maturity of the portfolio assets is determined by auditing key business processes in the following 8 management categories:



strategy quality



effectiveness of HR policy



level of development of operational expertise



effectiveness of governance processes



financial stability



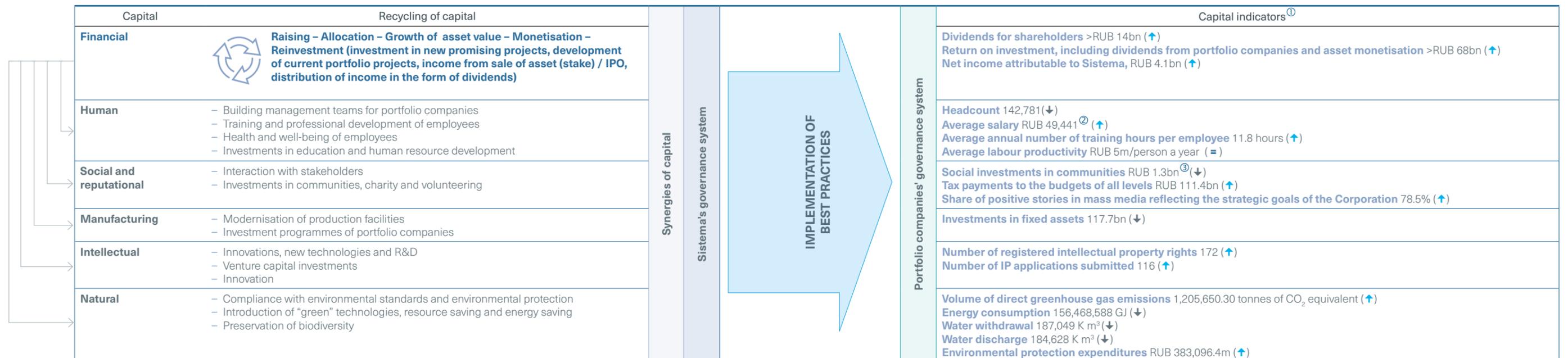
effectiveness of internal control and audit tools



quality of planning system



effectiveness of communications



① ↑ Growth, ↓ Reduction, = stable level compared to 2016.

② Average wage net of top management.

③ Including financing of own charity and social projects of Sistema and its portfolio companies, financing of the programmes of Sistema Charitable Foundation, the operating expenses of the corporate charitable foundation and allocations from Sistema and its portfolio companies to the foundation.

GRI 102-22 GRI 102-32

Advanced corporate governance practices at Sistema

Sistema's corporate governance system is built on the basis of best practices and standards and makes it possible to safeguard the interests of shareholders, ensure transparency and accountability of the Corporation and achieve its strategic goal of ensuring long-term growth of shareholder value.

Key characteristics of Sistema's corporate governance system:

Following the 2017 annual general meeting of shareholders, the share of independent directors exceeded one third of the entire elected Board.

The Board of Directors is effective in performing its key function of strategic management of the Corporation. The fact that a lot of the meetings of the Board of Directors require attendance in person provides an opportunity for collective and comprehensive discussion of agenda items.

The Corporation introduced a regular practice of involving independent Board members in analysis of investment projects through active challenging of the management on the key agenda items of the Board meetings. This approach makes it possible to significantly increase the involvement of the Board members in analysis of investment projects.

Sistema's Board of Directors oversees the work of Strategy Committee, Audit, Finance and Risk Committee, Nomination, Remuneration and Corporate Governance Committee, Ethics and Control Committee and Investor Relations and Dividend Policy Committee.

At the general meetings of shareholders the Corporation ensures a constructive dialogue between the shareholders and the members of the governance and control bodies who answer all questions put by the shareholders and provide clarifications on the agenda items.

The remuneration of Sistema's management includes short-term and long-term components.

The Board of Directors conducts an annual assessment of risk management system and reviews a report from the internal control unit.

Every year Sistema's Board conducts a self-appraisal of its collective and individual performance.



For more information on the corporate governance system see [the 2017 Annual Report, p. 72-89](#)

The Corporation implements CSR projects for all groups of stakeholders.

The Corporation has procedures in place for ensuring informational transparency. The Regulation on Information Policy approved by the Board of Directors governs the company's activities in the area of external communications, voluntary and mandatory information disclosures in accordance with the requirements of Russian and foreign regulators.

Igor Petrov

Corporate Secretary of Sistema



"One of the Corporation's priority objectives for 2018-2019 is to continue improving corporate governance practices within Sistema Group.

The Boards of Sistema and its portfolio companies are playing the key role in building an effective system of corporate relations in Sistema's assets. A balanced approach to forming a corporate governance system lies at the basis of safeguarding the interests of the Corporation's shareholders and investors, Board members and management and, consequently, achievement of Sistema's development goals and objectives, which include improvement of the investment appeal of the Corporation and its assets".

Contribution to improving the quality of corporate governance in Russia

The representatives of the Corporation are actively involved in the activities of organisations promoting advanced corporate governance practices in Russia: the National Association of Corporate Secretaries (NACS) and the Club of Corporate Secretaries, the Agency for Strategic Initiatives and the Moscow Exchange Share Issuers Committee.

As part of its membership in the National Association of Corporate Secretaries Sistema proposed amendments to the Federal Law "On Joint-stock Companies" with regard to assigning corporate

secretaries an official status in the law. In October 2017, a meeting of the **Club of Corporate Secretaries** was held in Sistema's office at Mokhovaya St. The meeting was attended by more than 50 corporate secretaries who shared their experience in the area of planning the work of boards of directors and ensuring oversight over execution of boards' resolutions. The discussion was moderated by Sistema's Corporate Secretary and Club Chairman Igor Petrov.

As a member of the **Agency for Strategic Initiatives** the Corporation is involved in reviewing lawmaking

initiatives in the area of civil and corporate legislation, including development of regulations on the legal status of controlling and controlled persons that would hold a controlling person liable for any losses inflicted on a controlled entity.

As a member of the **Moscow Exchange Share Issuers Committee** Sistema took part in the discussion of amendments to the Listing Rules related to pre-listing of securities and regular disclosures of information for investors and shareholders on the issuer's website.

Key social issues on the Board's agenda

In June 2017, the Board of Directors of Sistema approved an updated strategy in the area of HR management and highlighted the following priority areas:

- creating an environment conducive to fulfilment of the employees' career potential;
- forming an external succession pool which would take into account the corporate culture and business models of Sistema and its assets;
- enhancing employee performance and engagement through training and other initiatives.

In December 2017, the Board of Directors of the Corporation

approved a revised charity strategy of the Corporation envisaging creation of a new programme on the basis of Sistema Charitable Foundation and Lift to the Future project designed to develop Russia's technology environment and human capital.

The Group's boards of directors and their relevant committees conduct regular reviews of the following matters: charity projects, relations with local communities, quality of products and services, occupational health and safety. Labour relations is the key CSR matter on the agendas of the Group's corporate governance bodies: it accounted for 15% of the total number of items reviewed by the boards of directors of 12 portfolio companies of Sistema.



15%
of the total number of items reviewed by the boards of directors are labour relations items



Key international certificates of Sistema Group companies

| Sector | Key certificates of companies | Subject of certification |
|--------------------------------|---|--|
| Telecoms and digital services | ISO 19600 | Compliance |
| High technology | ISO 9001, 14001, 50001, 27001 | Quality, environment, energy management, information security |
| Forest industry | ISO 9001, 14001, FSC, OHSAS 18001, ISO 14025, ISO 21930, EN 15804 | Quality, environment, responsible forest management and supply chains, occupational health and safety, environmental product declaration |
| Healthcare and pharmaceuticals | ISO 9001, GMP | Quality, manufacturing and quality of medicines |
| Electric power | ISO 9001, 14001 | Quality, environment |
| Agriculture | Certification of milk under European standards | Quality and safety of products |

One of the key signs of organisational maturity and sustainability of portfolio companies is implementation of management systems certified under international standards.

GRI 102-43

Social and economic cooperation with Russia's regions

The Corporation is building relations with Russia's regions on the basis of mutually beneficial social and economic partnership. The existing agreements signed by Sistema and its portfolio companies with the local governments are aimed at raising investment, creating a favourable economic and social environment in the regions where the Corporation operates.

As part of its regular cooperation with Russia's regions the Corporation conducts monitoring of the situation, coordinates and implements joint projects with the regional governments in order to expand its presence in local markets and modernise its production facilities, boost the productivity of its enterprises, increase the gross regional product and tax receipts, and contribute to the creation of new jobs.

Key agreements with Russia's regions ^①

| Group companies | Other regions |
|-------------------------------|---|
| Sistema | The government of Moscow, the Arkhangelsk, Kirov, Kostroma, Samara and Krasnodar regions. |
| Sistema Charitable Foundation | The Republic of Altay. |
| MTS | The Republic of Adygeya, the Republic of Dagestan, the Kamchatka region, the Krasnoyarsk region, the Novosibirsk region, the Komi Republic, the Ryazan region, Tobolsk. |
| Segezha Group | The Republic of Karelia, the Kirov, Kostroma and Rostov regions. |
| Steppe AgroHolding | The Stavropol region. |
| BPGC | The Bashkortostan Ministry of Education. |
| Sitronics | The Republic of Ingushetia. |



In 2017, the companies of Sistema Group signed

≈ 10 new agreements

with Russia's regions

Agreements signed with Russia's regions in 2017



The Agreement with the Samara region envisages attracting investments to such sectors as healthcare, industrial and high-tech production, agriculture, retail, information technologies and banking services.

The Agreement with the Kostroma region is aimed at implementing joint initiatives in the forest, consumer and textile industries, agriculture, machine building and retail. Moreover, the parties to the Agreement are considering opportunities for creating a major competitive and diversified business in the high-tech sector.

The Agreement with the Krasnodar region provides for development of joint projects in agriculture, retail, information and telecommunication technologies and attracting investments into the region's economy. The Agreement also sets forth the parties' unwavering commitment to protection of the environment, rational use and restoration of natural resources and ensuring environmental security when implementing investment projects.

In 2017, Sistema and its portfolio companies signed a number of new agreements on social and economic cooperation which set out the most promising areas of strategic partnership between the Corporation and regional authorities.

Moreover, in order to develop modern telecom infrastructure and overcome digital inequality MTS signed a number of agreements for building communication networks in the Republic of Adygeya, the Komi Republic and the Kamchatka Territory.

Cooperation with the Karachay-Cherkess Republic

In March 2017, Sistema's top managers held a meeting with the governor of the Karachay-Cherkess Republic to discuss plans related to modernisation of the Yuzhny Agricultural Complex and increasing Sistema's investments in the region's healthcare and other sectors.

After acquiring the Yuzhny Agricultural Complex in 2016, the Corporation immediately launched comprehensive modernisation of the enterprise. As a result, production volumes, tax payments to the regional budget and employee wages were increased three-fold.



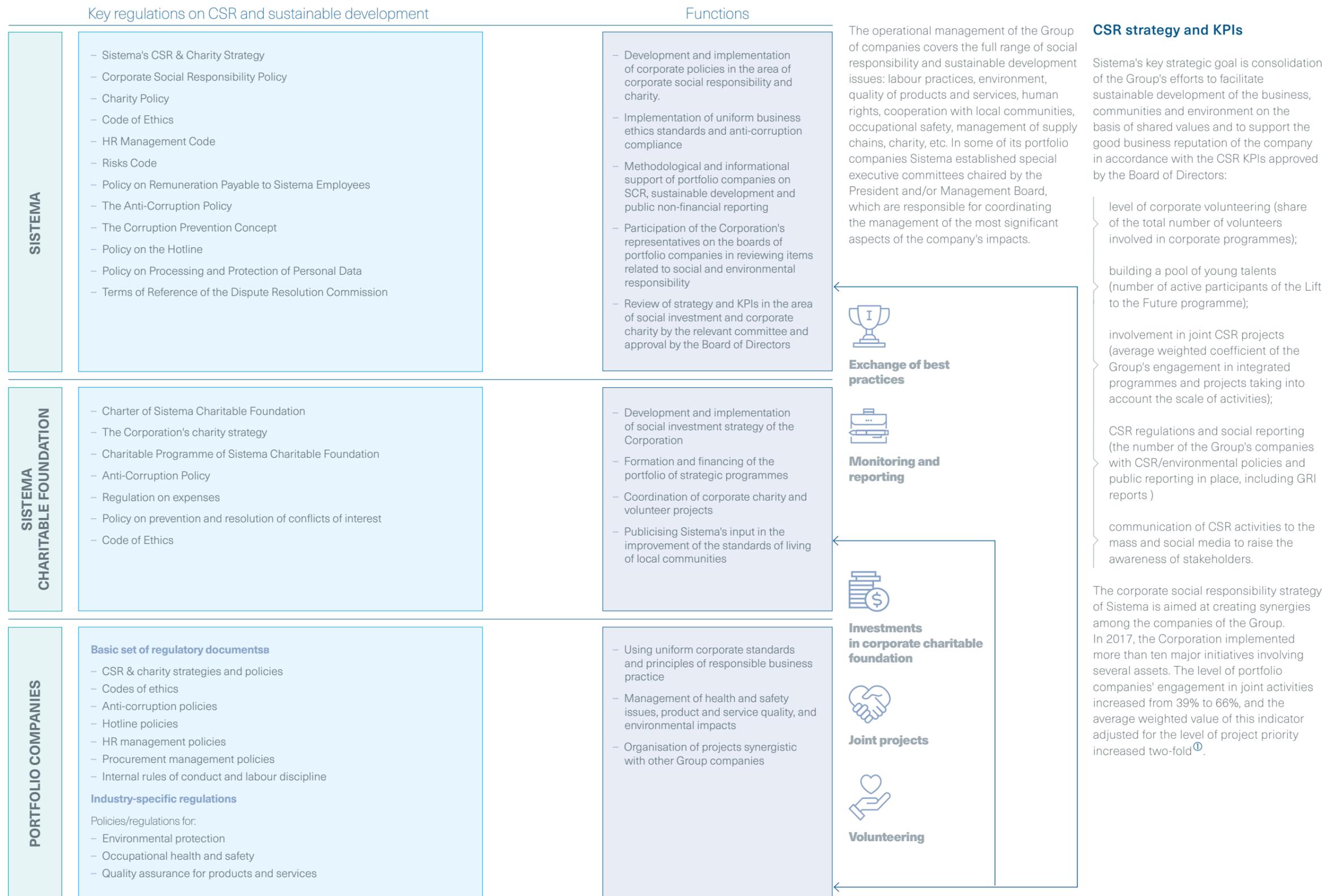
① As of end of 2017

CSR principles of Sistema Group:

- Strict compliance with the law and business ethics;
- Zero tolerance and prevention of corruption in all its forms;
- Long-term contribution to the development of regions and support of local communities;
- Investment in human capital and stimulation of innovation;
- Improvement of living standards through social investments and new technologies;
- Creation of favourable and safe working conditions and equal opportunities;
- Observance of human rights and non-discrimination;
- Minimisation of negative impact on the environment;
- Balance of stakeholder interests, openness and transparency;
- Implementation of responsible practices in the supply chain;
- Ensuring high quality and safety of products and services.

These principles are set out in the internal CSR policies and strategies, and other regulations governing the activities and defining the sustainable development goals of the portfolio companies of Sistema Group. In accordance with the investment company model Sistema's key objectives are: implementation of uniform standards, formation of strategies, KPIs and public non-financial reporting of portfolio companies, monitoring of CSR programmes and projects, and promoting best practices.

CSR and sustainable development management system



CSR strategy and KPIs

Sistema's key strategic goal is consolidation of the Group's efforts to facilitate sustainable development of the business, communities and environment on the basis of shared values and to support the good business reputation of the company in accordance with the CSR KPIs approved by the Board of Directors:

- level of corporate volunteering (share of the total number of volunteers involved in corporate programmes);
- building a pool of young talents (number of active participants of the Lift to the Future programme);
- involvement in joint CSR projects (average weighted coefficient of the Group's engagement in integrated programmes and projects taking into account the scale of activities);
- CSR regulations and social reporting (the number of the Group's companies with CSR/environmental policies and public reporting in place, including GRI reports)
- communication of CSR activities to the mass and social media to raise the awareness of stakeholders.

The corporate social responsibility strategy of Sistema is aimed at creating synergies among the companies of the Group. In 2017, the Corporation implemented more than ten major initiatives involving several assets. The level of portfolio companies' engagement in joint activities increased from 39% to 66%, and the average weighted value of this indicator adjusted for the level of project priority increased two-fold^①.

① When calculating the indicator, the scale of the project and the number of companies involved in it were taken into account.

CSR synergies in Sistema Group

| Programme / project | Number of participants (portfolio companies) |
|--|--|
| Children's festival Solony (Altay, Karelia) | 8 |
| Be Healthy with MEDSI! | 8 |
| Lift to the Future | 8 |
| "Giving Tuesday" | 7 |
| "Telecom Idea" | 7 |
| "Wishing Tree" (New-Year performances) | 6 |
| Volunteer clean-up days | 6 |
| Science festival NAUKA 0+ | 5 |
| Environmental campaign I Choose Forest organised with FSC. | 5 |
| "Detsky KinoMay" charity film forum | 3 |
| Russian Climate Week | 3 |
| Children's Festival "Redhead" | 2 |
| Festival of corporate volunteering theatres | 2 |

CSR policies and strategies of portfolio companies: best practices

MTS and Segezha Group are demonstrating the most mature approach to strategic management of sustainable development and CSR issues. The CSR strategy of MTS was developed after conducting self-appraisal for compliance with standard ISO 26000 and holding a meeting of the CSR Committee chaired by the President of MTS. The CSR strategy of Segezha Group was based on a comprehensive social and environmental audit and the results

of an analytical session attended by the representatives of 15 Russian and foreign subdivisions of the holding.

The CSR strategy of MTS was developed and approved by the Board of Directors in 2016. The strategy sets out plans for contribution of the leading mobile operator in Russia and the CIS to implementation of the 2030 UN sustainable development goals and national priorities.

74%

of the Group's companies had internal CSR policies and strategies in place or under development in 2017.

47%

of companies set KPIs in the area of corporate social responsibility.

Alexey Kornya

President of MTS



"Our key goal is to improve peoples' quality of life by developing innovations and providing a broad range of services to our clients. Being responsible for our actions is essential for the sustainable development of our company".

SOCIAL INVESTMENT

Sistema aims to make a regular and consistent contribution to the social and economic development of Russia by managing its social investments through its corporate charitable foundation.



GRI 203-2 GRI 413-1

Sistema Charitable Foundation (SCF), founded 15 years ago and being one of Russia's largest corporate charities, is consolidating the financial and volunteering resources of Sistema Group to achieve maximum efficiency of investments. Among SCF's priorities are the infrastructure and systemically important projects of national scale that ensure substantial long-term changes in the social environment and create a stimulus for its sustainable development.

Implementation of social programmes through an in-house charitable foundation reporting to Sistema's Board and comprised of Board members, top managers of Sistema and its portfolio companies (the key donors) and strategic partners, makes it possible to ensure the necessary expertise, transparency, coordination of corporate charity and general investment strategy. Sistema's charity strategy is annually reviewed by the Investor Relations and Dividend Policy Committee, approved by the Board of Directors of Sistema and by the SCF Board.

The charity programme of Sistema Charitable Foundation is formed on the basis of the Corporation's development strategy, the social priorities of the Group's companies and specific requests from stakeholders. All of the projects included in SCF's charity programme go through a mandatory expert review and are then submitted for approval to collective governance bodies, while relations with beneficiaries are regulated by internal procedures designed to ensure the lawfulness and financial transparency of donations and to rule out any political and other donations that are not consistent with SCF's purposes. Such procedures enable SCF to mitigate potential risks and optimise cooperation with interested parties.

Sistema's social investments are aimed at achieving tangible results and promoting innovative, technological, social and cultural development of Russia.

Anna Yanchevskaya

President of Sistema Charitable Foundation



"Being a corporate charitable foundation, we include the priority sustainable development goals determined by Sistema into our strategy. The main projects of SCF are currently aimed at achieving two major goals: development of human capital and creation of technologies to improve peoples' quality of life. In addition to these long-term initiatives we have a number of projects aimed at supporting the people that need our help right now. Such projects are focused on provision of high-tech medical aid, social support, developing accessible museum environments and launching educational initiatives. We are capable of achieving tangible results in these areas in the

#GivingTuesday: World Charity Day

The World Charity Day attracting participants from more than 60 countries each year. Sistema has been supporting the #GivingTuesday campaign from the very first day of its launch in Russia. In 2017, Sistema Charitable Foundation and 6 companies of Sistema Group took part in the campaign by conducting activities aimed at promoting charity and volunteering projects among employees, partners and customers.

For example, SCF and the Russian Museum offered free visits to the exhibitions of the Mikhailovsky castle on 25-26 November, while the Museum's Multimedia Centre demonstrated educational films created with Sistema's support on the basis of its art collection. As a result, the number of the museum's visitors surged

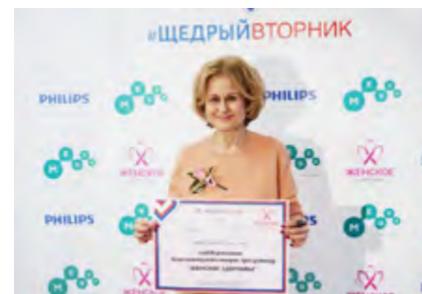
five-fold from the ordinary. About 4,000 people visited the Mikhailovsky castle during these two days.

Medsi and Women's Health charity project launched a photo exhibition "Male Support" at CDC Krasnaya Presnya devoted to the families where men helped their partners to cope with breast cancer treatment. The organisers of the event also conducted an expert discussion "I'm Not Afraid of Health Checks" about shaping the culture of preventive health screenings in society.

Detsky Mir organised a charitable fair for the fourth successive year. It also held a Week of Good Deeds for its employees. At the fair, children from orphanages situated in Moscow, Kostroma, Smolensk and Ryazan presented their works. All money raised at the fair went to provide

additional education to special needs children and orphans, and to pay for their medical rehabilitation.

The Onego Palace Hotel (Cosmos Group) together with the republican youth centre organised a charitable auction selling works by local Karelian craftsmen. The proceeds were divided between a foundation helping ill children and animal rights advocates.



Key focus areas and achievements of Sistema Charitable Foundation

Lift to the Future project aimed at developing engineering education

Lift to the Future

Since 2011, Sistema's flagship project in the field of education has been the "Lift to the Future" programme established jointly with the Lomonosov Moscow State University and implemented with the support of the Ministry of Education and Science of the Russian Federation.

The programme is designed to identify and train young engineers for professional career by solving scientific and practical tasks. Successful graduates of the programme receive support for implementation of their projects and get additional points for admission to the leading Russian universities.



Objectives

- Support, education and career guidance for the talented youth in science and technology
- Building a pool of young talents for high-potential and knowledge-intensive industries and high-tech companies
- **>300 representatives** of business, science and education communities worked as coordinators of the programme's projects
- **> 80 best programme** graduates received additional points for their Unified State Exam scores for admission to the top 7 universities in Russia
- **>70 institutions providing** supplementary school education in science and technology received grants of up to RUB 600,000 for the implementation of their training programmes
- **>70 contests** were held for students and teachers
- **>50 winners** of student papers contests and young researchers completed internships with European high-tech companies and leading global research centres
- **>15 student projects** developed to resolve real operational tasks of Sistema Group companies received grants of up to RUB 500,000
- **>10 Russian universities** were awarded grants of up to RUB 900,000 for their programmes aimed at improving their graduates' competitive advantages in the current labour market.

Key external partners

The Lomonosov Moscow State University, Agency for Strategic Initiatives (ASI), Ministry of Education

Key results

- **>11,000 school** and university students from 46 Russian regions participated in the programme
- **>20,000 school** students were trained at 17 temporary engineering and design schools in 11 Russian regions
- **≈ 500 university** students received scholarships
- **≈400 educators** who worked with the winners of the programme's contests later attended professional development courses at the Lomonosov Moscow State University
- **≈250 educators** received grants to organise projects for school students

Social projects and volunteering



Objectives

- Systemically important projects in the area of health care and social support, including targeted aid for war veterans and children.
- Development of corporate volunteering and individual charity initiatives of employees.

Key external partners

Governments of the Republic of Altay, the Republic of Karelia, Moscow; the Moscow City Council of Veterans.

Key results

- **More than 30 thousand participants**
- **80 social partners**
- **23 new play rooms** in children's hospitals
- **4.5 tonnes of humanitarian aid** collected for children from remote areas of the Republic of Altay and the Republic of Karelia
- Charity festivals and campaigns **in 12 regions of Russia** and tens of cities
- **About 1,600 veterans** received free rehabilitation treatment at Medsi, including 850 veterans in 2017

Culture and art: new technologies for education



Objectives

- Support to best programmes in culture, arts, and education with a focus on new models and state-of-the-art tech solutions.

Key external partners

State Russian Museum (SCF); Russian Geographic Society

Key results

- **≈800,000 people** is the audience covered by virtual branches, exhibitions and festivals supported by SCF in 2017
- **≈ 220 information and education centres** of the Russian Museum in cultural and education institutions (172 in the Russian regions, 42 abroad)
- SCF supported **20 grant projects** of the Russian Geographical Society



For more detail on the activities of Sistema' Charitable Foundation see the annual report of Sistema for 2017: <http://bf.sistema.ru>.

Regional charity festivals

In the reporting period Sistema continued the practice of organising partner charity festivals that was started in 2016. In accordance with the agreement on social partnership that was signed between Sistema Charitable Foundation and the government of the Republic of Altay in 2016, the first large-scale charity festival Solony was organised in the republic. Sistema's portfolio companies and volunteers in cooperation with partners conducted a 14-day programme including charitable, social, volunteer and educational projects for more than 5,000 children from large and underprivileged families of Gorno-Altaysk and remote rural areas.

In 2017, the Solony festival was organised to coincide with the Year of Ecology and the 100th anniversary of specially protected natural areas in Russia and took place not only in the Republic of Altay, but also in the Republic of Karelia. In these two republics SCF conducted numerous charity and social campaigns, which were aimed at involving residents in solving environmental problems. As part of the festival SCF also organised events designed to provide help to underprivileged groups of people, primarily children (clean-up events, exhibitions, performances of puppet theatres, children's film festivals, master classes, psychological consultations etc). The Solony festival in the Republics of Altay and Karelia attracted 16,000 children.

GRI 203-1



The total investment of SCF in partner charity festivals in 2 years exceeded

> 40 RUB m

(including regional engineering and design schools "Lift to the Future"), net of co-financing raised from social partners (Detsky Mir, OZON, etc) in the amount of RUB 10m.

Including investments made in 2017:

≈ 27 RUB m -

in direct social investment from SCF including "Lift to the Future" schools in Gorno-Altaysk and Petrozavodsk

≈ 4 m -

contribution by social partners from Sistema Group.



Financing of charitable and social programmes

To carry out its social programmes, Sistema uses a broad set of financial (target donations, grants, fund raising), in-kind (goods, services) and non-financial (volunteering, pro bono) charity tools. This enables the Corporation to deliver the highest possible results at optimum costs.

Every year Sistema Charitable Foundation and the portfolio companies of Sistema Group invest about RUB 1.4bn in society. The total volume of direct social investment of the Corporation in 2015-2017 amounted to RUB 4bn, same as in 2014-2016.

In 2017, Sistema and its portfolio companies invested more than RUB 641m in social and charity projects, and another RUB 337.5m went to financing charity programmes through SCF, excluding RUB 263m in allocations for SCF's operating expenses and for the Corporate Volunteer Centre. This amount does not include the personal donations of the Corporation's employees to corporate charity projects.

For example, the charitable New Year auction raised over RUB 11m from Sistema Group's employees to construct a state-of-the-art and accessible playground at the Pavlovsk orphanage that has been under Sistema's patronage for many years.

In April 2017, representatives of SCF delivered RUB 1.4m worth of medical equipment to the Volgograd hospice. The money had been collected by the employees of Sistema Group companies during the New Year "Wishing Tree" campaign.

Direct social investment of the Corporation, RUB m

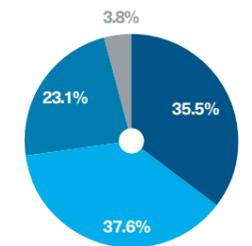
| Parameter | 2015 | 2016 | 2017 |
|---|-------|-------|-------|
| Total amount of Sistema Group's social investments | 1,521 | 1,454 | 978.7 |
| Programmes of Sistema Charitable Foundation ^① | 542.7 | 554.3 | 337.5 |
| Programmes of Sistema Group ^② | 978.3 | 899.4 | 641.1 |

Direct investments do not include indirect costs (the labour cost of corporate volunteers, the cost of goods and services provided by the Group companies on a free-of-charge basis), the created added value and the funds and material resources provided by clients and partners.

As part of the annual charity campaign "Participate!" Detsky Mir collected more than 7.8m gifts with the total value of RUB 350m for orphans and children without parental custody, underprivileged and disabled children.

With the Group's allocations to SCF and its operating expenses taken into account, the total amount of contributions to social programmes reached almost RUB 5bn in the last three years. The average share of Sistema Group's investments into SCF from the consolidated charity budget is about 20% and the share of funds contributed to implementation of corporate programmes is about a half of the entire amount of the Group's social investments.

Financing of SCF's social programmes



- Lift to the Future: support of engineering education
- Social projects and volunteering
- Culture and art: new technologies for education
- Development of charity



Every year Sistema Charitable Foundation and the portfolio companies of Sistema Group invest about

1.4 RUB bn

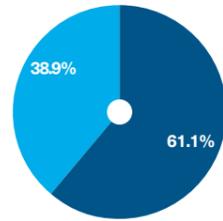
in society.

The total volume of direct social investment of the Corporation in 2015-2017 amounted to

4 RUB bn

① Without SCF's operating expenses.
② Without contributions to SCF.

Financing of charitable activities at Sistema Group in 2017



- Own projects of portfolio companies
- SCF



Total investment into SCF in 2017 is

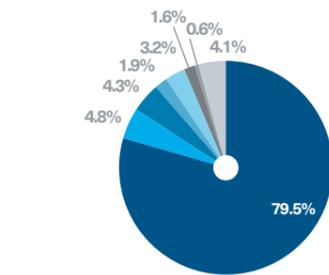
>400 RUB m



≈ 710 RUB m

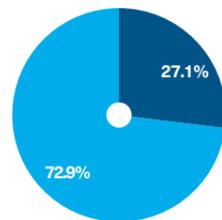
has been contributed by the companies of Sistema Group in 2015-2017

Financing of charitable activities



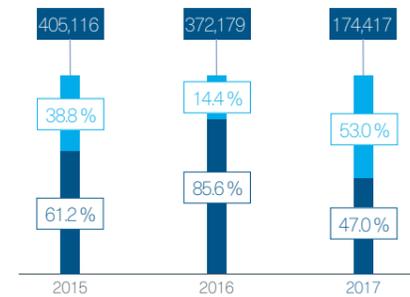
- MTS
- RTI
- Segezha Group
- RZ Agro
- Steppe AgroHolding
- Detsky Mir
- BPGC
- Other

Structure of spending on charitable and social programmes at portfolio companies in 2017



- Spending on external stakeholders
- Spending on social aid for employees and their families

SCF's contributions to charity and other NGOs, RUB K



- Donations to charity foundations
- Donations to other NGOs

* Excluding contributions from SCF to Lift to the Future



≈ 1 RUB bn

is invested by the Corporation in the social sphere every year



The total amount of donations collected in 2017^①

>350 RUB m

In 2017, Sistema Charitable Foundation had

240

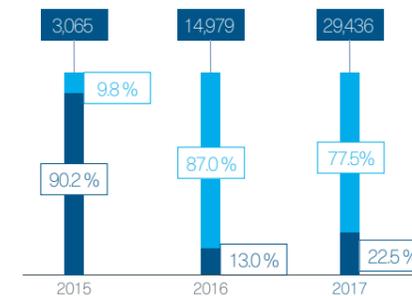
direct beneficiaries, a 3.4 times increase from 2016

① Donations from the employees of Sistema Group and third parties collected under Detsky Mir programmes: the "Participatel" and "Operation Toys". These donations were not included in the total amount of social investments of the Corporation.



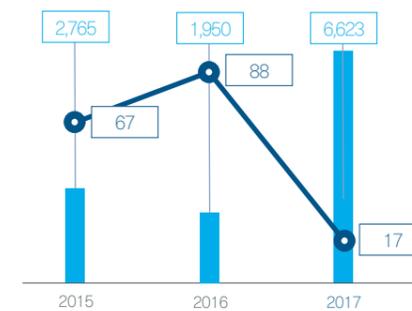
The practice of financing social projects through grants is being actively developed by the Corporation. Over the last three years the annual amount of grants issued by Sistema Charitable Foundation to individuals and legal entities has increased almost 10-fold and reached RUB 30m in 2017.

Grant financing from Sistema Charitable Foundation



- Grants to legal entities
- Grants to individuals

Grants to individuals



- Total amount of grants*, RUB K
- Grant recipients, persons

Grants to legal entities



- Total amount of grants*, RUB K
- Grant recipients, legal entities

* Including grants from SCF to Lift to the Future



In three years SCF has awarded 220 grants for the total amount of

47.5 RUB m,

60% of which was financed in 2017

Plans for development of the CSR and sustainable development system



Further strengthening of synergies between the social investment of Sistema Charitable Foundation and Sistema's business strategies with a focus on new technologies and involvement of the Group's companies in implementation of comprehensive social projects.



Launching new large-scale initiatives on the basis of Sistema Charitable Foundation.



Developing a road map for public non-financial reporting in the companies of Sistema Group to ensure alignment with national laws and international ESG requirements.

EFFICIENT MANAGEMENT

| | |
|---|----|
| Economic performance | 40 |
| Implementation of investment programmes | 51 |
| Innovations | 54 |
| Risk management | 58 |
| Ethics and anti-corruption | 62 |
| Procurement and supply chains | 68 |
| HR management | 76 |
| Environmental impact | 88 |

The efficiency and productivity of Sistema and its assets make it possible to timely and fully fulfil the Corporation's obligations to interested parties: pay taxes to the federal, regional and local budgets and make allocations to off-budget funds, implement agreements on social and economic cooperation with Russia's regions, ensure a competitive level of remuneration and a good standard of living for its employees, implement social programmes and make investments in communities.

ECONOMIC PERFORMANCE

The Corporation has a significant impact on the development of many industries and communities of the regions where it operates, and on the country as a whole.

GRI 103-2

GRI 102-43



0.80%

is the average share of Sistema's consolidated revenue in Russia's GDP in 2015-2017



0.94%

is the average share of the Corporation in the gross income of the Russian economy in 3 years

In 2017, Sistema's consolidated revenue and profit margins increased due to the strong results of its public assets and active growth of the medical, hotel, agricultural and pharmaceutical businesses. Detsky Mir, Medsi and Steppe AgroHolding boosted their revenues by 21.9%, 24.0% and 22.2% year-on-year, while their OIBDA margins reached 11.0%, 16.9% and 39.4% respectively.

Despite the unfavourable market environment Sistema's investment portfolio achieved positive financial year-on-year results, which are above the growth rate of the national economy because the Corporation's assets:

- operate in the resistive sectors of the economy (communications, children's goods, healthcare);
- have a strong export potential (agricultural products, paper sacks and timber products);
- develop in accordance with global trends (E-commerce, innovations, and venture investments).

Profile of Sistema

Responsible investment

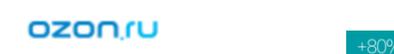
Efficient management

Sustainable development practices of portfolio companies

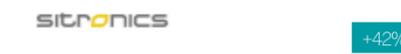
Telecom



Consumer sector



B2B



Real estate



≈ 40%

is the average annual growth rate of Sistema Group's revenue over the last 3 years with compound interest taken into account (CAGR^①)

GRI 201-1

Generated and distributed direct economic value^②, RUB bn

| Показатель | 2015 | 2016 | 2017 |
|--|----------------|----------------|----------------------|
| Created value, including | 748.098 | 718.714 | 721.906 |
| Consolidated revenue | 678.821 | 697.705 | 704.551 |
| Financial and other revenues | 69.277 | 21.009 | 17.355 |
| Distributed value, including | 706.147 | 719.448 | 803.546 |
| Operating and other expenses | 608.733 | 617.75 | 602.499 |
| including wages, social and other payments to employees ^③ | 136.395 | 142.099 | 132.419 |
| Taxes ^④ | 22.251 | 27.149 | 17.349 |
| Investments in communities ^⑤ | 1.584 | 1.509 | 1.050 |
| Financial expenses | 50.496 | 56.251 | 48.983 |
| Other expenses | 18.660 | 6.896 | 119.603 ^⑥ |
| Accrued dividends to the holders of Sistema's shares | 4.423 | 9.893 | 14.062 |
| Retained value | 41.951 | -0.734 | -81.640 |

① Compound Annual Growth Rate (CAGR) of revenue in 2015-18 / 2016-18 depending on the year of Sistema's entry into the asset. The total value is calculated as an arithmetical mean of the indicator for these assets.

② The estimates are based on IFRS reporting on the basis of accrual accounting. For detailed information on the company's financial performance see the Annual Report of Sistema for 2017, pages 16-17.

③ Employee remuneration expenses (wages, bonuses and social contributions) included in production cost; selling, general and administrative expenses.

④ Include expenses for income tax and other irrecoverable taxes.

⑤ Include expenses for social and charity programmes financed through Sistema Charitable Foundation, the administrative expenses of Sistema Charitable Foundation and own programmes of portfolio companies financed from their budgets (excluding contributions to Sistema Charitable Foundation).

⑥ Including RUB 100bn in expenses under the settlement agreement reached with Rosneft and the Ministry of Land and Property Relations of the Republic of Bashkortostan.

Corporation's revenue in 2015-2017, RUB bn



Corporation's gross income in 2015-2017, RUB bn



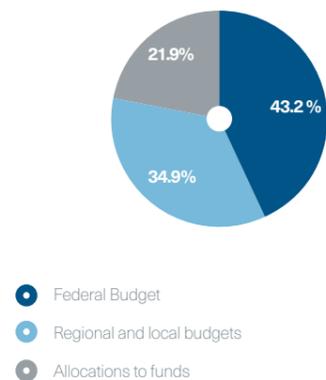
Corporation's OIBDA and operating income in 2015-2017, RUB bn



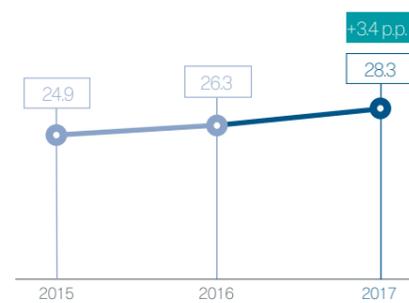
Sistema Group's payments to Russia's budget system in 2015-2017, RUB bn

| Parameter | 2015 | 2016 | 2017 |
|---|------|------|-------|
| Payments to the budgets of all levels and to off-budget funds | 88.4 | 98.1 | 111.4 |
| Tax payments to the federal and regional budgets | 66.6 | 74.2 | 87.0 |
| Allocations to funds | 21.8 | 23.9 | 24.5 |

Structure of Sistema's payments to the Russian budget in 2017, %



Corporation's profitability



Sistema is one of the biggest taxpayers of Russia. The amount of actual tax payments to the budgets of all levels and off-budget social funds in 2017 rose by 13.3% and reached RUB 111.4bn^①, with allocations to off-budget funds accounting for almost 22%.



≈ 300 RUB bn

is the amount of Sistema's payments to the budget and off-budget funds over the last 3 years, of which

> 70 RUB bn

was allocated for the medical, social and pension support of households.

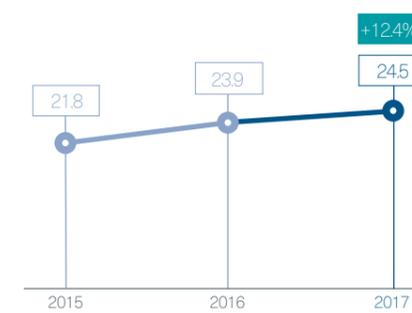
Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

Sistema's medical, social and pension support payments, RUB bn



The structure of payments to Russia's off-budget funds in 2017

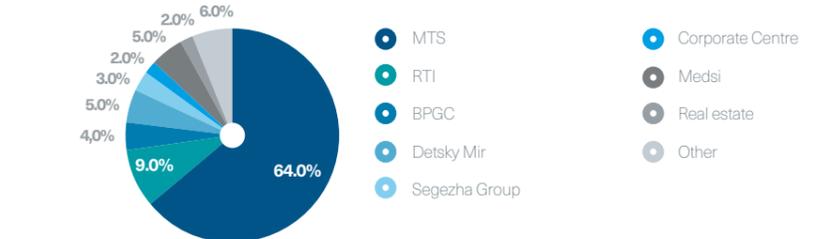


The Corporation's assets include companies with various types of businesses covered by different taxation schemes. For example, the Group includes agricultural and medical assets that are entitled to income tax benefits; Detsky Mir applies a reduced value added tax for children's goods, etc.

Structure of tax payments in 2017 by region



Structure of tax payments in 2017 by portfolio company



Regions account for ≈ 45% of all tax payments of the Corporation in 2017



≈ 110 RUB bn

in tax was paid to the budget system of Russia in 2017, of which

≈ 35%

went to the regional and local budgets

① Including VAT, income tax and other tax payments.

Shared service centres

The project for creating shared service centres (SSC) was launched by Sistema in 2016 to streamline the management processes of portfolio companies and further enhance their economic performance by cutting operating expenses. A system of such service centres at the Corporation included SSCs on the basis of big companies and a specialised SSC for the Group's small and medium enterprises. At the end of 2017, SSCs provided accounting services to 19 companies, IT services – to 13 companies and HR administration services – to 4 companies.

In 2018, for the purpose of further optimisation of business processes and cost cutting we plan to continue expanding the SSC project perimeter and robotising standard administrative processes by using the Blue Prism technology.



Interaction with the investment community

GRI 102-43

Sistema is giving a lot of attention to interaction with the investment community to communicate relevant information about the business strategy of the Corporation and its assets but also gets important feedback.

To communicate with investors, shareholders, financial institutions and partners, a wide range of tools is used:

- annual participation of Sistema's management in all major global and Russian economic forums, investment conferences of the Moscow Exchange, leading banks and brokers,
- face-to-face meetings with investors,
- conference calls,
- road shows,
- regular disclosure of quarterly and annual reporting,
- corporate website and websites of portfolio companies.

In 2017, Sistema continued its successful practice of presenting the key non-public assets of Sistema to the investment community and organising meetings between analysts and the top management of portfolio companies. A presentation of real estate assets

(Leader Invest, Business Nedvizhimost) was made to the key analysts and investors of the Corporation. At the event the management talked about the key elements of the companies' strategies, their real estate portfolio and key financial results. Following the presentation a number of key analysts increased their valuations of Sistema's real estate assets in their models.

Thanks to effective communications with the investment community, in February 2017 Detsky Mir conducted a successful IPO, the largest and most important monetisation transaction of the Corporation with the total value of about RUB 19.2bn. The IPO book was 2x oversubscribed; more than 90% of the final offering went to foreign investors

In 2018, the [IR Blog](#) on the corporate website was launched, that will publish the most important news of Sistema and its portfolio companies within market context. The Corporation also intends to develop and post on its website the tools that can be used for simplifying analysis of financial performance. Moreover, the Corporation is seeking to build more effective relationships with individual groups of investors and for this purpose it will introduce new approaches to holding the annual general meeting of shareholders, and establish permanent channels for collecting feedback from investors.

INVESTMENT PROGRAMMES

Sustainable development practices at portfolio companies

For the last few years, Sistema has been investing over 100 billion roubles annually in Russian economy. A lot of the money goes towards boosting the assets' production and operating potential and various aspects of efficiency, which feeds into sought-for high-quality products both for domestic and for exports markets, new jobs, and better standards of living in geographies where Sistema companies operate.



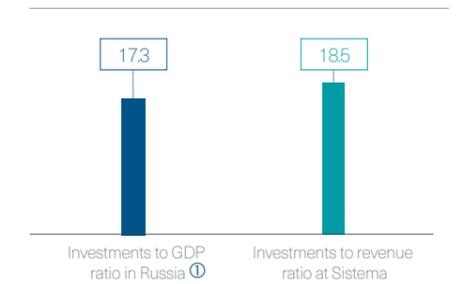
 **>500** invested over 5 years in various industries in Russia, in particular:

- ≈ 465 RUB bn  in telecom infrastructure
- ≈ 23 RUB bn  in hi-tech
- ≈ 12 RUB bn  in the consumer sector

 **Sistema Group makes roughly ≈ 1% of Russia's total private investments**^①

Sistema has become one of Russia's top ten investors in fixed assets and **top five investors in infrastructure over the last five years**^②, having invested an average of ≈14% of its annual revenue, or 49% of EBITDA.

Sistema's investment activity in 2017^①, %



In 2017, the Group's total capital expenditures decreased by 15%, mainly due to the completion of a large-scale modernisation programme at MTS, an asset responsible for more than 70% of the group's total investment volume. At the same time, Segezha Group's investment programme grew to 2.7 times its size in 2015 due to a rapid modernisation of production facilities.

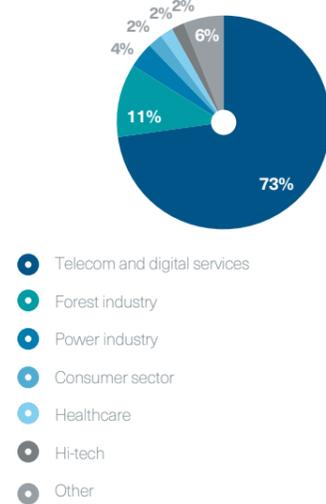
① According to Rosstat.

② According to The Expert's investment activity ranking: <http://expert.ru/expert/2018/42/za-kraem-neftegazovogo-gorizonta/>.

Sistema Group's investments, RUB bn



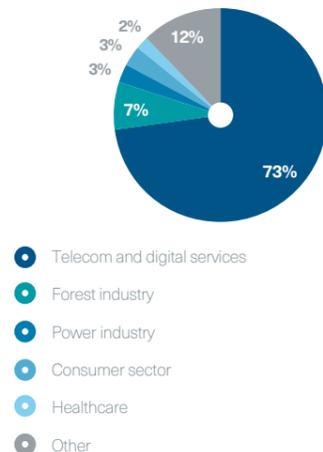
Sistema's CAPEX in 2017 broken down by sectors, RUB bn



RUB ≈ 460 bn

invested in 2015-2017, with 80% spent on fixed assets

Sistema's CAPEX in 2015-2017 broken down by sectors



MTS' investments mainly have to do with developing telecom infrastructure. In 2017 the company installed more than 13 thousand brand-new LTE base stations, launching 4G service across the entire country¹. In doing so, MTS reckoned with both the needs of local communities and future prospects of the telecom technology. While spending most effort on widening the current 4G network and improving its coverage, the company also keeps investing in the 3G infrastructure and prepares to start on the upcoming 5G standard.



MTS Group's total 2017 CapEx in telecom networks in Russia is

RUB 65.2 bn

or about 20% of total 2017 investments made in the Russian telecom market.

Segezha Group spent most of its 2017 investment budget on upgrading its flagship enterprise Segezha PPM and building a brand-new plywood mill designed to produce up to 86,000 cubic metres of high-quality birch plywood a year. These two projects consumed more than 81% of the 11.3 billion roubles that the holding invested in capital assets in 2017 and created over 600 new jobs, or 4.6% of the company' total headcount.



Segezha Group is responsible for

9.4%

of overall investments in the Russian forest industry made in 2017

Medsi has carried on investing in opening new clinics in Moscow and other Russian cities as well as buying equipment for existing ones. In 2017 the healthcare operator boosted its floorspace by 12,800 square metres by opening three state-of-the-art medical centres in Moscow and acquiring new assets in Saint Petersburg and Perm. Roughly 1 billion roubles was invested in a new multi-specialty clinic in Moscow (in Khoroshevsky Proezd) for adults and children, designed to receive up to 800 thousand visitors a year. The year's three new clinics came with some 200 permanent jobs. The corporation's investment in healthcare in the past three years almost reached 8 billion roubles, or 1.4% of Russia's total capital investment in healthcare and social services.



Medsi is responsible for about

5%

of the country's total private investment in healthcare

Detsky Mir's investments in 2017 gained 41.2% YoY, reaching 2.5 billion roubles (more than 1% of the total volume of investment in the retail sector in Russia). The money was used to open 104 new supermarkets and so improve the accessibility of juvenile products to the country's residents. At the end of 2017, Russia's largest specialised retailer owned 622 branded Detsky Mir and ELC stores in 207 cities of Russia and 12 cities in Kazakhstan.

For many years now, **BPGC** has been investing large amounts of money in creating an efficient and reliable state-of-the-art grid infrastructure in Bashkortostan. This includes reconstruction of distribution grids, upgrades of generation facilities, and connection of new customers. The company's investment in new power facilities in 2015-2017 exceeded 18 billion roubles (or 0.7% of the country's total investment in the generation and distribution of electrical power, gas, and water), including roughly 4 billion roubles (about 1.5% of Bashkortostan's total Capex) invested in 2017 only.

RTI Group made a RUB 10bn worth of investment over the last three years, or 4% of the total volume of investments in Russia's hi-tech¹. E.g., the company reconstructed its old assembly plant in Yaroslavl and reinforced it with a new low-batch assembly facility and a microelectronics plant that meets ISO 8 cleanroom standards. Most of the group's effort in 2017 went into building a specialised facility for assembling and testing payload modules of Russian communications satellites. The new production site will be used for a new RosCosmos/RTI project, and the plant will become an important link in multi-level cooperation with the space company. The total volume of the Yaroslavl plant's investment programme in 2012-2017 exceeded 2 billion roubles.

Capital investments of **Steppe AgroHolding** in 2017 grew by more than half, to 1.6 billion roubles (which is more than 0.4% of Russia's total agricultural Capex). Apart from buying new agricultural machinery, the company started building a new dairy farm in the Krasnodar region

designed to accommodate up to 1,800 lactating cows and produce up to 20 thousand tonnes of milk a year by 2021. Last but not least, in 2017 Steppe acquired 65 thousand ha of land, pushing its overall land holdings to 380 thousand ha.

Another important project carried out in 2017 was the RUB 1.9bn investment in Sistema's recreational **hotel assets**: Izumrudny Les (in the Moscow region) and Altay Resort (in the Altay republic). On top of that, Sistema invested in the construction of Moscow's first-ever Holiday Inn Express hotel. All in all, the corporation is responsible for roughly 4.5% of all funds invested in hotels and public eating facilities in Russia in 2017.

Government relations

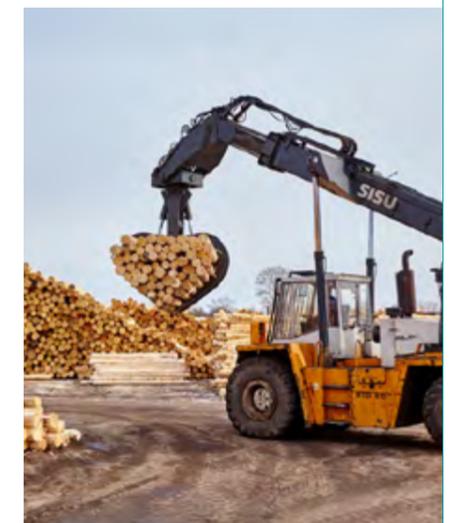
In 2017 Sistema continued its long-term cooperation with the Russian Government and key federal departments, ministries, and agencies in spheres of the company's interest.

Among important achievements of 2017 is the new 5-year instalment plan (through 2020) approved by the Russian Ministry of Finance that Sistema will use to buy out equity of Sistema Shyam TeleServices Limited (SSTL), an Indian/Russian telecom company, from the Russian Federation.

The plan is integrated into Russia's 2017 federal budget and confirmed by a special agreement signed with the Russian Federal Agency for State Property Management.

Segezha Group took active part in the promotion of recent federal laws and amendments, such as modifications to the country's Forest Code that optimise regulations applying to the use of forests in Russia.

The company put forward the initiative of establishing more equitable recycling fees for producers of paper packaging as opposed to plastic packaging, as prescribed by best international sustainability practices. Once adopted, the amendment will serve to promote recycling in Russia and will benefit the entire wood processing industry in the long term.



¹ Except for Crimea and Sevastopol, where MTS has no licence to operate.

¹ Production of computers, electronic and optical devices (Rosstat).

INNOVATIONS

Sistema considers innovations to be its main competitive advantage and results of innovation activities to be valuable intangible assets. The Corporation consistently invests in increasing intellectual potential: science and education, research and development, innovation infrastructure and digitalisation.



The Corporation cooperates with organisations that support innovations, sets up own R&D centres and helps its portfolio companies adopt advanced technologies and organisational innovations.

In 2017, Sistema established a project office for the implementation of digital projects in the interests of the Corporation and its assets. Strategic projects of the Corporation are implemented or coordinated at the level of a single cross-functional digital team. The practice of continuous training and raising awareness of both top management and functional leaders was created; the following events were held in 2017:

The following events were held in 2017:

- 2 strategic offsite session of Sistema and Group;
- 16 strategy sessions of portfolio companies;
- 6 strategy sessions of funds;
- 4 meetings of strategists;
- 3 Innovation Days.

Key achievements of the project office:

1 Inclusion of innovative development and digital transformation in the Corporation's business strategy;

2 Organisation of a functional IT & digital vertical across the Corporation, including:

- Creation of a common communication space and platform for exchanging experience and information;
- Introduction of the life cycle of the development and implementation of IT and digital strategies at portfolio companies.

A number of digital products were launched at various levels of the Corporation in 2017, including:

- Creation and adoption of the ACM system for managing the investment process, which reduced the time required for analysis of investment proposals at the level of the Corporation by 3-5x;
- Identification, adaptation and implementation of a system for building 3D models based on video stream analysis (applicable in real estate development, healthcare and retail);
- Implementation of a number of projects based on RFID technologies (retail, agriculture and forestry);
- Start of transformation of the product line for the banking customers, with a focus on the concept of "mobile only";
- Development and execution of a digital medicine strategy, including telemedicine services, P4 medicine, etc.

Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

Innovation Days

Innovation, digital transformation and new technologies are at the heart of the Corporation's strategy. It has become a good tradition to hold "Innovation Days" for Sistema Group's senior executives where they discuss the latest trends and their potential application in companies. 2017's events and seminars were dedicated to the discussion of such topics as agile software development, big data, innovations in medicine and healthcare, Industry 4.0 and many others.



Idea of the Year

In 2017, Sistema held the first corporate-wide contest of innovative ideas Idea of the Year. The main goals of the contest were strengthening intra-corporate relationships and employees' loyalty to the Corporation, and motivating employees to generate innovative ideas and initiatives.

Any employee or a team of employees of the Corporation could take part in the contest by proposing an idea in any area, provided that it met two criteria: novelty and economic benefits.

The contest was held in April-July. A total of almost 200 ideas were received, of which the jury selected the top 10. Then three winners were selected and received their awards on 14 July during the celebration of Sistema's anniversary party. The winning innovative ideas include the creation of MGTS's virtual reality store, MTS's online crowdfunding platform with the prospect of development into a full-fledged business incubator, and the centre for electromagnetic compatibility testing of equipment to comply with aviation requirements based on Kronstadt Group's testing lab.

Artyom Zasursky

Vice President for Strategy at Sistema



"Innovative development, digitalisation and business automation are topics that continue to attract the attention of managers in Russia and worldwide who don't want to miss out on changes that can lead to "seismic shifts" in the life of companies and business practices. Nowadays, not only sustainable development, but the very survival of a company depends on its ability to navigate the ever-changing technology landscape, determine priority areas for development, and make strategic decisions on investing and adopting advanced methods and approaches. With the opening of a specialised project office, we have moved from simple tracking of technology, macroeconomic and social trends to active adoption of breakthrough technologies, in both the Corporation and its portfolio companies. Being at the very beginning of this process, we hope that our efforts will allow us to better prepare for the challenges we will face in the near future."



Innovations are actively adopted and developed in all of Sistema's portfolio companies and cover a wide range of industries and segments. The Corporation takes a responsible approach to intellectual property protection in accordance with the established procedure for registering new inventions.

New intellectual property of Sistema Group companies^①



- Поданные заявки на объекты интеллектуальной собственности
- Зарегистрированные объекты интеллектуальной собственности

For more information on innovative projects of portfolio companies, see the section Sustainable development practices of portfolio companies.

Culture of innovation

The Corporation's enterprises have an enormous research potential, and the history of some of them is closely related to the technological development of Russia. In the summer of 2017, RTI, in cooperation with Sistema Charitable Foundation and the Lumière Brothers Centre for Photography, held an exhibition The Revolution of Ideas – The Revolution of People. The exhibition was based on rare archival materials shown to the general public for the very first time, reflecting the contribution of the enterprises included in RTI Group to the development of Soviet industry. The exhibition showed the revolutionary nature of ideas and inventions in high tech, radio engineering, microelectronics, aviation, heavy industry, which were implemented by scientists, engineers and workers whose names were often unknown. More than 30,000 visitors attended the exhibition.

Maxim Kuzyuk

CEO of RTI



"The long history of our research and production companies is closely related to national interests. This is the aspect reflected in our exhibition. The project is focused on the photo archives of RTI's subsidiaries, some of which have been around for more than a century. These documents showcase specific researchers, engineers and designers who, despite difficult times, contributed to technological progress. Such exhibitions help promote engineering professions and the culture of domestic production. Our participation in such a project is another way to raise awareness of our youth and society in general".



Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

Sistema works on digitalisation of all its businesses and invests in promising innovative technology projects through its funds.

Practically all activities of such companies as MTS, RTI, Kronstadt Group and Sitronics are associated with technology innovations that contribute to the achievement of both business goals and sustainable

development goals. It also applies to other portfolio companies of the Corporation that introduce innovative solutions in various fields. For example, Mikron's solutions based on RFID tagging can help reduce illegal logging, control supply chains and combat counterfeit products. The intellectual hardware and software complex Safe City developed by Sitronics and the audio surveillance system created

by Sistema Sarov are aimed at ensuring public security. Medsi and Binnopharm conduct their own research and introduce innovative medical and biopharmaceutical technologies that improve the quality of diagnosis, prevention and treatment of deceases. Steppe AgroHolding has high-tech farms where "smart" technologies are used in every process: from development of fodder to genetics and breeding.

Platform for industrial Internet of Things (IoT)

Platform for industrial internet of things

In December of 2017 MTS launched its very own IoT platform to deploy IoT solutions for Russian companies.

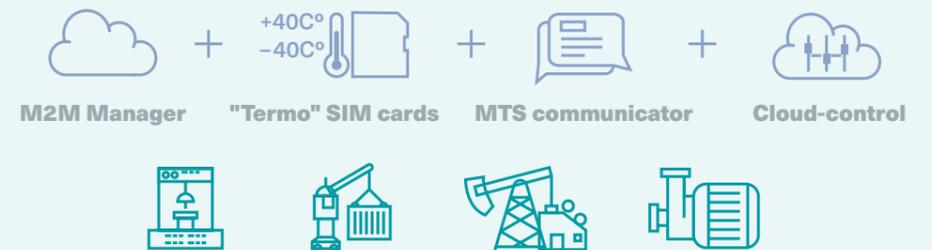
The 'industrial' IoT platform makes it possible to control various equipment remotely from a single control centre and track the working parameters of such equipment, whatever the distance.

The platform can be used to monitor the equipment of producing companies, electricity suppliers, and service providers. E.g., it's perfect for controlling pressure in boiler plants, ventilation and air conditioning systems, refrigerators, and electricity and water supply systems. MTS' platform may also be used to power solutions for agriculture, logistics, retail, and other industries.

The users will control the equipment and write reports through a web interface or computer programmes they are familiar with, provided they are connected to the IoT platform through API. Prompt synergy between the customer's IT system and the IoT platform will be secured by means of a hub, a special hardware solution. It easily adapts to specific tasks and allows the user to hook up both standard and non-standard protocols and devices.

JOINT PROJECT OF MTS AND DANFOSS

Online control over production processes



We are confident that the new IoT-platform will help business to adapt more quickly to requirements of the digital economy, reduce costs and bring the enterprise to a new level, and will help the state to become a driver for the development of "smart cities".

^① The data are given for RTI Group, Kronstadt Group, Binnopharm and Sitronics for the following types of intellectual property: inventions, trademarks, utility models, know-hows, software and databases, and topologies of integrated circuits.

RISK MANAGEMENT

Effective risk management is one of the important prerequisites for the stability of the Corporation's business. Sistema implements the strategy of transformation into an investment company adopted in 2017, which is reflected in its changed approaches to risk management.



Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

GRI 103-3

The main role of Sistema, as a responsible investor, is to implement the principles and build a risk management system in portfolio companies with subsequent monitoring. This approach ensures an adequate level of asset management and allows Sistema to improve the operating efficiency of its assets. Timely information on the risks of each asset of the Corporation is taken into account in Sistema's strategic planning.

The Corporation and its portfolio companies have an integrated risk management system (Enterprise Risk Management, ERM) based on international standards, recommendations and best practices in risk management. It keeps risks at the level that is acceptable for Sistema's shareholders and management.

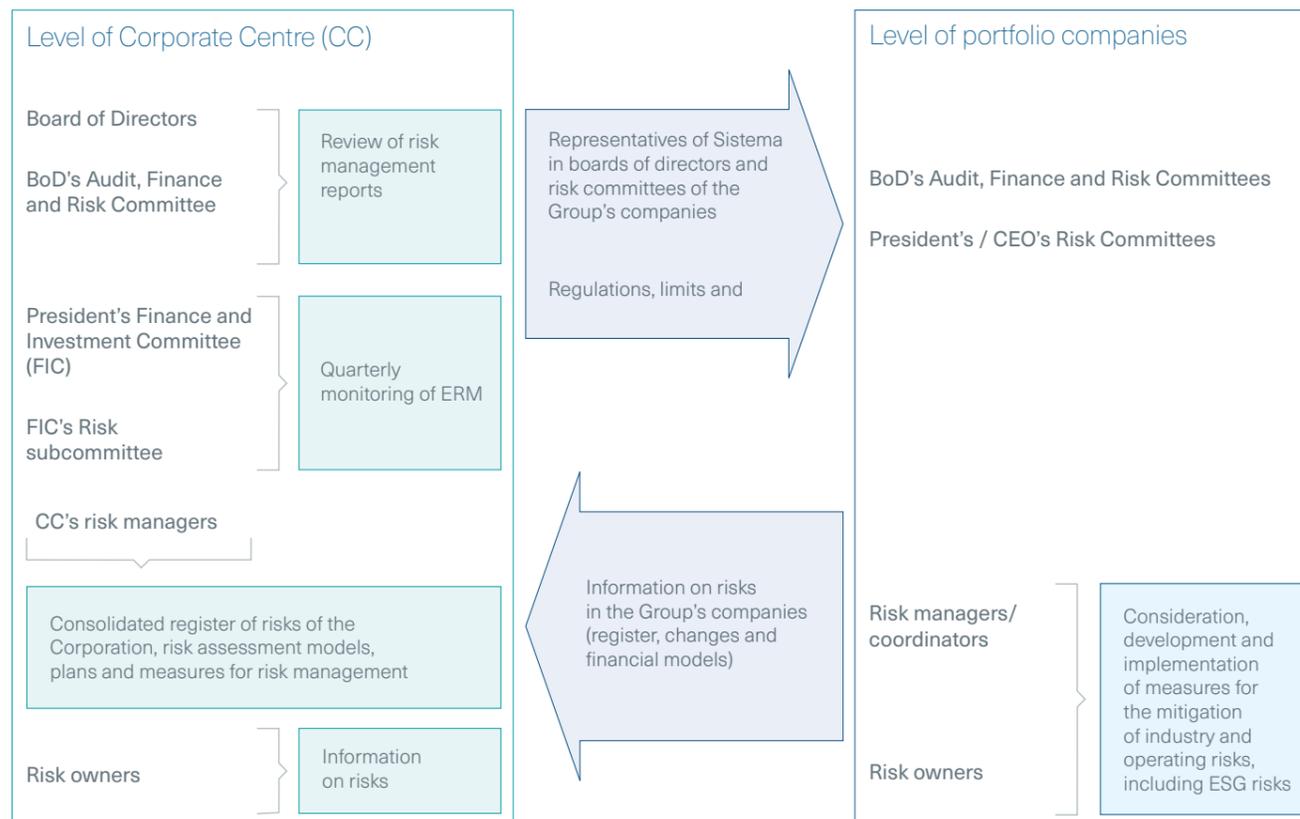
Significant risks at the level of Sistema are those risks that can have a negative impact on its financial stability, shareholder value and reputation, including the state of the global, national and regional economies, political (including geopolitical) and social environment, and legal aspects of the Group's activities (including regulatory, anti-corruption and other provisions). ESG risks are identified, evaluated and managed based on the degree of their impact on the implementation of the Corporation's overall strategy (top level) and the operating activities of its portfolio companies as part of regular risk management procedures.

ESG risks in sustainable development of the Corporation

GRI 102-15

Risks associated with reputation and brand are the most significant ESG risks at the level of the entire Corporation, and the main way to mitigate them is to introduce such a system of corporate governance and compliance in the Corporation and its portfolio companies that minimises the probability of adverse events and their impact on market capitalisation.

Participants of risk management system at the Corporation



Reputational risk management

Any investment activity is subject to risks associated with the acquisition and restructuring of assets, especially in case of complex transactions involving interests of multiple parties. Strict observance of all requirements of applicable law and adherence to best international practices in the field of corporate governance are the fundamental principles of Sistema as a responsible investor respecting the rights of shareholders and always acting with the purpose of increasing the value of assets.

A serious challenge to the reputation and sustainability of the Corporation in 2017 was the litigation (see the **Annual Report of Sistema PJSFC for 2017, p. 14**) regarding the reorganisation of the ownership structure of the

Bashkir oil assets owned by Sistema from 2009 to 2014. A high level of openness and transparency became the basis of Sistema's programme of anti-crisis communications with stakeholders during the proceedings with Rosneft, Bashneft and the Republic of Bashkortostan, which resulted in a settlement agreement. Along with legal actions, Sistema took all reasonable steps to minimise the negative media impact of the proceedings and the consequences for the Corporation and its shareholders by publicly explaining its legal position. A total of over 800 articles were published by the media on this subject, including more than 135 analytical pieces and more than 45 stories in dozens of influential outlets in English, German and French. A special section was created on the

corporate website where all materials and documents related to this case were published, including the opinions of independent experts: economists and specialists in the field of corporate and company law^①. Sistema's website was the top search result in Google for queries about this lawsuit, and the section about the proceedings had over 25,000 visitors. The company also stayed in direct contact with analysts from financial and ESG rating agencies. In particular, interaction with Sustainalytics, one of the leading independent global providers of ESG research and corporate governance ratings for investors, made it possible to monitor Sistema's ESG rating and improve it in terms of business ethics by the time the settlement agreement was performed.



For more information on risk management system, see [the 2017 Annual Report, pp. 64-69 and 86-87](#)

^① Institute of Economics of the Russian Academy of Sciences, Centre for Resource-Based Economy of the Russian Presidential Academy of National Economy and Public Administration (RANEPA), National Research University Higher School of Economics, multinational law firm Clifford Chance, Centre for Economic and Financial Research, Law Department of the Moscow State University, Alekseev Research Centre of Private Law under the President of the Russian Federation, etc.

Other risks that are significant across the Group include environmental and occupational risks inherent to all industrial companies, as well as risks related to the state of the infrastructure and the threat of accidents, which are critical for telecommunications and power grid companies. In addition, ERM focuses on specific risk zones of each industry where Sistema has its assets, for example:

Telecommunications – violation of “digital rights” of subscribers (spam and fraud in communication networks, dangerous content, personal data leaks, etc)

High technologies – motivation and retention of the key personnel, formation of the succession pool, recruitment of new employees and transfer of knowledge;

Healthcare and pharmaceuticals – quality of professional training, accuracy of diagnoses and risks of medical errors;

Consumer sector – product quality and comprehensive security of rented retail spaces and store visitors;

Agriculture – crop losses as a result of adverse climate and environmental conditions;

Hospitality – security of infrastructure facilities and hotel guests;

Timber industry – shortage of high-quality raw materials due to the inefficient use of forest resources and negative impact on the environment due to a significant amount of water consumption and air emissions.

For each of these areas, portfolio companies implement relevant programmes, projects and measures that reduce the likelihood and possible negative consequences of their industry risks.

GRI 412-1 Risks related to human rights

The Corporation fully complies, and requires all of its assets to comply, with Russian and international human rights laws. The risk management system of the Group’s companies

takes into account risks associated with HR management, consumer privacy, children’s rights and protection of personal data of employees and customers.

Climate risks

Risks associated with climate change can have the most significant impact on the Corporation’s agricultural assets located in Southern Russia. Steppe AgroHolding monitors such risks and takes into account a number of climatic factors associated with soil freezing, heavy rains, drought, storms, hail, fires, floods, plant diseases, pests, etc. A set of activities to manage these risks includes the introduction of modern

agricultural technologies and rational land use methods reducing the impact of production activities on climate change and the environment, and also a set of protective measures against adverse natural factors, introduction of special software to predict the impact of weather conditions on agricultural works, insurance of winter crops and perennial plantations, etc.

In order to improve the efficiency of the risk management system, an internal audit was conducted in Sistema in 2017, which suggested measures to improve the system in the Corporation and its portfolio companies and developed a plan for organisational improvements. The next independent assessment of the risk management system is planned to be held in 2019 with the engagement of external experts.



For more information about management of specific ESG risks of the assets, see [Sistema’s Sustainable Development Report for 2016, pp. 91-93](#), and the chapter “Risk management in portfolio companies” in this Report



Plans for development of the risk management system in 2018

Measures for development and improvement of the risk management function in the Corporation planned for 2018 include:

Raising the status and reorganising the work of the Risk Committee, creating an expert group of the Committee and updating the internal regulatory framework;

Updating the risk profile with strategy transformation risks and their mitigation plans;

Updating/adjusting the plan for development of the risk management system in the Corporation (introduction of the ERM in the new assets, improving maturity of the existing risk management systems, etc.), taking into account the recommendations of the internal and external audits;

Updating a comprehensive insurance programme for industrial assets and employees of the Corporation, taking into account the expansion of social obligations (such as personnel insurance against accidents);

Holding internal training workshops on risk management for financial managers and risk managers of the Corporation;

Preparing risk managers for the national risk management certification and European FERMA RIMAP certification (voluntary).

Contribution to improving the quality of risk management in Russia

Sistema has gained vast experience in building an effectively functioning risk management system across the entire Corporation. Sistema’s risk managers, as highly skilled professionals, share their experience with colleagues and make significant contributions to improving the quality of risk management in Russia by participating in the activities of relevant organisations.

Sistema’s representatives are included in the Supervisory Board and the Executive Board of the Russian Risk Management Society (RusRisk), a professional association whose activities are aimed at increasing the efficiency and sustainability of business in Russia through risk reduction, and are also involved in the work of the National Technical Committee for risk management and the Technical Committee ISO/TC 262 “Risk Management”: together with representatives of the Federal Agency on Technical Regulating and Metrology

(Rosstandart), the Russian Union of Industrialists and Entrepreneurs and the Chamber of Commerce and Industry of the Russian Federation, they actively participate in the working groups on risk management of the International Organisation for Standardisation for adaptation of international standards on risk management in Russia and regularly take part in forums, seminars and conferences on risk management. The Corporation’s risk managers take part in the commission for professional qualifications in the field of risk management of the Council for Professional Qualifications of the Financial Market of the Russian Federation.

In 2017, the Corporation’s risk managers acted as speakers and moderators at various risk management events, conferences, round table discussions and business breakfasts organised by RusRisk, PwC, EY, CFO Russia, Thomson Reuters and other companies with which the Corporation actively cooperates in this field.



ETHICS AND ANTI-CORRUPTION

GRI 102-16 GRI 103-2

Ethical conduct of business, prevention of corruption and unlawful disclosure or use of inside information, and observance of human rights are among Sistema's essential principles of operation and elements of its risk management system.



Internal regulatory documents for business ethics:

Code of Ethics,
Internal Rules of Conduct,
HR Management Code.

The Ethics and Control Committee

- organisation and monitoring of internal control and audit activities;
- assessment of the efficiency of internal control and governance systems;
- support of corporate security;
- monitoring of compliance with the Code of Ethics;
- control of the efficiency of the Hotline;
- organisation and support of corruption control systems in specific Group companies

The Management Board

- control of staff's compliance with employment law, internal regulations, and decisions of governance bodies;
- judgments on whether disciplinary action is in order in response to specific instances of violation of human rights, ethical, and anti-corruption requirements.

Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

Business ethics

Sistema's Code of Ethics reflects the views the Corporation's management hold with respect to fundamental values of corporate culture and social responsibility that are meant to ensure transparent, fair, and ethical business practices.

All Sistema employees are under an obligation to comply with the Code of Ethics, as stated in their job descriptions. Every new staff member has to complete a mandatory online training on ethics.

Sistema promotes implementation of the corporate principles of responsible business conduct across the Group. All of the company's core assets have their own Codes of Ethics that are scrupulously maintained and updated.

All matters of business ethics and responsible conduct are supervised by Sistema's Ethics and Control Committee and Management Board.

Sistema's Ethics and Control Committee had six meetings in 2017, discussing the results of an ethics declaration campaign, the functional strategy of the Internal Control and Audit Department for 2017-2018, the current status of anti-corruption measures being implemented in specific companies of the Group, and findings of probes based on Hotline reports.

Since 2016, Sistema has been performing ethics declaration campaigns in which all of its middle and senior managers submit annual Ethics and Conflict of Interest Declarations. The procedure makes it possible to quickly identify potential conflicts of interest and address them. In 2017 declarations were submitted by 118 members, or 100%, of management. The conflicts of interest thus detected in 2017 were ruled to be immaterial and requiring no further resolution as declarants were judged to have no influence on decisions made regarding compensations and other payments to their immediate family members employed within the Group, or due to no actual competition with the Corporation (in cases when declarants owned other businesses).

A new ethics declaration campaign scheduled for 2018 is designed to reach out to a broader range of employees across the Group.

No violations of the Code of Ethics were identified in Sistema in the reporting period. Several non-material cases of non-compliance with the Codes of Ethics were detected in several assets of Sistema Group. All of these cases were reviewed in due time by such companies' Discipline Committees. The persons found in violation of the ethical standards were subjected to disciplinary action.

Prevention of disclosure of inside information

As a public company, Sistema is very exacting in ensuring compliance with applicable laws and regulations that govern the handling of inside information. The Corporation makes it a point to provide its employees with the maximum amount of information on such laws and regulations as well as requirements of stock market regulators of Russia and the UK (Compliance).

Sistema keeps and regularly updates the list of persons with access to inside information and imposes a moratorium on transactions with the Corporation's securities for its employees before disclosing financial statements or any other material events.

The employees planning a transaction involving securities issued by Sistema or its public assets must in good time inform the Corporate Secretary of such plans.

In 2017 Sistema carried on raising general awareness among employees about such disclosure restrictions by holding relevant trainings for Corporate Centre employees and specifically for new hires.

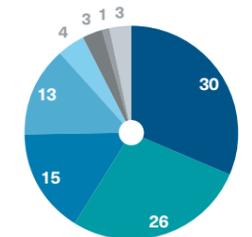
GRI 102-17

Hotline

The Corporation has a whistleblowing Hotline programme in which all Sistema executives and employees as well as third parties are invited to share (openly or anonymously) any information they might have about any abuse, corrupt practices, omissions, and deficiencies within the corporation. In the interests of independence of judgment, all hotline reports are reviewed by Sistema's Internal Control and Audit Department.

All of the Group's operating companies have their own Hotlines. In 2017 their activities were reorganised so as to enable users to insist on follow-up investigations should they be unsatisfied with the quality of probes made on the basis of their initial reports

Number of messages received through the Hotline in 2017, by subjects



- Personnel management
- Retail sales & customer service
- Procurement
- Property and asset management
- Implementation of contracts
- HSE
- Corporate sales & customer service
- Other

The Hotline exists in telephone and electronic forms, the latter being by far more popular with whistleblowers (being the channel through which 95% of the reports were filed in 2017). Among the most popular subjects of the Hotline reports made in 2017 were personnel management (30%) and sales & customer service in retail facilities (26%).

In 2017 the Group's hotlines received a total of 865 relevant reports, 357 (41%) of which were confirmed in full or in part. After the investigations, 89 staff members were subjected to disciplinary action.



The Hotline is not Sistema's only avenue for handling complaints and abuse reports. E.g., the power grid company BPGC has a direct online channel for communications with the company's CEO. First launched in 2013, the channel thrived and received about

200 reports

in 2017, out of which

58.3% are complaints,

22.1% requests,

19.6% – questions

Observance of human rights

Sistema and its S/As seek to fully observe the human rights and liberties outlined in the key relevant international and national regulations^①.

The Corporation adheres to the principles of tolerant and respectful attitude to racial, religious, physical and other differences of its employees and views child and forced labour as unacceptable. Provisions on prevention of discrimination and violation of human rights are included in the Code of Ethics and the HR Management Code, as well as relevant internal regulations of the Group's companies.

Any complaints that have to do with the infringement of human rights may be made through the Hotline. No cases of discrimination or violation of human rights were identified in the Corporation in 2017.

Sistema strictly adheres to the principles of privacy and ensures protection of the personal data that it keeps. The Corporation's Policy on Processing and Protection of Personal Data is in full compliance with Russian law. There have been no personal data leaks identified in 2017.

GRI 102-17

Anti-corruption efforts

Sistema has zero tolerance to corruption at any level, in any form and in any activity, including interactions with shareholders, investors, counterparties, governmental authorities, political parties, and nonprofits.

Sistema Group assets are among leaders of corporate transparency

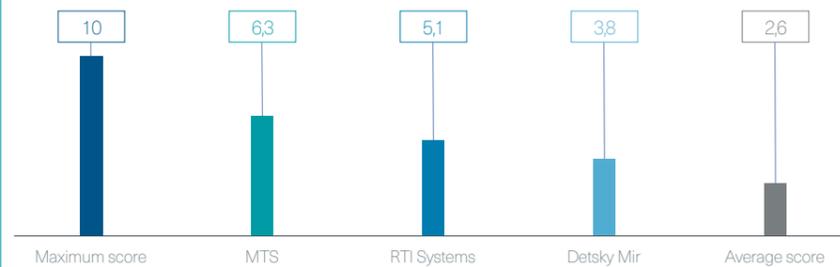
According to the 2017 Transparency in Corporate Reporting, a study conducted by Transparency International-Russia, Sistema's assets MTS, RTI Systems, and Detsky Mir score high in anti-corruption transparency.

the disclosure of key financial information on a country-by-country basis.

MTS made it to the top 10 companies in the study's ranking and proved to be the transparency leader among Russian telecom companies.

The study evaluates the transparency of companies in three areas:

- their anti-corruption programmes;
- organisational transparency of company holdings;



^① These include: the Universal Declaration of Human Rights; the International Covenant on Economic, Social and Cultural Rights; the International Covenant on Civil and Political Rights; and chapter 2 of the Russian Constitution titled Human and Civil Rights and Liberties.



Key anti-corruption principles of Sistema:

executives set personal examples of ethical conduct;

risks of corruption are assessed on a regular basis;

anti-corruption procedures are implemented, observed, and continuously honed in all assets of the Group;

all counterparties are carefully vetted and well-informed about the company's zero tolerance to corruption;

all staff members are trained to counter corruption;

all of the above are carefully monitored and controlled.

Management approach

Sistema's cornerstone regulations governing anti-corruption activities extend far beyond the Code of Ethics that guarantees "zero tolerance" to corrupt practices. The Corporation also has an Anticorruption Policy and a Corruption Prevention Concept (approved by the Board and the President, respectively) setting out the principal requirements of Russian and international anti-corruption law, including the UK Bribery Act 2010 and other applicable acts and best practices.

Sistema's anti-corruption regulations are mandatory for all of its employees. The company's assets have their own internal anti-corruption regulations and regulations on identification of conflicts of interest.

The most fundamental measures to counter corruption are the responsibility of Sistema's Security Department and economic security units of specific assets. Comprehensive anti-corruption programmes are developed in close cooperation with the Legal Department and the Internal Control and Audit Department and include anti-corruption monitoring and control of costs in areas of activity associated with high corruption risks, such as business gifts, entertainment expenses, charity donations, and payments to outside consultants. Sistema always

refrains from any payments in furtherance of political objectives. Any and all M&A deals are preceded by careful anti-corruption due diligence and assessments of corruption risks.

Procurement and price management are understandably in the company's spotlight as activity areas that are highly susceptible to corrupt practices. Clauses declaring zero tolerance to corruption are included in all procurement documents, and all supply contracts contain anti-corruption clauses with references to the Corporation's anti-corruption regulations binding on all parties. Economic security teams of assets sit on procurement commissions and directly monitor procurement activities through electronic tender platforms in order to make sure that such activities are truly competitive, transparent, and cost-effective.



Representation of Sistema's interests and corruption control is not just the job of the security department, but a duty of each and every staff member.

Core internal documents governing anti-corruption activities

| The Anticorruption Policy | The Corruption Prevention Concept | The Code of Ethics |
|--|---|--|
| sets out the basic principles and requirements to prevent bribery and other corrupt practices. | a basic internal regulation for the purposes of preventing corruption; contains basic methods, tactics and measures to counter corruption within the Corporation; covers all business processes, especially those related to investment, procurement and contracting. | stipulates the principles of ethical behaviour as applied to fundamental business processes; describes the most typical conflicts of interest; gives an algorithm for their identification and resolution. |

In 2017 the efforts of the Group's various security teams that went into all types of procurement activities and the vetting of supply contracts saved more than 3.6bn roubles in costs of the products and services procured and brought over 1.6bn roubles in additional revenues.

Another important initiative in the area of corruption control that was taken in 2017 was a careful study of the efficiency of anti-corruption procedures across the Group, conducted by Sistema's Internal Control and Audit Department. The procedures were found efficient, with no material infractions identified. Detsky Mir, Leader Invest, Segezha Group, and Steppe AgroHolding underwent expert anti-corruption assessments by KPMG. Their findings and recommendations were used to refine the applicable internal regulations and implement effective measures to make sure that business processes are free of corruption, including modifications to internal regulations governing fundamental business processes.

GRI 205-3

Key anti-corruption achievements

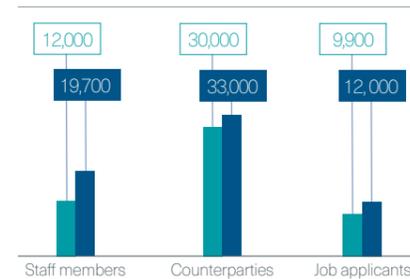
An important anti-corruption practice is vetting potential business partners for signs of affiliation. The efforts of Sistema Group's companies in this vein that were made in 2017 identified 48 potential conflicts of interest, which were investigated and resulted in 4 staff members fired and 16 withdrawing from such affiliated establishments. The company also turned down 105 bids from counterparties and about 50% of job candidates that failed to meet the strict no-affiliation requirements. Last but not least, security interventions on the same grounds caused the cancellation of results of 46 procurement tenders.

Most corrupt activities are routinely detected among the grass roots (shop assistants, cashiers, sales officers, car drivers, doctors, etc.) and middle management. Although the incidents are quite numerous, their in-depth evaluation testifies to the immateriality of the damage they caused. Among the areas of activity that are especially susceptible to corruption are property development, big investment projects, and large-scale procurement campaigns, including those made in the IT business.

Interventions from Sistema's Security Department in 2017 identified 218 incidents of foul play (fraud, misappropriation, embezzlement, forgery, and abuse of power) on the part of both Group assets and third parties that damaged the Corporation's interests.

There were no corruption-related fines or penalties imposed on Sistema in 2017. Two of its assets, however, were fined to a total of less than 1 million roubles, an immaterial sum considering their business scales.

Identification of signs of affiliation, number of persons vetted



Damage prevented

| Parameter | 2015 | 2016 | 2017 |
|--------------------------|------|------|-------|
| Damages prevented, RUB m | 15.8 | 80.3 | 0.011 |
| Damages recovered, RUB m | 8.5 | 2.1 | 2.06 |

Results of anti-corruption measures



● 2016 ● 2017

GRI 205-2

Communications to staff and business partners

Staff awareness of the policies and methods for prevention of corruption reduces the probability of fraud and minimises the risk of the Corporation being held liable for failure to comply with anti-corruption laws. This is why all new employees must complete introductory trainings where such rules and procedures are explained. Similar trainings are regularly launched for all staff of Sistema and its assets. In 2017 all employees of Sistema and over 30,000 employees of its assets^① received anti-corruption awareness communications in one of the following forms:

- links to publications about the existing anti-corruption policies and methods on corporate websites and/or portals;
- presentation of anti-corruption policies and Codes of Ethics to new hires;
- classroom or online trainings about the Corporation's anti-corruption policy.

The Corporation also informs 100% of its counterparties of its policies and methods for prevention of corruption and includes anti-corruption provisions in all of its contracts.

Corruption control trainings

| Number of employees that received training on anti-corruption procedures in 2017 | Total across the Group |
|--|------------------------|
| Senior management | 105 |
| Middle management | 682 |
| Junior management | 1460 |
| Grass roots | 28,907 |
| Total | 31,154 |

Plans for 2018

Sistema's anti-corruption plan for 2018 comprises:

- a classroom seminar on corruption control for the Group's senior executives;
- monitoring of modifications to anti-corruption laws of Russia and other relevant jurisdictions and updating corporate regulations where necessary;
- proactive corruption control during procurement, contractual and investment activities;
- preventing corruption by involving employees at all levels in direct anti-corruption activities and fostering zero tolerance to corrupt practices, whatever their guise;
- methodological support of asset companies as they refine their internal regulations.

>30^K

employees of its assets received anti-corruption awareness communications

In 2017 anti-corruption trainings were completed by

78 members of staff



① I.e., 70 to 100% of each of the assets' staff have been duly notified on the regulations and procedures in place.

PROCUREMENT AND SUPPLY CHAINS

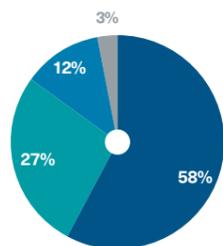
Sistema seeks to establish a professional, responsible and transparent procurement and supply chain management system in the Corporation and its assets. A proper procurement function can significantly increase the operating efficiency and create additional value for shareholders.



RUB **>181.4** bn

the Group's procurement volume in 2017

Main categories of services purchased by the Corporate Centre



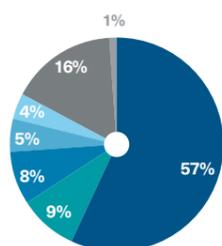
- Consulting services
- Administrative expenses
- Insurance
- Other



>25,000 suppliers

suppliers

Breakdown of Sistema Group's procurement in 2017



- MTS Group
- Segezha Group
- RTI Group
- Detsky Mir Group
- BPGC
- Other assets
- Corporate Centre

GRI 103-2

As an investment company, Sistema has to implement uniform procurement standards, which includes interacting with suppliers, building sustainable supply chains, developing organisational potential and implementing independent controls.

GRI 102-9

The bulk (99%) of procurement in monetary terms was done by the assets of the Corporation, with the Corporate Centre's procurement amounting to less than 1%.

Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies



The Corporation's procurement principles

Reasonable competition among potential suppliers

Equality of all bidders

Economic feasibility

Openness with suppliers

Transparency of procurement procedures

Compliance with anti-corruption policies and business ethics



For more information on the principles, objectives and system of procurement management at Sistema, see [the 2016 Sustainability Report, pp.94-101](#).

To move to a new level of procurement development, a large-scale project was implemented in 2017 to transform the procurement and supply chain management functions in the Group's companies.

Sistema established the Procurement Management Department to implement all organisational and process changes required to create an effective supply system in portfolio assets. The department served as the project office. Sistema approved the functional strategy for procurement, which identified three key areas of work.

Sistema, MTS and RUIE had a public discussion on responsible procurement and supply chains

On 6 June 2017, the event gathered about 100 representatives of the business and expert community, including from relevant departments of Sistema Group's companies – MTS, Detsky Mir, Medsi, Segezha Group, Binnopharm, MTS Bank, etc – as well as the biggest business partners and suppliers of MTS Group, such as Huawei, Samsung Electronics and Major Cargo Service. Representatives of Russian and international companies operating in Russia and having a significant impact on market development shared their experience in managing responsibilities, risks and opportunities in supply

chains taking into account social and environmental factors. In particular, Detsky Mir presented a successful case of increasing the production of school uniforms and clothes/footwear for infants in Russia thanks to the strategy aimed at expanding the share of affordable and high-quality domestic goods in the chain's product mix, which was 25% in 2016 (20% in 2017; about 40% for clothes, footwear and school uniforms).

The participants were very excited by this discussion and agreed to further promote best practices in this area.

ESG requirements in supply chains

MTS, which is the leader in terms of procurement volume in the Group (more than 50%), adopted its Supplier Code of Conduct containing a set of standards that are expected to be met by counterparties. In addition to the requirements of integrity and honesty, the company welcomes the integration of ESG principles into the activities of suppliers and provides feedback and control mechanisms.

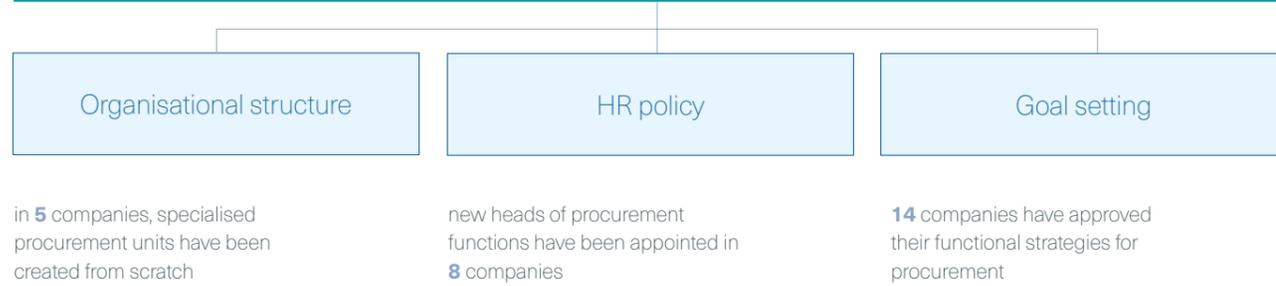
Supplier social responsibility implies transparent and ethical behaviour that contributes to sustainable development in a number of areas:

- } The environment;
- } Decent work;
- } Human rights;
- } Charity;
- } Transparency and reporting.

Responsible suppliers undertake, among other things, to protect confidential information, ensure equal opportunities for employees regardless of their skin colour, race, sex, gender identity, age, ethnicity, national origin, sexual orientation, marital status, religion, disability or other characteristics, respect the freedom of association and the right to collective bargaining, comply with personnel health standards and create safe working conditions, promote the protection of human rights and not use child labour and forced labour.

The questionnaire compulsory for all participants in MTS procurement procedures includes a section on CSR, which was automated in 2017 for registration of all new suppliers in the company's electronic procurement system. If the screening reveals any significant symptoms of a potential ESG risk and this is subsequently confirmed as the supplier is checked, MTS may stop working with such supplier.

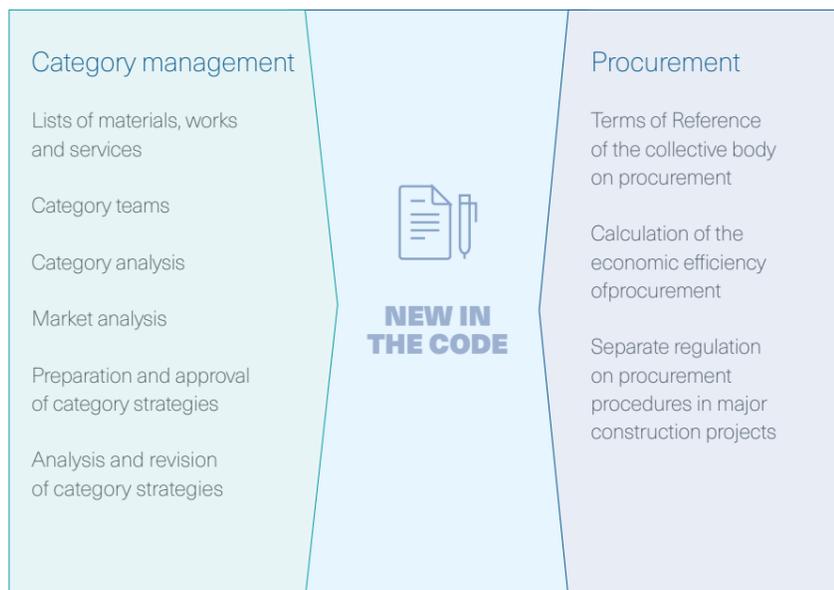
1 Development of organisational potential in the Group's companies



2 Introduction of category management as the main approach to the organisation of procurement



The main regulatory document of Sistema that governs procurement activities is the Tender Procedures and Procurement Code. The Code was updated in April 2017 to implement the functional strategy, and it was used as a basis by the Group's companies for adapting the regulatory documents on procurement activities, taking into account their industry specifics. This resulted in the introduction of category management as the main tool for managing procurement and supply chains.



Category management is the organisation of procurement activities where the rules and principles of managing certain categories of goods and services are formalised as category strategies describing the most effective approach to purchasing in a given category. Category strategy normally includes not only pricing and cost reduction issues, but also timeliness, reliability and quality of supplies, turnover and availability of stock for production, etc.

The main innovation of Sistema in organising procurement activities was the use of the principle of strategic management of procurement categories, or category management, as the main approach to the organisation of purchasing within the supply chain.

Any changes involve not only the improvement of business processes, regulatory documents and procedures, but also the preparation and selection of highly qualified employees. To create a community of procurement function professionals, the Group developed a training programme with various training options.

Implementing category management

STEPPE AGROHOLDING: working directly with producers

To improve the efficiency and transparency of supply chain management, Steppe AgroHolding established the Procurement Department and introduced category management in 2017. As a result of transformations, the level of centralisation of procurement activities in the company reached 83%, and direct cooperation with leading manufacturers began in a number of key areas.

For example, agricultural enterprises that are included in Steppe AgroHolding historically purchased fertilisers through middlemen. The company formed a category team, which conducted the market analysis and developed a procurement strategy for this category. As a result of an open tender, an agreement was concluded with a direct supplier of one of the largest producers of mineral fertilisers in Russia, the CIS and Eastern Europe, which, in addition to obvious price and logistical advantages, increases the degree of business sustainability due to quality assurance and reduced corruption risks in the supply chain.

The economic effect for the year was

22%



MEDSI: purchasing medical equipment

In the course of restructuring of the procurement activities, Medsi Group formed a category team for medical equipment and standardised procured equipment. The level of centralisation of procurement activities increased from 28% to 45%.

Equipment is now being purchased directly from manufacturers. In addition, Medsi introduced assessment of the total cost of ownership of equipment for 5 years and implemented a transition from service contracts to full hull insurance.

The economic effect for the year was

29%



Procurement is for professionals: strategy session on procurement

In January 2017, the first strategy session on procurement was held for representatives of relevant departments of Sistema Group companies.

The participants shared best Russian and global practices and developed the basic principles aimed at improving the efficiency and transparency of procurement. These principles define responsible approaches to planning and conducting procurement procedures and help avoid common issues and pitfalls, such as collusion of contractors, manipulation of evaluation criteria,

reduction of the number of participants in procurement procedures, sham tenders, etc.

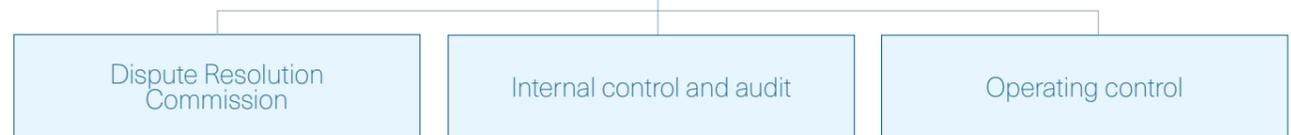
At the second strategy session in December, representatives of the Group's companies shared the achieved results of the implementation of functional procurement strategies in 2017 and discussed plans for 2018.

During the session, the participants voted to choose the Best Purchasing Director and the winners in a number of categories: "Organisational

Breakthrough of the Year" (Steppe AgroHolding), "Automation of the Year" (LLC Shared Service Centre), "Category Management" (Meds) and "Best Functional Strategy 2018" (Meds) again).



3 Implementing independent controls



Dispute Resolution Commission established in the Corporation in **March 2017**

Sistema seeks to strengthen partnerships with its counterparties. To create an open and transparent environment for communication with counterparties, the Dispute Resolution Commission was established.

The Dispute Resolution Commission is a collective body consisting of representatives of procurement, internal control, legal, corporate governance and economic security units.

The Dispute Resolution Commission was established to settle potential procurement conflicts and review claims from the counterparties of Sistema Group concerning the organisation and application of procurement procedures.

new tasks related to procurement control were added to the Internal Control and Audit Code

The fact that suppliers can give feedback on the organisation of procurement activities in the Group increases their loyalty, which helps significantly reduce financial and reputational risks and form a sustainable supply chain.

The key function of the Dispute Resolution Commission is the independent control of compliance of portfolio companies with the procurement procedures. The Dispute Resolution Commission has the right to request from the Group's subsidiaries any documents and information necessary to review complaints received from counterparties. Decisions of the Dispute Resolution Commission serve as recommendations: subsidiaries either comply with them or substantiate their

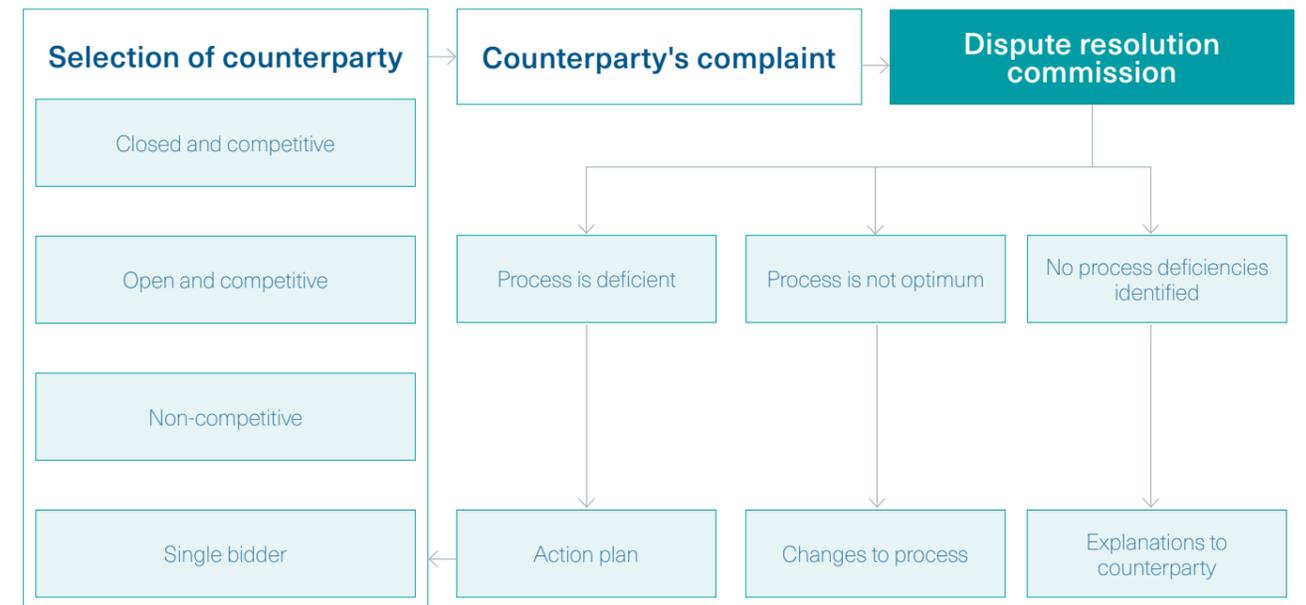
participation of representatives of Sistema's procurement unit in Tender Committees and category teams of the Group's companies

disagreement. In case of failures to meet deadlines or non-compliance with decisions, the issue may be submitted for consideration to the Corporation's senior management.

Any counterparty, including potential counterparties, can contact the Dispute Resolution Commission, regardless of which Sistema Group company they work with or intend to work with.

The format of complaints to the Dispute Resolution Commission is available on the Corporation's website in the "Procurement" section:
<http://www.sistema.ru/zakupki/konfliktjnaja-komissija/>

Workflow of the Dispute Resolution Commission



Results of the work of the Procurement Dispute Resolution Commission in 2017:

30 complaints were received; the total amount of contested procedures was

RUB **1.7** bn

Resolutions: Uphold fully or partially –

10

Reject –

17

Take note

3

Results of procurement development in 2017

The declared strategic initiatives were implemented in full during the reporting period. Operations in the field of procurement were transferred to the management level of portfolio companies, and the Corporate Centre performs the function of independent control and methodological support.

The development of organisational potential in Sistema's assets has significantly improved the economic efficiency. The savings in procurement procedures of the Group's companies averaged 7.6% in 2017. As a result of the implementation of the functional strategy for procurement, Sistema Group's total economic effect amounted to RUB 13.9bn.

The Corporation, as a diversified holding company, is one of the major consumers of goods and services in Russia in almost all sectors and has a significant impact on the development of various consumer markets.

The largest consumers among Sistema's assets are MTS, Segezha Group, RTI Group, Detsky Mir, Leader Invest and

BPGC, and their aggregate share accounts for over 88% of the Corporation's total purchasing in monetary terms.

Sistema Group has more than 25,000 suppliers in total, most of them working with MTS, RTI Group, MTS Bank, Segezha Group and Binnopharm.

GRI 204-1

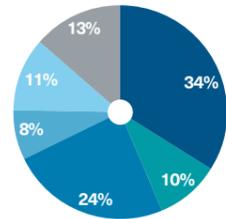
By purchasing products and services from Russian suppliers, the Group's companies contribute to the economic development of domestic producers and entire regions of operations. For instance, the share of purchases from local (Russian) suppliers reaches 64% in BPGC, 66% in Segezha Group and 85% in MTS.

The savings in procurement procedures of the Group's companies averaged

7.6%

in 2017

Breakdown of suppliers of Sistema Group companies in 2017



- MTS
- Segezha Group
- RTI Group
- Binnopharm
- MTS Bank
- Other

The Corporation also has a positive impact on the development of small and medium-sized enterprises (SMEs) in Russia. In 2017, the aggregate share of purchases from SMEs made by Sistema's infrastructure companies – MTS and BPGC – accounted for approximately 15% of the total volume of purchasing in the Corporation. In case of MTS, small and medium businesses account for about a quarter of all services and products purchased by the company.

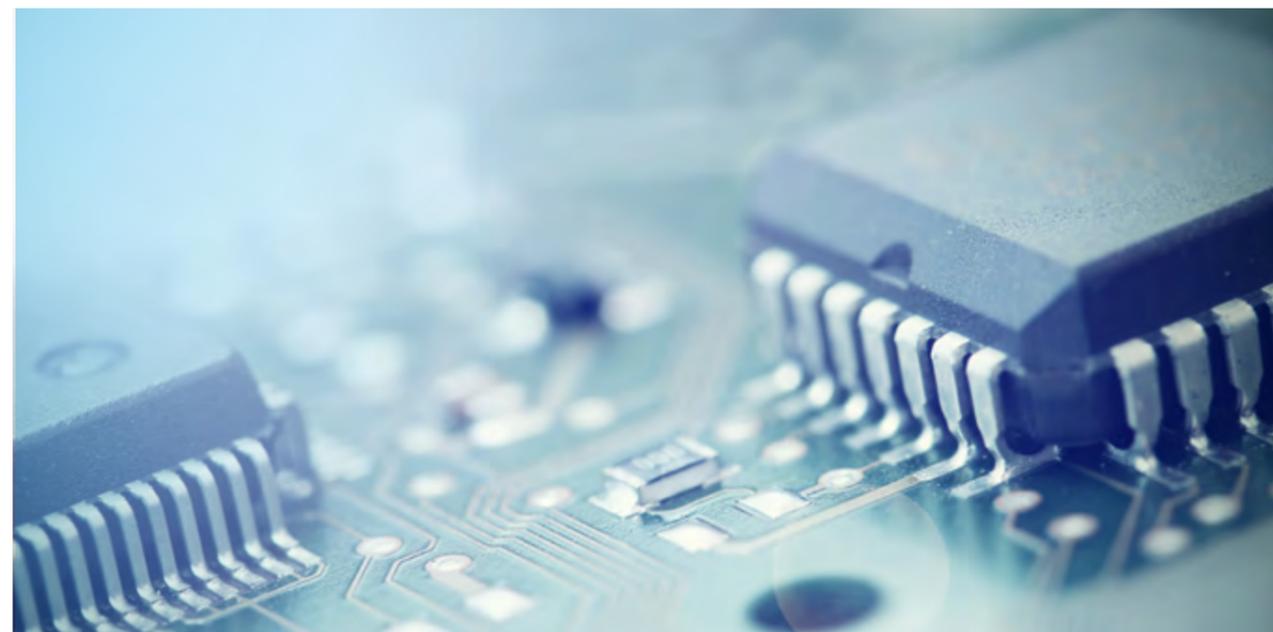
In 2017, the average share of procurement procedures using electronic trading platforms remained at the level of last year – about 70%. At the same time, the share of e-procurement out of the total number of open tender procedures in Sistema reached 97% (which amounted to RUB 82.72m). Among the portfolio companies, the leaders in terms of the implementation of e-procurement are MTS, BPGC and Detsky Mir.

In 2017, Sistema continued to hold consolidated purchases for the Group's companies in certain categories of goods and services. For example, a consolidated

purchase of office equipment was carried out on the basis of MTS. The expected economic effect from the deal concluded for 2 years is 22% of the purchase budget.

Since 2016, the Corporation has been organising consolidated tenders for voluntary health insurance. Initially, about 1,300 employees of the Group were insured. After successful experience, the Group insured about 3,100 employees in 2017, while standardising the package, expanding the scope of services and reducing the costs by increasing the number of insured persons. The expected economic effect is 35%.

Leaders in e-procurement in Sistema Group in 2017, %



BPGC: pre-qualification of suppliers

One of the main activities of Bashkir Power Grid Company is the transmission of electricity and its distribution to end users via overhead power lines. For reliable fastening of wires on poles and building façades and for connecting subscribers to the network, the company uses fittings for self-supporting insulated wires (SSIW).

In 2017, BPGC formed a category team for purchasing these products. The analysis of the SSIW fitting market showed that there are a lot of counterfeit and low-quality products that cannot be properly checked during standard procurement procedures, which can lead to safety risks and accidents.

In this regard, it was decided to abandon the standard approach of a one-stage procurement procedure and carry out the procedure of pre-qualification of suppliers, which ensured the supplies of quality products to the facilities of LLC Bashkirenergo (a subsidiary of BPGC), minimised the risk of accidents and, as a result, excluded additional costs for the company.

Anatoly Piskunov



Management board member and director for procurement and logistics at BPGC

“In the five years that have passed since the establishment of BPGC, the procurement and supply system of the group of companies has undergone a significant transformation. The function has been almost completely centralised and automated as much as possible, the category approach to procurement management has been introduced, the transparency and competitiveness of procedures have been improved, and the level of competence of employees has increased. Thanks to these changes, today BPGC has one of the industry's most advanced procurement systems, which allows us to achieve solid results and also makes a significant contribution to the company's economic efficiency.”



Plans for 2018

Successful experience in the transformation of procurement activities that began in the reporting period determined the trends in the development of procurement activities in 2018:

- Expansion of categories for strategic management and their further replication in other companies of the Group;
- Improvement of the system of independent industry-specific controls for the assets in order to increase their operating efficiency;

Expansion of the regulatory framework in the field of procurement (inventory management and sales of unclaimed and illiquid equipment) in order to improve the quality of supply chain management in the assets.

The Corporation also seeks to further increase the share of purchases using the electronic trading platforms. A number of portfolio assets plan to expand the automation of procurement processes, which will ensure transparency, equal access and uniform rules for potential suppliers.

At the same time, the Group's companies will also continue the work aimed at increasing the competences of procurement specialists, as the upcoming transformations require a high level of training, motivation and knowledge based on best practices.

HR MANAGEMENT

Human capital is a crucial factor of the Corporation's success. Development of a business is heavily dependent on the professionalism, responsibility and scrupulousness of its employees. Sistema's HR policy is designed to recruit and retain the best managers and industry experts, to improve employment relations on an ongoing basis, creating conditions for effective and safe work, ensuring career growth, adequate standards of living and social well-being of employees of all assets of the Group.

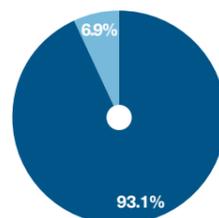


In 2017, Sistema Group companies employed

>150^① th people

in various regions of Russia and abroad

Share of staff and non-staff employees at Sistema Group in 2017



● Staff
● Non-staff

GRI 103-2 GRI 402-1 GRI 407-1

The key goals of HR management at Sistema are ensuring a steady increase of productivity, maintaining the balance of interests of employees and the employer, and efficiently utilising employees' professional and managerial potential in accordance with the Corporation's long-term development strategy.

① Incl. staff and non-staff employees. Staff employees account for 93.1% out of this number and non-staff employees for 6.9%.

Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

As a responsible employer, Sistema fully complies with all norms of the labour legislation of Russia and other countries of operations. In HR relations, the Corporation is guided by the basic principles of the International Labour Organisation, the United Nations Guiding Principles on Human Rights and best HR management practices, setting similar requirements for its portfolio companies, guaranteeing its employees freedom of association and collective negotiations, opportunities for learning and development in the workplace, competitive remuneration, and health and safety protection.

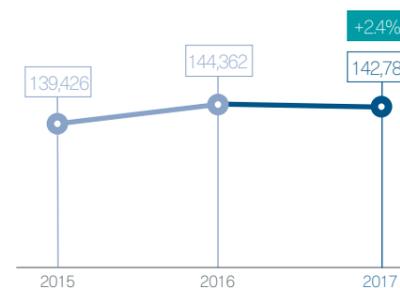
The key focus areas for the HR management system in 2017 were building an efficient talent pool and a succession and rotation system, increasing employee engagement, and organising quality and timely training for all management levels at the Corporation.

Staff composition

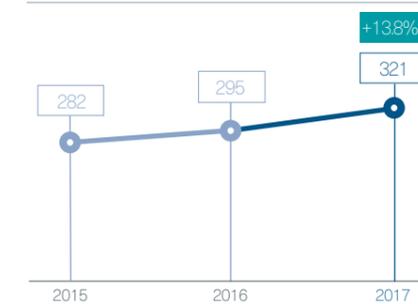
GRI 102-7 GRI 102-8

The average number of Sistema Group's employees in 2017 was 141,007, an increase of 4% from 2016. This was mostly due to the expansion of the real estate and agricultural businesses, where the average headcount increase was about 30%.

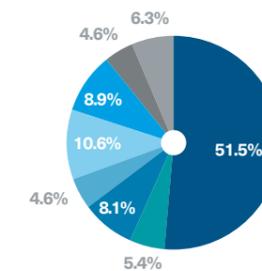
Average headcount at Sistema, persons



Average headcount at Sistema Group, persons



Breakdown of Sistema Group's headcount by companies, %



- MTS
- BPGC
- Detsky Mir
- Medsi
- RTI
- Segezha Group
- Agricultural assets
- Other

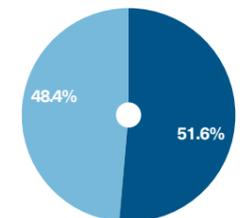
The absolute majority of the Corporation's employees (96.5%) have permanent employment agreements and work full time. At some companies of the Group, due to the specifics of their respective industries, the share of employees working under fixed-term contracts or part time may reach up to 10%. For example, part-time employment is traditionally high in healthcare.

The Corporation ensures a gender balance and absence of discrimination. Appointment on executive positions does not depend on the gender, age, ethnicity and other characteristics not related to an employee's professional qualities.

GRI 103-2

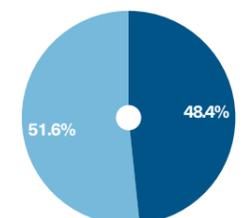
The personnel structure is fairly balanced in terms of experience: the shares of young specialists and employees with a long employment history are almost equal. Almost 40% of employees have been with the Group's companies for 5 years or more.

Breakdown of Sistema Group's employees by gender in 2017, %



● Men
● Women

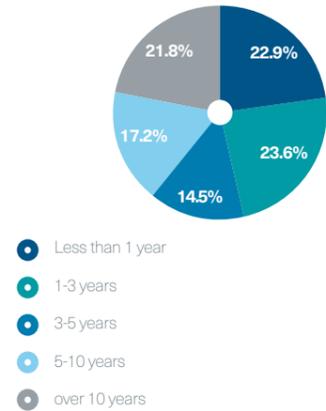
Breakdown of the Group's new hires in 2017, %



● Men
● Women

① Key internal regulations related to employment relations: Internal Rules of Conduct, the Policy on Short- and Long-term Incentives, collective bargaining agreements and other documents regulating HR matters.

GRI 401-1
Breakdown of Sistema Group's employees by employment history

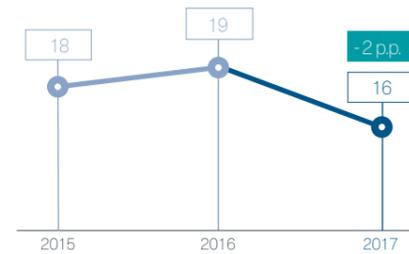


GRI 401-1
Offering unique opportunities for building a career in various industries, the Corporation is an attractive employer for young people. Employees aged under 35 account for over 50% of the headcount. Out of 56,700 people hired by Sistema Group's companies in 2017, young people under 25 accounted for 41%. The total number of new hires increased by 9% vs. the previous year.

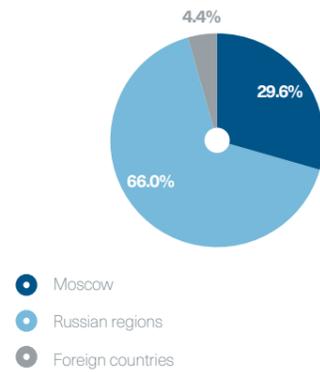
The average employee turnover at Sistema Group went down to 16% in the reporting period, excluding the retail segment, where turnover is traditionally high. The reason for this trend is that most employees at retail businesses are millennials (students), who often take up temporary jobs during school breaks.

GRI 103-2
The Group's companies have a significant impact on the labour market in various regions of Russia. Sistema mostly hires employees from local communities, recruiting specialists from other regions only if there are no professionals with required skills in the local labour market. The Corporation also carries out programmes designed to train local specialists.

Average employee turnover at Sistema Group, % (excluding retail)



Breakdown of the Group's staff employees by region



Сотрудники с ОВЗ, работающие в Корпорации, чел.



When recruiting, the Corporation ensures equal opportunities for all candidates irrespective of their nationality or religion, political views or personal convictions, gender, way of life or health conditions. The Corporation creates jobs for people with disabilities. In 2017, the Group's companies had over 1,000 employees with disabilities (0.7% of the average staff number), out of whom 586 were women and 429 men.

Sistema's portfolio companies cooperate with employment centres: they participate in job fairs for people with disabilities, provide information on vacancies to the quota allocation units of employment centres and make them available to the public on a monthly basis, and also use the assistance of the disabled employment units and employment centres to find candidates with disabilities, etc.

To create a comfortable environment for disabled employees, special parking stalls are allocated for them; some offices (e.g. MTS's offices in St Petersburg) have help buttons for mobility- and vision-impaired employees.

Incentives and remuneration

GRI 103-3
The incentive and remuneration system of the Corporation aims at maintaining a competitive level of salaries for all categories of employees both in terms of region and industry. The incentives and remuneration of Sistema's employees and the management of its portfolio companies is linked to the investment strategy and is continuously improved taking into account the Corporation's business goals.

Financial incentives

The remuneration principles, procedure and calculation methodology are outlined in the relevant internal regulations of the Corporation. The remuneration system of Sistema and most of its S/As is based on grades (job levels).

GRI 202-1
In 2017, Sistema Group's companies allocated over RUB 132bn for payment of salaries and bonuses to employees. The Corporation's consolidated expenses on salaries, bonuses and social security contributions account for 0.30% of Russia's total employee payroll.

Доля консолидированных расходов Корпорации по заработной плате, бонусам и социальным взносам от общей оплаты труда наемных работников в России составляет 0,30%.

The entry-level wage at Sistema is approximately 2.5 times above the minimum salary stipulated by law, while the average level^① is more than two times higher than the average salary in the financial sector and almost three times higher than the average salary in Moscow in general.^② The average salary at the Group was RUB 49,441, which is 26% above the average monthly wage in Russia in 2017.^③

Salaries at Sistema Group companies compared to average industry wages in 2017, RUB

| Sector | Average salary at Sistema Group ^④ | Average salary across Russia ^⑤ |
|-------------------------------|--|---|
| Real estate | 100,000 | 30,208 |
| Consumer sector | 42,893 | 32,093 |
| Telecoms and digital services | 71,000 | 58,811 |
| Forest industry | 36,500 | 32,399 |
| Venture and PE investments | 200,000 | 84,904 |

Incentive programme for top management

In 2016-2017, Sistema's Board of Directors approved two-year incentive programmes for top and middle management. Under the programme, the Corporation's top managers who are directly responsible for building its portfolio and implementing investment projects must co-invest a certain share of their total annual income, which includes the fixed and variable parts (the salary and the bonus), in portfolio companies. The heads of departments who are in charge of management of the Corporation and directly involved in the investment decision-making, in their turn, must purchase the shares of Sistema. Under the programme, top managers also receive options that provide them with additional opportunities to participate in the growth of the assets' values. The co-investment process consists of an uninterrupted cycle of programmes for each calendar year that are launched and implemented in parallel.

The president and heads of investment portfolios and functional departments of Sistema became the first participants of the co-investment programme. In 2017, the list of participants was extended to include lower-level managers.



During the two years of the programme (2016-2017), Sistema's top managers bought

650 RUB m,

worth of its shares, which on average equals up to

30%

of their total remuneration.



For more information on the top management's short- and long-term incentive programmes, see [the Annual Report for 2017, page 90](#).

① Excluding top managers, employees on parental leave, interns and part-timers.

② According to the Russian Federal Statistics Service (Rosstat), the average salary in Moscow in 2017 was RUB 73,153, in the finance and insurance sector in Russia it was RUB 84,904.

③ RUB 39,167 according to Rosstat.

④ Excluding top management.

⑤ According to Rosstat.

Non-financial incentives

GRI 401-2 GRI 102-41

The system of non-financial incentives at the Corporation seeks to motivate employees to grow professionally, improve their productivity, achieve goals, demonstrate their best performance, improve quality of work and be innovative.

In addition to benefits envisaged by the national legislation, Sistema offers its employees additional benefits, including voluntary medical insurance, sick leave payments above the minimum established by law, and financial aid in case of difficult circumstances. At some companies, benefits also include life insurance, discounts on rehabilitation treatment, free meals, partial compensation of rent payments for employees from other cities, etc. The exact set of additional benefits depends on the work specifics and the needs of employees at different portfolio companies. In a number of cases, it is included in collective agreements. Also, the Corporation's employees receive discounts and special offers from the Group's companies, e.g. for banking services, children's goods, housing, hotel accommodation and healthcare services not covered by VMI.

Spending of the Group's companies on VMI and social programmes for employees, RUB m



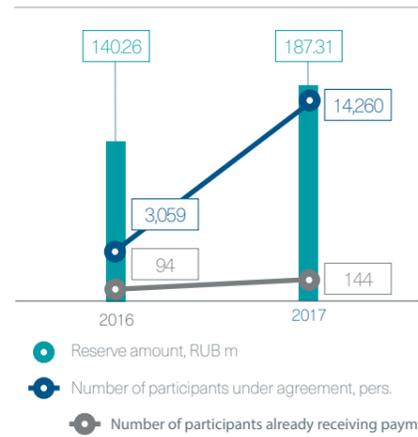
Current programmes of voluntary medical insurance include treatment at in-patient and out-patient clinics and ambulance services; in cities where Medsi operates, these services are provided by its clinics. VMI policies for Sistema employees include a global travel policy; employees may also buy health insurance for their family members at corporate tariffs.

In 2018, the range of services covered by VMI will be expanded to include cancer treatment and accident insurance. The new assets of Sistema will join the VMI programme. Therefore, the insurance on corporate terms will be available to about 3,000 people.

All employees of the Group are participants of the mandatory retirement pension insurance programme and may also choose a state retirement co-financing programme. The Corporation also offers non-government retirement schemes for the employees. These programmes are carried out by the Bolshoy non-government pension fund, which is among leaders for cumulative returns and a participant of the state pension security system.

The total amount of pension reserves in the Bolshoy Pension Fund accumulated through Sistema Group companies' contributions was about RUB 190m as of the end of 2017. The total number of participants of the non-state retirement programme is over 14,000 people, including 144 already receiving pension payments.

Performance of the Bolshoy Pension Fund in 2016-2017



In 2017, Bolshoy's returns were 9.77%, according to the Russian Central Bank, up from 9.6% in 2016. The RAEX (Expert RA) rating agency in 2017 confirmed the Fund's reliability rating at AA.

Collective bargaining agreements

GRI 403-4 GRI 103-2 GRI 102-43

Sistema pays significant attention to the well-being of its employees and builds employment relations with them on the basis of social partnership, which implies equality, respect to and consideration of interests of both employees and employers, and also compliance with applicable laws and regulations by all parties. At some companies of the Group, terms of such social partnership are set down in collective bargaining agreements, which stipulate benefits and compensations for employees above the amounts required by labour laws, including voluntary medical insurance, retirement schemes, additional paid leaves, higher sick leave payments, etc.



As of the end of 2017, **>1,000** employees from about **20** companies of Sistema Group had VMI policies.

Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

Number of the Corporation's employees covered by collective bargaining agreements in 2017



Employee engagement

Employees' interest in the Corporation's success has a direct impact on the results and efficiency of the business. Sistema regularly holds a comprehensive personnel engagement survey across all companies of the Group. Such surveys help it to assess the team's attitudes on a number of parameters and measure changes in people's satisfaction with their employment conditions.

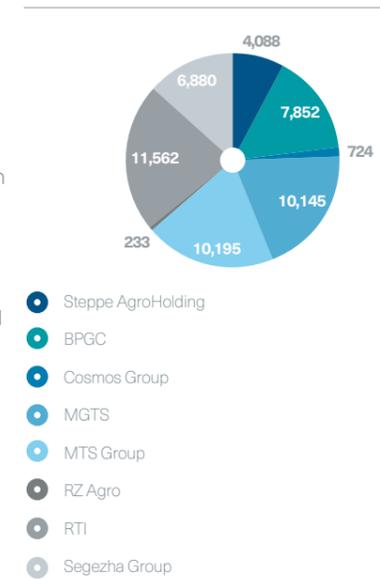
In 2017, the annual engagement survey covered 73% of the Group's average staff numbers, including the Corporate Centre and assets of the healthcare and pharmaceutical sectors, high technology, agriculture and consumer sector. Engagement surveys at Segezha Group and BPGC are conducted biannually and cover additional 14.5% from the Group's average staff numbers. In 2018, the Corporation plans to conduct the survey at MTS's retail chain as well.



Collective bargaining agreements cover

51,669 people, or **36.6%** of the total number of the Corporation's employees.

Number of the Corporation's employees covered by collective bargaining agreements in 2017



The collective bargaining agreement of the Saransk TV Factory (part of RTI Group) was declared the best in the Republic of Mordovia in 2017 following a contest of collective bargaining agreements under the auspices of the republic's president.

Training and professional development of employees

GRI 103-2

People are an important asset for Sistema, ensuring the efficiency and internal stability of the business. This is why training and development of personnel is one of the permanent priorities for the Corporation.

The level of employees' education differs at various companies of the Group depending on their segment (employees with higher education prevail at the Corporate Centre), but significant attention is paid across the Group to develop the necessary competences and enhance professional skills.

In 2017, new collective agreements were signed at Segezha PPM, Sokol PPM and Vologda Paper Mill, which are part of Segezha Group. The documents not only preserved all social guarantees and compensations, but also introduced additional benefits for the personnel, including those related to financial aid and working conditions. The trade unions and the employer agreed to hold regular meetings and to cooperate on matters of occupational and industrial safety.

Results of the engagement and loyalty survey in 2017

A total of 7,556 employees from 20 companies of the Corporation participated in the survey.

The top 5 companies for employee engagement were: Steppe, MTS Russia, Leader Invest, Sistema PJSC and Business Nedvizhimost. The aggregate headcount of these companies exceeds 40% of the Group's total staff numbers in 2017.

According to expert estimates, TSR* of these companies is 50% above the Group's average.

The key motivating factors identified in the course of the engagement and loyalty survey include confidence in the top management and feeling of own value for the company, contents of work, and also culture, values and mission of the company, its development prospects and speed.

At the same time, the survey made it clear that there was potential for increasing the average engagement level at the Group, including by increasing employees' awareness about the Corporation's strategy and developing corporate recognition programmes.

* Total Shareholder Return. Calculated according to the formula: total shareholder income (growth of share price + dividends paid) divided by the share price of the previous year. TSR is expressed in %.

Sistema's training programmes are designed for employees of the Corporate Centre and portfolio companies and are usually carried out through in-house corporate universities and training centres, including the MTS Corporate University. The Corporation uses various formats of on-site and distance learning:

- practical workshops, lectures;
- training courses of Sistema Academy;
- distance learning (webinars and video courses);
- discussion clubs;
- programmes for advanced training, professional training and re-training.

The Corporation's investment in personnel development and training totalled RUB 342.5m in 2017, an increase of 32% from the previous year. The bulk of the amount (about 60%) was allocated for training of employees included in the talent pool of Sistema Group (about 86%).

Sistema Academy

Sistema Academy is a corporate education project launched in 2014 that has the best coaches and invited experts train the management and employees of the Group. The project's purpose is not only personal and professional development of employees, but also resolution of daily business issues and creation of additional incentives for the personnel.

Extensive use of corporate capabilities and internal expertise ensure a high quality of education and at the same time significantly reduce expenses – up to 70 % compared to the market price of business education services.

Knowledge Week

On 8 September 2017, Sistema held its 3rd annual Knowledge Week. Over 600 employees of the Corporation took part in workshops, master classes and interactive lectures provided by leading experts. This year, the programme for the first time included a Leadership Saturday – a series of meetings with experts on leadership. The participants listened to speakers from the Skolkovo Moscow School of Management, the British Higher School of Art and Design, etc. At a practical workshop, Sistema employees learned about LEGO Serious Play, a new

methodology for holding meetings, which is used by major international companies and helps to quickly change interaction dynamics within a team through play.



97%

of Sistema's employees were people with higher education in 2017.



>140 K people

employees of Sistema Group attended at least one training course/session in 2017

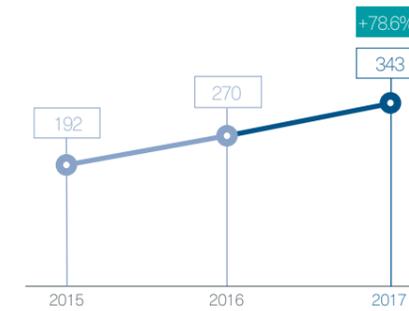
Profile of Sistema

Responsible investment

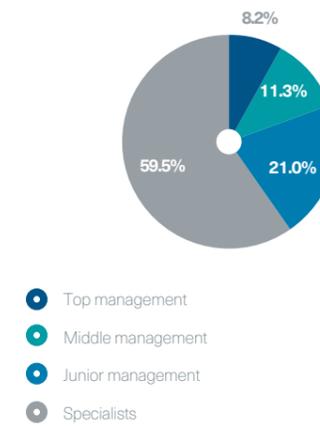
Efficient management

Sustainable development practices of portfolio companies

Expenses of Sistema Group on employee training, RUB m



Expenses of Sistema Group on employee training in 2017, by employee categories



Number of employees participating in at least one training course/session per year



Over 140,000 employees of Sistema Group attended at least one training course/session in 2017, which is 21.8% above the previous year's results. The number of various training programmes for employees grew by 25% vs. 2016 to 5,165.

Breakdown of spending on employee training by type of training programme, RUB K

| Type of training programme | Spending (RUB K) |
|--|------------------|
| External (on-site and distance learning) | 161,697 |
| Internal (on-site and distance learning) | 160,918 |
| Including courses organised by Sistema Academy | 779 |
| | 636 |

Spending on corporate training of Sistema Group employees, by personnel categories, RUB

| Personnel category | Costs per employee in 2017 (RUB) |
|--------------------|----------------------------------|
| Senior management | 3,000 |
| Middle management | 58,383 |
| Junior management | 4,787 |
| Specialists | 15,889 |

Building a management team

Sistema pays significant attention to the development of its managers, because its performance as an investment company depends heavily on the professionalism and skills of the management team.

The key goal of the HR policy in this area is to build efficient, highly professional senior management teams, and improve the process of recruitment, appointment and development of top managers on an ongoing basis.

For the second successive year, the discussion platforms established on the basis of Sistema Academy brought together employees from various industries seeking to improve their skills, learn something new, share their practical experience and find out-of-the-box business solutions. 20 club meetings were held in 2017, attended by over 250 people from 20 companies of the Group.

In December 2017, Sistema introduced Knowledge Days. These are short master classes on topics relevant for the Corporation's employees: change, team and time management, EQ, etc.



Sistema has a comprehensive procedure in place for selection and recruitment of candidates for senior positions and an efficient competence model for top executives of portfolio companies. The candidates for senior executive positions are mainly selected using Sistema's own resources. Notably, in 2017, Sistema's recruitment divisions recruited employees for 99% of such vacancies across the Corporation.

The management's talent pool is built mostly using internal candidates to ensure succession, since they usually have a good knowledge of the Corporation's business; Sistema also makes a broad use of the mechanism of rotating best top managers among portfolio companies.

The following companies of Sistema Group have created their talent pools: MTS, Detsky Mir, Segezha Group, RTI, Medsi, Cosmos Group, BPGC.

By the end of 2017, the Corporation's talent pool grew by 1,402 persons to 4,811 employees (3.4% of the total headcount).

Personnel assessment is the key tool for building the talent pool. A project of integral assessment of professional and personal competences, which was launched in 2016 for the key supporting functions of the Corporation, helps to identify candidates for further development and promotion (for details, see the Sustainability Report for 2016, pages 67-69).

A total of 22,455 employees underwent assessment in 2017. BPGC and Detsky Mir were the Group's leaders for the share of employees participating in assessment, 90.1% and 78.2% of the headcount, respectively. The assessment helped to identify areas for training and career development for talent pool members from among senior, middle and junior management.

In 2017, Sistema conducted a 360 degrees assessment for over 90 top managers of the Corporation and its portfolio companies, and also for 100 employees of finance, control and audit units, including 12 executives of the Corporate Centre.

Headcount of Sistema's talent pool

| | Number of the Group's employees included in the talent pool as of the beginning of 2017 | Number of talent pool members promoted in the reporting period, persons |
|-----------------------------|---|---|
| Руководители высшего звена | 47 | 12 |
| Руководители среднего звена | 1,325 | 100 |
| Руководители младшего звена | 928 | 324 |
| Специалисты | 2,245 | 789 |
| Всего | 4,545 | 1,225 |

Sistema Group's employees that participated in assessment, by categories and gender, persons

| | Men | Women | Total |
|-------------------|--------|--------|--------|
| Senior management | 36 | 17 | 53 |
| Middle management | 160 | 86 | 246 |
| Junior management | 1,265 | 1,758 | 3,023 |
| Specialists | 8,946 | 10,187 | 19,133 |
| Total | 10,407 | 12,048 | 22,455 |

≈ 5 K people

The Corporation's talent pool

Occupational health and safety

GRI 403-4 GRI 103-2 GRI 403-1

Ensuring a comfortable and safe working environment is a top priority for Sistema Group and, especially, its manufacturing assets. The goals of the Group's companies related to occupational health and safety are updated annually, with special assessment performed and working conditions improved. Compliance with workplace safety rules at the Group's companies is regulated by internal documents and collective bargaining agreements, taking into account industry specifics.

Sistema Group companies take regular preventive measures in order to reduce the risk of occupational injuries and diseases and enhance industrial safety. The Corporation's aggregate spending for this purpose grew by 17% in 2017 to RUB 613.8m, or about RUB 4,400 per employee.

Sistema Group companies' expenses on occupational health



A number of assets^① have joint committees for health and safety, comprising both managers and employees. Their number grew more than 2.5-fold in 2017.

① Segezha Group, BPGC, RTI Group and some others.

Number of health and safety joint committees at Sistema Group companies



In the reporting period, there were no cases of professional diseases at the Group's companies, except for some isolated episodes at Segezha Group and RTI. The number of occupational accidents registered in 2017 was 114. Traditionally, about half of such accidents happen in the forest assets due to the industry's specifics. The number of accidents at Segezha Group fell by 11% in 2017, while the number of severe injuries dropped by 47%.



For more about Segezha Group's occupational health policy, see section "Forest Industry" in this Report, pages 67-69.

Most accidents did not have any serious consequences, and only three road accidents resulted in deaths.

Corporate culture and volunteer work

Responsibility, results, team work and integrity are the main values that unite the Corporation's employees alongside healthy life style, the desire to make the world a better place and to help those in need.

The Corporation welcomes employees' proactive stance, desire to improve and develop the necessary skills. An important part of corporate culture at the Group's industrial assets is employees' participation in professional skills contests.

Breakdown of accidents



For more information about the Corporation's charitable projects, see section "Social Investment" of the Report, page 117

Sistema develops corporate sports and implements a large number of social projects covering all key areas of life – health, creativity, culture, environment – with active involvement of the Group's employees. The Corporation's employees are involved in volunteering efforts and charity, with a focus on helping underprivileged children, large families, war veterans and the disabled.

Overall, the Group's companies participated in 252 social and charitable events in 2017.

Sistema views corporate volunteering as an effective tool for developing soft skills and enhancing employee engagement and motivation. Voluntary participation of Sistema Group's employees in charitable events has become an important element of our corporate culture. Volunteering efforts are coordinated and promoted by the volunteer centre of Sistema Charitable Foundation, which initiates and organises corporate social and charitable projects, consolidates the best volunteering practices and volunteers from about 20 companies of the Group. The total number of volunteers that took part in at least one event of Sistema Charitable Foundation in 2017 was 675 people.

The volunteer movement at Sistema is gaining support from employees and their families, having a visible impact on local communities and reaching the national level. The total number of Sistema employees that participate in volunteering is about 13,000 people, about 50% out of whom work for MTS Group. Own big volunteering movements have emerged at Detsky Mir (15% of the headcount) and Medsi (over 300 participants).

Further plans of the volunteering movement development at the Corporation include systematising management of volunteer projects, organising new large-scale campaigns, involving both employees and external social partners, and also implementing a mechanism to encourage and support corporate volunteer initiatives.



For more about Social and Charitable projects of the Corporation, see section "Social Investment" in this Report, page 37-43.

Corporate Sport

On 2 September 2017, Sistema held its 15th Annual Summer Sports Games at the Yantar stadium in Moscow, which brought together about 4,000 employees from the Group's companies. During the event, 17 teams competed in 15 sports. Sports competitions, a lottery and creative workshops were organised for the audience, including children.

On 18 February 2017, the Izumrudny Les eco hotel hosted Sistema's 1st ski race. Participants competed in three events: individual freestyle race for men, individual freestyle race for women, and a mixed relay race. Teams from Sistema and 11 portfolio companies competed for the champion's title.



≈ 700 employees

volunteered at the Corporation's projects in 2017



Volunteers account for about

10%

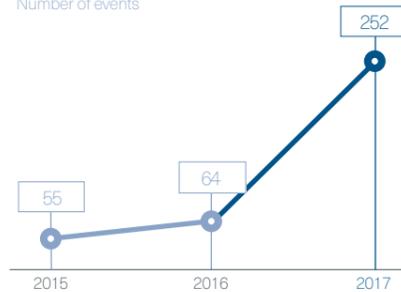
of the Corporation's total staff numbers

Key results of the corporate volunteer centre

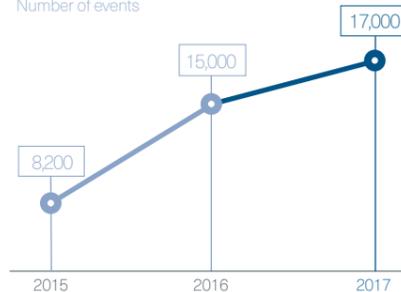
Number of active members of the volunteer centre, pers.



Number of events



Number of events



Hours worked by volunteers



Volunteer puppet show



The Group's companies develop various social projects, some of which are unique for the Russian market. They include volunteer puppet shows that were established at MTS and Detsky Mir.

MTS was the first to found its Mobile Theatre of Fairy Tales in 2012. Its repertoire now includes 11 shows on different themes: New Year, education, environment.

The shows are performed by MTS employees for children from orphanages supported by the company, children from large families, young patients of rehabilitation and cancer treatment centres, and numerous guests of socially important events.

In 2017, theatre's company included about 60 people, who held 50 shows for a total of 40,500 people in 11 regions of Russia.

This unique format of volunteering gives children new knowledge, positive emotions and a tool for socialisation, while the employees of MTS get an opportunity for creative self-actualisation. The popularity of such projects increases personnel engagement and loyalty, an employee's period of work at the company and labour productivity.

Building on MTS's successful experience, Detsky Mir established its own puppet show in 2014. Its company includes both employees and other volunteers who believe in the idea of a non-professional theatre and want to help those in need – orphans and disabled children.

Detsky Mir's theatre has given over 40 shows since establishment. It toured the Tula, Tver, Ryazan, Vladimir, Smolensk and Moscow regions, and also Kaluga, Suzdal, Yaroslavl, Khimki, Orekhovo-Zuyevo, Kolomna, Krasnoarmeysk, Sofrino, Ivanteyevka, Filimonki and Moscow.

A good deeds digital-platform

MTS has implemented a Good Deeds digital platform on the basis of the Dobro Mail.Ru project. The service helped to systematise management of volunteer projects within the company and provided the necessary tools for coordinating a mass volunteer movement in various regions of the company's operations.



A good deeds platform for MTS employees

HELPING PEOPLE TOGETHER AT DOBRO MAIL.RU



Safe

Dobro Mail.Ru aggregates projects of only reliable charities



Help with good deeds

We can change the lives of many people for the better through volunteering



A gift for volunteers

A badge will appear in your Dobro profile. Share it in social networks, and many friends will follow your example

ENVIRONMENTAL IMPACT

Sistema and its assets set great store by ecological sustainability and so place special emphasis on activities aiming at the improvement of environmental safety, rational use of natural resources, and promotion of environmental consciousness.

GRI 103-2

As an investment company, Sistema has no material direct environmental footprint. The Corporation's primary responsibility is determining environmental management priorities within portfolio companies and monitoring their activities to evaluate their environmental footprints and reduce potential risks. All companies of the Group must strictly abide by environmental standards as set out in Sistema's Code of Ethics and internal policies of specific asset companies that directly manage their environmental responsibility depending on specific realities of the industries they operate in.

In general, the main environmental efforts of the Group's companies address the following tasks:



greening of production;



environmental improvements in specific regions where the business operates;



conservation of biological diversity;



support for public environmental initiatives;



development of environmental volunteering and raising of awareness.

Another important aspect of environmental consciousness is the environmental impact of supply chains throughout a product's lifecycle. Some companies of the Group (Segezha Group, Binnopharm, Detsky Mir, certain subsidiaries of RTI) apply special practices to analyse this aspect.

The Group's total investment in environmental safety in 2017 is up 17.5% year-on-year and exceeds 380 million roubles. Almost 80% of this amount is represented by expenses on preventing adverse environmental impact and on environmental management (including the adoption of international standards). These cost items saw a 14% rise year-on-year. Among other results, the effort in this area made in 2017 led to a reduction both in the number and in the monetary value of complaints against the Group companies as regards the observance of environmental legislation (down 77% from 2015).



The average Sistema Group company spends

>350 million roubles each year

on environmental protection.

Profile of Sistema

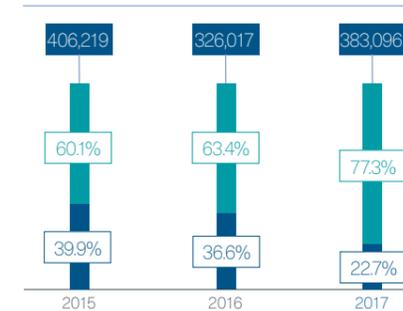
Responsible investment

Efficient management

Sustainable development practices of portfolio companies

GRI 103-2

Environmental protection expenditures, RUB K^①



- Expenses on an environmental management system and on preventing environmental impact
- Expenses on waste treatment, atmospheric emissions purification, and environmental remedial action

Conservation of biological diversity and interactions with environmental companies

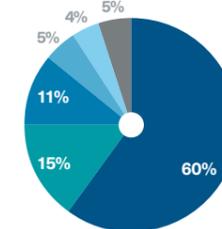
GRI 304-1

Sistema and its portfolio companies are actively involved in environmental efforts in the regions where they operate, working to gradually reduce their environmental impact and raise people's awareness about environmental issues. As part of this work Sistema cooperates with non-profit environmental organisations to preserve biodiversity and contribute to environmental education.

Since 2010, Sistema has been helping the Russian Geographical Society (RGS) in its research and education projects relating to the exploration and conservation of natural resources. In 2017 alone, Sistema financed some 20 initiatives covered by the RGS's new grant programme, including the preservation and restoration of populations of Siberian tigers in the Outer Manchuria (in Bastak natural reserve) and Persian leopards in the Russian Eastern Caucasus; preservation of rare and endangered species in Russia (Siberian tigers,

Amur leopards, snow leopards, beluga whales, Persian leopards, polar bears); exploration of natural medicinal waters in the Northeastern and Eastern Tuva; determination of Russia's place in the global environmental landscape; exploration of the effect of regional and global changes on the nature and economical potential of the mountains of the Inner and Central Asia; comprehensive assessment of the impact of the Selenga river basin on Lake Baikal and of the current rate of melting of the Antarctic ice sheet; mapping of the "Atlas of Conservation Areas of the Far Eastern Federal District"; establishment of the cartographic & geoinformatic system "Rivers and river basins of the Arctic Drainage Basin in the Asian part of Russia" and a database (electronic cadastre) of Russian caves and major caves in the CIS; composition of the reference book "Mineral Springs and Plants of Russia", as well as the encyclopaedia "Open Chuvashia" for the blind and visually impaired. Sistema also sponsored the making of a series of documentaries about Russian and Arctic nature and geography; the RGS's expedition marking the 100th anniversary of Russian reserve management and studies, and numerous school expeditions.

The largest investments in environmental causes among the Group's companies in 2017 were made by Segezha Group, Steppe AgroHolding, RTI Group, and MTS.



- Segezha Group
- STEPPE AgroHolding
- RTI group
- MTS
- Cosmos Group
- Others^②

GRI 307-1

The number of financial sanctions imposed on Sistema's portfolio companies due to environmental violations went down by 45% year-on-year, to 6 sanctions. Besides, the amount of fines charged in 2017 fell down to a negligible 0.0001% of revenue.

Segezha Group: in the eco transparency rating of Russian forest companies

In 2016 Segezha Group along with other participants of the Boreal Forest Platform initiated the preparation of an ecological rating of Russia's pulp & paper companies to lay the groundwork for reducing the environmental footprint and raising the efficiency of use of forest resources, environmental consciousness, and eco-impact transparency of players of the national pulp & paper market.

In 2017 the WWF of Russia conducted its first independent survey of the Russian paper market with the support of the National Rating Agency. The foundation evaluated the environmental consciousness of the subject companies by such parameters as the sustainability of raw materials sources,

the environmental footprint of production, and eco management (transparency and reporting). Segezha Group was ranked second among the ten industry giants.



① Consolidated data includes: MTS, Steppe AgroHolding, BPGC, Kronshtadt Group, Sitronics, Business Nedvizhimost, RTI Group, Segezha Group, and Cosmos Group.

② "Others" include: Kronshtadt Group, BPGC, Sitronics, Business Nedvizhimost.

Raising a sustainable generation

In June 2017, Sistema Charitable Foundation, Segezha Group and MTS organised a children's eco fest at the Russian Forest Museum in Moscow. Segezha Group assumed patronage over the museum as part of the nationwide Year of Ecology project and financed the acquisition of state-of-the-art soft- and hardware required to maintain the database of exhibit items.

The festival (arranged to celebrate both the Children's Day and the Environmentalists' Day) comprised an educational tour for children from underprivileged families and orphanages. The young guests learned interesting facts about forests, forest husbandry, professions in the forest care sphere and colleges one can acquire them,

as well as outstanding forest scientists and their theories.

The volunteers of the "Fairytale Mobile Theatre" regaled the children with an exciting puppet show about how one can help nature by using modern-day mobile devices, apps, and online technology.

The show was followed by the giving of awards to the winners of the children's drawing contest Mobile Technologies for Ecology organised by MTS and the EKA Green Movement of Russia. More than 1,000 children had registered at the Ecoclass web portal, and 500 of them sent in their drawings. The jury then selected 46 winners from 17 regions of Russia.

More than 12 thousand teachers all over the country joined the project Mobile Technologies for Ecology to conduct interactive classes in environmental awareness that taught students how to use the latest mobile technology to preserve nature, save human lives, put out forest fires, and care about birds and animals.



MGTS and WWF save forests

MTS's arm MGTS and the World Wide Fund for Nature have been studiously working together since 2015 to preserve Russia's forest resources, encouraging Muscovites to cut down paper consumption by using electronic phone bills. By the end of 2017, the programme was joined by some 500,000 MGTS subscribers, allowing the company to reduce its billing expenses by 10% while saving the lives of over 400 trees.



Russia's first FSC forum

In May 2017, Sistema helped organise Russia's first forum for the holders of certificates of the Forest Stewardship Council (FSC), a nonprofit promoting the responsible management of the world's forests.

The certification system that first gained traction in Russia in the end of 1990s now covers above 46 million ha of Russian forests (more than a fourth of all of the country's woodland), of which Segezha Group manages 12.6%.

More than 100 participants of the event gathered at The Cosmos Hotel to discuss the practices of voluntary FSC certification, supply chains, timber consumption controls, forest management, and supplier relations. Segezha Group experts took part in a discussion of FSC practices used in the promotion of products and showcased the competitive advantages of FSC certification as a sustainability marketing tool.

Andrey Ptichnikov
Director of FSC Russia



"This was our first experience of setting up a special platform to help FSC certificate holders share their expertise and insights. We also hope that the forum will be of great help to all our members in the future, as a means of both peer-to-peer interaction and of reaching out to other stakeholders."



Caring for regional ecology

Sistema Charitable Foundation and Sistema Group companies celebrated the Year of Ecology by a series of events in the Republics of Altay and Karelia to address environmental tasks of local relevance. Urban façades of Gorno-Altaysk and Petrozavodsk were painted with colourful graffiti of local landscapes and animals chosen as the festival's symbols. The streets of the two cities were transformed into open-air art galleries displaying the best photos from the Russian nature festival Pristine Russia.

On 25-26 June 2017 Gorno-Altaysk University in association with the Altay Republic Ministry for Natural Resources, Environment and Property Relations hosted the regional environmental forum titled 100 Years of Russia's Wildlife Sanctuaries organised by Sistema Charitable Foundation. The initiative was enthusiastically welcomed by the nationwide association of wildlife preservation professionals Wildnet. Scientists, environmentalists, and representatives of nature reserves of the Republic of Altay and other federal reservations discussed the prospects of implementation of large-scale infrastructure projects aiming to promote ecotourism.

The money will go towards building visit centres and checkpoints near the Dzhumalinskiye thermal springs and in the Uch-Enmek park and making walkable pathways that will lead to the Belukha park through the Akkem Lake and to the Kamennyye Griby rocks through the Ak Chelushpa park. Segezha Group as the festival's partner donated 10 wooden benches to install in these two parks.

The forum also included an educational seminar for employees of natural reserves, Partnership for Preservation and Development, which focused on interaction with the local population and tourists, while teachers of local schools attended a special lesson for education professionals in protected natural areas.



The teachers humbly sat down at student desks to analyse specially designed cards and discuss the fundamental aspects of environmental education.

Another campaign of the festival focused on the protection of musk deer, the world's smallest antleless deer. During the campaign, all schools of Gorno-Altaysk collected plastic waste for recycling. The proceeds were then used to acquire trail cameras to record the number of deer in their habitat, study their behaviour, and protect them from poachers.

More than just a symbolic gesture, the festival began and ended with large cleaning campaigns. The programmes kicked off with a group of volunteers cleaning up the banks of the 19-km Ulalushka river near the Komsomolskaya mountain. Once the festival came to a close, an even larger scavenge campaign was organised at the shores of the Teletskoye Lake, one of the most visited sights in the Republic of Altay. The volunteer campaigns brought together more than 170 residents of Gorno-Altaysk, students of the Chulyshmanskaya Secondary School, and residents of Balykcha (a settlement in the Ulagansky district) and collected

four truckloads of trash. The scavenge campaigns set the tone for the foundation's work at its next destination, the Republic of Karelia.

An eco festival that took place on 19 August on the Onega embankment in Petrozavodsk surprised visitors with an exotic flower bed in the form of an open book. The guests were invited to take part in the freshening up of their city's public areas and attend environmental workshops where they were taught to turn old wooden boxes into glorious flowerbeds with perennial plants, true works of art that will please the eyes of Petrazavodsk's residents for many seasons to come. The festival's participants planted a total of some 500 ornamental plants.



Sistema Charitable Foundation issued

600 K roubles

in grants to develop 4 natural reserves in the Republic of Altay

Sustainable production and consumption models

GRI 103-2

The Corporation uses a systematic approach to minimising the environmental footprint of its assets, including a focus on reasonable reductions in the consumption of natural resources, toxic and contaminating emissions, and production/consumption waste.

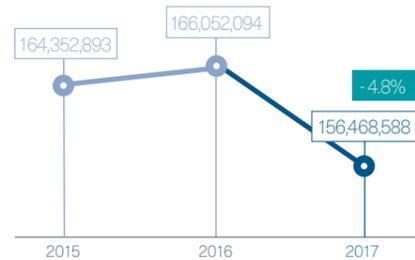
Energy

With a view to improving the operating efficiency and sustainability of the group's business, all companies of Sistema Group work hard to reduce the energy intensity of production by introducing energy-saving technology and adopting more economical and eco-friendly fuels.

In 2017 the total consumption of energy across the group decreased by 5.8%, and energy intensity by 6.7%.

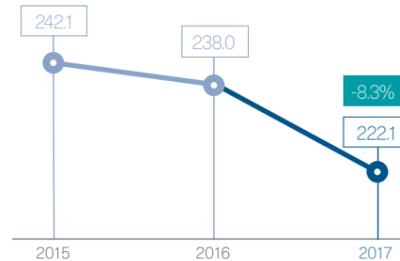
GRI 302-1 | GRI 302-3

Consumption of fuel and energy resources at Sistema Group, GJ^①



GRI 302-3

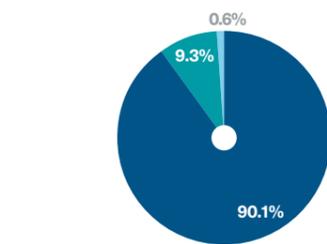
Energy intensity, GJ/million roubles of consolidated revenue



The Group's companies are using various types of fuel and energy, with electrical power accounting for some 23.8% of the total consumption, thermal energy for 0.3%, and fuels (of boiler, furnace, and motor types) for 75.9%.

Steppe AgroHolding and Segezha Group are companies that inevitably lead the portfolio by fuel consumption due to specific realities of their respective industries, growing business scale, and the fact that they operate their own boiler plants that supply heat and hot water beyond the production facilities to local communities. It is also the reason why the Group's energy consumption structure is dominated by fuel.

Fuel consumption within Sistema Group in 2017, by types



- Diesel fuel and fuel oil
- Gasoline
- Other fuels

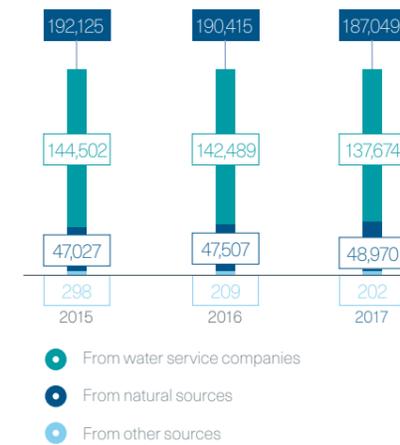
Water

There is a general trend across the Group towards reducing the consumption of water for production purposes. The biggest consumers of water within the portfolio are Segezha Group (32.1%) and Cosmos Group (43.4%), with most of the water used (73.6%) coming from water service companies. At the same time, another trend is towards water reuse (primarily practised by Segezha Group).

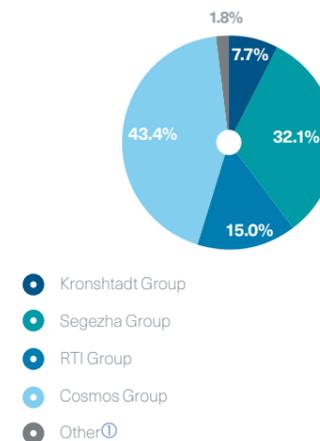


GRI 303-1

Water withdrawal by source, K cu m

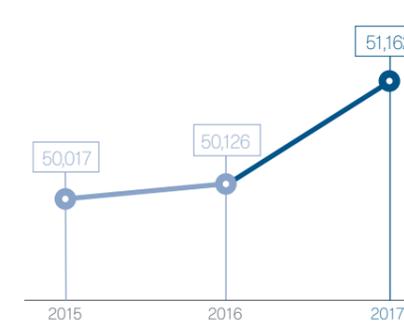


Water withdrawal by Sistema assets in 2017



GRI 303-3

Water reuse, K cu m



Sistema Group companies get most (60.4%) of their wastewater reclaimed at special treatment plants. At the same time, some of the wastewater is treated within the companies. The share of self-treated water in the overall reuse structure is 4.9% up from 2016, with more than half of the water reclaimed and used by Segezha Group.

GRI 306-1

Water reuse, K cu m



① Consolidated data includes: MTS, MTS Bank, RTI Group, Sitronics, Detsky Mir, Steppe AgroHolding, Segezha Group, Medsi, Cosmos Group, BPGC, Kronshtadt Group, and Concept Group.

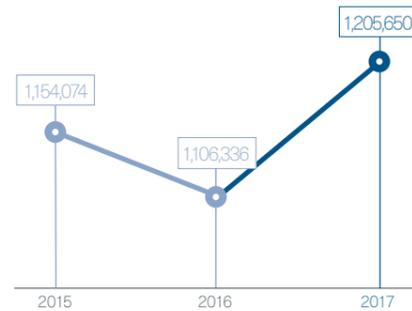
① "Others" include: Steppe AgroHolding, BPGC, Sitronics, MTS, and MTS Bank.

Emissions

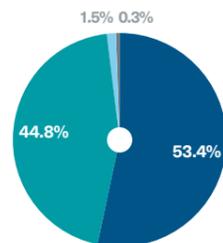
Since Sistema's assets operate in different industries, their climatic impacts also vary greatly. First and foremost, greenhouse gas emissions and other atmospheric emissions are the inevitable underside of production in such industries as wood processing and agriculture.

The growth of the Corporation's business scale in these industries has served to drive up the total volume of direct greenhouse gas emissions in the Group by 9% in 2017.

GRI 305-1
Direct GHG emissions, tonnes^①



Direct GHG emissions in 2017, by group companies, %



- Segezha Group
- STEPPE AgroHolding
- RTI Group
- Other^②

① Consolidated data includes: MTS, Steppe AgroHolding, BPGC, RTI Group, Segezha Group, and Cosmos Group.
② "Others" include: MTS, BPGC, and Cosmos Group.

Segezha Group controls its carbon footprint in Europe



Segezha Group abides by the EC's energy efficiency directives that encourage companies to drive down the energy component of product costs, stimulate the production of bioenergy, and care about environmental safety and compliance when exploiting forests. Segezha Group enlisted the support of the German Institute for Energy, Ecology and Economy to evaluate the carbon footprint of the company's European arms producing paper packaging. The evaluation extended to both direct greenhouse gas emissions and indirect emissions resulting from the consumption of external energy sources. According to the careful assessment made, the European companies of Segezha Group produced 7,500 tonnes of CO₂ in 2017, with 24%

of the emissions coming directly from the companies' sources (vehicles and heating) and 76% produced when consuming energy received from elsewhere, which is well in line with the existing environmental safety standards.

In a bid to reduce its environmental footprint, the company takes technological measures to cut the consumption of energy, water, and other natural resources; organises the recycling of its production waste and treatment of waste water, increasingly moving towards waste-free production technologies; limits the emission of pollutants destroying the ozone layer, greenhouse gases, chemicals, and other harmful emissions.

Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

GRI 103-2

Aiming to ensure efficient management of climatic impact, Segezha Group runs an inventory of emission sources to come up with the best programmes to address each of them.

Carbon accounting is performed even at businesses with no significant greenhouse gas emissions. E.g., MTS designs plans of maximum permissible emissions for each of its business establishments with stationary emission sources (diesel generators etc.).

The volume of other significant emissions also substantially decreased in 2017. A sizeable reduction in sulfur dioxide emissions (by 45.6% vs. 2016) is a result of a combination of efforts, including the migration of one of RTI's subsidiaries from residual fuel oil to gas fuel.

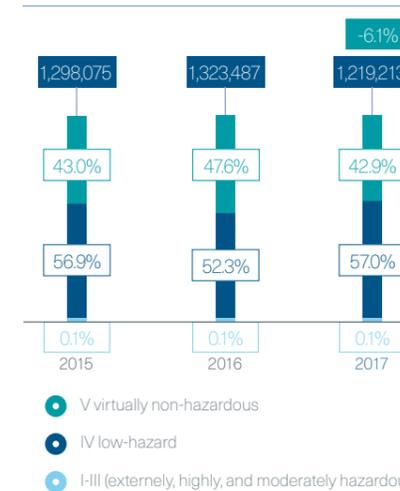
Material emissions of NO_x, SO_x, and other significant pollutants, tonnes^②



Waste

The greater share of Sistema's production waste is classified as either low-hazard or non-hazardous (classes IV and V).

Total waste, tonnes^①



Segezha Group generates the most (94%) waste in the portfolio, in such forms as tree bark, shavings, saw dust, and daily waste. The company aims to cut wastage by various methods, including recycling (about 39% in 2017).

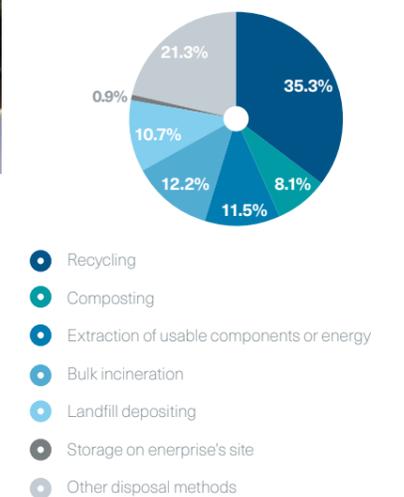
① Consolidated data includes: Steppe AgroHolding, BPGC, RTI Group, and Cosmos Group.

② Consolidated data includes: MTS, RTI Group, Sitronics, Detsky Mir, Steppe AgroHolding, Segezha Group, Cosmos Group, BPGC, and Kronstadt Group.



GRI 306-2

Total waste by disposal method in 2017



Sistema's portfolio companies apply different methods of waste management. Overall, the structure of waste across the group by disposal method has been steady for the last 3 years. Almost half of the total waste volume is recycled or used to extract usable components and generate energy.

Segezha Group: recycling and biofuel production



In 2018 Segezha PPM also plans to install a latest-technology boiler plant running on bio fuel. This will make it possible to cut fuel oil consumption by about 30% and atmospheric emissions by up to 40%. Once the investment project is implemented, Segezha Pulp & Paper Mill's total generating capacity will reach 400 tonnes of steam per hour and will be enough to boost the production of sack paper by another 110,000 tonnes a year.

In 2017 Segezha PPM signed a contract to install a new production line in the company's Woodworking Plant No.1 in Lesosibirsk that will make it possible to produce some 100,000 tonnes of pellets per year. The holding plans a series of new energy-efficiency projects across its many production sites.

Mikhail Shamolin,
President of Segezha Group



"The new equipment will enable us to create a comprehensive approach to forest use and to handle waste by means of conversion to biofuel granules and heat energy. By implementing clean biofuel production technologies, we reduce the emissions of greenhouse gases, which are recognised as one of the most critical factors causing adverse climatic changes. The fuel bricks are produced under high pressure without any chemical binders. They are totally safe and eco-friendly."

Development of bio fuel production and waste recycling in fuel boilers is among the strategic priorities of Segezha Group's environmental policy and an instrument of improvement of energy efficiency. The construction of state-of-the-art power generation facilities that use the advantages of cyclical added-value wood conversion becomes an indispensable component of the company's investment programmes.

Segezha Group's arm in the Arkhangelsk region supplying heat energy to the city of Onega now generates 100% of the power by burning wooden waste, not coal. Another company of the group, JSC Onega Woodworking Plant, also abandoned fuel oil back in 2015, now producing heat power solely from by-products of lumbering.

Another high-potential avenue for diversification and greater sustainability of Sistema's forest business based on the principles of circular economy is the recycling of waste wood into fuel granules (pellets) with a density twice as great and a heat output 3-4 times as high as those of traditional firewood. The combustion of this new type of biofuel produces orders of magnitude less CO₂ than the combustion of fossil fuels (coke, coal, and natural gas). Segezha Group produced its first batch of sawdust fuel bricks back in 2015 at Sokol Wood Working Plant in the Vologda region, whose full-cycle biomass processing line now produces many tonnes of pellets.

Technopark Sarov: the launch of a new production line using recycled waste

In April 2017 Technopark Sarov (for more details see the "Hi-tech" section of the industrial overview) welcomed a new resident, LLC Ecotech, that produces injury-proof surfacing tiles from used car tyres. The production technology is both wholesome and up-to-date, with a maximum degree of process automation.

The company makes a highly sought-after product with a high resistance to wear and excellent safety characteristics. The company has a wide portfolio of tiles that can be used in sports grounds, staircases, inside courtyards, garages, gardens, and a variety of indoors applications.



Paper

Like any other product, paper has multiple impacts on the environment during its lifecycle (extraction of raw materials, production, processing, distribution, use, and waste disposal). Sistema aims both at rational consumption of paper products for its needs and at implementation of responsible procurement policies within the Group's companies.

A careful analysis of paper consumption and sources of paper used across the group of companies shows a total consumption volume of roughly 890.3 tonnes, with about 20% being FSC-certified paper.

Paper consumption, tonnes^①



Companies of Sistema Group adopt special rules for printing work papers so as to reduce paper consumption along with practices of collecting waste paper for recycling at specialised plants. 1,241 kilos of paper was collected and sent off for recycling in 2017 within Sistema alone.

Participation in the environmental campaign I CHOOSE FOREST

For years now, Sistema Group companies have been permanent participants of FSC's initiatives designed to preserve forests and other natural resources by means of collection and recycling of waste paper as well as promotion of ecological values and responsible forest management.

MTS, MTS Bank, RTI, Segezha Group, and Leader Invest collected a total of some 4 tonnes of waste paper in 2017 in a campaign organised to celebrate the International Day of Forests on 21 March.

MTS and RTI won the 2nd and the 4th places in the competition, respectively. Sistema as a group collected about 10% of the aggregate waste paper amount, or more than 25% of the amount collected by the corporate participants of the campaign (15.5 tonnes). This means saving the lives of 68 trees and cutting wastage by almost 28 tonnes of water and 16,000 kW/h of electric power.



The international FSC certification is a recognised eco-quality system used in the forest and paper industries in 109 countries of the world. FSC certificates are issued and renewed by independent auditors based on careful annual analysis of processes at felling sites. An FSC certificate confirms that the related product comes from an environmentally and socially sustainable forest.

① Consolidated data includes: MTS, Steppe AgroHolding, BPGC, RTI Group, and Cosmos Group.

SUSTAINABLE DEVELOPMENT PRACTICES OF PORTFOLIO COMPANIES

| | |
|--------------------------------|-----|
| Telecoms and digital services | 100 |
| High technology | 108 |
| Forest industry | 116 |
| Healthcare and pharmaceuticals | 122 |
| Consumer sector | 129 |
| Agriculture | 134 |
| Real estate | 139 |
| Electric power | 143 |
| Hospitality business | 150 |
| Banking and finance | 154 |

The companies of Sistema Group operate in many sectors of the economy and have significant impact on social and natural environments and various aspects of sustainable development. The Corporation is aware of its responsibility to stakeholders for effective management of ESG risks as part of sustainable development and makes a substantial contribution to addressing global and national priorities in this area.

TELECOMS AND DIGITAL SERVICES

Accessible high-quality communications and digitisation.

MTS Group is a leading telecom company in Russia and the CIS that operates in 83 regions of Russia as well as Ukraine, Armenia, and Belarus. The total population of the licence area is over 200 million, 53% of which use MTS services.



6.5^k

corporate volunteers



For more details see [MTS Group's 2017 Sustainability Report](#)



106.5^m

subscribers

Be it the traditional telecom business, where MTS is a long-standing recognised leader, or the burgeoning new digital markets loaded with heavy growth prospects, the company provides safe and affordable services that improve both the quality of human life and the efficiency of private and corporate businesses. MTS' leadership is achieved through non-stop infrastructure upgrades, widening of the retail chain, and heavy use of innovations, including



612.7^{RUB.m}

invested in charity and social projects

those obtained from R&D partnerships with world leading vendors and ecosystem projects with startups designed to search for and implement new solutions and services.

2017 is the first full year of the company's brand-new business strategy dubbed 3D: Data. Digital. Dividends, drawing from the most promising recent hi-tech trends. MTS' most important D now is Digital.

Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies



Traditional telecom:

- mobile and fixed communications
- internet
- cable and satellite TV
- retail chain
- online store



Digital business:

- Internet of Things (IoT) and Machine-to-Machine (M2M)
- Big Data
- financial services
- mobile apps
- E-commerce
- cloud computing
- system integration

Accessibility of services

Easily accessible, reliable and safe communication is an important aspect of MTS' social agenda addressing an objective of vast social importance: good communications mean equal opportunities for people living in different locations. Flexible tariffs, the internet, information technology, satellite TV, and mobile apps serve to dampen social inequality.

Development of a state-of-the-art telecom infrastructure across Russia lays the groundwork for overcoming digital inequality and improving the standards of human life and the efficiency of various industries. In 2017 MTS carried on the construction of telecom networks, mostly 4G. As a result, wireless LTE networks were launched all across the operator's licence area in Russia. For example, in 2017 only the company built 8 times as many LTE base stations as it had before, bringing high-speed mobile internet to more than 60 communities in the Yaroslavl region, and improved 4G coverage in cities forming what's known as "The Golden Ring" of Russia: Yaroslavl, Rostov, Pereslavl Zalesky, Rybinsk, Uglich, Danilov, etc. MTS also doubled the number of LTE base stations in the Tomsk region, bringing the 4G technology to over 80,000 people in 20 communities. By launching a vast LTE network in the sunny Krasnodar region, the company made sure that some 4 million residents of its 350 big and small communities will get equal access to high-speed 4G internet in the next two years. Other achievements made in 2017 include broadened coverage of an LTE Advanced network in the Belgorod region; a brand-new LTE network in Belomorsk and Pryazha (two Karelian communities with an aggregate population of roughly 13,500) that, in addition to previously built networks, boosted 4G coverage in Karelia to over 70%; improved quality of signal in eight faraway communities of the Kamchatka Peninsula; broadened 3G coverage area in Karachaevo-Cherkessia, etc.

In a bid to modernise its infrastructure for the 5G technology and the internet of things, MTS signed a new agreement with Ericsson, a leading supplier of telecom equipment. By the end of 2020, MTS will buy a more than EUR 400m worth of equipment and software for the backbone radio access networks in the Volga, Northwestern, Siberian, Ural, and Southern Federal Districts.

As a technology leader, MTS takes a comprehensive approach to choosing an optimum solution to develop the concept of "Internet of Things", or infrastructure for "smart" and sustainable cities and companies. In 2016 MTS teamed up with Nokia to test the new NB-IoT technology, and in 2017 opened a first IoT laboratory offering pilot solutions for customers and partners to use around the house, in security systems, urban infrastructure, and in the area of housing and utilities.

MTS is Russia's only operator of satellite TV that steadily operates across the entire country, from Kaliningrad to Vladivostok. In 2017 the company put a lot of effort into developing its "agent sales channel" with agents directly visiting potential customers, which brought satellite TV to faraway and small communities.

Last but not least, the company is a national leader by the number of brand retail stores (5,700), which adds to the convenience of telephony & internet hookups and additional services, financial and otherwise.

Alexey Kornya,

President of MTS



"The recent years have brought huge changes: your bank now fits in your phone, along with online shopping, transport services, GPS, movies, learning, public services you name it. Digitisation is coming even to the major traditional industries like agriculture and healthcare.

Innovation spread all the way to everyday life feeds into a special novel style of thinking, which in its turn fuels social and economic development and works towards a sustainable future.

It's only natural for MTS as an infrastructure provider to take part in developing digital solutions. We aim to do our best to make each subscriber's life easier and the business of our corporate customers more efficient."

MTS to supply emergency communications to a major transport hub in the Far East

In the summer of 2017 MTS, the Khabarovsk Region government, and Pacific National University (PNU) signed a tripartite agreement to organise emergency communications along the rough Lidoga-Vanino highway with no access to electrical power supply and no feasible way of building such access. To bypass the problem, by 2020 MTS will install 8 mobile base stations running on solar batteries and wind turbines. The first three of the stations were commissioned in 2017, bringing signal coverage to 49 km of the highway, or some 30% of its entire length. By 2020, emergency communications will be made possible on up to 70% of the highway, the emergency phone number 112 to be accessible to all phone users, whatever their mobile operator.

The new emergency network will provide the maximum possible signal coverage of the highway that runs between 6 Far Eastern territories, which will make travelling safer and will allow travellers to call emergency services when needed and save the precious lives of drivers and passengers caught up in stormy weather or traffic accidents.

What makes the project so special is enthusiastic involvement of PNU's scientists and students. The young people take part in every phase of the project, from R&D all the way to commissioning. This valuable experience will surely make them desired candidates for future jobs. Other territories in the Far East are impressed by the project and wish to adopt some of the solutions found.



Innovation and contribution to digital economy

New digital economy in which data serves as a linchpin driver of social and economic growth, business competitiveness, and standards of living requires innovative products and non-stop search for new fields of application of digital services using telecom infrastructure. MTS is a passionate follower of the national programme Russia's Digital Economy approved in July of 2017, designed as a systematic approach to developing and implementing digital technology in all spheres of life.



≈ 50^K
country residents received access to state-of-the-art digital TV



New technology to put out forest fires

The rapid development of MTS' network means not only high quality of online and voice services, but also new opportunities in the areas of security and environmental protection.

Having previously subscribed to the 2017-2026 programme The Moscow Region's Ecology and Environment launched by the region's government, in 2017 MTS decided to go a step further and provided a whole of 85 sites to install

CCTV cameras on top of cell towers and transmit signal from the cameras by protected dedicated channels at speeds of up to 4 Mbit/sec. The project employs a total of 115 MTS base stations.

The solution serves to optimise the costs of ground and aerial surveillance. A regional service desk uses the real-time high-quality video image to monitor fire safety and promptly calls fire-fighters when necessary.

Fire monitoring systems using MTS' infrastructure are also deployed in Nizhny Novgorod, Belgorod, Bryansk, and Pskov.



MTS is one of the co-founders of Digital Economy, a non-profit set up to coordinate interactions between the business community, academic institutions, and public authorities. The company is heavily involved in ongoing improvements of the regulations and legislation in the sphere, including regulations of Big Data, artificial intelligence, block chain, and anti-cyber-crime efforts. More than 50 legislative acts are up for amendment in 2018-2019 in order to crush barriers to the development of digital economy.

Relying on its own experience of developing innovative digital products and services (including more than 25 apps as well as cloud computing and IoT solutions), the company offers digital solutions that address existing demands of society and the business community. E.g., MTS' new Telemetering solution for monitoring remote facilities, metering power consumption, and controlling remote industrial equipment is widely used at production enterprises, agricultural companies, retailers, and providers of housing and utilities to prevent emergencies, cut maintenance costs, and control the quality of services. Smart Insurance, a programme MTS designed for automobile users, runs on the principle Pay How You Drive and serves to improve driver behaviour and traffic safety.

Taking on board the latest trends of the FinTech market, the company presents MTS Money Wallet, the first-ever financial marketplace to be provided by a mobile operator in Russia, which brings together MTS' technical capabilities as a mobile operator and MTS Bank's financial services, enabling users to pay water/electricity bills, fines, and loans from their phone screens.



Big Data brought us a total of

1.6^{RUB m}

in 2017, a triple of what it earned in 2016

Alexey Kornya,

President of MTS



"Big Data brought us a total of RUB 1.6bn in 2017, a triple of what it earned in 2016. This technology for storing and processing data helps us choose locations and formats for new retail stores, and also provide cloud computing services to corporate clients. In the longer term, once we launch the platforms we're currently developing together with leading global vendors, each of our clients will be able to get an individual IT solutions addressing their specific needs."

Last but not least, Big Data analysis is not only something our customers can use to configure their brand-new products, but also a tool for improvement of long-existing business processes.

Vladimir Khrenkov

Director of MTS Innovation Centre



"Big Data is no longer the exclusive province of IT companies and large corporations. MTS' cloud services will make Big Data processing available for small and medium-sized businesses, increasing their competitiveness."

MTS has established a whole new innovation ecosystem to look for promising areas for business development and implementation of its technology. To this end, the company set up Telecom Idea, an open-access launching pad for startups that has been working for 7 years now, and MTS Innovation Centre, which was founded in 2016.

MTS' innovation ecosystem in 2017

TELECOM IDEA
an "accelerator" for projects. A programme for curating innovative IT and telecom projects designed by young contestants.

INNOVATION CENTRE
the company's arm that designs, develops, tests and launches breakthrough tech solutions.

660+
projects

60
cities

14
countries

#CloudMTC
(cloud computing)

Smart Education

e-Health

e-Sports

AI (artificial intelligence)

ACCELERATOR MTS

MTS & Moscow Polytech to train telemedicine professionals

Telemedicine is yet another industry that comes with great prospects in Russia. MTS has been developing digital healthcare services and working on a telemedicine platform in close cooperation with Medsi.

In a bid to train professionals in this new promising sphere, MTS teamed up with Moscow Polytechnical University to launch Russia's first master programme in the field dubbed Medical Intellectual Systems, a two-year course that premiered in 2017. The course will enable students to study the international experience gained in the sphere so far and join

the work on ongoing projects of MTS Innovation Centre in order to create their very own projects addressing specific demands of digital healthcare. The students will be trained in the fields of computer vision, database administration, programming, and biomedical technology and systems. The valuable knowledge will serve to form "second opinions", analyse medical images and patient data from mobile devices, and create other cutting-edge products that will revolutionise healthcare and add to the accuracy of medical decisions and comfort of patients' lives.

Andrey Filippovich

Dean of the Faculty of Information Technologies at Moscow Polytech



"When creating truly promising and disruptive technologies, one needs not only dependable and fundamental research to rely on, but also a clear vision of future products and of how to "package" ideas and bring them to the end user. I'm positive that the combined efforts of Moscow Polytech and MTS that have gone in the new master course will be an excellent platform for creating new technology and training IT professionals knowledgeable about the needs of the burgeoning digital economy".

Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

A Telecom Idea winner attracts investor attention

NFWare, a company that won Telecom Idea in the TechTech category in 2016, raised \$2m from a group of investors including Sistema VC (a venture capital arm of Sistema PJSC), Maxfield Capital, and Almaz Capital. The money will go towards broadening the company's footprint in Europe and building access to the US market.

NFWare specialises in the "network functions virtualisation" (NFV), a solution



designed to underpin the next generation of communication networks (5G and the "Internet of Things"). The company is working on software that will make it possible to transfer some network infrastructure functions from costly hardware to the virtual environment, meaning great savings for telecom companies, internet providers, and data centres along with higher traffic processing speeds. All of the major IT & telecom operators of today have NFV as an important point of their network development strategies.

What makes the solution top of everyone's agenda is that the number of network-connected devices grows exponentially, traffic structure is shifting towards multimedia content, and all business aspects become increasingly digitised (people, processes, things, data: internet of everything).

Working practices

Business digitisation obviously requires significant intellectual and human resources. To develop the new services, MTS is planning to hire some 1,500 new IT specialists before the end of 2018. The new talents will work on business solutions, including cloud computing and big data services. MTS always aims to create equal opportunities for unlocking the potential of each employee, stimulating their career growth, social well-being, and better workplace relationships.

An employer of more than 65,000 professionals, MTS has long started offering its staff the option of schedule-based distance work. A new step in this area is a pilot project the company launched in 2017 to organise remote work stations for MTS employees in a way that will optimise operating processes, conserve resources, and serve as a soft incentive for distance workers. Each MTS employee (unless he/she has access to subscribers' personal data) may opt to work from home several days per week if approved by his/her immediate superior.

An employee survey has shown that 70% of staff would prefer to work from home once or twice a week. It's up to employees and their immediate management to decide how many days a week they can actually spend away from their office desks, with careful consideration of scheduled meetings they are expected to attend. An average of 10-15% of MTS staff across Russia are users of the distance work privilege, which proves especially popular with IT specialists and product managers. The company's further plans envision a new office space format with no fixed individual workstations and a network of corporate coworkings in Moscow and other cities.

Social HR is an MTS project designed to hire young specialists with disabilities into comfortable working conditions. Another initiative in the same vein is the new project MTS: a Company for Every Age, which was launched in the second half of 2017 to hire and train senior citizens to work in retail offices, sell satellite TV and fixed telephony, and work at call centres.

Training and learning

MTS works hard to provide training and development opportunities for its employees as well as current and potential customers and enhance digital literacy of society.

Career growth at MTS is conditional on staff training that is both sound and up-to-date. The body that sets standards and coordinates measures in the field of training and professional development of the staff is the MTS Corporate University that employs over 300 business coaches across Russia and offers mandatory and optional courses as well as informative documents available for readers seeking professional and personal development. Specific goals and objectives that are relevant in each case define forms and methods of education, including distance learning through the corporate Virtual Academy, which in 2017 spanned over 70 video courses and 300 webinars and drew more than 470,000 visitors.

Over the 11 years since it was founded, the Corporate University has gained enough experience to provide quality services not just to Sistema Group companies, but also to third parties, such as major corporations and public universities. In 2017 MTS became a licenced provider of career broadening education and got the Corporate University registered as a standalone entity.



An average of **10-15%**

of MTS staff across Russia are users of the distance work privilege.

470^k

visitors learned through the corporate Virtual Academy in 2017

Digital literacy and education

The company has been engaged in efforts to enhance digital literacy of senior citizens since 2012, notably through its programme **All Ages are Online teaching** the elderly the basic practical skills of using desktops. A new step in the direction is the training course dubbed «**Мобильная академия МТС**», The Mobile Academy, which targets new users of smart phones and tablets and makes sure that people aged 50+ can easily adapt to the new pace of life by learning how to use devices to shop online, make doctor appointments, pay bills, and keep in touch with friends and family.

The 2016-2017 audience of the programme exceeded 2,000 students, with new "mobile classrooms" set up in 24 regions of Russia.

MTS especially prioritises teaching children basic digital skills and safe use of modern technology. The signature project **Children and the Internet** first launched in 2011 aims to inform children, their parents, and teachers of potential risks associated with online activities, means of protection from internet-related threats, and opportunities the net provides in terms of education, personal development, social interaction, and entertainment.

From inception to date, the project has reached out to more than 40,000 elementary school students in over 40 regions of Russia.

MTS is heavily involved with college communities by supporting a variety of hackathons, meetups, master classes and science conferences. The company is especially active with colleges that train future telecom professionals, where whole "MTS labs" are arranged to teach students new communications standards and advanced IT solutions. After building three new college labs in 2017, the company plans to move on to upscaling its R&D activities, supporting student projects with its expertise and resources, and making sure MTS Labs are integrated into college curricula across the country.

In the run-up to the World Cup, MTS launched A Virtual Walk around the city of Samara, a pilot interactive guide of the city's main cultural and historical sites.



The 2016-2017 audience of the programme exceeded

>2,000 students,

new "mobile classrooms" set up in

24 regions of Russia

From inception to date, the project has reached out to

>40,000

elementary school students in over

40 regions of Russia

Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

Corporate volunteer work

It's been over seven years that MTS launched its corporate volunteer movement **A Gift of Kindness** that now unites over 6,500 MTS employees with pro-active attitudes, a desire to help others, and a passion for making the world a better place.

In 2017 MTS volunteers organised more than 600 campaigns across Russia. They help underprivileged children in orphanages as well as veterans of the Great Patriotic War and labour veterans in the communications sphere and take part in special campaigns celebrating major anniversaries and holidays, such as Victory Day, Children's Day, New Year, etc.

Areas of focus of MTS' volunteer movement:

-  Education
-  Donorship
-  Sport
-  Ecology
-  ART
-  Pro-bono
-  Intellectual volunteering

Charity

In a bid to engage a broader audience in the consumption of digital services and improve brand trust, the company launched Generation M, a mass-scale charity project supported by Russia's Ministry of Culture. It uses social media (VKontakte, Instagram) as forums where children can learn from master classes and interactive workshops run by celebrities as well as join exciting

competitions. MTS converts all activities made on Generation M pages (competition bids, likes, and reposts) into cash at the rate of 1 action=1 rouble and donates the resultant amount of money to children that need urgent surgical care. By doing creative work, children not only unlock their own talents, but also save lives of other children.

MTS leads the telecom market by NPS

By giving teenagers across the country a creative floodgate promoted by country's top celebrities, MTS took the lead in NPS (net promoter score) among the Russian Big Three telecom operators^①.

The digitalised charity programme attracted a huge audience, with more than 30,000 creative works published on the campaign's website and over 500,000 people visiting more than 150 events in 2017 alone.

The project had an enormous social effect, with RUB 15.5m having been used so far to pay for 42 surgeries. More than just a fundraiser, Generation M is a creative trampoline for contestants that opens up a range of breathtaking opportunities from internships at Russia's major cartoon and movie studios to sharing the stage with pop idols to getting admitted to Moscow's arts colleges.

From the end of 2016 on, MTS has been focusing on a new style of charity work by direct relations with local communities. Looking deeply into the actual life needs of common people has proven to be a proper way of finding ready response and gratitude. High degree of involvement in activities initiated by MTS is indicative that people are willing to join a good cause if it really appeals to the urges of their soul. MTS employees have been purchasing groceries and stationery for children from underprivileged or large families and helping to install backyard playgrounds, build bicycle tracks, restore local parks, procure much-needed equipment for volunteer search parties, and organise outfits and trips to tournaments for young athletes.

In 2017 MTS conducted

290 local community projects in

33 regions of Russia

В 2017 году волонтеры МТС провели более

600 акций

в разных регионах России.

^① According to a survey done by Magram Market Research in 2017.

HIGH TECHNOLOGY

High tech and digitalisation are the basis of an efficient and sustainable economy of the future.

Sistema's high-tech assets, including RTI Group (which comprises a number of large research and production enterprises such as Research Institute of Molecular Electronics (NIIME) and Mikron plant in Zelenograd), Kronstadt Group, Sitronics and Sarov Technopark, make a significant contribution to the development of several innovative areas of the Russian economy.



≈ 17^k

researchers, engineers, designers and other highly qualified specialists



900^m

microchips produced by Mikron in 2017



> 40^m museums

in Russia and abroad equipped with interactive solutions by Kronstadt Group

The Group's companies conduct diverse research & development, production and educational activities, helping create advanced technological solutions for various industries.

Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

Public-private partnership aimed at establishing an innovative development



Sarov Technopark in the Nizhny Novgorod region is a centre for the development and implementation of innovative projects for the benefit of Russian economy. Sistema is a shareholder of **Sarov Technopark** along with **Rosatom**, Rusnano Fund for Infrastructure and Educational Programmes and the Russian National Research Institute of Experimental Physics (**VNIIEF**). The total investment of partners in the technology park amounted to RUB 2.2bn.

Since 2014, Sarov Technopark has been developing a venture capital segment for selection of innovative projects at the seed stage. More than 100 applications have been reviewed during this time. In addition, 16 science and technology projects in the field of biomedicine, instrument engineering, industrial technologies and energy efficiency worth over RUB 2.5bn are being implemented in the technology park under the programme of the research and production cluster of Sistema and Rosatom aimed at creating jobs and commercialising breakthrough technologies. The programme enables using public funds for capital expenditures provided that a resident company co-finances the same project.

The residents had a total turnover of

1.3^{RUB m}

paid in taxes –

170^{RUB m}

employed –

668^{people}

Energy efficiency

Energy efficiency is of great importance for improving competitiveness, financial stability and energy/environmental security of the Russian economy. The energy-efficient technologies is being developed by a number of **Sarov Technopark** residents. For instance, the **Half-Wave Transmission** project developed a device for the transmission of electricity over a single wire for powering terminal equipment in wide areas. The project will enable the transmission of electricity from power substations to remote cellular base stations, scattered consumers in the mountains, and separate buildings and structures. In 2017, a pilot line of the system was developed and implemented: the project is being tested on the territory of Sarov Technopark. Mass production is scheduled for 2018.

Health

Project companies of **Sarov Technopark** contribute to the improvement of healthcare and growth of average life expectancy through the development of innovative medical technologies. The **VNIIEF** and the **Centre for Gas Discharge Technologies** have developed a unique medical device for nitrogen therapy.

Inhalation of nitrogen oxide (NO) is used in medical practice for the treatment of pulmonary circulation disorders. NO is produced chemically at special stations and delivered to hospitals in cylinders. The device synthesises NO in a gas discharge from the air directly during therapy. It makes it possible to abandon cylinders and significantly increase the availability of NO therapy, including at autonomous transport complexes. The device has passed the final stages of clinical trials.

LLC Implant Engineering is developing a biocompatible polymer for the production of intraocular implants with characteristics similar to foreign equivalents and a lower price. In 2016-2017, a trial implant manufacturing technology was created, and control tests of the sample line were carried out. The product certification is underway, and production is scheduled for 2018.

Sarov Technopark is actively cooperating with other innovation and research centres, and conducts educational activities. In 2017, four new cooperation and partnership agreements were signed, and more than 90 events were held with over 3,000 participants, including park residents, school and college students, and the general public. For example, the 10th **Summer School of Parallel Programming** was held at Sarov Technopark in the summer of 2017. Its best students became members of the Lift to the Future engineering school of Sistema Charitable Foundation. The school is designed for students of grades 7-10 and is held for two weeks. The programming skills for children are taught by leading experts – software engineers of the VNIIEF. Participants learn about advanced technologies and programming via games of varying complexity, and also acquire the skills and competences required for most professions of the future: teamwork and systems thinking.

Sarov Technopark is home to

44^{resident companies,}

including

12^{startups}

RTI is a major Russian developer and manufacturer of high-tech products and infrastructure solutions using radars and microelectronics. The product portfolio of RTI includes solutions in the field of comprehensive communication and security systems, IT infrastructure, automation and optimisation of business processes, as well as large civil projects of national importance, while **Mikron**, the largest manufacturer and exporter of microelectronics in Russia and the CIS, is among the top five microelectronics companies in Europe.

Kronstadt Group develops unmanned aircraft systems and manufactures knowledge-intensive products and solutions for the production, deployment and safe use of sophisticated air-, sea- and land-based systems, as well as IT solutions for museums.

The main segments of **Sitronics** include comprehensive security systems, intelligent control systems and telecommunications solutions.

Technology innovations and synergies

The basis of the modern digital world is software, electronic devices and systems that can effectively solve day-to-day tasks with minimum human involvement. Therefore, the ability of both individual companies and the national economy to produce, create, reproduce and introduce such technologies is of particular importance. Their sustainability and global competitiveness depend on it. One of the main trends of the global electronics industry is the creation of universal platform solutions that can be used in various industries and economic sectors, including precision engineering using new materials. Sistema's high-tech assets develop in line with these trends.

Unmanned monitoring systems

Sistema Group companies are actively using synergies by applying innovations of one enterprise to increase the efficiency of another. A good example of that is the project for the use of unmanned monitoring systems in the electric power and the forest industries, which was launched in 2017.

Kronstadt Group is one of Russia's leading enterprises in the field of unmanned technology and robotics. With its significant intellectual and engineering potential, necessary technologies and competences, as well as in-house production resources, the company addresses the challenge of developing civilian use of unmanned aerial vehicles (UAVs) through the creation of a system for industrial monitoring in close cooperation with potential consumers.



In 2018, Kronstadt Group received a patent for a system with an unmanned device designed to detect and determine the coordinates of corona discharges that occur when there is a malfunction on high voltage power lines and lead to electric power losses.

New technology for production of UAVs from composite materials

Modern aviation industry uses composite materials such as on fibreglass and carbon fibre to reduce the weight of aircraft. However, the technologies used in the Russian aviation industry, developed for high-speed jets, cannot be used to create thin-walled ultralight structures required for low-speed long endurance UAVs.

To solve this important task, Kronstadt Group has developed a unique end-to-end technology for the production of all-composite unmanned aerial vehicles, including all processes from design to manufacturing, and implemented it in its design and production departments. Composite airframes are manufactured from carbon fibre with high physical and mechanical properties, which is made using vacuum infusion.

The technology provides for:

- Reduction of time required for design/ technological preparation and labour intensity of manufacturing parts, as well as high geometrical accuracy of airframe units;
- Obtaining a composite material with low porosity (under 3%);
- Reducing the likelihood of errors in design and manufacture;
- Design optimisation and weight reduction for UAVs;
- Increase in material utilisation to 90% and reduced cost of design and manufacture.

An additional economic effect is achieved through the manufacture of parts from a composite material without the use of expensive equipment (autoclaves).

Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

In 2017, **Kronstadt Group and BPGC** signed a cooperation agreement to create a facility-monitoring solution for electric power industry, including with the use of drones. Industrial UAVs will be manufactured specifically for the needs of power industry with the development of software for the automation of the collection of necessary information. The drones will be tested using the infrastructure of **BPGC**. The cooperation will result in a higher efficiency of infrastructure facility monitoring.

Another cooperation agreement in the field of integrated solutions using unmanned aerial vehicles was signed between **Kronstadt Group** and Segezha Group. The companies will create solutions for the forest industry that ensure accurate forest management, prompt and efficient internal planning, and performance of calculations of any complexity for timber companies. For these purposes, they will use the new complex data analysis and processing system developed by **Kronstadt Group**. The solution will be developed and tested on Segezha Group's forest plots.

Such solutions can be widely used not only in Russia but also abroad, and will help increase the stability of the power grid and the forestry industries.

Another promising area for the use of unmanned aerial vehicles may be the Arctic, where it is advisable to use robotic technology due to harsh climate. **Kronstadt Group** has made a proposal to create a consortium of the largest federal, regional and sectoral stakeholders to study this project. According to the company's experts, the use of unmanned aircraft will reduce the cost per flight hour by 30%.

The Internet of Things

High-tech companies of Sistema Group, along with MTS¹, are actively involved in the development of the **Internet of Things (IoT)**, one of the most promising use cases of which is connection and remote monitoring of "smart" devices, as well as creation of effective supply chain management solutions for logistics companies.

Companies of RTI Group have competences in manufacturing a wide range of electronic components: not only microprocessors, but also its own microelectronic systems, as well as integrated solutions using RFID tags, which can store all the necessary identification information about a product. Automatic identification systems reduce time for logistics sorting and conveyor belt operations. The industrial Internet will also make it possible to automate the process of timely decision-making, e.g., on equipment repairs. Solutions developed by the Corporation's companies are already widely used.



>300

employees of Mikron Group are engaged in research and development in collaboration with the Russian academic community

>15%

the company annually invests in R&D of its annual turnover

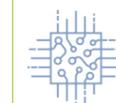
Chip modules for National Payment Card System

In the sectors that are critical for the country's security such as transport, communications and finance, it is especially important to use domestically produced chips which are guaranteed not to have undocumented features and provide high information security, both in hardware and software. Therefore, it is a priority for Mikron to develop solutions for the financial sector.

In 2017, NIIME completed the development of a microcircuit which was recognised as the best domestic product in

microelectronics in 2016-2017 and certified by the Ministry of Industry and Trade of Russia as 1st category domestic product. This status confirms that no foreign circuit engineering solutions were used for its design and development. The product is manufactured and assembled in Russia. In the reporting period, Mikron produced and supplied more than 2m chip modules for the bank cards of the national payment system Mir.

At the end of 2017, a new sealing line for chip modules was launched, which increased output 10x.



>2^m

chip modules for the bank cards was produced in 2017



¹ See the "Telecommunications" section of the chapter Sustainable development practices of portfolio companies.

The market for IoT and related RFID technologies is one of the priorities in Mikron's strategy, which participates in the pilot project of the Eurasian Economic Union to create a unified system of labelling with identification marks. In 2017, the company delivered the first lots of RFID tags to the customers. In the reporting period, **Mikron** also completed the modelling and calculation of the critical characteristics of a future chip for systems of wireless collection of data from utility meters as part of a joint project with the Russian Association of the Internet of Things. In 2017, prototypes of RFID bracelets for patients developed by the company were tested in one of the Moscow region's clinics. This system ensures the safety of a patient's stay in a hospital and significantly simplifies the procedure for patient identification and establishing the correspondence between the list of assigned tests and drug treatment. Every year, the company launches more than 20 high-tech products for the mass market and industrial electronics products, including transport cards, SIM cards, bank cards, social cards, ID cards and other smart cards.

Safe City

Ensuring public safety is among the national priorities; it is an important element of sustainable socioeconomic development and growth of investment appeal of Russia's regions and cities. At the end of 2014, Russia launched a programme to introduce the newest automated street surveillance, control and management systems designed for the needs of emergency services. The Safe City programme is planned to be implemented in all Russian municipalities by 2020, and a number of Sistema Group companies are actively involved in it.

Video surveillance plays a major role in the organisation of the public security system. However, the constantly growing number of video cameras makes it impossible for operators to effectively monitor the situation in real time.

RFID wood marking

Illegal logging is a serious threat not only to the economy but also to the environment. However, existing methods of dealing with this problem do not provide adequate results.

In 2017, **Mikron** proposed a solution in a pilot project in the Irkutsk region, where all shipments of legally logged wood had an RFID card containing information about the permit and the logging volume. Additionally, a mobile app was developed for inspectors to read all the necessary information using an NFC-enabled smartphone. It is impossible to submit wood for processing without such accompanying documents. Over the three months of the pilot project, the volume of illegal logging decreased by 53% year-on-year.



The positive results will make it possible to expand the wood marking project to neighbouring regions and increase the efficiency of business processes by automating logging, transport tracking and sorting. In addition, RFID tags can contain information about wood species, place and date of logging, technical parameters and purpose of wood, consumer, etc.

Similar solutions based on RFID can be applied in various industries, including retail, logistics and healthcare. Mikron's RFID lab established in 2010 has already developed more than 100 different products.

This results in a delayed reaction to events. Innovation Technology Centre Sistema Sarov, a resident of Sarov Technopark established a few years ago as a result of the restructuring of Sistema's high-tech assets, is developing audio and video analytics systems that add "hearing" to cameras' "vision". The audio surveillance system detects the signs of alarming events in the sound signal, determines the position of the sound source and gives a camera a command to position itself in the area of the alarming event.

Thus, security operators do not need to constantly monitor the situation and can respond only to alarm signals. The pilot project has already been successfully tested in the Kostroma and Voronezh regions. The company is now participating in the implementation of the "Smart City" segment within the framework of the "Digital Sarov" project aiming to make the life of citizens safer and more comfortable.

Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

RTI also develops its own solutions in the field of "safe city" and "safe region". The experimental automation system **Region 2020** was unveiled during the 12th international forum **InterSecurityForum 2017**. It is designed to optimise the work of specialists from the control bodies of regional and municipal subsystems of the Russian Unified System for Prevention and Response to Emergency Situations. The system can effectively analyse all the vital processes of a Russian region and promptly, in real time, help make management decisions.

In the spring of 2017, **Sitronics** signed a concession agreement for the development of a hardware and software complex Safe City in the Republic of Ingushetia. The project will be implemented in two stages: first, it is planned to create a technical project, roll out a traffic enforcement system with photo and video cameras and install all the necessary equipment in the capital of the Republic; during the second stage, the **Safe City systems** will be installed in other municipalities of the region.

Maxim Kuzyuk

CEO of RTI



"Governors can use this automated system to get a comprehensive and up-to-date understanding of the situation. Thus, they are able to objectively assess the events and coordinate the work of special services in the best way possible. Most importantly, this is an integrated security system, i.e. it can be enhanced with new technical solutions. For example, we can add subsystems that monitor and analyse the utilities sector, the state of law and order, or the efficiency of road traffic management."

RTI to support innovative startups in Moscow

In 2017, RTI and the **Moscow Agency of Innovations** have signed an agreement on cooperation in organisation of the city contest of innovative technologies **Mosgortech**. The contest was initiated by the Department of Science, Industrial Policy and Entrepreneurship of Moscow with the aim of forming innovative businesses in the field of urban technologies.

- Smart Transport (technologies for management of urban transport and transport infrastructure);
- Smart Security (technologies for improving the safety of the environment).

RTI will provide expert, mentoring and financial support to innovative projects that can be complementary to existing and prospective business areas of the company.

RTI has become a partner in the segment "Smart City Technologies", which includes the following areas:

- Smart Trade (technologies to increase the efficiency of trade processes);
- Smart Management (technologies for city, home and office management);
- Smart Information (technologies for data collection, analysis and application);



Training and education

Digital and multimedia technologies are used in all spheres, including culture and education; they not only change the educational process itself, increasing the interest of young people in knowledge, history and cultural heritage, but also become one of the key competences for a modern specialist.

Kronstadt Group's vast experience in the development of professional training systems and specialised aviation, maritime and military equipment allows it to create unique solutions for education and culture. The company successfully cooperates with centres for military and patriotic education, "parks of professions", cadet corps, vocational schools and major Russian and foreign museums. The company's solutions are used by museums in Spain, China, Finland, Sweden, South Korea and Japan.

Similar technologies are used in the educational process as well. In 2017, Kronstadt Group established a multimedia classroom in one of Rostov's schools supported by a Russian Helicopters enterprise. A unique simulator of oil field development created by Kronshtadt Group was put into operation at Gazprom Neft's corporate training centre set up at the Muravlenkovsky vocational school in the Yamalo-Nenets region in early 2017.

Mintz Radio Technology Institute (RTI Group) has supported the Popovich Engineering and Tech School in Moscow for more than a decade. The main goal of the project is early vocational guidance to help school students consciously choose a university and become competent specialists in radio engineering enterprises. With the support of RTI, three classes with in-depth study of physics, mathematics and computer science opened in 2017/2018 academic year. Thanks to the engagement of highly qualified teachers, the level of teaching is on a par with leading lyceums. Young and pro-active employees of RTI Group are also directly involved in the educational process.

New approach to STEM education

At the end of 2017, **Sistema_VC** and its partners invested USD 2.2m in **MEL Science**, an international company with Russian roots offering next-generation educational products based on VR/AR technologies.

The company's flagship product is **MEL Chemistry**, a subscription service for chemistry experiments kits for children aged 9-14; the kits contain all the necessary equipment, including the Molecular Viewer virtual reality headset inspired by **Google Cardboard**. The visualisation of chemical processes drastically changes the way kids study chemistry.

Every month **MEL Science** subscribers get two new kits for chemistry experiments. There are 38 such kits in total. Since the end of 2015, **MEL Chemistry** kits could be ordered in Russia, the UK and the US. Today the product is available in more than 35 countries. In 2017, **MEL Science** launched VR lessons and tests covering the school chemistry curriculum.

Vasily Filippov
Founder and CEO
of MEL Science



"VR does something incredible in education. In virtual reality, I can show the kid what cannot be seen in any other way. The kid will never be able to look inside a cell and get inside chemical reactions. Now we have a new language, and we have to use it because this is a real chance to make education easier and better."



2.2 USD m

**was invested in 2017
by Sistema_VC**

Military historical museum

In November 2017, a new exposition was opened at the military historical museum The Field of Prokhorovka in the Belgorod Region, located on the site of the legendary Battle of Kursk. The museum has a centre for military and patriotic education equipped with cutting-edge multimedia solutions provided by Kronshtadt Group. The centre's interactive class has three simulators of the T 90 tank, an auditorium with a panoramic screen and interactive programmes for participating in a virtual battle. There are also shooting simulators of the Kalashnikov machine gun and the Dragunov sniper rifle. Visitors can compete in accuracy or carry out complex missions as part of a team.

The simulator of armoured personnel carrier gives a chance to experience all the difficulties of driving this vehicle in various weather conditions.



Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

The Department of Physical and Quantum Electronics of the Moscow Institute of Physics and Technology (MIPT) for the past six years has had a specialised subdepartment of Micro- and Nanoelectronics established by NIIME. The purpose of the subdepartment is the training of highly qualified specialists, including PhDs, for staffing enterprises of Mikron Group and other organisations in the field of micro- and nanoelectronics. In September 2017, 36 students began Bachelor's and Master's studies at the subdepartment; another 13 students study in graduate school. Students of the subdepartment successfully combine the educational process at MIPT with research and practice at NIIME. The subdepartment's alumni participate in the company's R&D, including work under government contracts.



36 students,

began Bachelor's and Master's studies at the subdepartment in September 2017 and another 13 students study in graduate school

Renovation of the branch of the Central Naval Museum

In January 2017, the Road of Life museum in the Vsevolozhsk district of the St Petersburg region opened after renovation. During the large-scale renovation that took several years Kronstadt Group equipped the museum with its own advanced multimedia solutions.

This work included creation of a unique interactive programme about the days of the Siege of Leningrad, evacuation of its

residents and provision of aid to the city using the Road of Life. Historical events were reconstructed in detail using 3D graphics and supplemented with archival photos and videos. Important figures and facts as well as quiz questions are displayed on special monitors. The museum's centre for military and patriotic education is equipped with modern interactive simulators developed by Kronstadt Group.



FOREST INDUSTRY

Responsible forest management and manufacturing of environmentally friendly products made from renewable wood resources

Segezha Group is a vertically integrated forest holding comprising about 30 logging enterprises and Russian and European production facilities that manufacture unbleached sack paper, paper sacks, birch plywood, sawn timber and pre-fabricated glulam houses.



Nº2

Segezha Group's place in the WWF rating of environmental openness of the pulp and paper enterprises of the Russian forest industry in 2017



95%

of forest is FSC-certified



≈15^{ha}

of forests are annually restored by Segezha Group

Segezha Group (operating in more than 10 countries and 6 Russian regions) is a leader in these product categories in Russia, Europe and across the world. Being a responsible forest user and timber producer, the company takes care about preservation of the environment, creates comfortable living and working conditions in the regions of operations and makes goods that meet the highest quality and environmental standards.

Segezha Group's annual and sustainability reports are available on the website <https://segezha-group.com>

Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

Sustainable forest management

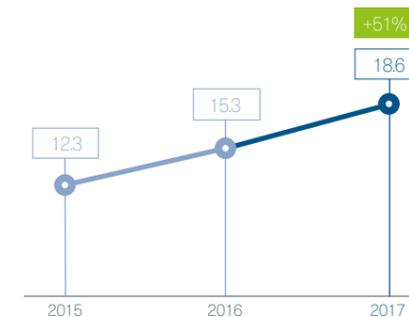
Segezha Group takes a responsible approach to forest management. The Group's total area of woodland in leasehold is 6.4m ha, with 95% of wood certified according to the FSC standard of responsible forest management.

In addition to preservation of biodiversity, compliance with the FSC standard means that the certified company:

- observes legislation in the area of forest management;
- observes employee rights and ensures good working conditions;
- observes the rights of indigenous people and interacts with local communities;
- rationaly manages forest resources, conducts monitoring and assessment.

The company keeps increasing its efforts in the area of reforestation, forest management and protection of forests from illegal logging and fires in the Arkhangelsk, Vologda, Kirov, Krasnoyarsk regions, and the Republic of Karelia, thus facilitating the preservation of woodland of high natural value.

Volume of reforestation works, ha



84%

fires decreased as a result of fire prevention efforts the area of forest in 2017

Mikhail Shamolin

President of Segezha Group



Our aim is to ensure that our enterprises comply with international standards and to promote sustainable forest management practices on the basis of international rules and regulations by implementing such practices across the entire supply chain.

The company uses high-quality planting material to restore target forest species, improve forest productivity and composition. In its logging activities Segezha Group follows the principles of sustainable forest use and complies with forest protection and management requirements by implementing intensive forest management practices. Due to the support and investments of the company the Republic of Karelia made it to the list of top five pilot regions of Russia where the model of intensive forest management is being tested. This model implies taking regular care of the growing forests in order to ensure maximum growth of forest stand and drastically improve the quality and commodity composition of forests. The norms of intensive forest management are developed by the St Petersburg Forestry Research Institute.

Investments in reforestation, forest management and fire prevention, RUB m



>30

charity projects in 5 regions was implemented by Segezha Group of the company's presence in 2017

Regional development

Segezha Group has established an open and constructive dialogue with all the regions where it operates. As a strategic investor the company is interested in the long-term and sustainable development of Russia's regions and, in addition to economic and environmental aspects, it also takes into account relevant social issues. Segezha Group signed cooperation agreements with local governments in all the regions where the company is present. In order to facilitate the development of 7 company towns Segezha Group entered into a cooperation agreement with the Fund for Development of Company Towns. The parties agreed on development of partner relations aimed at diversifying the towns' economies, creating new jobs, improving the quality of urban environment and raising additional investment.

The key mechanisms for improving the quality of life in the regions include: creating jobs for local communities, paying taxes, implementing investment projects and umbrella social programmes (independently or jointly with Sistema Charitable Foundation), providing utility services to the local people (heating), building roads and developing public infrastructure.



Promotion of amateur and professional sports

Segezha Group aims to implement advanced production technologies and best charity practices in the regions where it operates in order to ensure the company's positive impact on the social and psychological well-being of local people. One of Segezha Group's priority objectives is to create a comfortable urban environment for local residents, facilitate the promotion of sports and a healthy lifestyle among company employees and their families. The company promotes hockey, yachting, swimming and boxing by organising sporting events for people of all ages and providing support to sport schools and facilities.

In 2017, Segezha Group hosted corporate games in Kirov. The games were organised in the following sports: futsal, volleyball, streetball, tug-of-war, track and field athletics. The event attracted more than 200 participants from 6 regions of Russia: Karelia, Arkhangelsk, Vologda, Kirov, Krasnoyarsk and Moscow.

In March 2017, Segezha Group supported the children's ice hockey tournament Fathers and Sons that was held for the second time in Kondopoga (the Republic of Karelia), and in October 2017, it organised a hockey tournament dedicated to the Forest Professionals Day. In December, the company supported an open boxing tournament in the town of Segezha. Segezha Group purchased training equipment and a full set of protective gear for Segezha's Ring

school of boxing. In December, Segezha Group completed the comprehensive renovation of the Sports Palace in Segezha, having invested about RUB 9m and making it the most expensive and large-scale overhaul of the facility over its entire 36-year history. This was an important contribution to the quality of recreation and fitness activities organised for the employees of the Segezha Pulp and Paper Mill and other residents of the town.



Occupational health and safety

Due to the particular nature of Segezha Group's business, which includes many technological processes, the company is paying special attention to the health and safety of its employees. The occupational health and safety policy adopted by Segezha Group fully complies with Russian laws and meets the requirements of the Convention on basic occupational health and safety norms, as well as the guidelines of the International Labour Organisation. Segezha Group is also guided by the agreement on Russia's forest industry for 2015-2017.

The occupational health and safety management system includes the following: security risk management, training and development of personnel, emergency action plans and mitigation measures, emergency alert systems, ranking of subdivisions. The company conducts regular analysis of the efficiency of the existing management system.

International standards for occupational health and safety management systems

Segezha Group is developing and improving its occupational health and safety management system in accordance with the requirements of the international standard OHSAS 18000. In 2017, all the paper and packaging production facilities of Segezha Group obtained certificates of compliance with the standard. In 2018, certification will be conducted for production of sawn timber, plywood and wood boards, laminated wood structures and prefabricated glulam houses.

Segezha Group's enterprises have occupational health and safety committees comprised of representatives of the employer, trade unions and employees. There are also employees who received special training in the area of occupational health and safety and who are in charge of promotion of safety standards at production facilities. The measures implemented by the company in 2017 made it possible to drastically decrease the number of occupational injuries and completely rule out fatal accidents.



In 2017, the number of accidents at Segezha Group fell by 11%, while the number of severe injuries dropped by

47%

A unique occupational safety classroom

Lesosibirsk Woodworking Plant No.1, the largest woodworking plant of the Krasnoyarsk region, opened a unique classroom to provide occupational health and safety training for the employees. The classroom is equipped with training simulators designed on the basis of the plant's own drawings in order to show and analyse standard emergency situations. The room includes a big training area with devices and simulators designed to illustrate the potential consequences of violations of safety rules. 5 types of training simulators help employees learn the algorithm of correct conduct at the production site and avoid the most typical injuries.

They also demonstrate the effectiveness of special protective footwear and clothing, the importance of protective fencing, teach personnel to avoid breaches of safety rules resulting in various injuries (having their fingers caught between lifting straps and a cargo, spinal cord injuries after a fall from height, etc.).



Building a succession pool

The shortage of qualified personnel holding college and university degrees in forest management in Russia makes it necessary for Segezha Group to increase the popularity of forest-related jobs and prepare good professionals for the future. High manufacturing standards, new technologies and equipment installed at the holding's production facilities require cooperation with educational institutions in order to develop joint training programmes for students.



Segezha Group entered into partnerships with

15

universities and colleges across Russia

In each region of its operations Segezha Group cooperates with colleges and university departments providing training in the relevant fields.

Examples of joint training initiatives:

Segezha Group opened a specialised department in the Sokol Forestry Technical School in order to build a succession pool for the enterprises of Segezha Group, an unprecedented event and an important milestone in Russia's forest industry. The decision to establish this department was set out in the cooperation agreement for personnel training until 2020, which was signed by the company and the governor of the Vologda region in 2017.

Under an Agreement signed between Severny College, the Education Ministry of the Republic of Karelia and Segezha PPM over 100 specialists completed a two-year course enabling them to work in the pulp and paper industry.

Professional skills competitions

Segezha Group facilitates the professional development of its workers. Every year the company holds "Best Worker" competitions for forest logging and haulage crews. Based on the year-end logging results the company determines the best drivers of logging and other vehicles among the employees of the Forest Resources Division in the Republic of Karelia, the Arkhangelsk and Vologda regions.

The best logging crews represent Segezha Group at the national championship Lumberman of the 21st Century, where the company is an official partner. More than 40 teams from the largest forest companies from 10 Russia's regions took part in the event in 2017.

Responsible supplies and consumption

Segezha Group's responsible supply chain includes two key components: cooperation with suppliers and contractors on the one hand and product quality assurance for the purpose of sustainable development on the other hand. The company acts as a driver of the green market in Russia by promoting the use of biodegradable paper packaging among its customers, including big retail chains and mass consumers, and the principles of responsible business among its suppliers by assessing their compliance with a set of requirements.

Segezha Group does not only make products from own certified raw material, which accounts for 60% of the total production, but also keeps track of the sources of the purchased wood, checks the reliability of suppliers and contractors, their potential involvement in corruption and compliance with occupational safety rules. Segezha Group has implemented a due diligence system which includes a set of measures and procedures aimed at minimising the risk of getting raw materials from unacceptable sources and developed in accordance with requirements to the sources of FSC-controlled timber^①. Unacceptable sources of material include illegally harvested wood, wood harvested in violation of traditional and human rights, wood harvested in forests in which high conservation values are threatened by management activities, wood from forests in which genetically modified trees are planted, etc.

Segezha Group is supporting the trend of responsible consumption in Russia and across the world. The value-added products made by the company from renewable sources of material make it possible to replace other goods, which are less environmentally friendly.

Advanced standards of production and high quality of the Group's products have been certified by the leading international certifying organisations. In just one year the number of Segezha Group's enterprises certified under ISO 9001 increased by more than 50%.

Innovative packaging solutions for the manufacturing sector

In 2017, Segezha Group launched the production of smart sacks with RFID tags that carry information about the product at its plant in Germany. This new type of packaging was developed jointly with one of the company's major customers, a leading producer of seeds. A built-in chip will help identify a product, protect it from counterfeiting, simplify logistics and keep track of the product's location at all stages of delivery.

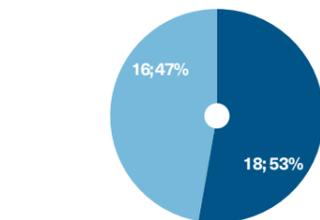


The company is consistently working toward increasing the level of customer satisfaction.

Segezha Group's enterprises certified to ISO 9001



Certificates held by Segezha Group's enterprises (No and %)



● Российские
● Зарубежные



>30

of various certificates were held by Russian and foreign enterprises of Segezha Group as of the end of 2017



+10%

NPS (customer satisfaction index) in 2017^②

Initiative for replacement of plastic packaging in Russia

The problem of plastic waste has reached a global scale. The main characteristics of plastic (resistance to chemical agents, durability) resulted in making plastic waste a major pollutant of the environment. Plastic can take up to 400 years to biodegrade. As plastic decomposes, it releases hazardous chemicals (styrene, formaldehyde, dioxin, bisphenol A) that contaminate soil and ground water.

Today, plastic bags account for 9% of the entire volume of waste on the planet. Every year Russia's retail chains distribute 65 billion plastic bags. Moscow residents use 4 billion plastic bags a year and in 100 years' time the accumulated plastic waste will be enough to cover the entire area of the capital 56 times.

Plastic bags have environmentally friendly alternatives which are made from renewable wood material and are easy to collect and recycle. Such bags biodegrade in several weeks without damaging peoples' health and polluting the environment. They can also be used as a fertiliser to improve the quality of soil. The use of paper bags has a lower impact on the climate: the carbon footprint from their production is much less compared to that of plastic bags.

A ban or restrictions on the use of plastic packaging are currently in place in more than 75 countries which account for about 80% of the entire world population.

Therefore, in 2017 Segezha Group launched a public campaign in Russia to create conditions for decreasing the consumption of single-use plastic bags and replacing them with biodegradable paper consumer packaging. In cooperation with government authorities, leading experts in the area of environmental protection and preservation of forests, members of non-profit and research organisations the company is raising public awareness of the problems related to excessive amounts of accumulated plastic waste and the need to restrict consumption of single-use plastic bags. As a result of this initiative a set of potential measures has been developed that will make it possible to regulate the use of plastic packaging (a ban on free distribution of plastic bags, an increase in environmental taxes, introduction of excise duties, a ban on import and sales of plastic bin bags, etc).

The proposed legislative initiatives will stimulate the manufacturing of value-added timber and pulp and paper products and help achieve the goals of the Russian Forest Sector Development Strategy until 2030.

In order to raise public awareness of the problem of plastic waste Segezha Group took part in the annual environmental festival Ecofest and the Russian Ecology Week held in the centre of Moscow. In partnership with the Russian Office of the Forest Stewardship Council (FSC) Segezha held a conference titled "Ecology and Shaping the Responsible Consumption Culture in Russia". The event was dedicated to the Russian Year of Ecology and brought together representatives of major businesses and the state, environmentalists and journalists, offering a new format for discussing relevant topics with customers.



① Standard FSC-STD-40-005. τ
② Annual report of positive emotions. 365 days of growth.

HEALTHCARE AND PHARMACEUTICALS

The introduction of new medical technologies and the development of next generation drugs contribute to ensuring the health of the nation and the country's drug safety, and to increasing the level of medical care



>2,100

high-tech surgeries in Medsi clinics



525 RUB m

Binnopharm's investments in R&D



1,2 RUB bn

revenue from high-tech medical services, a more than 5.2x growth in 2017

Sistema's assets in the healthcare sector – represented by Russia's leading private chain of medical facilities providing a full range of preventive, diagnostic, treatment and rehabilitation services for children and adults, as well as one of the largest Russian full-cycle

biopharmaceutical companies with an in-house R&D centre – introduce the latest achievements of modern medical science and pharmaceutical industry into real clinical practice. Medsi and Binnopharm provide the nation with high-quality medical care and effective drugs, developing the competence of doctors and promoting a responsible attitude to health.

The main social objectives of Sistema Group companies in the Healthcare and Pharmaceuticals sector:

Higher quality and availability of services based on the principles of P4 medicine;

Development, clinical trials and launch of new effective drugs;

Professional development of medical staff and introduction of advanced treatment methods;

Implementation of projects promoting healthy lifestyles and development of inclusive environment.

Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

Medsi Group

19^{clinical}

in Moscow and the Moscow region plus 12 clinics in other regions

3 clinical and diagnostic centres (CDCs)

2 specialised children's clinics and 10 pediatric departments

2 hospitals

2 sanatoriums and a medical wellness centre

70 infirmaries in companies

>40 centres of excellence

Ambulance service

Family Care Department

in Moscow and the region and 12 more clinics in 7 other Russian regions with a total of more than 2,000 doctors and almost 8m visits per year. The number of services provided in the reporting period increased by 7.6% to 12.4m services.

Since 2016, Medsi has been integrated into the system of obligatory health insurance in the areas of specialised and high-tech care. Unique surgeries are carried out in Medsi's inpatient facilities, including with the Da Vinci robotic surgical system (there are only 28 such systems in Russia).

All clinics have adopted uniform standards of care, which comply with the latest international treatment protocols. Medsi uses the most advanced diagnosis and treatment methods, equipment and medications.

The biotechnology company Binnopharm, which produces pulmonology, neurology, antiviral and immunomodulating drugs, has developed and produces a vaccine for children and adults that prevents hepatitis B virus serotype ayw, which is specific to Russia. A unique technology makes it possible to manufacture a vaccine without preservatives containing mercury and to ensure quality in line with international standards. Binnopharm has been covering the bulk of the state's demand for hepatitis B vaccine since 2009, making a significant contribution to the treatment of socially sensitive diseases in both children and adults. The company not only provides its products for the hospital segment, which in 2017 accounted for a quarter of its revenues (including 13% of revenues from hepatitis B vaccine), but also contributes to the introduction of new foreign drugs to the Russian market, both through development and production of generic drugs and through partner channels for commercial distribution.

High-quality and affordable medical services and drugs

Medsi Group, which accounted for about 10% of the total revenues of Russia's 100 largest privately owned multidisciplinary clinics in 2017^①, has been contributing to the development of the national healthcare system for more than 20 years. The modern medical infrastructure created by the Corporation includes 22 clinics of different formats (including family and office clinics)

Elena Brusilova

President of Medsi Group



"We see Medsi as a chain of multidisciplinary medical facilities combining three main components: healthcare, training and research. We focus on innovative diagnostics at the outpatient stage and creation of centres of excellence implementing hospital substitution technologies. We also continue to develop the segment of high-tech inpatient medical care and in this segment we actively cooperate with the state, as we were included in the programme of state guarantees of free medical care. Furthermore, Medsi Medical Academy will open up great opportunities for obtaining the most up-to-date post-graduate medical education in a wide range of specialities."

The number of high-tech surgeries in inpatient facilities



>14^k

patients received high-quality care in Medsi's inpatient facilities under the obligatory medical insurance (OMI) programme in 2017.

① According to the annual ranking of top 100 private multidisciplinary clinics of Russia compiled by Vademedecum.

Cancer prevention and treatment programme

According to expert estimates, Russia is ranked 5th in the world by the number of cancer deaths^①. According to official statistics, more than 294,000 people died from malignant tumours in Russia in 2017, and 39% of new malignant tumours were detected at late stages (III and IV)^②. One of the important factors for reducing cancer mortality is the identification of risk factors and tumours at early stages.

In April 2017, Medsi established the Oncology Cluster on the basis of its hospitals in Botkinsky Proyezd and Pyatnitskoye Shosse. It consists of 6 polyclinics used for the programme of early detection of malignant tumours (cancer screening). Medsi's clinics offer diagnostics and treatment such as chemotherapy, cancer surgeries and rehabilitation, including free services as part of the obligatory health insurance system.

Mikhail Davydov

Chief Oncologist of Medsi, Doctor of Medicine



"The establishment of the Oncology Cluster makes a significant contribution to the implementation of the National Cancer Control Strategy, and allows Medsi to strengthen the oncology segment and expand opportunities for providing a full range of medical services in this area. The effectiveness of treatment and subsequent rehabilitation is ensured by early diagnosis and targeted screening to identify pathologies at early stages, experience of leading oncologists, and the use of the most modern technologies and brand-name drugs."

Training of medical representatives and exchange of experience in Binnopharm

On 17 March, Binnopharm's first production conference took place in Moscow, which was attended by more than 60 employees of the production unit. The company's executives told the audience about plans and prospects regarding production and improvement of product quality, and about expectations from research and development.

In mid-May 2017, a training course was held for medical representatives and regional managers from all parts of Russia who joined Binnopharm in the reporting year. The participants of the course analysed marketing campaigns and learned to use the CRM system and to work with clients. Following the training, each medical representative passed a test. Thus, new employees quickly gained the necessary knowledge for successful work and development in the company.

Development programme of Medsi Medical Academy

The development programme of Medsi Medical Academy for 2018-2020 approved in 2017 is aimed at creating a set of organisational, legal, economic and social conditions that ensure the development of an innovative educational environment and the highly professional training of medical personnel.

The programme provides for:

Meeting the demand of the labour market in Moscow;

- Improving the conditions for the educational process;
- Developing the teaching staff;
- Creating conditions for continuing medical education;
- Developing cooperation with medical institutions of Moscow's Department of Health;
- Developing infrastructure.



Medsi Medical Academy organised 12 academic conferences and 2 training programmes for Medsi's doctors ("Nursing in Surgery" and "Latest Development in Vaccination") in 2017. In 2017, doctors from 47 third-party medical institutions also trained at the Academy, including doctors from the following cities: Zhukovsky, Kazan, Krasnogorsk, Naro-Fominsk, Perm, Pskov, Rostov-on-Don and Samara. A webinar on lipidology was also held with the participation of specialists from Karelia, Kemerovo, Krasnoyarsk, Nizhny Novgorod, Perm, Podolsk, Samara and Saratov.

Medsi's Academic Council has been working for eight years now, uniting the elite of Russian medicine – leading scientists, including 46 academicians and professors from six countries, including Germany, Switzerland, France, Greece and the US. The Council had 6 meetings in 2017, discussing pressing issues in various areas of medicine. Twelve training schools were organised for doctors in such areas as lipidology, rheumatology, diabetes, dermatology, medical ultrasound, neurology and gastroenterology, which highlighted the latest developments in medicine and the results of recent clinical trials. Medsi's professors and doctors were trained in new technologies in European countries, and also participated in foreign professional events, including in Austria, Spain, Kazakhstan, Kyrgyzstan, the US, Czech Republic and Switzerland. The results of the research, in which the company's specialists take part, are regularly published, including in the scientific journal for medical practitioners Medsi's Bulletin.

Development of medical staff and education

In 2017, Medsi launched its Medical Academy^③ whose purpose is to prepare highly qualified doctors familiar with the latest professional techniques. The Academy implements programmes of additional medical education to improve the qualification and competences of both Medsi's staff and specialists from other medical institutions.

Key activities of Medsi Medical Academy:

- Continuing professional development and retraining of medical staff;
- Research and expert activities (including commissioned by third parties);
- Medical advisory activities;
- Publishing (research monographs, textbooks and other types of professional literature);
- Organisation of internships and advanced training in leading Russian and foreign educational institutions;
- Organisation conferences, symposiums, congresses, seminars and other events for doctors.

To achieve these goals, the Academy started creating training programmes and forming teaching staff and the structure, which includes 6 departments:

- General practice;
- Nursing;
- Gynecology;
- Gastroenterology;
- Dentistry;
- Oncology^④

Medsi and Philips opened a joint training centre for doctors

In May 2017, Medsi and Philips, the global leader in healthcare solutions, created a unique training centre for medical specialists at Medsi's CDC Krasnaya Presnya. It is expected that up to 1,000 people will be trained there annually by 2019. The training programmes are

focused on radiology (MRI and CT) and such areas as medical ultrasound, vascular and interventional radiology, and IT in healthcare. Cardiology and oncology, as well as neurosurgery and obstetrics/gynecology will be priority areas for training.



≈ 1 ^{тыс.} people will be trained there annually by 2019



Medsi Medical Academy organised 12 academic conferences and 2 training programmes for Medsi's doctors

① According to GLOBOCAN 2018, a study by the International Agency for Research on Cancer (IARC).
 ② According to the Russian Statistic Service and the Ministry of Healthcare.
 ③ Licence to conduct educational activities No 038206 of 03.02.2017 issued by the Department of Education of the City of Moscow.
 ④ Opened in 2018.

Effective and safe drugs

To strengthen the area of research and development, Binnopharm improves cooperation with universities. In 2017, 22 students of the Faculty of Chemistry of the Lomonosov Moscow State University had introductory training in Binnopharm, four of whom were later offered internships at the company's production site in Zelenograd: QA department, biotech lab and R&D centre.

The company is developing fully original fixed combinations and biosimilar drugs of different treatment groups. In 2017, Binnopharm's R&D Department developed and registered 3 generic drugs and 5 original fixed combinations, including:

Binnoferon – next-generation interferon-based immunomodulator;

Leflox Alium – a drug for the treatment of infections of varying severity caused by bacteria sensitive to levofloxacin;

Ciflox Alium – an antibacterial agent for systemic use;

Linezolid – a drug used for the treatment of infections caused by gram-positive bacteria;

Inspirax – an aerosol for the prevention and symptomatic treatment of obstructive lung diseases.

In December 2017, the company's portfolio added an important broad-spectrum antibiotic, Moxifloxacin, which has been used in clinical practice since the early 2000s and has established itself as a highly effective treatment for infectious and inflammatory diseases such as community-acquired pneumonia, complicated skin and soft tissue infections, etc. The company also received a registration

Innovative partnership to develop a new vaccine



In May 2017, JSC National Immunobiological Company (Nacimbio) and Binnopharm signed a cooperation agreement to start joint development and production of drugs. As part of the partnership, the companies are planning to start production of a new multi-component vaccine using the anti-hepatitis component developed by Binnopharm.

certificate for Neurocholine (citicoline), the only neuroprotective drug approved in Europe and the United States for treating patients following a stroke. This drug helps patients quickly restore speech and motor functions. Its addition to the neurological portfolio significantly increases the value of Binnopharm as an expert in the treatment of neurological diseases. About 15 more drugs are under development.

Moscow has about 30 innovation hubs with various specialisations called technoparks. Binnopharm's production site in Zelenograd with its own research and development department received the status of an industrial complex, thus becoming the 31st technopark. This status will allow it to get lower income tax rates, reduced land lease rates and other benefits. Binnopharm will reinvest the money saved due to the new status to upgrade its production facilities and improve the quality of drugs.

Alexey Chupin

CEO of Binnopharm



"Our company has been working with Nacimbio for several years now as part of the model of industrial cooperation for the implementation of the National Vaccination Schedule. Binnopharm has extensive competences and a decade's worth of experience in biotechnology research, which we will gladly use in the course of this cooperation. I am confident that this partnership will ensure the highest level of safety and effectiveness of jointly developed vaccines."



An integral part of the process of developing new drugs are clinical trials that examine the efficacy and safety of drugs.

In 2017, the first clinical trials of medicines and medical products started at Medsi's hospital in Botkinsky Proezd, which received the relevant accreditation from the Ministry of Health of the Russian Federation. Medsi plans to have clinical trials in other medical institutions within its chain in the future. The company aims to integrate into the international system in order to become a platform for testing innovative diagnostic and medicinal strategies.

Social projects

Medsi and Binnopharm are striving to create an effective social partnership with local communities and specialised non-profit organisations that provide medical care to people in need, including children with serious illnesses, their families and the elderly. For a number of years, Medsi has been working on an ongoing basis with such well-known charitable foundations as Galchonok, Downside Up and Arithmetic of Goodness, and has been supporting the contest for subsidies among non-profits organised by the PR Committee of the Moscow City Government. An important part of the company's social projects is promotion of healthy lifestyles and social inclusion.

The participants of the corporate volunteer movement **From Heart to Heart**, which includes more than 300 employees of Medsi, took part in 200 social initiatives in 2017, including within the framework of the second year of cooperation with the charitable foundation **Ageing Gracefully**. In 2017, Medsi's employees collected and transferred essential items for assisted living facilities and took part in volunteer trips to nursing homes in the Ryazan and Tula regions, where doctors conducted free off-site consultations for more than 200 people.



>300 employees

employees of Medsi, took part in 200 social initiatives in 2017

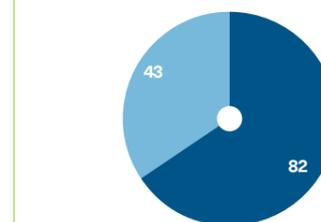
Be Healthy With Medsi, a comprehensive programme promoting healthy lifestyles



Be Healthy with Medsi is the company's key CSR project that it has been implementing for more than three years.

The main goals of the project are promoting healthy lifestyles, training in disease prevention and health improvement, and raising public awareness of the main risks and ways to preserve one's health. The programme of the project includes a series of public lectures, workshops, master classes, consultations and newsletters, as well as preventive and diagnostic activities in pressing medical areas, including free "Health Schools" which form a system of knowledge and a culture of responsible attitude to one's health. About 50 volunteers from the company's staff participate in the project on a regular basis.

Number of events promoting healthy lifestyles in 2017



- Lectures and consultations
- Sporting events



A total of

125 events

was organised in 2017:

lectures, consultations and other events in the offices of partner companies or during city holidays –

82 events

large-scale sporting events, including with the participation of non-profit organisations, charity events, festivals and fairs with the participation of Medsi's doctors and ambulance teams –

43 events.

Support for the Women's Health programme

Breast cancer is the most common type of malignant tumours in women. One in seven women may be diagnosed with breast cancer in her lifetime. However, early detection of breast cancer leads to complete recovery in 94% of cases. That is why Medsi is a regular organiser and participant of social initiatives aimed at fighting breast cancer.

As part of cooperation with Volnoe Delo Foundation's charitable programme Women's Health, which began in 2016, Medsi provides its competences and resources to help women diagnosed with breast cancer. For the second consecutive year, over 200 participants in the programme and their relatives identified as most-at-risk, were offered free mammograms as part of #GivingTuesday.

Medsi medical centres organise charity exhibitions and fairs where people can see the works of the participants of the Women's Health programme who have undergone art therapy as part of rehabilitation. Professional coaches and instructors at the Olympic Star fitness centre develop individual training

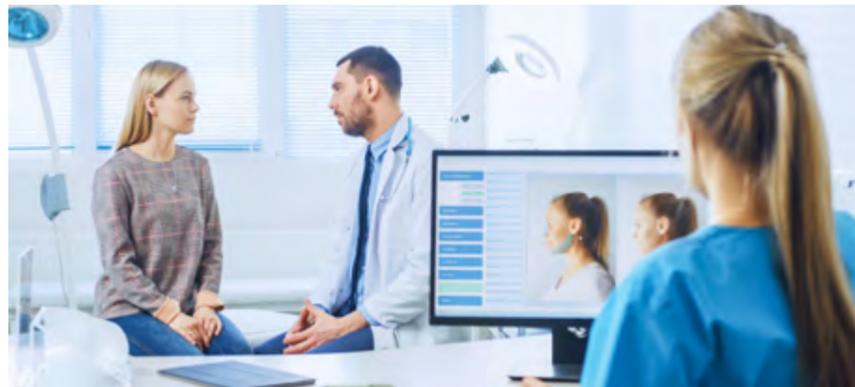
programmes for women taking into account their health, and Otradnoye Sanatorium organises training and lectures for doctors and coordinators who work with the participants in the Women's Health programme.

Medsi, together with Philips, supports the national social initiative dubbed #япрошла ("I've taken [mammography]") as part of the Breast Cancer Awareness Month. As part of the social partnership with the footwear retailer Econika, Medsi's leading mammologists held free consultations for the female visitors of the chain's outlets in central Moscow.



>500 people –

participants of Medsi's joint initiatives with the Women's Health programme.



Support for foster families

Russian laws require health screening of orphans and children in foster families at least twice a year.

In the framework of the partnership with the Centre for Social Projects Development, Medsi launched a programme to support foster families in the summer of 2017, offering them

health screening at Medsi's children's clinics on special terms, including all necessary check-ups, clinical analyses, ECG, etc, as well as doctor's visits.

The company also introduced social discounts for all medical services in primary care clinics and CDCs to all members of families with foster children, and also supported the Moscow city

award Stork's Wings. It is awarded annually to citizens and organisations that have made a contribution to the development of foster families in Moscow. Three families received certificates for family healthcare programmes at Medsi clinics.

CONSUMER SECTOR

Efficient management

Sustainable development practices of portfolio companies

Quality and safe goods for children and adults at affordable prices



6 countries

retail chains operating



>400 RUB m

of charitable donations



Sistema's assets in the consumer sector include Detsky Mir, Concept Group and the online hypermarket OZON. These companies have a large chain of retail outlets selling children's goods and clothes both in Moscow and across Russia. Their well-developed delivery and pick-up services ensure immediate availability of socially important goods to the Russian households.

Retail chains follow the principles of fair pricing and uniform product range in all stores of the same format irrespective of their location.

Accessibility of goods and customer orientation

Sistema's companies operating in the consumer sector are actively investing in expansion of retail chains and logistical infrastructure to meet mass consumer demand. The geographical footprint of the companies keeps growing. By the end of 2017, Detsky Mir stores were present in 219 cities, while Concept Group operated in more than 120 cities of Russia and in 5 other countries (Belarus, Kazakhstan, Armenia, Azerbaijan and India).



>1,000 stores

in the consumer sector



For more information on sustainable development see the [Annual Report of PJSC Detsky Mir for 2017](#).

Improvement of customer support mechanisms

In order to integrate all channels of customer support and scale up customer service Detsky Mir adopted a "one-stop shop" approach in 2017.

The company established a Customer Support Centre and introduced a uniform system for handling orders (Usedesk). In this way Detsky Mir consolidated all customer feedback channels and implemented segment data processing.

All customer queries are split into categories: one group of call centre operators handles calls related to the work of retail outlets, another one deals with deliveries, while the third group is responsible for sales and promo codes, etc. This solution gives the company flexibility during the high season, when the number of calls per month is drastically increased, and makes it possible to quickly recruit additional staff to promptly respond to customer requests.

Moreover, the Usedesk system allows monitoring the average handle time and oversees the productivity of staff working at the Customer Support Centre.

These new solutions produced the first results in 2017: each customer call is successfully handled and the average handle time for queries received through all channels amounts to 5 hours, while in social media this indicator varies from 15 to 30 minutes.

| | |
|-----------------------------------|-------------------------------------|
| Feedback form detmir.ru | Hotline 8 (800) 250-00-00 |
| Social media (VK, FB) | Mail shop.detmir.ru |



| | |
|-------------------------------------|-----------------------------------|
| Messengers (planned) | Messages from retail stores |
| External feedback Youscan | Messages from transport companies |

Detsky Mir is expanding its product delivery capabilities

As part of its continuous search for new customer support formats Detsky Mir launched the e-commerce platform SAP Hybris which ensures personalised interaction with customers through all available channels and serves as a foundation for improvement of the online store.

The key driver of online sales in 2017 was expansion of in-store pick-up service enabling customers to collect their purchase at the check-out points of retail stores.

Moreover, customers may collect their purchases at the pick-up points of Ozon and Boxberry under partnership agreements.

In 2018, 90% of orders will be packaged within one hour after placing an order on the company's website and the share of timely handled orders will be increased two-fold: from 45% to 90%. For this purpose Detsky Mir introduced a customer service indicator (Service Level), which is measured both for each stage of order processing and on a consolidated basis.

In 2018, the company will launch the Last Mile project to ensure courier delivery from regional stores and local logistical centres directly to the customer on the day of order placement.

Due to the low cost of delivery this method is particularly convenient for some regions.



1,387

own and partner pick-up points as of the end of 2017

Customer satisfaction and loyalty, as well as their confidence in the brand are fundamental components of a successful retail company. In order to improve their customer-oriented business model the portfolio companies of Sistema are implementing an omni-channel approach by integrating all customer platforms and devices to ensure easy interaction with the company. The key component of this approach is development of e-commerce. Detsky Mir's online segment is the fastest growing sales channel: the online store had more than 133m customer visits and delivered more than 2.4m online orders in 2017. At the same time, the company aims to enable customers to pick up orders from retail stores within one hour from order placement.

Development and optimisation of own loyalty programmes provide permanent customers with an opportunity to buy goods at a discount, and convenient stores located in modern shopping malls and densely populated residential districts are equipped with interactive play areas for children to stimulate repeated visits.

Safety and quality of products

Ensuring the safety and quality of goods is the main obligation of Detsky Mir and Concept Group to their customers and a necessary condition for enhancing customers' confidence in the brands.

The companies operate in full compliance with the Russian law "On protection of consumer rights" and trade regulations. The quality and safety of goods is monitored at all stages of product life cycle: from supplier selection and order placement to shelf layout and customer feedback.



In 2017 the number of Detsky Mir's active loyalty card holders increased by

24%

The online hypermarket OZON is actively developing courier delivery and a network of pick-up points. In March 2017, the company launched next-day delivery for the residents of the Moscow region. Besides, the company is planning to install 1,500 own parcel locker terminals OZON Box, where orders made through the online hypermarket and its partner companies weighing up to 24 kg may be kept during 3 days.

The retailer invests a lot in product range and infrastructure and opens new warehouses in regions (in 2017 – in Tver and Krasnodar, in 2016 – in Kazan and Yekaterinburg), offering new products for the market, for example, fresh food (more than 400 SKUs) and medicines (about 15,000 SKUs).

Alexander Shulgin

OZON CEO



In 2017, the product range of our online store increased from 4.2m to 4.9 items. Growth was particularly strong in such categories as Food (114%), Pet Products (94%) and Electronics (81%). We will continue improving our pricing policy, expanding the product mix and investing in logistics. Today, 40% of Russian citizens can place an order on OZON.ru and have it delivered on the next day. Additional investments will make it possible to provide next-day delivery service to 60% of Russian people.

It is important that children's goods belong to the category of products that are expected to meet higher quality and safety requirements. That is why the companies are focused on identifying counterfeit goods that carry potential health risks for small children. For example, Detsky Mir purchases goods directly from the largest

international producers and suppliers, which guarantees a high quality of goods, and takes an active part in the initiatives aimed at curbing the turnover of illegal products. When selling private label goods the company has even more opportunities for ensuring strict compliance with quality and safety standards.

Quality assurance in Concept Group's supply chain

Concept Group has implemented internal quality standards which include requirements to the quality of fabrics, materials, accessories, clothing manufacture process and suppliers' technical and technological capabilities. The standard is communicated to each new supplier and used when checking the quality of new products sold in the retail chain. The standard is then renewed on the basis of consumers' feedback.

The quality of suppliers' products is checked in all countries of manufacture, and audit companies are engaged whenever necessary (in India and Bangladesh).

Based on the results of lab tests conducted in 2017 as part of a random independent audit of women's clothes for compliance with the Russian state quality standard, the sample under Concept Club

brand was recognised as fully meeting all legal requirements and completely safe.

If a customer is dissatisfied with a product's quality, they may contact Concept Group's call centre.

Each customer complaint is analysed, and, if necessary, changes are made to the quality standards to prevent such cases in future.

In 2017, the volume of direct purchases from suppliers increased by 6% up to more than

>20^m items,

moreover, the share of procurement from Russian suppliers doubled.

An important strategic area of Detsky Mir's assortment policy is development of its private labels. Due to big production volumes, a stable flow of orders, reduction in branding and logistical costs, Detsky Mir offers its customers 29 private label products of high-quality in the clothes and footwear category at affordable prices, as well as children's clothes under Acoola brand developed by Concept Group. A proprietary chain of branded stores, which annually produces 9 full collections made by an in-house design bureau and 150 new designs of clothes every month, has more than 240 points of sale across Russia.

Fair marketing practices

Sistema's retail assets work in conditions of strong competition, which is characteristic of the consumer sector as a whole, and aim to use all available opportunities for strengthening their positions while following the principles of fair competition and social responsibility and ensuring strict compliance with advertising regulations, adjusting their commercial policies, marketing activities, and improving the format of stores based on customer requirements.

While maintaining high profit margins due to a balanced assortment policy, participation of suppliers in marketing activities and effective coordination of social media communications and targeted messages to customers, Detsky Mir ensures significant growth of sales during the period of promo campaigns (Cyber Days, Black Friday), when discounts may reach 90%, resulting in an increase in the number of orders and a 2-3-fold growth of revenue, which has a positive impact on consumers' confidence in the company.

Children's rights and social security

The Corporation and its retail assets operating in the segment of children's goods are particularly focused on protection of children in keeping with the basic principles of the Children's Rights and Business Initiative of the UN Children's Fund (UNICEF), including eradication of child labour, ensuring children's safety in all assets and business segments of the company, fair marketing and advertising, provision of support to local communities in the area of children's rights protection.

Detsky Mir's social activities carried out through its own charitable foundation created in 2004 jointly with suppliers

and clients have a positive impact on the quality of life of underprivileged children and their families.

By implementing social and charity projects the company aims to improve the quality of care provided to children in social and medical facilities (180 play rooms for children were opened in 2017), to increase the level of children's social engagement and help them fulfil their creative potential. The company's employees are involved in volunteering activities and take part in performances of puppet theatres, clean-up days in children's homes, charity fairs where it is possible to buy crafts made by children, and other events.



In 2017, Detsky Mir's average NPS (customer satisfaction indicator) increased by

10%
for retail outlets and by

22%
for the online store.



>350^k
underprivileged children and
800
social facilities of Russia and Kazakhstan are under the patronage of Detsky Mir Charitable Foundation



Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

Detsky Mir's charitable activities are financed from the company's budget and from individual donations received by Detsky Mir Charitable Foundation. In 2017, Detsky Mir Charitable Foundation allocated RUB 417m for charity events and children support projects, of which 92% came from donations.

The "Participate!" campaign

For more than 13 years Detsky Mir has been organising collection of necessary school and other supplies (stationery, arts&crafts kits, board games, clothes and toys) for children from orphanages, social boarding schools, children from large families, and disabled children.

The campaign may be joined by anyone.

Detsky Mir's customers may help children not only by purchasing gifts and leaving them at the shop, but also by making a donation via a text message.

Starting from 2017 Detsky Mir's "Participate!" campaign lasts throughout

the entire year. In the reporting year 572 retail outlets from 220 cities of Russia and Kazakhstan joined the campaign.

The company collected more than 7.8m gifts with the total value of RUB 352m, and the number of beneficiaries reached 650.

Gifts with the total value of

352^{RUB m}

"A step forward" project

One of Detsky Mir's new social initiatives is support of quality additional education for underprivileged children. The project "A step forward", which was launched in spring 2017, will help underprivileged children choose their future profession, receive occupational training and continue their education in professional engineering colleges.

For example, a painting and plastering course was launched at the Dukhovshchinskaya school in Smolensk for orphans and disabled children. As part of the project children will be taught the basics of the job by experienced teachers. To organise the teaching process, Detsky Mir Charitable Foundation had the class repaired and acquired all necessary furniture and equipment.

The total cost of the project amounted to RUB 208,000.

Detsky Mir Charitable Foundation gave a carpentry shop to boarding school No 115 in Samara: the company purchased necessary equipment and furniture: a carpenter's bench, stools, hand tools, a saw bench and ten woodburning stations.

The total project costs exceeded 200,000 roubles. Now, the children studying at the school will be able to learn the basics of a carpenter's job.



>400^{RUB K}

social investments in "A step forward" project»

AGRICULTURE

Sustainable and productive agriculture is the basis of the country's food security



380,000 hectares
total area of land under Sistema's Management



TOP-10
largest owners of agricultural land in Russia

Sistema Group's agricultural assets – Steppe AgroHolding, including RZ Agro Holding controlled jointly with the Louis-Dreyfus family – make a significant contribution to providing the Russian population with high-quality crops, fruit and dairy products, increasing import substitution and export potential of the sector, and improving food security in Russia in accordance with the principles of rational land use and sustainable development of rural areas.

Steppe AgroHolding, which is one of the 10 largest owners of agricultural land in Russia^① with land holdings totalling 380,000 ha^②, includes:

A number of highly efficient farms in the Rostov, Krasnodar and Stavropol regions, which grow a wide range of oil crops and grains;

Modern dairy farms located in the Kanevsky and Pavlovsky districts of the Krasnodar region;

776 ha of intensive apple orchards;

Yuzhny Agricultural Complex, Russia's biggest producer of protected-ground vegetables, with 144 ha of greenhouses.

Thanks to the use of advanced agricultural technologies and management methods, Sistema's agricultural assets have demonstrated high productivity and steady growth in production volumes over the past few years. In 2017, Steppe AgroHolding gathered a record crop of 1.4m t of grain, including almost 724,000 t of wheat, which accounted for 0.7% of all grain and leguminous crops collected in the country and 0.84% of wheat.

Andrey Neduzhko

CEO of Steppe AgroHolding



"The development strategy of Steppe AgroHolding, which has developed the technology for efficiently building new farms and has gained solid experience in this area, is aimed at becoming one of the biggest milk producers in Russia capable of ensuring stable supplies of high-quality milk certified according to European standards. Yields on our farms are 2x the average Russian yield and are close to the best international practices. We plan to increase the number of lactating cows and launch new dairy farms".

① According to the annual list of largest owners of agricultural land in Russia published by the audit and consulting company BEFL.

② Including RZ Agro's land (106,000 ha).

Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies



Растениеводство

+80%
Crop farming



Dairy farming

+30.5%
increase in milk output

>10 litres per year –
milk yield per cow



Fruit growing

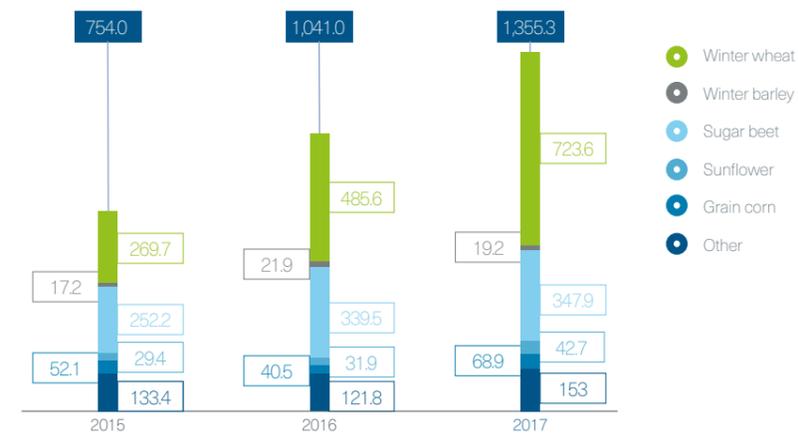
+44%
increase in gross apple harvest



Vegetable growing

+20%
increase in output of cucumbers and tomatoes

BaGross crop yield^①, K tonnes



Output of Steppe AgroHolding, K tonnes



≈1%

the share of Steppe AgroHolding in the structure of Russian exports

① Including RZ Agro.

② In 2017, domestic production filled 75% of milk demand in Russia, according to the National Union of Dairy Producers.

③ According to the Russian National Union of Dairy Producers.

Sustainable agriculture

The level of socioeconomic development of rural areas is largely determined by the state of the agricultural sector. Efficient and responsible farming based on the principles of sustainable development helps not only preserve natural resources (soil, water and climate) for future generations but also improve the quality of life of local communities.

Some of Steppe AgroHolding's enterprises carry out their activities near protected natural areas: Lake Manych-Gudilo included in the List of Wetlands of International Importance as defined by the Ramsar Convention and the buffer zones of the Miguta River in the Krasnodar region. Such areas total 5,430 ha. Therefore, the company pays special attention to the preservation of ecosystems. Steppe AgroHolding cooperates with the relevant institutes for soil fertility conservation to learn about the latest academic developments, including "biologisation of agriculture". The company's specialists participate in the work of the Science and Technology Council of the Ministry of Agriculture of the Rostov Region.

The technologies of sustainable and "smart" agriculture introduced by Steppe AgroHolding allow minimising the environmental impact and optimising costs at all stages, including the production of own high-quality seeds, planting material and breeding stock. The company uses predatory insects ("entomophages") for pest control instead of chemicals. For drip irrigation, it uses clear water from the headwaters of the Kuban River, where meltwater from the glaciers of the Greater Caucasus Mountain Range gathers, such water has low mineralisation, which, in combination with underground mineralised water, creates an ideal nutrient medium. Steppe AgroHolding uses AfiFarm monitoring systems, which provide the real-time view of the herd, to preserve the health of its livestock.

Smart livestock production



Steppe AgroHolding is one of the most efficient farms in Russia by yields per cow. The high productivity and milk quality are achieved through breeding, advanced agricultural technologies, high-quality forage and animal housing, and highly efficient digital herd management. Steppe AgroHolding has high-tech farms where "smart" technologies are used in every process, including genetics, feeding and animal housing.

The company's specialists use AfiFarm herd management system to get the most comprehensive and accurate real-time view of the herd. Each cow has a special sensor which in real time transmits to the computer system all the necessary vital signs of animals, where they are stored in their personal cards. Thus, the herd is monitored around the clock. Diseases are detected at early stages and are quickly cured.

To control the genetics, Steppe AgroHolding uses different software, which is fully integrated with AfiFarm,

creating a closed cycle of herd information processing. Due to the continuous breeding based on "smart" technologies, Steppe increases its pedigree livestock while replacing imported herd.

The ration of cows in Steppe AgroHolding consists of special high-quality and well-balanced feed mixtures, which are made using its own unique recipe. The green crops used for the mixtures grow on Steppe's own fields.

Milking is carried out three times a day. Frequent milking reduces internal udder pressure, which has a positive effect on the health of animals and increases milk output by 20%.

Cows are kept in spacious facilities with free air circulation. The company uses free-stall housing of cows on sand bedding, which is extremely rare in Russia. Due to this, cows are less susceptible to colds and infectious diseases.

Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

The company's plans for 2018 include testing no-till farming and holding a contest of innovative projects among employees. Steppe plans to introduce a special monitoring and analytical IT platform by 2020 to further increase efficiency in crop farming. The goal of this innovative project is to combine the processes of planning, accounting, monitoring and analysis of farm works, weather conditions, equipment availability, fuel consumption, crop and seeds protection, agricultural technologies, movement of finished products and safekeeping of inventory.

For RZ Agro, the main strategic task for the next few years is to increase efficiency through the intensification of production. The company has three main areas of work: a sprinkler irrigation project for 8,000-9,000 ha in the Stavropol region, development of seed production and introduction of innovative technologies including the transition to precision farming.

Responsible supplier

Through its trading house, Steppe AgroHolding supplies its own fresh fruit and vegetables to the largest retail chains (Magnit, Pyaterochka, Perekrestok, Lenta, Metro Cash&Carry, O'Key, Billa, etc) all year round; it also seeks to develop cooperation with leading Russian farms and foreign producers. The company has established itself as a reliable and honest partner, with impressive experience in wholesale sales, storage and transportation of fresh products to almost all regions of Russia. Own warehouses with refrigeration units, equipped with the latest technologies in accordance with applicable sanitary and hygienic standards, guarantee that consumers will receive a fresh and high-quality product.

Support of fair tax practices and competition

In 2017, Steppe AgroHolding acceded to the Charter on Grain Turnover developed by the National Association of Exporters of Agricultural Products, the Russian Union of Oils and Fats and the Federal Tax Service (FTS) of Russia.

In line with the principles of the Charter, Steppe diligently pays all the taxes applicable to its exports of grain products (457,000 t of crops in the reporting period, including 60,000 t of third-party products).

The Charter's signatories share the goals of establishing and maintaining clear and transparent rules for resale and export of Russian agricultural products, and eliminating unfair competition and illegal VAT refunds for exports, which, according to the FTS, reach RUB 65bn per year. A total of over 1,900 Russian producers, processors and traders of agricultural products joined this initiative as of the end of 2017.



By buying grain from small producers, the company supports SMEs in the regions where it operates, creating jobs for local communities; through the active development of grain trading, Steppe expects to become one of the five largest grain exporters in Russia. Steppe's dairy farms have been certified and received an EU approval number, which allows them

to supply milk for the production of dairy products exported to the European Union and confirms the high quality of milk.

In its relations with all its counterparties, Steppe AgroHolding adheres to high standards of responsible business practices in line with Sistema's general corporate policies on business ethics and anti-corruption.

Social infrastructure development

Yuzhny Agricultural Complex, which employs about 0.5% of the residents of the Republic of Karachay-Cherkessia or more than 7% of the population of the administrative centre of the Ust-Dzhegutinsky district, has a cultural and sports centre for its employees, their families and local community. The centre was established more than 15 years ago and offers various sports and hobby classes, a theatre studio and a choir. It is visited by 600 children, and its sports clubs have over 300 members. The centre has trained three world-class athletes and over 65 national champions or athletes with a high national ranking.

Steppe AgroHolding and RZ Agro provide charitable assistance for the construction of sports grounds in rural areas and deliver targeted aid to nursing homes, orphanages and families with children with disabilities.



In 2017, the volume of charitable aid to local communities exceeded

>20 RUB m

Two tonnes of apples for underprivileged children

In 2017, Steppe AgroHolding in partnership with Sistema Charitable Foundation took part in #GivingTuesday for the first time. As part of this large-scale campaign, Steppe delivered 2 t of premium apples produced by Sady Kubani to various orphanages and care homes in Moscow and Rostov-on-Don.

In Rostov-on-Don, organic fruits harvested in 2017 were given to social rehabilitation centres for minors, with support from the local labour and social development ministry. In Moscow, apples were given to young patients of the Moscow Centre of Palliative

Care, the Voyno-Yasenetsky Specialised Medical Centre for Children, the Morozov Children's Hospital, and to children patronised by the Martha and Mary Convent of Mercy.



New sports ground in the village of Novotroitskaya

In June 2017, RZ Agro officially opened a new sports ground for football, basketball, volleyball and tennis in the village of Novotroitskaya. It was equipped by one of RZ Agro's enterprises in accordance with the agreement on

social and economic cooperation with the administration of the Izobilnensky district of the Stavropol region. The company also installed street lighting at the stadium. The opening ceremony ended with a friendly football match between children's teams.



REAL ESTATE

Housing estates, comfortable urban environment, and sustainable construction



31.6 K sq m

renovation sites in Business Nedvizhimost's portfolio in 2017



≈3.0 million sq m

of floorspace in

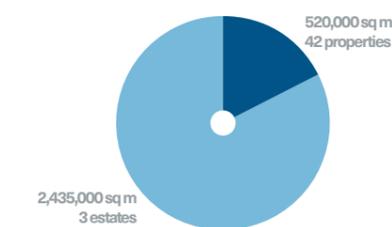
45 infill development



22 K sq m

of floorspace commissioned

Leader Invest's portfolio structure



- Standalone residential and retail properties
- Housing estates

Vyacheslav Khvan

CEO of Business Nedvizhimost



"Modern-day apartment hotels represent a new format in Moscow's hospitality market that has yet to gain traction in Russia and carries great potential as an attractive alternative to old-school hotels and property for rent, especially in areas where obsolete housing prevails, due to additional services such as cleaning. This product caters to the needs of Russian and foreign business travellers as well as travelling families who would welcome the option of staying all together and saving money by cooking their own meals. We estimate the average investment in each of such projects at roughly 350 million roubles".

Leader Invest and Business Nedvizhimost are committed to providing society with new housing, offices, and retail space both by building brand-new properties, often in place of outdated and decommissioned industrial establishments, and by reconstruction and landscaping of such surviving buildings. While Leader Invest aims to complete the construction of a total of 111,000 sq m of floorspace in 2018 only,

Business Nedvizhimost is intent on renovating another 80,000 sq m and creating a chain of mid-price apartment hotels within walking distance of metro stations (in place of Soviet-era multiple "automatic telephone stations") by 2020. The first pilot hotel with 157 rooms (which absorbed about RUB 500m in investment) is due to open in 2018.

Green building

Keeping up to date with "green" construction principles and committed to sustainable use of buildings as a necessary pre-requisite for a healthy urban environment, Sistema's property companies set great store by the energy efficiency of their projects. More than half of Leader Invest's projects at different design and construction stages correspond to energy efficiency class A and up, consuming about half as much energy as their traditional counterparts. Business Nedvizhimost's projects are regularly audited for efficiency and safety of solutions and rely on a system of carefully designed sustainability standards and regulations.

Leader Invest's properties are designed in cooperation with top-tier Russian and international architectural firms. Their design documents provide meticulous detail about using eco-certified construction technology and materials approved for residential applications, including low-emission solutions for cleaner indoor air. Another sphere of ongoing optimisation of solutions is minimisation of transportation and waste, which also serves to reduce environmental impact.

GRI 102-13

Leader Invest introduces green construction standards

Leader Invest's premium-class Pokrovsky Boulevard Residence in Moscow successfully passed the national Green Zoom certification in the area of energy efficiency and eco-friendliness and received the Gold status. It is one of the few residential projects in Russia with an environmental certificate.

The simulation analysis technology used when designing the building provides for the best planning, technological, and engineering solutions that ensure energy efficiency, both in the shorter term (annual operating cycles) and throughout the entire life cycle of the residence. The project relies on a whole system of solutions that feed into an overall comfortable eco-friendly micro climate. These include improved thermal performance of fences, efficient tapware, weather-dependent central heating, radiators with adjustment valves, and energy-saving lighting solutions in public areas.

Leader Invest is one of the first Moscow developer companies whose employees were trained in energy efficiency and environmental safety of real estate facilities and became certified experts in this area, which allows the company to heavily promote "green" construction principles.

More than 10 Leader Invest professionals received the associated GREEN ZOOM specialist status and joined the task team of the upcoming GREEN ZOOM City standard that will set out practical recommendations on how to reduce energy consumption and improve the environmental friendliness of housing estate projects with sustainability in mind. The preparation of GREEN ZOOM

standards and projects is supported by the governmental Agency for Strategic Initiatives, while the GREEN ZOOM City standard specifically is being coordinated by the nonprofit Research Institute for Sustainable Development in Construction.

The GREEN ZOOM initiative represents a smart system for controlling energy consumption and promotes energy efficiency and environmentally friendly solutions in construction. It is in essence a Russian counterpart of the American LEED and the British BREEAM that factors in the specific realities of building properties in Russia. While all previous criteria and regulations in the industry mostly addressed one-building projects, GREEN ZOOM City is meant to provide the groundwork for systematic control of energy consumption in specific buildings and entire infrastructures of sustainable housing estates, benefiting the end users in that they will live in more comfortable and healthier environments conducive to a harmonious and happy society.

Distinguishing features of GREEN ZOOM City:

- reliance on state-of-the-art project evaluation solutions to reduce capital expenditure on building housing estates;
- focus on building independent efficient infrastructures for water and energy supply;
- commitment to making such infrastructures attractive, accessible, and safe;
- specific criteria to evaluate the quality of projects (certification component).

Partners and contractors

When purchasing the required materials and services, both companies rely on their internal procurement policies based on Sistema's general corporate procurement standards. All of their procurement is done through the electronic tender platform Sberbank-AST and is subject to formal approval/qualification of contractors based on their reputation, ISO 9000 certificates, and sustainability track record. Would-be contractors are also carefully vetted for compliance with employment law and safety standards, such as the use of safety riggings to avoid injuries. All contractor agreements contain specific terms designed to control construction safety and accident prevention and perform the technical supervision of works ensuring that all regulations are observed and deficiencies promptly removed. Leader Invest's new project to be completed in 2018 is for the automation of contractor relations through a single computer network solution that will make it easier to control the quality of construction works, speed up contractor feedback, and minimise miscommunications.

Finding reliable suppliers of construction materials among the motley crew of small businesses is a long and costly process that has frustrated many major developers. On the other hand, small and mid-size businesses are often efficient partners in the areas where they have the most competitive edge, such as architecture, building information modelling, and the construction of niche- and club-class residences. Leader Invest is a vocal advocate of using a convenient digital marketplace for efficient communications with smaller businesses.

As Leader Invest's project portfolio grows, the company heavily develops its sale potential, including through cooperation with brokers. Broker loyalty is understood to be an important tool in making sales efficient and so is carefully cultivated. That's why Leader Invest held a series of meetings and presentations of its premium projects throughout 2017 and arranged a breakfast meeting with Top Brokers Alliance, an association of professional brokers specialising in high-end properties in Moscow, and representatives of other broker companies of high standing. It also organised a Best Broker campaign in which it awarded its most efficient broker partners.



Leader Invest aims to complete the construction of a total of floorspace in 2018

111 K sq m



Business Nedvizhimost is intent on renovating another

80 K sq m



Interactions with local communities

GRI 102-43

When handling projects in established residential districts, the two companies lay heavy stress on interacting with local residents. They typically arrange community meetings in which the residents are invited to suggest desired landscaping effects and share their comments as regards construction waste and noise should any inconvenience occur. One of the certain competitive advantages of the companies is their ability to complete projects as prompt as practicable (with the average construction period of 2.5 years), shortening the period of inevitable disturbance to local residents.

Upon amassing vast experience in one-building constructions, in 2017 Leader Invest embarked upon a new type of business of great potential: the construction of sustainable housing estates in place of former industrial premises in Moscow, such as the car-making giant ZIL, a location where the company plans to build a total of 1.7m square meters of floorspace, including 1.1m square meters of residential properties. Industrial areas now absorb some 18.8 ha of land in Moscow, or over 17% of the "old Moscow" territory. Their conversion into habitable neighbourhoods is a prerequisite for sustainable urban development. Leader Invest's portfolio includes a "city within a city" estate at 120 Lobachevskogo St., as well as the housing estates Nagatino i-Land and ZIL-Yug. When carrying out projects of this type, the company makes it a priority to create a comfortable living environment with appealing public areas and social infrastructure.

Oleg Mamaev

President of Leader Invest



"When designing new projects, we look for something bigger than just building a residence and making a profit. It's just as important to ensure the comfort of future residents and make the building fit the established urban environment. That's why we make promenade areas on surrounding grounds and make it a point that parking spaces should be arranged away from the immediate entrance zones".

A housewarming party for the Nagatinskaya Residence

Leader Invest always aims to create a friendly and stimulating social environment wherever it erects a new residence. In June 2017 the company organised an exciting family event for all buyers of the apartments in its newly constructed building at Nagatinskaya, inviting adults and children to get to know each other in an informal setting. In April Leader Invest teamed up with the Moscow Perspective newspaper and led an event in which the residents installed new birdhouses near a kindergarten and a school on the adjacent grounds of the Nagatinskaya Residence. The event was so much to the liking of all those involved that it's by now declared a new annual tradition.

Social projects

Along with other Sistema companies, the two real estate businesses participate in general corporate and volunteer projects and organise their own social initiatives for their staff and customers and support important events in the city's life.

In 2017 Leader Invest became the official partner of Opera in the Metro, a superb cultural event marking the 82nd anniversary of the Moscow Metro. The company also co-sponsored the mass celebrations of the 2017 Moscow Birthday by supporting several music, travel, and

sports events held as part of the festival. To carry the festive mood beyond partying, the developer offered generous discounts (up to 7%) on its new properties. Another exciting project done by Leader Invest in 2017 was The Architecture Weekend, in which the company's employees were invited to bring their children to the development sites. In March of 2017 the company joined the Earth Hour, an international campaign by the WWF, by switching off electricity on all of its sites for an hour.

ELECTRIC POWER

Smart grids for reliable and quality power supply to consumers in the Republic of Bashkortostan



≈ 20^K

number of new connections per year



21.4^{rub bn}

investment in fixed assets over 5 years



17.5^{rub bn}

taxes and duties paid in 2013-2017



195^K

smart power meters installed in Bashkortostan

Bashkir Power Grid Company, which ensures electricity transit between the central part of Russia and the Urals and manages transmission and distribution grids in Bashkortostan, was one of the first power companies in Russia to introduce the Smart Grid concept when designing, building and upgrading power facilities. Introducing advanced technologies, including automated metering systems, the company builds reliable and efficient network infrastructure, which ensures uninterrupted power supply to households and industrial enterprises.

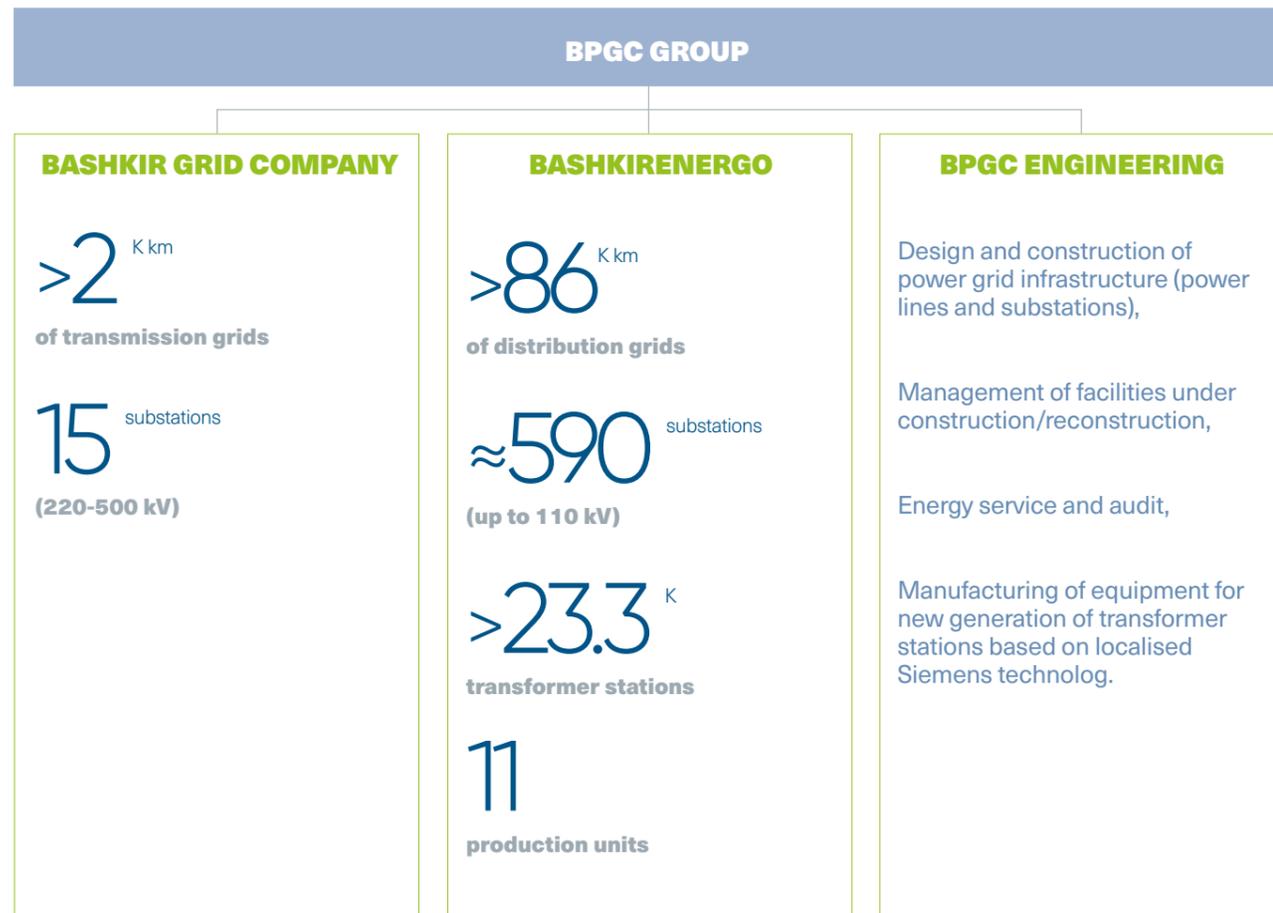
BPGC was also the first Russian energy company to switch to a 10-year period of regulatory asset base (RAB) tariff regulation methodology, which allows consumers,



For more information on the company's sustainable development, see [the Annual Report of JSC BPGC for 2017](#).

regional authorities and power generating companies to effectively plan long-term business development in the republic, therefore increasing its investment appeal.

In the five years since BPGC's establishment following the separation of grid and generating assets in Bashkortostan, the company has become one of Russia's best power grid operators for many operational indicators, focusing on improvement of the management system, automation of business processes, upgrade and technical overhaul. During this time, it built and commissioned new substations and power lines with voltage ranging from 35 to 220 kV, and reconstructed numerous facilities across Bashkortostan.



Introduction of Smart Grids

Intelligent power grids are the core component and link in the smart power system of the future, an important element in the development of the Internet of Things (IoT) and smart cities. BPGC is successfully implementing a crucial innovative project of the Russian power industry: modernisation of power grids in the city of Ufa using Smart Grid elements.



Implementation of this project in Ufa will make it possible to achieve a **twofold decrease** in the number of system interruptions (SAIFI) and a **threefold decrease** of their duration (SAIDI).

The power system built on the new principles transmits information in addition to electricity, and consumers receive a number of additional options for interacting with the system, such as tariff flexibility and opportunities to plan their power consumption and reduce electricity costs. Working autonomously, the system can increase efficiency and reliability of power supply, improve the economics and organise steady power generation and distribution.

Start of manufacturing of own innovative equipment for Ufa's distribution substations helped BPGC to reduce the project's capital expenses and to create a centre of excellence to subsequently roll out smart grid technology to other regions.

The company continues installing smart cells at distribution and transformer substations of the city. In 2015, it replaced basic equipment at 10 substations; in 2016, the number of upgraded facilities exceeded 70, and in 2017, it grew by another 20%.



≈900 cells

for 88 transformer substations in all 7 districts of Bashkortostan assembled by BPGC since August 2015



The total number of smart meters connected to the automated power control and metering system exceeded

170^K

while the total number of metering units approached

230^K

The Smart Grid project also includes installation of automatic power meters. Installation of smart power meters by BPGC progresses much faster than envisaged by the government programme "Energy Efficiency and Development of the Energy Sector." As of the end of 2017, BPGC's result was 24% vs Russia's average of 14.4%. In the reporting period, the company installed an unprecedented amount of smart meters since the launch of the programme in 2011 – almost 39,000.

During 2017, territorial production units of Bashkirenergo commissioned fibre optic lines for protective relay and automation systems and technical data exchange systems. In 2018, the company plans to unite all its production units into a single system of telemetric and technical data exchange,

Installation of smart power meters by BPGC, K pcs



which will ensure a higher level of monitoring of control and process management systems and reduce the time needed for making decisions in case of emergencies.

BPGC actively shares its experience of Smart Grid implementation with other companies in the industry in order to spread best practices of improving the system of business processes management and automation, introducing automated power metering and operating electric equipment. In 2017, Bashkirenergo's Grid Management Centre, which is one of Russia's most advanced ones, was visited by delegations of companies and authorities from Russia and the CIS, including Rosseti, IDGC Siberia, Bashenergoneft, the Bishkek city council (Kyrgyzstan).

Reliability and quality of power supply

Grid companies play an important part in ensuring proper functioning and development of their territories of operation. Reliable power supply, absence of accidents, improvement of the technical state of the power grid infrastructure, timely implementation of the investment programme, quality (frequency, voltage) of supplied energy, ability to quickly and easily connect new consumers to grids, increase of awareness and work with consumers' queries and complaints – all these topics are within BPGC's area of responsibility for ensuring availability, reliability and quality of its services.

Measures taken by BPGC to develop its grid infrastructure have significantly enhanced reliability of power supply to consumers in recent years

| Parameter | 2015 | 2016 | 2017 |
|---|-------|-------|-------|
| Average duration of power supply interruptions, hr | 1.919 | 1.487 | 0.983 |
| Number of accidents with 6-110 kV equipment, episodes | 8,179 | 6,571 | 6,512 |

Number of accidents with 6-110 kV equipment, episodes



In 2017, the number of accidents was **reduced** compared to the growth of power consumption in the energy system of Bashkortostan, by approx. 1%.

In the reporting period, the company continued active construction of power facilities in the republic. The biggest amount of its investments in 2017 went to overhaul and reconstruction of grid facilities – over RUB 1.5bn (36.6% of the investment programme), which is 18.2% higher than in 2016. During the year, BPGC built and commissioned big substations in Ufa, Sterlitamak, Belebey and other towns and reconstructed numerous other facilities.

Regional agreement on uninterrupted power supply to consumers

In April 2017, BPGC and Bashenergoeft signed an agreement on cooperation in preventing and managing consequences of breakdowns at power facilities, which will bring together the efforts of Bashkortostan's two big power companies in restoring power supply to consumers in case of interruptions. The agreement regulates procedures of mutual assistance and envisages organisation of joint actions, including a crisis centre to coordinate steps to prevent and manage the consequences of accidents, and work of relevant services. The two companies undertook to provide their qualified personnel, technological resources, materials and emergency equipment, if necessary.



Dmitry Sharovtov

CEO of JSC BPGC



"A priority for BPGC is ensuring quality and reliable energy supply to consumers, maintaining a steady trend in reduction of the number of supply interruptions and their duration, increasing the network capacity and creating conditions for connecting new consumers to the power grid infrastructure. For this purpose, in accordance with the approved investment programme, we are reconstructing the existing network, building new power centres and performing regular repairs and maintenance of grid facilities".

Efficient storm monitoring

BPGC has been successfully using a lightning direction finding system since 2015. It enables the company to monitor storms and their activity on the territory covered by Bashkirenergo's power grids and notify crews servicing high-voltage lines about approaching thunderstorms. This technology significantly reduces the risks of crew members being injured by lightning and is used to build medium density maps of lightning strikes and storm hours to identify areas with increased thunderstorm activity, analyse and take the necessary measures to thunderproof existing and newly designed power lines.



The biggest amount of BPGC's investments in 2017 went to overhaul and reconstruction of grid facilities – **over RUB 1.5bn** (36.6% of the investment programme), an increase of **18.2%** vs 2016.

Projects that have huge social and economic importance for Bashkortostan's capital include the construction of the Kustarevskaya power station, which cost over RUB 380m. It will supply power to five districts of Ufa, including the Yarky residential district, where active housing development is underway and whose 12 blocks with all the necessary social infrastructure are expected to accommodate 25,000 people. The company needs to provide the necessary power output within a tight timeframe to ensure comfortable living conditions for new residents. BPGC also commissioned the second Gvardeyskaya substation in the Ufa district, having completed the republic's biggest power grid project since 2010. The new substation, in which BPGC invested over RUB 831m, ensures quality and reliable power supply to a number of large customers, including industrial enterprises and an industrial park.

BPGC is carrying out large-scale construction of power facilities and network infrastructure in the Sterlitamak district of Bashkortostan, driven by the

development of the urban agglomeration that includes the cities of Sterlitamak, Salavat and Ishimbay. Launch of the Spartak substation will ensure the development of the republic's second biggest city by population and industrial potential for at least the next 10-15 years, ensuring connection of new consumers, including large families and families with disabled children who have been allocated land plots in this area, improving reliability of power supply to new residents, and also social, recreational and utilities infrastructure in the western part of Sterlitamak, including 18 high-rise buildings, two kindergartens, a shopping mall, etc. The Sterlitamak area is losing its traditional countryside look, with apartment buildings and cottage communities rising across it. Because of this, BPGC has launched a comprehensive programme for optimising power supply topology with a focus on improving reliability of power supply to consumers.

Additional power capacity for agriculture development

The Alekseyevsky farm is Bashkortostan's signature agricultural enterprise, which produces protected-ground vegetables, dairy and meat products, flour and bread. BPGC allocated additional power capacity to the agricultural producer at the expense of its investment programme to support the project of construction of a new greenhouse facility.



The construction of the Alekseyevka substation in Belebey, a one-company town that has the status of a fast growing territory, gave a powerful impetus for its further industrial and social development, growth of the housing sector, social infrastructure and small and medium-sized businesses. The substation will ensure reliable power supply to four new residential areas with over 6,000 residents (>10% of Belebey's entire population) and to two villages, Alekseyevka and Ilkino. BPGC's investments in the construction of the substation and air and cable power lines amounted to RUB 210m.

Major repairs conducted at other substations increased reliability of power supply in numerous towns and villages, including the most remote area of Bashkortostan, the Khaibullinsky district in the south-eastern part of the republic.

In 2017, the company performed complex repairs of over 150 buildings and structures (substations and distribution stations) worth RUB 82.5m; the work included improvement of personnel's working conditions: coldproofing and repairs of roofs, repairs of the lighting systems, air conditioning, ventilation and utilities.

BPGC pays significant attention to enhancing its customer focus, working to reduce the time required for connecting users to the power system and make the procedure transparent and easy for consumers. The Customer Service Centre was opened in Ufa back in December 2014. In 2017, it organised its first open day, during which visitors could learn about ways of connecting to the system, including via personal accounts on the company's official website, and opportunities offered by new interactive services. The company has enhanced its online customer service: its step-by-step guide to connection for individuals and legal entities takes clients through the application process and allows tracking its progress on the website. BPGC also offers users two online calculators to estimate power capacity and costs. BPGC's best practices of customer service also include use of an automated metering system that provides information on power consumption, capacity of a customer's facility and meter readings.

The company offers favourable conditions for various categories of customers. For example, small and medium-sized businesses get a 50% discount on the connection capex, which stimulates entrepreneurial activities in the region.



50%

of capex is a discount offered for connection of small and medium-sized businesses

Partnership with Bashkortostan's Chamber of Commerce and Industry

In 2017, BPGC joined Bashkortostan's Chamber of Commerce and Industry, which unites over 1,000 large, medium-sized and small businesses. The parties signed a partnership agreement under which BPGC undertook to join an entrepreneurial campaign titled "100 investment projects by Bashkortostan's 100th anniversary" launched to celebrate a century since the republic's establishment in 2019.

The goal of the campaign is to improve the investment climate in the republic, to create new companies and jobs and improve the population's living conditions. The document provides for cooperation in a number of areas including consulting potential campaign participants on choosing investment project partners or connecting to power grids.



Social projects

Being a socially responsible company, BPGC makes consistent efforts to strengthen its partnerships, improve the motivation and social benefits for its employees and prevent electric injuries among children. It regularly participates in various social projects, provides financial aid to its retired employees and makes donations to hospitals, schools and orphanages in Bashkortostan.

The company organises an annual contest of children's drawings devoted to power safety, "Children and Electricity". The contest is addressed to children of BPGC Group's employees and other children aged 5-16, and usually attracts about 200 young artists from across the republic.

Environmental safety

The key components of environmental management and environmental safety protection at BPGC are ongoing internal industrial control and monitoring of environmental pollution. Following the measures taken to decrease the company's negative impact on the environment, emissions in 2017 were reduced by 9%, water consumption by 12%, and waste generation by 11%.



-4.2%

reduction of power consumption for economic needs of Bashkirenergy in 2015-2017

Safe City project

Children and teenagers often get electric injuries as they don't know some basic power safety rules. Because of this, BPGC signed an agreement with the Education Ministry of Bashkortostan, which has been regularly extended since 2014, and implements a set of measures designed to prevent children's injuries from power facilities and increase awareness of children, parents and teachers on the subject.

| Area of the project | Key results |
|---|--|
| Power safety lessons at kindergartens and schools | >4,000 lessons on power safety with educational videos and visual aids were given by BPGC experts across the republic, including over 900 lessons in school year 2017/2018. |
| "The Adventures of BPGCman", an animated superhero series | 8 episodes have been produced; they are available on BPGC's website and YouTube channel and are broadcast on regional television. |
| Theatre performances on basic power safety | Shows for children of preschool and elementary school age were given in 15 cities and town |
| "BPGCman", an educational computer game | The company developed a bilingual computer game (in Russian and Bashkir languages), which is also available for mobile devices on iOS and Android. |
| BPGC Ring intellectual competition | High school children from 32 schools of Ufa, Sibay and Kumertau took part in a competition for knowledge of power safety rules, history of Bashkortostan's power system and general erudition. |

Increasing energy efficiency of enterprises

BPGC carries out its own energy saving programme and helps other companies to do this by introducing a single approach to energy saving. BPGC Engineering offers services of an energy audit, the goal of which is to assess all aspects of a company's operations related to consumption of fuel and energy, including motor fuel and water. The company also develops energy saving plans, introduces measures of control, monitoring, and automation, works with personnel and ensures quality control over energy consumption under an energy service contract. During an energy audit, it collects and processes information on consumption of energy resources, energy efficiency and the

potential for energy saving. All work under the service contract is financed by BPGC, and the customer pays for the service from subsequently achieved savings.



Profile of Sistema

Responsible investment

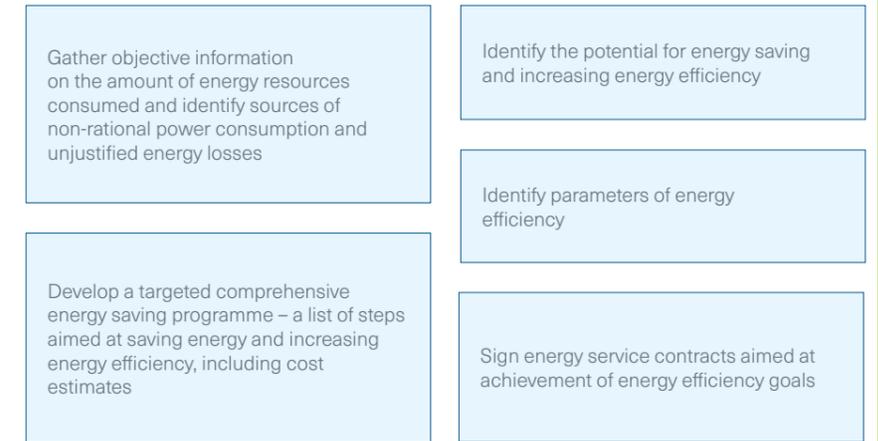
Efficient management

Sustainable development practices of portfolio companies

Increasing energy efficiency of enterprises

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Goals of energy audits



Participation in environmental projects

During the Year of Ecology, BPGC participated in a number of environmental projects, including:

lessons for children on separate waste collection and sorting, saving of natural resources, attitude of care towards the environment as part of the "Week of Environmental Literacy", an environmental and educational programme in Ufa;

planting of about 30 young cedar pines in the Balanovo park, the Demsky district of Ufa;

a Saturday clean-up at the Belaya river – employees of the Kumertau power grids collected over 1 tonne of garbage;

"Save the Forest", a Russian national environmental campaign – employees of the Belebey power grids planted 120 pine saplings and 50 birch saplings on an area of 1 ha;

restoration of a pine forest in the Duvansky district of Bashkiria – volunteers of the North-Eastern power grids planted over 3,000 saplings in the place of destroyed ones on an area of 5 ha;

"Water of Russia", a Russian national campaign to clean the shores of small rivers and lakes – participants cleaned off two unauthorised dumps in the Ufa district.

An important aspect in reducing the environmental impact is replacement of oil PCB-containing equipment, notably, high-voltage circuit breakers, with SF6 breakers. Until the 1990s, PCBs, which have low flammability, no electric conductivity and high chemical stability, were actively used in Russia and globally to produce dielectric liquids for transformers and capacitors, coolants, lubricants, stabilisers, hydraulic liquids and other substances. BPGC consistently replaces outdated equipment, submitting it to specialised firms for recycling.

HOSPITALITY BUSINESS

Cosmos Group: responsible hotel management and high hospitality standards.

Sistema's hospitality business is represented by 17 hotels in 10 Russian regions and 3 foreign countries. Some of the hotels are owned by the Corporation, and some belong to widely known international brands, with Cosmos Group acting as an asset manager.



4.3 RUB bn
in annual revenue

> 4,000
rooms under management

Sistema's hotel assets are located in areas that attract numerous tourists or team with business life, belong to various price categories, and carry 3 to 5 stars, from business hotels in bustling cities to idyllic recreational retreats. The jewels of Sistema's hospitality portfolio are The Cosmos Hotel (one of the largest hotels in Russia and Europe), an essential element in Moscow's hospitality infrastructure, and The Altay Resort, a unique retreat in the South Siberian Altay Republic, the first and only in the republic to receive a Five Star rating in full compliance with national regulatory requirements. The ample facilities of the retreat include the Altay Resort clinic, a branch of the Tomsk Research Institute for Spa Medicine and Physical Therapy, which in turn is an arm of Russia's healthcare watchdog The Federal Biomedical Agency.

Christian Meyer

President Cosmos Group



"Our company's strategic priorities, apart from widening the asset portfolio and expanding in Europe, lie in improving operating efficiency, service level, and safety of our guests as well as reducing environmental impact.

Cosmos Group has taken on board the best global practices in hotel management and strives to apply sustainability standards not only in the hotels that carry international brands, but also in our own nation-wide hotel chain Cosmos Hotels & More, which we are poised to actively develop from 2018 on."

Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

Cosmos Group's portfolio includes standalone hotels and hotels bearing international brands

URBAN BUSINESS HOTELS:

| International brands | Standalone hotels |
|----------------------|-------------------|
|----------------------|-------------------|

PARK INN BY RADISSON
Astrakhan
Kazan
Izhevsk
Yaroslavl
Sochi
Volgograd
Novosibirsk

COSMOS HOTEL
Moscow

INTOURIST
KOLOMENSKOYE
MOSCOW

ONEGO PALACE
Petrozavodsk

HOLIDAY INN EXPRESS
Voronezh-Kirova
Moscow-Paveletskaya



4 countries

All of the assets in the hospitality portfolio are managed by Cosmos Group established in 2017 to provide both affiliated companies and outside parties with a wide spectrum of services from writing hotel concepts and monitoring design and construction works all the way to branding and managing hotels, an activity that generates some 70% of the company's revenue.

Cosmos Group takes pride in its ability to find individual approach to each facility under management and build long-term trusting relationships with their owners aiming to provide them with a profitable and sustainable business in line with the world's best hospitality standards.

RESORT HOTEL

| Российские объекты | Зарубежные объекты |
|--------------------|--------------------|
|--------------------|--------------------|

ALTAY RESORT
Gorno-Altaysk

IZUMRUDNY LES
Klin, Moscow region

LEOPARD LODGE
Namibia,
Southern Africa

SAVOY WESTEND
Karlovy Vary,
Czech Republic

PRINCIPE FORTE DEI MARMI
Toscana, Italy



> 10 regions in Russia

Energy consumption control

All of the hotels managed by Cosmos Group pay scrupulous attention to forming what's known as the "responsible consumption culture": switching off the lights and electrical appliances when not used, using heating and cooling systems in most efficient ways, making sure that equipment receives timely maintenance, and other useful habits that help save energy.

When hotel owners prepare to buy power systems, Cosmos Group puts forward a list of requirements to optimise energy consumption, such as installation of proximity sensors, twilight switches, and energy-efficient light fittings. By replacing traditional bulbs with LED or dimmer bulbs, one can save up to 80% of electrical power. Besides, such bulbs last a lot longer (their service lives reaching 50,000 hours, or 15 years) and are eco-friendly as they contain no mercury.

Safety of guests and accessibility

The average occupancy rate of the hotels under Cosmos Group's management is up from 29% in 2016 to 56% in 2017. One of the drivers of the growth of the occupancy rate is the 2018 FIFA World Cup (with 4 of the portfolio hotels being in cities where it was held). When on vacation, people tend to care less about their safety, which sometimes leads to undesirable consequences. That's why the management company sets the hotels (as important infrastructure establishments and places of mass gathering) objectives as to the prevention of any possible harm to the guests' lives and health.

Cosmos Group's comprehensive approach to guest safety is an optimal mix of organisational, technical, and physical measures to prevent and promptly respond to dangerous situations. Its hotels use metal detection arches, automated safety control systems, and safety sheets, and hold regular security trainings for staff.

On top of that, the company works hard to create a comfortable and accessible environment for all categories of guests, both in terms of ergonomic aspects of public spaces (wheelchair ramps, widened doorways, etc.) and in terms of organising specific rooms for guests with special needs. E.g., 9 out of 243 rooms in The Holiday Inn Express Moscow – Paveletskaya are provided with special solutions for guests with disabilities^①.

^① The hotel opened in November of 2017 is the Corporation's first hotel to be built from scratch and the second Holiday Inn Express in Russia.

The Green Key eco-label

The prestigious eco-label signifies the hotel chain's responsible attitude to environmental safety.

The international voluntary eco-label programme for hotels, hostels, guest houses, business centres, holiday parks, and campsites is one of the five programmes designed by the Foundation for Environmental Education (FEE) to promote and implement environmental friendliness and sustainability in the hospitality industry.

By now, the label has been awarded to the following assets of Cosmos Group: The Park Inn by Radisson Astrakhan, The Park Inn by Radisson Sochi, and The Park Inn by Radisson Yaroslavl.

The Green Key has a list of uniform recommended and imperative criteria to be applied internationally in the following categories: environmental management, staff involvement, guest information, water, washing & cleaning, waste, energy, food & beverages, administration, green areas, and green activities. Establishments that meet the imperative criteria are awarded with international Green Key certificates.



4 hotels

being in cities where 2018 FIFA World Cup was held



≈4%

of Cosmos Group's hotel rooms are disabled-friendly

Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

Value for Communities

Cosmos Group sets itself the goal of improving standards of living in the communities where it operates.

The company's staff (acting on the company's initiative or joining projects of Sistema Charitable Foundation) take part in volunteer events such as the Solony festival, the Wishing Tree, Giving Tuesday, Running for a Good Cause, Giving the Dream, clean-up events, etc.

In particular, all through 2017 The Park Inn by Radisson Volgograd has been providing a local medical hospice with paint, brushes, and other products needed for renovation and helping with renovation works. Another portfolio asset, The Intourist Kolomenskoye, joined VERA Hospice Charity Foundation and Sistema Charitable Foundation in a fund-raising campaign to procure new medical equipment for hospices.

As a step in the vein of social adaptation of underprivileged children, The Park Inn by Radisson Kazan and The Park Inn by Radisson Volgograd provided their facilities for New Year theatre productions organised for roughly 260 children in Kazan and 400 children in Volgograd.

Cosmos Group puts a lot of effort into career guidance and introduction of the young to the hospitality business. In 2017 alone, 12 of the company's hotels cooperated with local colleges to provide internship opportunities to students all across the organisational structure, from reception desks to technical and financial departments.



12 hotels

cooperated with local colleges to provide internship opportunities to students

Responsible business under the brand The Park Inn by Radisson

Responsibility towards the environment and local communities is among Radisson's long-standing business principles. Radisson Hotel Group has developed a Responsible Business programme that relies on three principles:

Think Planet: reduction of environmental impact,

Think People: care for the health and safety of guests and staff;

Think Community: respect for social and ethical aspects of life within the company and community.

The programme dictates that the The Park Inn by Radisson hotel managed by Cosmos Group organise their operations according to the following key requirements:

Human rights:

observing the UN Global Compact,

meeting the human rights policy of Carlson Rezidor Hotel Group,

countering child sexual exploitation (Living Responsible Business),

observance of Radisson Hotel Group's policy against facilitation of prostitution,

non-financial incentives and promotion of healthy lifestyles.

Communities:

Adding Color to Lives, a programme designed to enhance the lives of at-risk youth,

training and internship opportunities for local students.

Green economy:

waste sorting and recycling,

notifying staff about the need to save energy, water, etc.,

ecolabels.

Each of the brand's hotels has a designated Responsible Business coordinator who controls the observance of these principles, draws up action plans, and prepares status reports.



BANKING AND FINANCE

Sistema's financial assets heavily implement digital technology and make financial services accessible to individual and corporate clients.



SISTEMA CAPITAL

The activities of MTS Bank and Sistema Capital Management Company, whose equity shares are held by Sistema PJSC and MTS, as well as the Corporation's venture capital investments in FinTech startups serve to promote advanced technologies in the finance sector, develop digital financial services, widen the spectrum of functional and accessible services for all categories of users, and foster financial literacy.



1.5^m
active customers



114.6 RUB bn
on savings accounts



TOP-50
Banks in Russia by assets

Accessibility and quality of services

MTS Bank provides banking services to both individual and corporate customers, including small businesses.

Customers can receive banking services not only in the bank's offices, but also in MTS's retail outlets across Russia. The bank's chain of offices spans over 50 cities in 30 largest regions of Russia.



MTS Bank has high financial stability, with a capital adequacy ratio (CAR) of 15.8%*. The metric reflects a bank's ability to recover possible financial losses at its own expense rather than at the expense of its customers. The regulator-approved minimum acceptable value of CAR is 8.0%.

* As of 01 January 2018

Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

The availability of MTS Bank offices in the areas where the Corporation's giant assets operate creates financial synergies. E.g., in early 2017 MTS organised a remote work station in Vologda to carry out a payroll cards programme for Segezha Group. The bank is now in charge of the full volume of services relating to the payment of salaries to the forest holding's staff and the maintenance of their payroll card accounts. On top of that, a recent integration of an MTS Bank office into an MTS retail outlet in Vologda enables the city's residents (including SME) to access the entire spectrum of the bank's service portfolio.

Insurance programmes

MTS Bank and its partners are actively involved in the development of a variety of insurance programmes, from life and health to property and capital.

In conjunction with Ingosstrakh Life, MTS Bank launched a new accident insurance programme titled Protection Today for adults and children, with coverage sums of 125,000 to 1,000,000 roubles payable in case of injuries, incapacitation, or death. The insurance also covers surgeries required as a result of accidental injuries, including athletic ones, even those received in the course of amateur competitions.

On teaming up with another insurance company, MAKS, the bank launched a new homeowner's insurance programme Simple Solution that requires no on-site inspection and covers damage and losses caused by fire, explosion, floods, natural disasters, physical impacts, and crimes. The indemnification sums under the programme range from 270,000 to 1,000,000 roubles.

In association with Renaissance Life, the bank launched an insurance plan dubbed The Investor allowing customers to cash in on equity price fluctuations while having their investments fully protected.



MTS receives an award for processing customer requests

Improving quality of customer service is among MTS Bank's priority objectives. An important tool for its achievement is effective processing of customers' requests. The bank's staff always take a customer-centric approach to addressing specific problems/situations.

An overwhelming majority of customer requests are processed within a two days' time. 81% of the (toll-free) calls made to the Call Centre are answered within 30 seconds.

The bank is also open to interacting with customers with official communities in social networks: VKontakte, Instagram, Telegram, Facebook, Odnoklassniki, and Twitter, as well as through the Friends of Banks forum of the national banking portal Banki.ru.

MTS Bank recently received one of the Visa Global Service Quality Performance Awards 2016—for chargeback effectiveness. The payment platform recognised the bank's efficient work in handling customers' chargeback requests on operations with Visa cards.

Access to credit records

Borrowers actively planning to take out a mortgage loan or a cash loan need to know their credit record status. In July 2017 MTS Bank and the credit reference agency Equifax launched a new service for individuals enabling them to view their credit history reports in any office of MTS Bank. Reports certified with a digital signature and containing the same information as that seen by the bank (loan applications, current and

closed loans, payment calls from creditors, suretyships, collaterals) are generated automatically from a single database of organisations cooperating with Equifax (banks, microlenders, credit consumers' associations, pawn brokers, the Federal Bailiff Service, financial managers, etc.) and provided directly against a customer's application filled out at the bank office.

Affordable mortgage loans

In 2017 MTS Bank reduced its interest rates on mortgage loans issued to private customers to 9.5% for the entire loan period provided that the property is purchased in Leader Invest's new residential projects in Moscow (the average mortgage rate in the market being 11%*). The offer comes in a package with a zero down payment.



* Average annual interest rate on mortgage loans in 2017 (according to the Central Bank).

Bespoke service

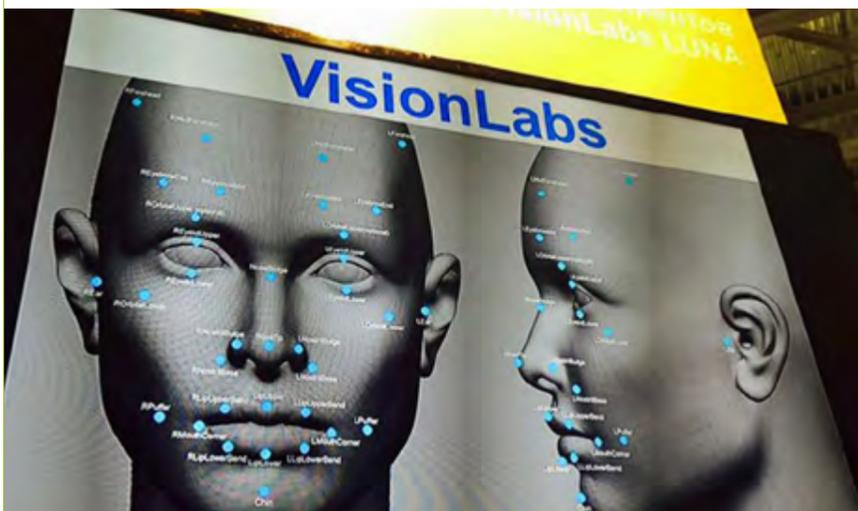
In 2017 the fund Sistema Venture Capital invested in the British company DataSine, the developer of an intelligent data analysis platform used for creating personality profiles of customers. The solution runs on machine learning and psychometrics. The service produces personality profiles of users based on records about their financial transactions, enabling banks and other financial institutions to personalise product offers depending on the current needs of specific customers, their consumption style, and particular circumstances.

Credit fraud prevention aided by advanced face recognition technology

One of the key investment projects of Sistema Venture Capital is VisionLabs. Its flagship product is a face recognition platform, VisionLabs LUNA, which allows analysing vast amounts of photo and video data in real-time mode to detect people's faces and run them against existing databases. The technology boasts high accuracy and stability of face recognition thanks to a database that contains 70 million images.

The banking sector is one obvious industry where the platform can be of great benefit. It is currently used by over 40 banks and

lending agencies in Russia and the CIS. The platform performs full-cycle customer identification and verification in just two seconds, thus enhancing customer service and keeping fraudsters at bay. Process automation speeds up customer servicing, application processing, and decision-making. Apart from that, VisionLabs LUNA can be used for remote servicing of the bank's customers, authorisations in banking systems, and marketing purposes (informing customers about loyalty programmes and POS lending options, searching for the bank's customers in partner stores, etc.).



Digitalisation of the banking sector

In 2017 MTS Bank focused on the digital transformation of financial services aiming to provide customers with easier access to the bank's services and products. A key means to achieve this goal is the development of remote services.

The bank has launched a user-friendly, intuitive, and generally accessible online lending service that allows users to purchase goods from the MTS online store on credit at no extra interest. What makes the service special is that a user can file a loan application directly at the store's website and receive MTS Bank's resolution as a matter of minutes. An online application to be filled to apply for a cash loan is available at the bank's website. The waiting time upon the submission of the application is just two minutes. The bank also improved its lending offer for MTS subscribers by reducing the maximum interest rate by 6% p.a. while doubling the lending ceiling amount (to RUB 200,000). The interest rate on loans issued to small businesses is down 2%. Last but not least, the bank brought down the average interest rate for loyal customers to 3% per annum and launched a re-financing plan product.

Reliable IT infrastructure for digital services

MTS Bank is very active in launching new products and widening sales channels through digital interfaces (websites, apps, etc), which requires state-of-the-art and fail-safe IT systems and large and reliable computing capacities.

In 2017 MTS Bank started using its own protected cloud-based platform #CloudMTS that received a number of the bank's

own IT systems designed for customer interaction and the management of internal processes, such as CRM solutions; anti-fraud, monitoring, online & mobile banking systems; and the corporate portal. This made it possible to speed up the implementation of new products and services and cut the costs associated with computing capacity.

MTS Bank has integrated some of its products into MTS's key FinTech solution, MTS Money Wallet, which allows subscribers to make payments and transfers using electronic money. The new solution bundles together all payment instruments (an e-wallet account, a personal MTS sub account, and bank cards) for fast and easy access to a wide spectrum of financial services and information on all transactions and payment profiles.

Going one step further, MTS Bank gave its customers the option of cashing out their mobile accounts through the bank's ATMs. The service is also available to the MTS subscribers who are not MTS Bank card holders. This is a convenient solution for situations when one needs to buy something or make a payment and has no cash or bank cards on hand.

The bank has also launched a user-friendly and generally accessible online lending service that allows users to purchase goods from the MTS online store on credit at no extra interest. What makes the service special is that a user can file a loan application directly at the store's website and receive MTS Bank's resolution as a matter of minutes.

Aiming to make an even better customer offer, MTS Bank improved the terms of instant loans provided to MTS subscribers for 1-2 years, with the maximum interest rate lowered to 6% p.a. and the maximum loan ceiling doubled (to 200,000 roubles). To file a loan application, the mobile operator's existing subscribers can fill out an online questionnaire and receive the bank's resolution in just two minutes or simply visit any of the bank's offices.

Development of charity

MTS Bank is a regular participant of Sistema's volunteer initiatives. For instance, in January of 2017 the bank's volunteers purchased, delivered and assembled furniture for a nursing home and nursing care hospital wards in the village of Tovarkovo (Tula region), as part of the charity campaign #GivingTuesday.

Not stopping at merely participating in charity programmes, the bank also works hard to develop user-friendly remote digital channels to attract private donations for social programmes, thus propelling the evolution of digital charity infrastructure and bringing new money in the non-profit sector. In 2017 the bank opened 16 new operating accounts for charities and foundations, enabling fast and easy target donations and subsidies for various social projects. The account of Sistema Charitable Foundation alone received some 2.5 million in private donations from the Corporation's employees and third parties.



In 2017 the bank opened

16

new operating accounts for charities and foundations

Support to small and medium-sized businesses

In 2017 MTS Bank signed cooperation agreements with the Moscow Regional Guarantee Fund for Support of Lending to Small and Medium Businesses, the Volgograd Region Guarantee Fund, and the Fund for the Development of Small and Medium-Sized Enterprises of the Novosibirsk region. The agreements will enable small and mid-size businesses to receive funding and/or bank guarantees from MTS Bank under the funds' suretyship. The borrowers do not have to worry about formalities: all one needs to do is apply for a loan at MTS Bank, and if the bank decides to grant it, it will reach out to the relevant fund to get the suretyship made.

Merchant acquiring for OZON.ru

In October 2017 MTS Bank and OZON.ru (one of Russia's top retailers) signed a merchant acquiring agreement. The long-term strategic partnership between the two assets of Sistema will widen MTS Bank's footprint on the acquiring market. With the new merchant acquiring service from MTS Bank, online retailers get financial guarantees and a fast-track way to get money debited to their accounts, while shoppers can pay for their purchases online day or night, just in a few clicks.

In the autumn of 2017 MTS Bank cut interest rates on all of its loan products for small businesses, which may now take out up to 80 million roubles for a period up to 60 months. Interest on working capital facilities was lowered from 13 to 11% per annum, and the overdraft rate is down to 1% per annum.

In September of 2017 the Russian Ministry of Agriculture included MTS Bank in the list of authorised banks to issue preferential loans to agricultural businesses. The bank's participation in the agri lending programme will strengthen its relations with the sector's players and benefit the national agriculture by means of below-market interest rates of 5% p.a. or less.

Financial literacy

MTS Bank is on a social mission to raise a new generation of competent banking professionals and informed users of financial services across all demographics. To achieve this goal, the bank makes it a point to participate in the annual nationwide programme Days of Financial Literacy at Schools and Colleges. In September of 2017 volunteers from among MTS Bank's staff taught financial literacy classes to the students of two high schools in Moscow. The experts talked about global trends in the world banking industry and banking professions and held a quiz on finance whose winners received prizes.



As part of the #GivingTuesday initiative, MTS Bank invited Moscow's educational and social institutions to apply for financial literacy lectures and quizzes to be arranged in February-April of 2018, for the bank's volunteers to share their knowledge about current global trends in digital technology and banking.

An investment from Sistema Asia Fund revolutionises lending

In September 2017 Sistema Asia Fund invested in the Indian fintech startup Lendingkart designed to provide much-needed capital to small and medium-size businesses. The solution will allow entrepreneurs to focus on business instead of worrying about gaps in their cash flows.

Relying on Big Data analysis and machine learning, the company developed a lending mechanism capable of analysing 4 thousand parameters to assess the creditworthiness of SME. It makes processing online applications for loans an easy procedure that only takes up to three days to approve a loan and requires a very small package of documents.

The company uses a lean business model (with just a handful of staff) to attract clients and collect debts. Lendingkart offices are open in three cities of India, with services sold all over the country. The startup that has already processed over 300 thousand loan applications from inception to date is now planning to intensify its engagement with Indian micro businesses that are now suffering from near-zero access to credit.

For years now, MTS Bank is the permanent expert of the annual Russian contest in financial literacy, financial markets and protection of rights of financial services users among high-school students, the largest-scale project in Russia designed to promote financial literacy of school students all over Russia, organised by the Institute of Stock Market and Management, the Federal Service for the Oversight of Consumer Protection and Welfare, the National Institute for Financial Markets and Management,

and the Union for the Protection of the Rights of Consumers of Financial Services. The 2017 contest drew more than 6,500 high school students, with 118 students from 45 regions of Russia making the cut for the finals. The winners and runners-up of the contest were given not only certificates of achievement and awards (including from MTS Bank), but also preferential terms for admission to the nation's economics colleges.



Profile of Sistema

Responsible investment

Efficient management

Sustainable development practices of portfolio companies

Developing Russia's market of collective investments

Sistema Capital is a management company that invests and provides asset management services on global financial markets for individual and corporate customers.

In 2017 Sistema Capital became a full-fledged MOEX-listed company with direct access to the currency and securities markets and also started offering products in the retail segment in close cooperation with MTS. The company sees its social mission in widening the category of retail investors in Russia while offering affordable and user-friendly instruments for investments in high-liquidity assets as an alternative to savings accounts, a "vanilla" personal savings tool. In the end of 2017 Sistema Capital launched a proprietary mobile app allowing users to receive information about their assets, track their investments in real time, and perform transactions involving equity instruments (buy, sell, or exchange).

Sistema Capital regularly participates in social initiatives aiming to enhance the financial literacy of Russian people:

- publishing general-audience articles on managing personal finances and leveraging investment opportunities;
- participating in related events (conferences, round tables);
- conducting regular distribution trainings for the staff of a partner company in the finance sector, upholding adequate standards of knowledge to make sure that advice provided to investors is always competent and exhaustive;
- preparing educational and customer materials to enhance the quality of financial advice provided;
- working to raise the awareness of all stakeholders about risks and opportunities associated with investments in securities.

MTS Bank and Sistema Capital acted as partners of FINFAIR Financial and Stock Exchange Services Fair first organised by the Moscow Exchange in the autumn of 2017 in the Museum of Moscow to enlighten the general public about the financial market and its products and share much-sought-after insights about savings and investments. The event was a unique forum where the representatives of Russia's leading financial institutions conducted workshops and master classes and guests received practical advice on managing personal finances. Sistema Capital, which was sharing a booth with MTS Bank, provided consultations about its investment products and presented its mobile mutual investment funds that sell units online.

Igor Busarov

CEO of Sistema Capital



«There are only about 700 thousand investors in Russia right now, which is less than 1% of all the economically active population. As the continuing downward trend in savings account interest rates will inevitably fuel appetite for investment products, management companies are now well-equipped to foster a mass-scale culture of savings based on clear, transparent, and affordable products. Our cooperation with MTS is designed to produce synergies that will turbocharge our retail business. We plan to gain a significant share in the market of collective investments in the mass segment by increasing the percentage of retail investors in our portfolio to 30%».



>9 RUB bn

in NAV of open-end mutual funds



Nº1

by yield among major open-end rouble bond mutual funds



>50 RUB bn

in assets under management

ANNEX

| | |
|---------------------------------------|-----|
| Information about the Report | 162 |
| Awards and achievements | 171 |
| Glossary and acronyms | 174 |
| Consolidated indicators | 179 |
| GRI index | 183 |
| Compliance with the UN Global Compact | 190 |
| Contact details | 196 |

The Corporation follows the requirements of international GRI Standards and principles of the UN Global Compact, engaging stakeholders in the dialog about sustainable development and CSR aspects and providing its non-financial reporting for external assurance.

INFORMATION ABOUT THE REPORT

GRI 102-50 | GRI 102-51 | GRI 102-52

Sistema PJSC continues to follow the practice of annual disclosure of non-financial corporate reports and presents the fifth consolidated Sustainability Report. The previous report for 2016 was published in Q3 2017. In the past, starting from 2006, the company published CSR reports^①. The purpose of this Report is to inform a broad range of stakeholders about the key business activities and results of Sistema and its portfolio companies in the economic, environmental and social fields from the point of view of sustainable development of the Corporation, society and environment. Moreover, preparation of non-financial public reporting is also a tool used for regular monitoring of the effectiveness of CSR activities conducted by the companies of Sistema Group.

Sistema encourages the independent disclosure of non-financial information by its key assets: MTS Group, Segezha Group, Detsky Mir, BPGC, and Sistema Charitable Foundation prepare their own non-financial reports in accordance with the most advanced standards in this area. In their reports on sustainable development and in annual reports the companies provide more detailed information about approaches to managing sustainable development and CSR, social projects and their results, stakeholder engagement.

Key principles of the Report preparation

GRI 102-54

The Corporation follows the principles and requirements of Sustainability Reporting Standards of the Global Reporting Initiative (GRI Standards). This Report discloses information at the core level. Description of the Corporation's business model is also based on the International Integrated Reporting Standard with respect to the capital concept.

The Report is also based on:

principles of the UN Global Compact;

provisions of the Social Charter of the Russian Business;

basic efficiency metrics, the indices "Responsibility and Transparency" and "Sustainable Development Vector" developed by the the Russian Union of Industrialists and Entrepreneurs;

Russian and global non-financial reporting practices of peers (investment groups and conglomerates) and requests from the investment community and recommendations of ESG analysts regarding the disclosure of non-financial information about the Corporation;

annual corporate transparency rating of Russia's largest companies prepared by the Russian Regional Network for Integrated Accounting;

recommendations from the Non-Financial Reporting Board of the Russian Union of Industrialists and Entrepreneurs (RUIE) given as part of public assurance of Sistema's Sustainability Report for 2016.

Determining material topics for disclosure in the Report

GRI 102-21 | GRI 102-46

This report was prepared following a revision of the materiality of the subjects disclosed. The list of the subjects was formed on the basis of the material aspects covered in last year's report and was extended by adding the topics identified as a result of benchmarking.

Being one of Russia's largest public companies, Sistema is the focus of attention of leading global and Russian rating agencies and analysts, public and expert organisations that conduct assessment of the Corporation's ESG policies and practices: FTSE Russell, MSCI, Vigeo rating, CDP, ISS, RobecoSAM, Oekom, Bloomberg, Sustainalytics; in Russia – Russian Union of Industrialists and Entrepreneurs, Moscow Exchange, AK&M, RAEX, Russian Regional Network for integrated reporting, the Russian Institute of Directors, etc. Following an analysis of requests received from these organisations the Corporation added a number of new important topics in the general list.

A survey was conducted in which stakeholders were asked to assess the materiality of each of the proposed 29 topics for disclosure on a 5-point scale. The respondents were also allowed to make adjustments in the proposed wordings and recommend additional topics.

The total of 109 questionnaires were completed, with 9% submitted by the management of the Corporation (including 2 questionnaires completed by the independent members of the Board of Directors) and 91% - by external stakeholders.

In three years the involvement of interested parties in preparation of the Report increased significantly: the total number of survey participants increased by 127%. The share of external stakeholders increased more than two-fold compared to 2016 due to expanding the pool of respondents and conducting the survey in a new and convenient online format.

Annex

Full list of material topics^①

GRI 102-47 | GRI 103-1

| No | Topic | GRI standard |
|----------------------------|---|---|
| ECONOMIC PARAMETERS | | |
| 1. | Economic performance and operational efficiency of Sistema and its portfolio companies (assets) | Economic performance |
| 2. | Sistema's contribution to ensuring Russia's technological leadership (R&D, innovations, development of high-tech and knowledge-based industries) | Economic performance Local communities |
| 3. | Investments in development of infrastructure and modernisation of production facilities | Economic performance |
| 4. | Contribution to economic growth and social welfare of the country, including tax payments and contributions of the Corporation to off-budget funds, involvement in addressing the priority tasks in the area of social and economic development of Russia (import substitution, technology, medicine and food security, export potential) | Economic performance |
| ENVIRONMENT | | |
| 5. | Contribution to development of the "green economy", environmentally responsible production and consumption | General disclosures |
| 6. | Programmes aimed at preservation of biodiversity in the regions of presence | Biodiversity |
| 7. | Total investments of the Corporation in protection of the environment | All environmental aspects |
| 8. | Resource and energy efficiency of the Corporation's operations (data on water, fuel, heat and energy consumption by the companies of Sistema Group, programmes aimed at decreasing environmental impact) | Energy, Water |
| 9. | Impact of the Corporation on climate (data on greenhouse gas and other emissions of Sistema's portfolio companies, programmes aimed at reduction of emissions) | Emissions |
| 10. | Data on effluents (used water, oil, fuel and chemical spills) and production waste of Sistema's assets, programmes aimed at reducing the impact on the environment | Effluents |
| SOCIAL SPHERE | | |
| Labour practices | | |
| 11. | Sistema and its subsidiaries as attractive employers (including the level of wages paid to the employees in the regions of presence, social programmes for personnel, the share of top managers from the local community) | Market presence |
| 12. | Key characteristics of personnel employed by Sistema and its portfolio companies (headcount, age and gender, turnover, succession pool) | Number of employees |
| 13. | Health and safety of employees at the workplace (programmes for promotion of occupational safety and a healthy lifestyle, prevention of occupational injuries and diseases) | Occupational health and safety |
| 14. | Training and development of Sistema's personnel (corporate training and development programmes, the duration and focus of employee training) | Training and education |
| 15. | Programmes implemented by Sistema and its portfolio companies to train young talented professionals for the innovative sectors of the Russian economy | Training and education |
| 16. | Relations of employees and management (transparency and quality of internal communications, collective agreements, personnel assessment programmes) | Labour/management relations |
| HUMAN RIGHTS | | |
| 17. | Observance of human rights, non-discrimination and protection of personal data | Non-discrimination; Freedom of association and collective bargaining; Diversity and equal opportunity |

① For more information about the Corporation's non-financial reporting please go to <http://www.sistema.ru/ustoichivoe-razvitie/socialnye-otchety/>

① In the table below the new topics disclosed in the 2017 Report are shown in bold type.

| No | Topic | GRI standard |
|--|--|---|
| 18. | Conducting corporate training programmes to ensure observance of human rights by security and other employees | Security practices |
| DEVELOPMENT OF REGIONS AND RELATIONS WITH COMMUNITIES | | |
| 19. | Charitable activity and social investments of the Corporation | Indirect economic impacts |
| 20. | Contribution to the development of regions of presence and local communities (creating new jobs, supporting education, health care, culture, comprehensive development of territories) | Local communities |
| 21. | Involvement in development and implementation of public policy (development of federal and/or regional laws, participation in public projects and programmes) | Public policy |
| 22. | Social partnership and results of Sistema's cooperation with local communities, regional and local authorities | Local communities |
| RESPONSIBILITY TOWARDS CUSTOMERS | | |
| 23. | Ensuring health and safety of the consumers of products and services of Sistema's portfolio companies, including certification and quality assurance | Customer health and safety |
| MANAGEMENT SYSTEM | | |
| 24. | Responsible investment (principles and practice, including assessment of non-financial risks) | General disclosures |
| 25. | Business ethics, including anti-corruption practices and resolution of conflicts of interest | Anti-corruption |
| 26. | Implementation of responsible practices in the supply chain of the Group (policies, assessment and development of suppliers, support for small and medium enterprises, including local businesses) | Supplier environmental assessment; Supplier social assessment |
| 27. | Compliance with regulations on labour relations, environmental protection, tax and other applicable legislation | Socioeconomic compliance; |
| 28. | Environmental compliance | Общие раскрытия |
| 29. | Certification of management systems, compliance of Sistema Group companies with national and international standards, including industrial standards | General disclosures |
| | Participation of Sistema Group in implementation of the UN global Sustainable Development Goals (integration of Sustainable Development Goals in business strategy and CSR, impact of Sistema and its assets on achievement of the Goals) | General disclosures |

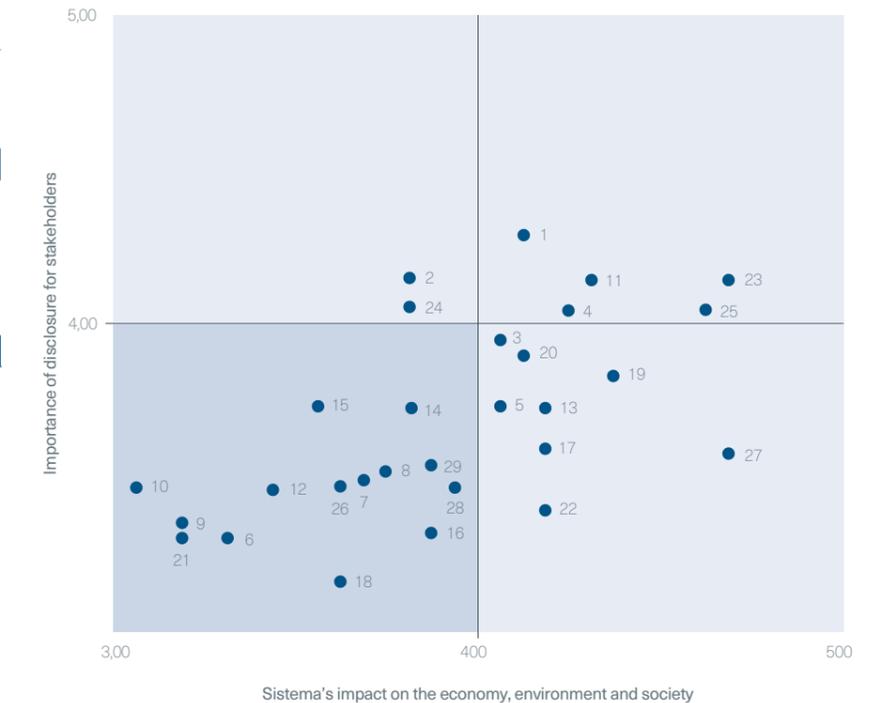
Number of questionnaires completed by stakeholders that were taken into account when establishing materiality



Based on the survey findings a materiality matrix was developed, with estimates of Sistema's impact on material topics shown along the horizontal axis and estimates of the importance of disclosure for stakeholders shown along the vertical axis.

All of the topics shown in the matrix are disclosed in this Report in proportion to their importance determined by the stakeholders: the most material topics have a priority and are covered in greater detail compared to the less material topics.

Materiality matrix



* Upper three squares – most material topics, over left square – less material topics

Defining materiality: key stages



Key stakeholders

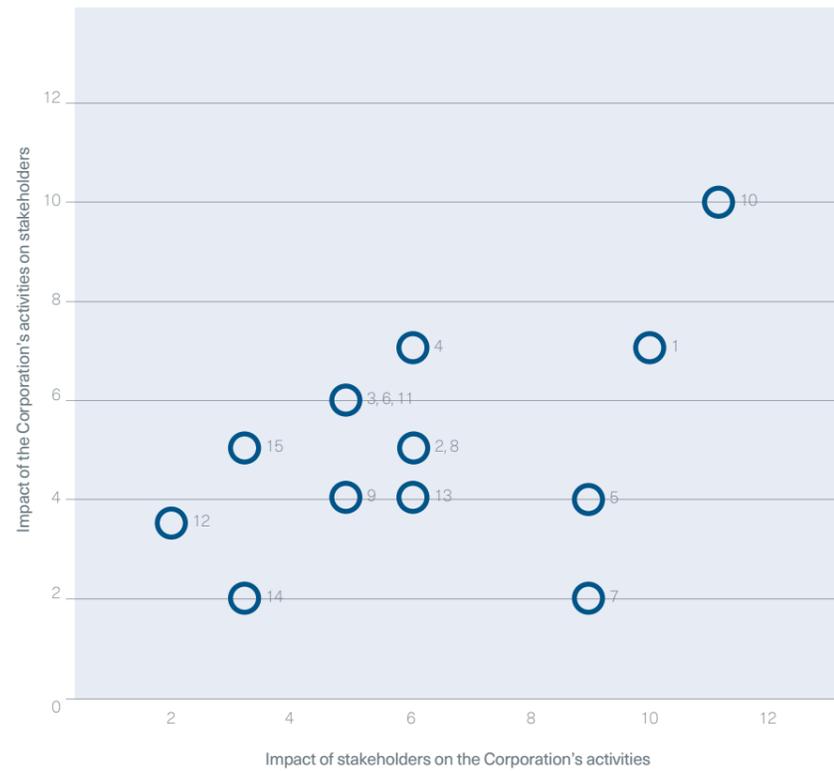
GRI 102-42

In the course of preparation of this Report the list of groups of stakeholders made by Sistema's managers during the previous reporting cycle was recognised as relevant.

The previous assessment of the Corporation's impact on stakeholders and the impact of stakeholders on Sistema was reviewed and validated by a working group in the course of preparation of the 2017 Report.

At the same time, new groups of stakeholders were included in the list: shareholders and investors, business partners, academic community, educational institutions, non-profit and environmental organisations and federal authorities.

Rank map of stakeholders^①



For more information about determining the key stakeholders of Sistema and their ranking see Sustainable Development Report for 2016.

① The map shows groups of top-level stakeholders.

Groups of stakeholders of the Corporation^①

GRI 102-40

| Groups of stakeholders | Approach to stakeholder engagement |
|---|---|
| 1. Shareholders and investors | 2.2. Business model and asset management |
| 2. Customers and consumers | 3.5. Ethics and anti-corruption 4. Sustainable development practices of portfolio companies |
| 3. Business partners (including suppliers and contractors) | 3.6. Procurement and supply chains 4. Sustainable development practices of portfolio companies |
| 4. Personnel (including trade unions) | 3.7. HR management 4. Sustainable development practices of portfolio companies |
| 5. Federal authorities | 3.2. Implementation of investment programmes |
| 6. Regional and municipal authorities | 2.1. Responsible investment policy 4. Sustainable development practices of portfolio companies |
| 7. State authorities and regulators | 3.2. Implementation of investment programmes |
| 8. Professional associations | 1.4. Membership in public organisations 4. Sustainable development practices of portfolio companies |
| 9. Academic community | 4. Практики устойчивого развития портфельных компаний |
| 10. The Corporation's management | 2.2. Business model and asset management 3.7. HR management |
| 11. Population in the regions of operations | 2.1. Responsible investment policy 4. Sustainable development practices of portfolio companies |
| 12. Educational institutions | 2.4. Social investment 3.7. HR management 4. Sustainable development practices of portfolio companies |
| 13. Media | 2. Responsible investment 3.4. Risk management |
| 14. Environmental non-profits | 3.8. Environmental impact 4. Sustainable development practices of portfolio companies |
| 15. Non-profit organisations and charities | 2.4. Social investment 4. Sustainable development practices of portfolio companies |

Учет Addressing the recommendations of stakeholders given in a survey on the 2017 Sustainability Report

GRI 102-44

| Recommendation | Consideration and fulfilment of recommendations in the 2017 Report: |
|--|--|
| The report should describe the company's regular and consistent compliance with the the principles of the Ethics Code. | In addition to the section "Ethics and anti-corruption" the chapter "Sustainable development practices of portfolio companies" now includes a description of specific examples of compliance with ethical practices in the companies of the Group. |
| Include a description of mechanisms used for taking investment decisions. | The section "Responsible investment policy" now includes a diagram showing the process of selection of investment projects at Sistema. |
| Extend the "Responsible investment" section, include more detailed information. | The section "Responsible investment" has been significantly extended with regard to description of the Corporation's responsible investment policy. |
| Describe the new strategy and business segments of the Corporation. | The section "Responsible investment" provides information about investments made through investment funds controlled by the Corporation. |
| Place more emphasis on the topic of innovations; add more examples to the section. | The section "Innovations" includes this information. |

① Sistema's key stakeholders are shown in semi-bold type.

Report Boundaries

GRI 103-1

The Report covers Sistema and its key portfolio companies (subsidiaries) and its boundaries mostly coincide with those of the company's consolidated financial statements.

The number and share of GRI indicators covered by the Group's consolidated reports



○ Share of consolidated results for the Group, %
● Number of disclosed GRI indicators

>80% indicators

disclosed by the Group

(+5 p.p. vs 2016)

GRI 102-48

| Parameter | Reasons for revising data for previous periods |
|---|---|
| 102-8 Total number of employees | Segezha Group's data for 2016 was revised due to consolidation of the Lesosibirsk Woodworking Plant; |
| Medsi's data for 2015-2016 was adjusted; | Уточнение методики расчета и отражения данных за 2015-2016 годы. |
| Data on MGT's personnel was shown in reports on MTS Group for 2016. | Осуществление пересчета показателей за 2015-2016 годы в джоулях (Дж). Данные за 2015-2016 год уточнены за счет включения информации по компаниям «Медси», «СИТРОНИКС», отелям под управлением Cosmos Group. |
| 201-1 Direct economic value generated and distributed | Adjustment of the methodology for estimating and reporting data for 2015-2016. |
| 302-1 Energy consumption within the organisation | Indicators for 2015-2016 were recalculated in joules (J). |
| Data for 2015-2016 was revised due to inclusion of information on Medsi, Sitronics and Cosmos Group hotels. | Уточнена методика отражения данных по Segezha Group, в контур консолидации включены отели под управлением Cosmos Group. |
| 305-1 Direct greenhouse gas (GHG) emissions | The methodology for reporting data for 2015-2016 was revised; Cosmos Group hotels were included in the consolidation perimeter. |
| 303-1 Water withdrawal by source | The methodology for reporting Segezha Group's data was revised; Cosmos Group hotels were included in the consolidation perimeter. |
| 306-1 Water discharge by quality and destination | The methodology for reporting Segezha Group's data was revised; Cosmos Group hotels were included in the consolidation perimeter. |
| 306-2 Waste by type and disposal method | The methodology for reporting data for 2015-2016 was revised. |
| Spending on charity and social programmes | The methodology for reporting data for 2016 was revised. |
| Total environmental spending and investments of Sistema Group. | The consolidation perimeter was extended by including Cosmos Group hotels and Sitronics. |

Sistema's financial and economic results presented in the report are shown in a consolidated format on the basis of audited IFRS financial statements, if not otherwise provided for herein

Some of the information disclosed in previous non-financial reports of the Corporation was revised due to the retrospective adjustment of data following changes in the reporting policy in a number of portfolio companies and in the perimeter of data consolidation, and deletion of some previous technical inaccuracies (see the table below).

| Disclosed in the report | 2016 | 2017 | Note |
|-------------------------|------|--|--|
| Standard elements | 35 | 45 | The key new indicators are related to the management system. |
| Topics (aspects) | 14 | 25 GRI topics +2 Sistema-specific aspects | New aspects: - Indirect economic impacts - Procurement practices - Biodiversity - Labour/management relations - Local communities - Customer health and safety - Socioeconomic compliance - Freedom of association and collective bargaining - Diversity and equal opportunity - Public policy - Supplier social and environmental assessment |
| Indicators | 21 | 36 GRI indicators +3 Sistema-specific indicators | Indicators specific to the Corporation: - Total expenses for charitable and social projects - Total number of volunteers at the Company - The number of volunteer events conducted |

External assurance for the Report

GRI 102-48



Sistema's 2017 Sustainability Report has received external assurance from the Non-Financial Reporting Board of the Russian Union of Industrialists and Entrepreneurs.

According to the external assurance the Report contains material information covering all areas of business activities in accordance with the Social Charter of Russian Business and fully discloses information about the Corporation in these areas.

The Report describes the implementation of the basic principles of responsible investment and the main indicators, reflecting the contribution of the Corporation and its key assets in the Sustainable development Goals' achieving, as well as corporate efforts aimed at the enhancement of business processes and management practices in Sistema's portfolio companies.

We will consider the recommendations and comments received from the assurance provider during the preparation of our future reports.

Implementation of recommendations received from the Non-Financial Reporting Board of the Russian Union of Industrialists and Entrepreneurs regarding Sistema's 2016 Sustainability Report^①

| Recommendation of the Non-Financial Reporting Board of the Russian Union of Industrialists and Entrepreneurs (excerpt ^①) | Consideration and fulfilment of recommendations in the 2017 Report: |
|--|--|
| Providing a more detailed disclosure of compliance with responsible investment principles in the Corporation's business practices. | The section "Responsible investment" was included. |
| Showing real contribution of the Corporation and its key companies to the achievement of the UN global Sustainable Development Goals until 2030 and performance of the related tasks. | The Report covers the Sustainable Development Goals until 2030 which are most relevant for the companies of the Group. The Annex to the Report includes a summary table on implementation of global and national priorities with figures on each sustainable development goal and objective and results of the reporting year. |
| Providing a fuller disclosure on managing sustainable development, including with regard to the impact on the financial and economic performance of the Corporation. | An outline of the mechanisms of Sistema's impact on developing and improving management practices in portfolio companies (sections "Responsible investment", "Risk management"). |
| Providing a fuller coverage on managing environmental impact, availability of environmental management systems at subsidiaries and the Corporation's ability to influence development of processes in this area as part of improvement of its investment activities. | A summary table on availability of environmental management systems at subsidiaries was included in the section "Responsible investment". |
| In the section "Sustainable development practices of portfolio companies" the topic of specific environmental impacts and their management is covered in the "Agriculture", "Forest industry", "Hotel business", "Real estate" and "Energy" sectors. The topic of responsible paper consumption has been covered in the Report for the first time. | Большинство показателей по Группе включены в динамику за 3 года. Увеличено число раскрываемых показателей GRI и доля среди них тех показателей, которые раскрываются консолидировано по Группе. По ряду направлений раскрыты планы на 2018 и дальнейшую перспективу. |
| Including in the Report a set of major comparable indicators for the Group, providing data on their evolution and including projections and targets for the future period. | Most of the Group's indicators are shown for a 3-year period. The number of GRI indicators and the share of indicators disclosed in the Group's consolidated reports were increased. Plans for 2018 and onwards were disclosed for some business segments. |
| Including in the report not only general but also special indicators that are material for the industries where Sistema's companies operate. | The section "Sustainable development practices of portfolio companies" includes industrial indicators that are relevant for specific industries. |
| Extending the practice of holding public events in the course of preparation of reports, disclosing information on specific results of such cooperation, on the proposals received by the Corporation from stakeholders and on the Corporation's response. | In the course of preparation of the Report a new electronic format of survey of stakeholders was applied, making it possible to significantly broaden the audience. The Report includes a summary table including all recommendations received from stakeholders and their representatives. |
| Providing more detailed examples of applying sustainable development principles to business partners, and giving more coverage on the topic of supply chain responsibility. | The section "Telecoms and digital services" includes information on the Suppliers' Code of MTS. The industry review also includes detailed information on implementation of sustainable development principles in the supply chain in such sectors as "Real estate", "Agriculture", "Forest industry", "Consumer sector". |

^① The full text of the External Assurance Report for 2016 is available at: www.sistema.ru/fileadmin/user_upload/social_reports/zakluichenie_pssp_2016.pdf

AWARDS AND ACHIEVEMENTS

GRI 103-3

Telecoms and digital services

MTS:

made it to the list of **100 most expensive global telecom brands according to Brand Finance Telecoms 500 2017**;

won in the "Services" category of the annual consumer confidence award **"Russian No1 Brand 2017"**;

came first in the **Leadership Index** rating of best employers compiled by **Rabota.ru** and became a **top 5 company in the annual ranking of 100 best employers in Russia** made by **HeadHunter**, topping the ranking among telecom companies;

became a four-time winner of the award in advertising and marketing communications **Effie Awards Russia 2017**, the company's charitable project Generation M received a bronze in the category "Contribution to the general good. Social responsibility and sustainable development" and also became a finalist in the category "Telecommunications. Internet";

received a **Safety Leaders Award** for creating a shared centre for monitoring information security events and for a social project "Children in the Internet";

won the first national **Women Power Award** aimed at finding the best projects, practices and programmes implemented by companies for female employees in the category "The best career growth opportunities for women".

won the Grand Prix of **IR Magazine Russia & CIS Awards** for best IR work;

received an annual **Digital Communications AWARD** sponsored by the Russian Association of Directors for Communications and Corporate Media for its Generation M project in the category "Digital projects and strategies/CSR communications" and in the category "Digital media and tools/Application for a mobile device" for its My MTS application.

MTS's Corporate University received a prestigious **GlobalCCU Award 2017** in the category "The best innovative corporate university".

The sustainable development report published by MTS became a winner in three categories of the international annual report competition organised by the **League of American Communications Professionals LLC (LACP)**. The company was given platinum awards for the quality of disclosures in the telecom industry and in the category "Best Corporate Report" and also came 3rd in a global ranking of top 50 reports.

MTS Group companies were among the winners of the national competition **Employee Engagement Awards Russia 2017** for development of internal brand, corporate culture and enhancing employee engagement. MTS won in the category "Company of the year in the area of employee engagement/Big business", MGTS won in the category "Health".

MGTS won in the 8th annual award **"Consumer rights and quality of services"** in the category "Retail services"/"Domestic services".

High technology

The integrated microcircuits developed by JSC NIIME and **Mikron** and designed for use in MIR bank cards, won the first place at the **Golden Chip** competition of Russian microelectronic products in the category "Best Microelectronic Product 2016-2017".

Kronstadt Group received the Best Innovative Project award at the annual **Aircraft Company of the Year** competition for its continuous work on development of innovative unmanned aerial vehicles.

RTI's HQ was included in the only Russian independent ranking **"Green Offices of Russia"**, which evaluates the offices of companies and enterprises using environmental indicators.

Sarov Technopark was included in the A+ group of technoparks with the highest level of efficiency (more than 10% above Russian average) of the **3rd national ranking of Russian technoparks** compiled by the Association of Clusters and Technoparks. The ranking covers 33 technoparks from 17 regions.

Forest industry

Segezha Group:

- took the second place in the first **rating of environmental openness of the pulp and paper enterprises of the Russian forest industry (WWF)**;
- received a medal of the International Exhibition **Russian Forest 2017** for implementation of new technologies;
- was named the best supplier of softwood timber from Russia for the Chinese Corporation Xiamen Beijing National Building Material Group (**2017 Best Supplier of Russian Lumber**).
- The investment project for modernising the Segezha Pulp and Paper Mill won the top prize at the annual **Lesprom Awards 2017**.
- LLC Segezha Packaging won the contest of the **Pension Fund of Russia** in the category "Best compulsory pension insurance provider 2017" in the category "Insurance provider employing more than 500 people".

Healthcare and pharmaceuticals

Medsi

- Medsi is among the top 3 companies in the list of the **top 100 private multi-specialty clinics in Russia** by revenue in 2017.
- Medsi** sanatoriums were awarded gold medals in the category "Best health resort treatment technologies" and "Best rehabilitation facility" at the **National Russian Forum Zdravnitsa 2017**.
- Medsi's** President Elena Brusilova won the **Person of the Year Award** in the prestigious category "Top manager of the year" following an online vote on the **Vademecum** industrial web portal.
- The "electric eye" developed by **Medsi's** eye surgeon, professor and doctor of medical sciences D. Davydov, for treatment of optic nerve atrophy was named by **Rospatent** (the Russian Federal Intellectual Property Service) one of the top 10 most promising innovations registered in 2017.

Consumer sector

Detsky Mir Group:

- won in "The Leader of the year" category in the children's goods segment at the **Russian Retail Week 2017 forum**.
- became a winner of the international competition **Corporate & Financial Awards** in the category "Best communications during an IPO";

Concept Group

- The CEO of **Concept Group** made it to the top 100 of the most efficient top managers in St. Petersburg and Leningrad region according to the **16th annual award organised by the Delovoy Peterburg newspaper**.

Agriculture

- The products of Yuzhny Agricultural Complex received **10 gold medals** at the **Russian Golden Autumn** agricultural exhibition.

Real estate

Leader Invest

- Leader Invest is among the leaders of the **Knight Frank** ranking of luxury real estate developers within the Garden Ring of Moscow.
- Leader Invest was ranked second for the number of projects in the Central administrative district of Moscow according to a ranking compiled by the **Est-a-Tet** analytical centre.
- Leader Invest became a leader among Moscow's developers by the number of ongoing projects according to **Urban Awards 2017** and received a "Leader of Local Development" award (a club format).
- The Pokrovsky Boulevard Residence was recognised "Premium Class Project No 1" according to the Records of the **Real Estate Market Award**.
- Leader Invest's project "Leader at Volgogradsky. Yesenin House" won the Best Comfort Class Property under Construction award at the prestigious residential real estate event **RREF AWARDS 2017**.

Business Nedvizhimost

- Business Nedvizhimost's hotel Holiday Inn Express Moscow-Paveletskaya, which was commissioned in November 2017, became a finalist of the national contest **Russian Hospitality Awards** in the category "Developer of the Year".

Electric power

BPGC

- BPGC received awards in the Russian national **Best Power Grids** contest in two categories: "Socially Responsible Power Grid Company" and "The Most Transparent Power Grid Company".
- Bashkirenergo's** environmental policy was highly acclaimed in the prestigious national contest **100 Best Organisations of Russia. Ecology and Environmental Management**. The company was awarded with a diploma of the contest and a special medal "100 Best Organisations of Russia", and the CEO of BPGC Dmitry Sharovатов received a lapel pin "Ecologist of the Year – 2017".
- BPGC took part in the environmental initiative **Save the Forest** organised by the **Committee for Youth Affairs of the Administration of Ufa** together with the city's Centre for the Promotion of Youth Employment and was awarded a diploma and a winner's cup.

Hospitality business

- The unique natural resort hotel **Altay Resort** won in two categories of the **Russian Hospitality Awards**: "Best MICE Hotel" and "Best Family Hotel". The hotel gets the award for the third year in a row.
- Holiday Inn Express Voronezh-Kirova** made it to the top 5 **best hotels of the IHG®** chain in Q1 2017 in the category "Customers' perception of the hotel service" based on a survey of hotel guests conducted by Medallia portal.
- Savoy Westend Hotel** was included in the list of best luxury hotels of the Czech Republic compiled by **Luxury Travel Guide** for "Excellent Service". The hotel also received an award in the category "The best 5-star hotel" from the prestigious **Czech Hotel Awards**.

Banking and finance

MTS Bank

- MTS Bank was recognised one of the most effective Russian banks in 2017 by the **Kommersant** newspaper, having climbed to the 7th place from the 10th place a year earlier.

Sistema Venture Capital

- Sistema Venture Capital won the national award **Venture Investor 2017** in the category "Discovery of the Year".

Sistema Capital Management Company

- demonstrated the highest yields among major **open-end rouble bond mutual funds** in 2017.
- Sistema Capital Management Company won the award **"The financial elite of Russia 2017"** in the subgroup "Management Companies" in the category "Development dynamics". The company received a commemorative diploma for developing modern services and for becoming a market leader by efficiency of investments among the largest management companies.

① MICE (Meetings, Incentives, Conferences, Exhibitions) is an area in the business tourism industry related to organising and hosting different corporate events.

GLOSSARY AND ACRONYMS

Glossary

| | |
|--|--|
| 4P healthcare | A new healthcare model focused on an individual approach to each patient and based on four underlying principles: personalisation, prediction, prevention and participation. |
| Autoclave | A device used for chemical reactions and other processes using high pressures and temperatures |
| Agency for Strategic Initiatives (ASI) | A Russian autonomous non-profit organisation established by the government to carry out a number of economic and social initiatives. |
| Accelerator | A company whose business is to help other companies (residents of the accelerator). |
| Russian Managers Association | A Russian business union aiming at professional development of the managers' community, transition to socially responsible methods of doing business and integration into the global economy. |
| Independent Directors Association | A professional union of independent corporate directors, which was established in 2002 with the goal of assisting Russian joint-stock companies with growing their value. |
| Business incubator | An organisation that supports young entrepreneurs' projects through all development stages, from idea to its commercialisation. |
| Biomedicine | A branch of medical science that applies biological and physiological principles to clinical practice. |
| Biofuel | Fuel composed of or produced from vegetable or animal raw materials, metabolic byproducts and organic industrial waste. |
| Blockchain | A growing list of records, called blocks, which are linked using cryptography. |
| Big Data | A number of approaches to processing large amounts data with high complexity to produce results that can be understood by people. |
| Boreal Forest Platform | A participatory platform which was developed in 2015 to promote open dialogue and the exchange of experience amongst peers and professionals in the field of sustainable forestry. Its participants include major timber companies, research institutes, non-profits and representatives of forest management authorities. |
| Vacuum infusion | Process of introducing the binder into reinforcement materials using vacuum pressure. |
| Vendor | A supplier/manufacturer of goods or services under own strong brand. |
| Venture capital investments | Investments in new or growing companies with a high or relatively high level of risk. |
| Global depositary receipt (GDR) | A bank certificate issued in more than one country for shares in a foreign company. |
| UN Global Compact | The largest initiative of the United Nations in the field of corporate social responsibility and sustainable development, which brings together 13,000 companies and organisations from 170 countries and 88 national networks that share and implement the ten principles in the field of human rights, labour relations, environment and anti-corruption for sustainable and equitable socio-economic development. |
| Real estate developer | An individual or legal entity whose business is related to activities that range from the renovation and re-lease of existing buildings to the purchase of raw land and the sale of developed land to others. |
| Generic drug | A pharmaceutical drug that has the same chemical substance as the drug that was originally developed, patented and innovated. Generic drugs are allowed for sale after the expiry of the patent of the original drugs. |
| Stakeholders | Individuals and legal entities with interests in the Corporation, which affect or can be affected by the Corporation's actions. |
| The Children's Rights and Business Principles of UNICEF | A comprehensive concept of understanding and resolving the problem of businesses affecting the rights and well-being of children. |
| Inclusive environment | An environment that facilitates the full integration of people with disabilities into society. |
| IoT (Internet of Things) | A concept of equipping physical objects ("things") with built-in technologies to interact with each other or with the environment in order to reduce or exclude human participation from some of the actions or operations. |
| Internet acquiring | A banking service of accepting payments and transferring funds to sellers by using physical or virtual payment cards. |
| Artificial intelligence | Science and technology of creating intelligent machines, especially computer software; the ability of intelligent systems to carry out creative functions traditionally believed to be humans' prerogative. |
| Cybercrime | Crime committed using computers and/or networks or the internet. |
| Key performance indicator (KPI) | An integrated indicator of activities of a structural unit or an officer, reflecting the achievement of targets set for a certain period. |
| Co-working | An approach to workplace management where people of independent professions may work together in one office. |

Annex

| | |
|--|--|
| Compliance | A set of measures to shape responsible behaviour of the company and its employees in the market; a system for controlling and managing risks caused by failure to comply with legislation, requirements of regulators, controlling organisations, regulations of self-regulated organisations and other alliances of companies, and also internal documents. |
| Skill-based volunteering (pro bono work) | Professional work undertaken voluntarily and without payment for the benefit of non-profit organisations or individuals. |
| Corporate Social Responsibility (CSR) | A company's responsibility for the impact of its decisions and activities on society and environment through transparent and ethical behaviour that encourages sustainable development, takes into account stakeholders' expectations, complies with applicable legislation and international standards of behaviour; a set of commitments, which is regularly revised and takes into account a company's specifics and development level, designed voluntarily together with key stakeholders, including implementation of internal and external social and environmental programmes. |
| Crowdfunding | Practice of funding a project or venture by raising small amounts of money from a large number of people, typically via the Internet. |
| Marketplace | Type of an e-commerce site for business where consumers interact directly with suppliers of goods. |
| Meetup | An informal meeting of like-minded professionals to discuss things and exchange experience. |
| Risk mitigation | Reducing the probability of occurrence of a risk and minimising the potential consequences. |
| Direct investments | Investing in medium-sized and large non-public companies. |
| National Association of Corporate Directors (NACD) | The first and only self-regulatory organisation in Russia in the field of corporate governance, which unites leading Russian directors, top managers and senior executives of companies. |
| National Association of Corporate Secretaries (NACS) | A public organisation that unites Russian professionals in the area of corporate governance: corporate governance directors, heads of corporate governance departments, corporate secretaries, heads of board secretariats, corporate lawyers, etc. |
| Corporate Lawyers Association | Russia's only professional union of executives and experts of legal departments of over 100 leading Russian and international companies. |
| Cloud technologies | Data processing technologies in which computer resources are provided to an Internet user as an online service. |
| Omni-channel | Mutual integration of separate communication channels into a single system in order to ensure seamless and continuous communications with customers. |
| Cancer screening | Screening of formally healthy people aiming to detect cancer before symptoms appear. |
| Specially protected natural areas | Land, water surface and air space with natural systems and objects having special environmental, scientific, cultural, aesthetic, recreational and health value, which have been withdrawn completely or partially from economic use and for which a special protection regime has been established. |
| Pension reserves | Funds generated from voluntary pension contributions of legal entities and individuals within the framework of the non-state pension system and intended |
| for the performance by a non-state pension fund of its obligations in accordance with pension agreements. | Funds generated from voluntary pension contributions of legal entities and individuals within the framework of the non-state pension system and intended |
| Substation | A part of an electrical generation, transmission and distribution system consisting of transformers or other converters of electric power. |
| Direct seeding | An agricultural technique when soil is not tilled before planting. |
| Russian Institute of Directors | A leading Russian research, consulting and educational centre for corporate governance. |
| Russian Quality System (Roskachestvo) | A non-profit organisation established by the Russian government for independent inspection and control of the quality of the products sold in the Russian Federation. |
| Russian Union of Industrialists and Entrepreneurs (RUIE) | A Russian public organisation representing the interests of business and uniting the largest Russian companies. |
| Road show | A series of marketing events comprised of business meetings and conferences and organised by an issuer of securities (bonds, shares, etc.), incl. ahead of the initial public offering. |
| AfiFarm | A livestock management solution for dairy farms of any size; covers milk production, livestock reproduction and health; has a unique set of functions in the form of alerts about feeding problems based on analysis of the contents of the herd's milk. |
| Anti-fraud system | A system assessing financial transactions in the internet for potential fraud and offering recommendations on their further processing. |

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| System integration | Development of complex solutions for automation of a company's technological and business processes. Its end goal is to achieve maximum effectiveness in management of the technological process, manufacturing and the company in general. |
| Creating Shared Value | A business concept establishing the link between competitive advantage and corporate social responsibility, which implies the implementation of projects that have a positive impact on both the company and its stakeholders. |
| Social Charter of Russian Business | A code of basic principles of socially responsible business practices developed by the Russian Union of Industrialists and Entrepreneurs; it covers the company's interaction with employees, civil society organisations, government authorities and local communities, as well as environmental security. |
| Startup | An innovative entrepreneurial venture which is typically a newly emerged business in the stage of development or research on prospective markets. |
| Telemedicine | Use of telecommunication and information technology to exchange medical information. |
| Pellets | Biofuel made from compressed peat, wood waste and agricultural waste. It looks like standard-size cylinder-shaped pellets. |
| Smart Grids | A concept for the development and modernisation of electrical grids, which uses information and communication technologies to monitor and account for the transmission and consumption of energy, thereby improving efficiency, reliability, economic benefits and sustainability of electric power distribution. |
| Sustainable development | Development of society/business which ensures that the living conditions improve, the impact on the environment remains within the economic capacity of the biosphere, and the satisfaction of current needs is carried out without harm for future generations. |
| Fundraising | Efforts to raise money from individuals, businesses or the government to the non-profit sector, incl. charity. |
| Financial technologies (fintech) | A segment comprised of companies that use technologies and innovations to compete with traditional financial organisations – banks and mediators – on the financial services market. |
| Hackathon | A forum of software developers where professionals from different areas (programmers, designers, managers) work together to resolve a problem. |
| UN sustainable development goals (SDGs) | A set of 17 global goals in the field of sustainable development approved by the UN in 2015, which are expected to be the focus of the global community and business until 2030. |
| Russia's "Digital Economy" programme | A programme till 2024 approved by the Russian government in 2017 and setting goals and objectives in the following 6 basic areas: legal framework of the digital environment, personnel for the digital economy, digital technologies and projects, information infrastructure, information security, and digital state. |
| Russia's "Digital Economy" programme | A programme till 2024 approved by the Russian government in 2017 and setting goals and objectives in the following 6 basic areas: legal framework of the digital environment, personnel for the digital economy, digital technologies and projects, information infrastructure, information security, and digital state. |

List of abbreviations

| | |
|---|---|
| UAV | Unmanned aerial vehicle |
| CF | Charitable Foundation |
| IC&A | Internal control and audit |
| CGLD | Corporate Governance and Legal Department |
| FID | Finance and Investment Department |
| FIC | Finance and Investment Committee |
| ILO | International Labour Organisation |
| SME | Small and medium-sized enterprises |
| IFRS | International financial reporting standards |
| MFO | Micro financial organisation |
| NACS | National Association of Corporate Secretaries |
| MF | Mutual investment fund |
| RGO | Russian Geographic Society |
| RusRisk | Russian Risk Management Society |
| PPM | Pulp and paper mill |
| ACM | Adaptive Case Management – a system of dynamic management of the company's business processes |
| Agile | An approach to software development under which requirements and solutions evolve through the collaborative effort of self-organizing and cross-functional teams and their customer(s)/end user(s). |
| AI | Artificial intelligence |
| CLT | Cross laminated timber – a wood panel product made from gluing layers of solid-sawn lumber together and used as large element of walls, ceilings and roofs, together with other construction materials: concrete, brick, steel, glass, stone. |
| CRM | Customer relationship management |
| E-commerce | E-commerce |
| ERM | Enterprise risk management |
| ESG risks | Environmental, social and governance risks |
| FEE | Foundation for Environmental Education |
| FSC | Forest Stewardship Council |
| FTSE4Good | A market index assessing the efficiency of companies complying with international corporate governance standards. |
| IIRC | International Integrated Reporting Council |
| IPO | Initial public offering |
| ISO 26000: 2010 | Guidance on Social Responsibility (international standard). |
| LTE (long term evolution), LTE advanced | standards of mobile communications |
| M2M | Machine-to-machine, a common name for technologies that allow different devices to exchange information or transfer it from one to another. |
| ML | Machine learning |
| MSCI | Morgan Stanley Capital International, a stock exchange index that takes into account the MSCI Emerging Markets indices, incl. Brazil, South Africa, Russia, China, etc. |
| NB-IoT | Narrow Band Internet of Things, mobile communication standard for telemetric devices with low data transfer volumes. |
| NFC | Near field communication, a technology of wireless data transfer within a short radius. |
| NPS (Net Promoter Score) | A consumer loyalty index |
| POS (point of sale) lending | An area in retail banking where loans for particular goods are issued directly at points of sale. |
| PRI | Principles for responsible investment |
| R&D | Research and development |

| | |
|-------|--|
| RAB | Regulatory asset base |
| RFID | Radio Frequency Identification, a method for automated identification of objects, where radio signals are used to read or record data stored on special receiving/transmitting devices that send signals in response to a received signal (the so-called RFID tags). |
| SAIDI | System Average Interruption Duration Index |
| SAIFI | System Average Interruption Frequency Index |
| TSR | Total shareholder return |
| VR/AR | Virtual reality / augmented reality technologies |
| WWF | World Wide Fund for Nature |

CONSOLIDATED INDICATORS

Personnel characteristics

Breakdown of Sistema Group's staff employees by employment type

| | 2015 | 2016 | 2017 |
|----------------------|-------|-------|-------|
| Full-time employment | 97.2% | 97.5% | 96.5% |
| Part-time employment | 2.8% | 2.5% | 3.5% |

Breakdown of employees by gender

| | 2015 | 2016 | 2017 |
|----------------------|-------|-------|-------|
| Sistema | | | |
| Women | 50.2% | 50.7% | 48.0% |
| Men | 49.8% | 49.3% | 52.0% |
| Sistema Group | | | |
| Women | 51.1% | 47.9% | 48.4% |
| Men | 48.9% | 52.1% | 51.6% |

Share of women holding executive positions at Sistema

| Year | Senior management | Middle management | Junior management |
|------|-------------------|-------------------|-------------------|
| 2015 | 5.5 % | 25% | 38.1 % |
| 2016 | 9.5 % | 23.2 % | 35.9 % |
| 2017 | 5.2 % | 22.4 % | 36.6 % |

GRI 102-43

Breakdown of employees by employment contract and gender

| Year | Permanent contract | | Fixed-term contract | |
|----------------------|--------------------|--------|---------------------|-------|
| | Men | Women | Men | Women |
| Sistema | | | | |
| 2015 | 48.6% | 48.2% | 1.3 % | 1.9 % |
| 2016 | 48.7% | 48.4 % | 0.9 % | 2.0% |
| 2017 | 51.1% | 45.7% | 0.9% | 2.3% |
| Sistema Group | | | | |
| 2015 | 46.9% | 49.5% | 1.8 % | 1.8 % |
| 2016 | 47.3 % | 49.6 % | 1.6 % | 1.5% |
| 2017 | 48.8% | 46.6% | 2.7% | 1.9% |

Breakdown of employees by employee category

| | 2015 | 2016 | 2017 |
|----------------------|-------|-------|-------|
| Sistema | | | |
| Senior management | | | 9.9% |
| Middle management | | | 32.5% |
| Junior management | | | 21.1% |
| Specialists | | | 36.5% |
| Sistema Group | | | |
| Senior management | 0.5% | 0.4% | 0.4% |
| Middle management | 2.7% | 2.8% | 2.9% |
| Junior management | 11.6% | 10.6% | 11.2% |
| Specialists | 85.2% | 86.2% | 85.5% |

Breakdown of employees by age

| | 2015 | 2016 | 2017 |
|----------------------|-------|-------|-------|
| Sistema | | | |
| <25 years | 2.9% | 3.6% | 3.7% |
| 25-34 years | 40.3% | 36.1% | 33.5% |
| 35-44 years | 27.6% | 31.1% | 33.2% |
| 45-54 years | 17.5% | 16.7% | 16.8% |
| > 55 years | 11.7% | 12.5% | 12.8% |
| Sistema Group | | | |
| <25 years | 16.3% | 3.6% | 14.8% |
| 25-34 years | 38.0% | 36.1% | 36.0% |
| 35-44 years | 21.1% | 31.1% | 23.0% |
| 45-54 years | 15.0% | 16.7% | 16.0% |
| > 55 years | 9.6% | 12.5% | 10.2% |

Breakdown of senior management by age in 2017

| | at Sistema Group | at Sistema |
|----------------|------------------|------------|
| under 45 years | 49.0% | 51.4% |
| 46-55 years | 27.9% | 25.7% |
| over 55 years | 23.1% | 22.9% |

GRI 202-2

Hires from the local community

| Year | Headcount of Sistema's executives, pers. | Share of executives hired from the local community (Moscow and Moscow region), % | Headcount of employees, pers. | Share of employees hired from the local community, % |
|------|--|--|-------------------------------|--|
| 2015 | 15 | 88 | 287 | 91.1 |
| 2016 | 17 | 89 | 305 | 91 |
| 2017 | 18 | 94.7 | 318 | 90.3 |

Breakdown of Sistema's employees by level of education

| Year | Higher education | Secondary vocational | Secondary (basic) |
|------|------------------|----------------------|-------------------|
| 2015 | 97.1% | 2.5% | 0.3% |
| 2016 | 97.0% | 2.4% | 0.6% |
| 2017 | 97.2% | 2.3% | 0.6% |

GRI 401-1

The total number of new employee hires at Sistema in 2017 by gender, personsл.

| Year | Men | Women |
|------|-----|-------|
| 2015 | 40 | 30 |
| 2016 | 37 | 38 |
| 2017 | 49 | 32 |

The total number of new employee hires by age group, persons

| Age group | 2015 | 2016 | 2017 |
|----------------------|--------|--------|--------|
| Sistema | | | |
| <25 years | 8 | 10 | 12 |
| 25-34 years | 20 | 35 | 37 |
| 35-44 years | 18 | 19 | 17 |
| 45-54 years | 12 | 7 | 8 |
| > 55 years | 12 | 4 | 7 |
| Total | 70 | 75 | 81 |
| Sistema Group | | | |
| <25 years | 5,219 | 21,839 | 23,372 |
| 25-34 years | 8,726 | 19,498 | 19,636 |
| 35-44 years | 3,244 | 6,159 | 7,671 |
| 45-54 years | 1,310 | 2,890 | 4,002 |
| > 55 years | 514 | 1,566 | 2,024 |
| Total | 19,013 | 51,952 | 56,705 |

FTE turnover at Sistema by gender, %

| Corporate Centre | Men | Women | Total personnel turnover |
|------------------|----------------------------|---------------|--------------------------|
| 2015 | 4.6 % (8.7 %) ^① | 4.9 % (10.6%) | 9.5 % |
| 2016 | 3 % (5.8 %) | 4 % (8.5 %) | 7.1 % |
| 2017 | 4.3 % (8.1 %) | 4 % (8.6 %) | 8.4 % |

Sistema's employees that participated in assessment, by categories and gender, persons

| Employee category | Men | Women | Total |
|----------------------|--------|--------|--------|
| Sistema | | | |
| Senior management | 6 | 2 | 8 |
| Middle management | 3 | 1 | 4 |
| Total | | | 12 |
| Sistema Group | | | |
| Senior management | 36 | 17 | 53 |
| Middle management | 160 | 86 | 246 |
| Junior management | 1,265 | 1,758 | 3,023 |
| Specialists | 8,946 | 10,187 | 19,133 |
| Total | 22,455 | | 22 455 |

① The first figure is percentage from the total headcount for the year, in brackets – from the total headcount of men/women.

GRI 404-1

Education and training of employees, by employee categories

| Employee category | Number of Sistema's employees that completed external onsite training, persons | Number of employees that completed internal onsite training, persons | Hours of training provided to employees | Average hours of training per employee per year |
|----------------------|--|--|---|---|
| Sistema | | | | |
| Senior management | 6 | | 266 | |
| Middle management | 26 | | 868.5 | |
| Junior management | 20 | | 160 | |
| Specialists | 4 | | 322 | |
| Total | 56 | | 1,616.5 | |
| Sistema Group | | | | |
| Senior management | 391 | 54 | 840,680 | 17.9 |
| Middle management | 1,775 | 650 | 10,085 | 14.1 |
| Junior management | 3,422 | 11,483 | 57,544 | 18.4 |
| Specialists | 19,171 | 44,285 | 290,206 | 10.8 |
| Total | 24,759 | 56,472 | 1,664,568 | 11.8 |

GRI 401-3

Parental leaves for the employees of Sistema

| Employee category | 2015 | 2016 | 2017 |
|---|-------|-------|-------|
| Number of employees that had the right to a leave | 20 | 19 | 17 |
| Number of employees that took leaves | 20 | 19 | 17 |
| Number of employees that resumed work after the leave | 2 | 6 | 4 |
| Ratio of employees that resumed work ^① | 28.5% | 85.7% | 28.5% |

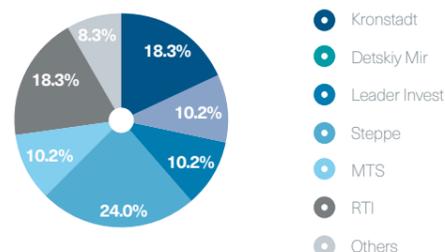
① Ratio of employees that resumed work = Total number of employees that resumed work after leaves / Total number of employees that were supposed to resume work after leaves x 100.

Environment

Material emissions of NOx, SOx, and other significant pollutants, tonnes^①

| Types of emissions | 2015 | 2016 | 2017 |
|---|-------------------|-------------------|------------------|
| NOx | 38,654.31 | 41,449.53 | 45,463.73 |
| SOx | 116,901.50 | 136,213.58 | 18,311.82 |
| Persistent organic pollutants | 2,592.00 | 2,592.00 | 2,592.00 |
| Volatile organic pollutants | 18,352.16 | 19,303.01 | 19,922.92 |
| Hazardous air pollutants | 35.31 | 2,734.31 | 2,734.33 |
| Particulate pollutants | 6,104.60 | 6,151.49 | 5,723.71 |
| Other standard categories of air pollutants used in related regulations | 2,069.94 | 3,574.55 | 3,819.56 |
| Total | 184,709.82 | 212,018.48 | 98,568.07 |

Fines for non-compliance with environmental laws and regulations in 2017, by assets, %%



GRI 307-1

Total waste by hazard class, tonnes^③

| Hazard class according to Russian regulations | 2015 | 2016 | 2017 |
|---|---------------------|---------------------|---------------------|
| I Extremely hazardous | 46.44 | 46.04 | 51.36 |
| II Highly hazardous | 62.59 | 98.64 | 23.59 |
| III Moderately hazardous | 985.32 | 741.74 | 1,171.95 |
| IV Low-hazard | 739,237.10 | 692,154.54 | 694,987.34 |
| V Virtually non-hazardous | 557,743.77 | 630,437.17 | 522,978.93 |
| Total | 1,298,075.22 | 1,323,478.12 | 1,219,213.17 |

GRI 306-2

Fines for non-compliance with environmental laws and regulations, RUB K^②



① Consolidated data includes: Steppe AgroHolding, BPGC, RTI Group, and Cosmos Group.

② Consolidated data includes: MTS, Steppe AgroHolding, BPGC, Kronstadt Group, Sitronics, RTI Group, and Leader Invest.

③ Consolidated data includes: MTS, RTI Group, Sitronics, Detskiy Mir, Steppe AgroHolding, Segezha Group, Cosmos Group, BPGC, and Kronstadt Group.

GRI INDEX

GRI 102-55

| GRI standard | Parameter | Page in the report and/or link | UN SDG |
|--|--|---|--------|
| GRI 101: Foundation 2016 | | | |
| STANDARD ELEMENTS | | | |
| GRI 102: Standard elements 2016 | 102-1 Name of the organisation | Profile of Sistema / Overview | - |
| | 102-2 Activities, brands, products, and services | Profile of Sistema / Overview, Responsible Investment Policy | - |
| | 102-3 Location of headquarters | Profile of Sistema / Overview | - |
| | 102-4 Location of operations | Profile of Sistema / Overview | - |
| | 102-5 Ownership and legal form | Profile of Sistema / Overview | - |
| | 102-6 Markets served | Profile of Sistema | - |
| | 102-7 Scale of the organisation | Key performance indicators | - |
| | 102-8 Information on employees and other workers | Personnel Management, Consolidated indicators, Key performance indicators | 8 |
| | 102-9 Supply chain | Procurement and supply chains | - |
| | 102-10 Significant changes to the organisation and its supply chain | Profile of Sistema | - |
| | 102-11 Precautionary Principle or approach | As a precautionary principle, Sistema aims to avoid any harm to the environment and preserve natural resources. The corporation performs assessments of environmental risks and takes necessary steps to prevent and mitigate adverse impact on the ecosystem and potential risks to the Corporation. | - |
| | 102-12 External initiatives | Profile of Sistema / Overview | - |
| | 102-13 Membership of associations | Profile of Sistema / Membership of Sistema and its representatives in public organisations, Real estate | - |
| | 102-14 Statement from senior decision-maker | Chairman's statement | - |
| | 102-15 Key impacts, risks, and opportunities | Risk management | - |
| | 102-16 Values, principles, standards, and norms of behavior | Profile of Sistema / Mission and values, Ethics and anti-corruption | 16 |
| | 102-17 Mechanisms for advice and concerns about ethics | Ethics and anti-corruption | 16 |
| | 102-18 Governance structure | Sistema's Annual Report for 2017 / Corporate governance | - |
| | 102-20 Executive-level responsibility for economic, environmental, and social topics | Business model and asset management / Sistema's Annual Report for 2017 / Corporate governance | - |
| | 102-21 Consulting stakeholders on economic, environmental, and social topics | About the Report | 16 |
| | 102-22 Composition of the highest governance body and its committees | Business model and asset management / Sistema's Annual Report for 2017 / Corporate governance | 5, 16 |
| | 102-23 Chair of the highest governance body | Business model and asset management / Sistema's Annual Report for 2017 / Corporate governance | 16 |
| | 102-24 Nominating and selecting the highest governance body | Business model and asset management / Sistema's Annual Report for 2017 / Corporate governance | 5, 16 |

| GRI standard | Parameter | Page in the report and/or link | UN SDG |
|---|--|--|------------|
| 102-25 | Conflicts of interest | Business model and asset management / Sistema's Annual Report for 2017. Corporate governance | 16 |
| 102-26 | Role of highest governance body in setting purpose, values, and strategy | Business model and asset management / Sistema's Annual Report for 2017. Corporate governance | - |
| 102-27 | Collective knowledge of highest governance body | Business model and asset management / Sistema's Annual Report for 2017. Corporate governance | 4 |
| 102-28 | Evaluating the highest governance body's performance | Business model and asset management / Sistema's Annual Report for 2017. Corporate governance | - |
| 102-32 | Highest governance body's role in sustainability reporting | Business model and asset management / Sistema's Annual Report for 2017. Corporate governance | - |
| 102-40 | List of stakeholder groups | About the Report | - |
| 102-41 | Collective bargaining agreements | HR management | 8 |
| 102-42 | Identifying and selecting stakeholders | About the Report | - |
| 102-43 | Approach to stakeholder engagement | About the Report | - |
| 102-44 | Key topics and concerns raised | About the Report | - |
| 102-45 | Entities included in the consolidated financial statements | Sistema's annual financial statements for 2017 | - |
| 102-46 | Defining report content and topic boundaries | About the Report | - |
| 102-47 | List of material topics | About the Report | - |
| 102-48 | Restatements of information | About the Report | - |
| 102-49 | Changes in reporting | Information in the Report for 2017 is disclosed in accordance with the GRI Standards. In the previous report, it was disclosed in accordance with the GRI G4 guidance. | - |
| 102-50 | Reporting period | About the Report | - |
| 102-51 | Date of most recent report | About the Report | - |
| 102-52 | Reporting cycle | About the Report | - |
| 102-53 | Contact point for questions regarding the report | Contact details | - |
| 102-54 | Claims of reporting in accordance with the GRI Standards | About the Report | - |
| 102-55 | GRI content index | Annex/ GRI index | - |
| 102-56 | External assurance | About the Report | - |
| MATERIAL TOPICS | | | |
| ECONOMIC PERFORMANCE | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | - |
| | 103-2 The management approach and its components | Economic performance | 1, 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | - |
| GRI 201: Economic performance 2016 | 201-1 Direct economic value generated and distributed | Economic performance | 5, 7, 8, 9 |
| | 201-4 Financial assistance received from government | Sistema PJSFC did not receive financial assistance from the government in the reporting period | - |

| GRI standard | Parameter | Page in the report and/or link | UN SDG |
|--|--|--|--------------------|
| MARKET PRESENCE | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | - |
| | 103-2 The management approach and its components | HR management | 5, 8, 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | - |
| GRI 202: Market presence 2016 | 202-1 Ratios of standard entry level wage by gender compared to local minimum wage | HR management | 1, 2, 5, 8 |
| | 202-2 Proportion of senior management hired from the local community | Consolidated indicators | 8 |
| INDIRECT ECONOMIC IMPACTS | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | - |
| | 103-2 The management approach and its components | Social investment | 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | - |
| GRI 203: Indirect economic impacts | 203-1 Infrastructure investments | Social investment | 2, 5, 7, 9, 11 |
| | 203-2 Significant indirect economic impacts | Social investment | 1, 2, 3, 8, 10, 17 |
| PROCUREMENT PRACTICES | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | - |
| | 103-2 The management approach and its components | Procurement and supply chains | 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | - |
| GRI 204: Procurement practices 2016 | Disclosure 204-1 Proportion of spending on local suppliers | Procurement and supply chains | - |
| ANTI-CORRUPTION | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | - |
| | 103-2 The management approach and its components | Ethics and anti-corruption | 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | - |
| GRI 205: Anti-corruption 2016 | 205-2 Communication and training about anti-corruption policies and procedures | Ethics and anti-corruption | 16 |
| | 205-3 Confirmed incidents of corruption and actions taken | Ethics and anti-corruption | - |
| ENERGY | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | 12, 13, 14, 15 |
| | 103-2 The management approach and its components | Environmental impact | 12, 13, 14, 15, 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | 12, 13, 14, 15 |
| GRI 302: Energy 2016 | 302-1 Energy consumption within the organisation | Environmental impact | 7, 8, 12, 13 |
| | 302-3 Energy intensity | Environmental impact | 7, 8, 12, 13 |
| | 302-4 Reduction of energy consumption | Environmental impact | 7, 8, 12, 13 |

| GRI standard | Parameter | Page in the report and/or link | UN SDG |
|---|---|--|----------------------|
| WATER | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | 12, 13, 14, 15 |
| | 103-2 The management approach and its components | Environmental impact | 12, 13, 14, 15, 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | 12, 13, 14, 15 |
| GRI 303: Water 2016 | 303-1 Water consumption | Environmental impact | 6, 8 |
| | 303-3 Water withdrawal by source | Environmental impact | 6, 8, 12 |
| BIODIVERSITY | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | 12, 13, 14, 15 |
| | 103-2 The management approach and its components | Environmental impact | 12, 13, 14, 15, 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | 12, 13, 14, 15 |
| GRI 304: Biodiversity 2016 | 304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas | Environmental impact | 6, 14, 15 |
| EFFLUENTS AND WASTE | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | 12, 13, 14, 15 |
| | 103-2 The management approach and its components | Environmental impact | 12, 13, 14, 15, 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | 12, 13, 14, 15 |
| GRI 306: Effluents and waste 2016 | 306-1 Water discharge by quality and destination | Environmental impact | 3, 6, 12, 13, 14, 15 |
| | 306-2 Waste by type and disposal method | Consolidated indicators | 3, 6, 12, 14, 15 |
| EMISSIONS | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | 12, 13, 14, 15 |
| | 103-2 The management approach and its components | Environmental impact | 12, 13, 14, 15, 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | 12, 13, 14, 15 |
| GRI 305: Emissions 2016 | 305-1 Direct (Scope 1) GHG emissions | Environmental impact | 12, 13, 14, 15 |
| ENVIRONMENTAL COMPLIANCE | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | 12, 13, 14, 15 |
| | 103-2 The management approach and its components | Environmental impact | 12, 13, 14, 15, 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | 12, 13, 14, 15 |
| GRI 307: Environmental compliance 2016 | 307-1 Non-compliance with environmental laws and regulations | Environmental compliance, Consolidated indicators | 16 |
| Supplier environmental assessment | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | 12, 13, 14, 15 |
| | 103-2 The management approach and its components | Procurement and supply chains | 12, 13, 14, 15, 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | 12, 13, 14, 15 |

| GRI standard | Parameter | Page in the report and/or link | UN SDG |
|---|--|--|---------|
| EMPLOYMENT | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | - |
| | 103-2 The management approach and its components | HR management | 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | - |
| GRI 401: Employment 2016 | 401-1 New employee hires and employee turnover | Consolidated indicators | 5, 8 |
| | 401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees | HR management | 8 |
| | 401-3 Return to work and retention rates after parental leave, by gender | Consolidated indicators | 5, 8 |
| LABOUR/MANAGEMENT RELATIONS | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | - |
| | 103-2 The management approach and its components | HR management | - |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | - |
| GRI 402: Labour/management relations 2016 | 402-1 Minimum notice periods regarding operational changes | | - |
| Occupational safety | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | - |
| | 103-2 The management approach and its components | HR management | 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | - |
| GRI 403: Occupational health and safety 2016 | 403-1 Worker representation in formal joint management-worker health and safety committees | HR management | - |
| | 403-4 Health and safety topics covered in formal agreements with trade unions | HR management | - |
| TRAINING AND EDUCATION | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | - |
| | 103-2 The management approach and its components | HR management | 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | - |
| GRI 404: Training and education 2016 | 404-1 Average hours of training per year per employee | Consolidated indicators | 4, 5, 8 |
| | 404-3 Percentage of employees receiving regular performance and career development reviews | Consolidated indicators | 5, 8 |
| DIVERSITY AND EQUAL OPPORTUNITY | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | - |
| | 103-2 The management approach and its components | HR management | 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | - |

| GRI standard | Parameter | Page in the report and/or link | UN SDG |
|---|--|--|--------|
| GRI 405: Diversity and equal opportunity 2016 | 405-1 Diversity of governance bodies and employees | HR management Consolidated indicators | 5, 8 |
| NON-DISCRIMINATION | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | - |
| | 103-2 The management approach and its components | HR management Risk management | 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | - |
| GRI 405: Non-discrimination 2016 | 406-1 Incidents of discrimination and corrective actions taken | None | 5, 16 |
| FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | - |
| | 103-2 The management approach and its components | HR management, Risk management | 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | - |
| GRI 407: Freedom of association and collective bargaining 2016 | 407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk | HR management | 8 |
| HUMAN RIGHTS ASSESSMENT | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | - |
| | 103-2 The management approach and its components | Ethics and anti-corruption | 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | - |
| GRI 412: Human rights assessment 2016 | 412-1 Operations that have been subject to human rights reviews or impact assessments | Risk management | - |
| LOCAL COMMUNITIES | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | - |
| | 103-2 The management approach and its components | Social investment | 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | - |
| GRI 413: Local communities 2016 | 413-1 Operations with local community engagement, impact assessments, and development programs | Social investment | - |
| | 413-2 Operations with significant actual and potential negative impacts on local communities | No significant negative impact | 1, 2 |
| SUPPLIER AND CONTRACTOR SOCIAL ASSESSMENT | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | - |
| | 103-2 The management approach and its components | Procurement and supply chains | 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | - |

| GRI standard | Parameter | Page in the report and/or link | UN SDG |
|---|---|--|--------|
| PUBLIC POLICY | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | - |
| | 103-2 The management approach and its components | Responsible investment Implementation of investment programmes | 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | - |
| GRI 415: Public policy 2016 | 415-1 Political contributions | None | 16 |
| CUSTOMER HEALTH AND SAFETY | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | - |
| | 103-2 The management approach and its components | Consumer sector | 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | - |
| GRI 416: Customer health and safety 2016 | 416-2 Incidents of non-compliance concerning the health and safety impacts of products and services | No incidents of non-compliance identified | 16 |
| SOCIOECONOMIC COMPLIANCE | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | - |
| | 103-2 The management approach and its components | Ethics and anti-corruption | 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | - |
| GRI 419: Socioeconomic compliance 2016 | 419-1 Non-compliance with laws and regulations in the social and economic area | Non-compliance not identified | 16 |
| CHARITY | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | - |
| | 103-2 The management approach and its components | Social investment | 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | - |
| - | Total expenses for charitable and social projects | Social investment | - |
| VOLUNTEERING | | | |
| GRI 103: Management approach 2016 | 103-1 Explanation of the material topic and its Boundary | About the Report | - |
| | 103-2 The management approach and its components | Social investment | 16 |
| | 103-3 Evaluation of the management approach | Recognition, HR management, Risk management, Awards and achievements | - |
| - | Total number of volunteers at the Company | Social investment | - |
| - | Number of volunteering events organised | Social investment | - |

Compliance with the UN Global Compact

| Area of responsibility | Principles of the UN Global Compact | GRI indicator | Disclosed in the report |
|------------------------|---|---------------|---|
| Human rights | Businesses should support and respect the protection of internationally proclaimed human rights | 102-12 | Risk management |
| | Businesses should make sure that they are not complicit in human rights abuses | 102-13 | Ethics and anti-corruption HR management |
| Labor relations | Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining | 102-41 | Risk management |
| | Businesses should uphold the elimination of all forms of forced and compulsory labour | 407-1 | HR management |
| | Businesses should uphold the effective abolition of child labour | 412-1 | |
| | Businesses should uphold the elimination of discrimination in respect of employment and occupation | 412-1 | |
| Environment | Businesses should support a precautionary approach to environmental challenges | 102-11 | Environmental impact |
| | Businesses should undertake initiatives to promote greater environmental responsibility | 102-12 | GRI index |
| | Businesses should encourage the development and diffusion of environmentally friendly technologies | 302-4 | |
| | | 307-1 | |
| Anti-corruption | Businesses should work against corruption in all its forms, including extortion and bribery | 205-2 | Ethics and anti-corruption |
| | | 205-3 | |
| | | 419-1 | |

Compliance with global and national priorities

| UN Sustainable Development Goals | Russia's national priority | Role of Sistema Group | Indicators of the Corporation's contribution | GRI Standard |
|---|--|---|---|---------------------------|
| 1. No poverty 1.2. By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions | – Increase of longevity and improvement of quality of life | – Support for the underprivileged, incl. children, the elderly and people with special needs | – The average salary at the Corporation equals 6.3 minimum monthly wages – The amount of social investments is RUB 1.3bn | Indirect economic impacts |
| 2. Zero hunger 2.4. By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality | – Рост продолжительности и качества жизни – Enhancement of the export potential of the manufacturing sector and agriculture | – Development of agriculture: introduction of latest agricultural technologies and growth of crop yields and livestock productivity | – Gross grain harvest +45% 2017/2016 – Gross apple harvest +37% 2017/2016 – Milk yield: approx. 11,000 l per cow, which is 92% above the average Russian yield | Economic performance |
| 3. Good health and well-being 3.4. By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being 3.9 By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination | – Increase of longevity and improvement of quality of life | – Development of the healthcare system; introduction of advanced technologies in medicine and pharmaceuticals; promotion of healthy lifestyles | – Number of high-tech surgeries performed at Medsi more than tripled in 2017 vs 2016, reaching 2,110 – Number of industrial accidents at the Group's companies = 114 | Indirect economic impacts |
| 4. Quality education 4.3. By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university 4.4. By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship 4.7. By 2030, ensure that all learners acquire the knowledge and skills needed to promote sustainable development, including, among others, through education for sustainable development and sustainable lifestyles, human rights, gender equality, promotion of a culture of peace and non-violence, global citizenship and appreciation of cultural diversity and of culture's contribution to sustainable development | – Highly qualified personnel – Increase of longevity and improvement of quality of life – Digitalisation | – Development of innovative supplementary education programme, occupational guidance for school students, cooperation with universities, support to engineering initiatives of youth and student projects | – Number of employees that completed training +21.8% in 2017 vs 2016 – Number of participants of the Lift to the Future education programme >11,000 people from 46 Russian regions | Training and education |

| UN Sustainable Development Goals | Russia's national priority | Role of Sistema Group | Indicators of the Corporation's contribution | GRI Standard |
|---|--|---|--|---|
| <p>5. Gender equality</p> <p>5.5. Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life</p> | <ul style="list-style-type: none"> – Increase of longevity and improvement of quality of life | <ul style="list-style-type: none"> – Human rights observance, ensuring gender equality in relations with all stakeholders: employees, participants of social projects, beneficiaries, etc. | <ul style="list-style-type: none"> – Women account for 48.3% of the Corporation's employees – Women's share among Sistema's top management – 5.2%, middle management – 22.4%, junior management – 36.6% | <ul style="list-style-type: none"> Non-discrimination Employment Indirect economic impacts |
| <p>6. Clean water and sanitation</p> <p>6.3. By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally</p> | <ul style="list-style-type: none"> – Technological development and innovations | <ul style="list-style-type: none"> – Prevention of spills – Wastewater treatment | <ul style="list-style-type: none"> – No spills – The share of water treated by the Group's companies on their own grew by 4.9% from 2016 | <ul style="list-style-type: none"> Water |
| <p>7. Affordable and clean energy</p> <p>7.1. By 2030, ensure universal access to affordable, reliable and modern energy services</p> <p>7.2. By 2030, increase substantially the share of renewable energy in the global energy mix</p> <p>7.3. By 2030, double the global rate of improvement in energy efficiency</p> | <ul style="list-style-type: none"> – Technological development and innovations – Increasing energy efficiency | <ul style="list-style-type: none"> – Improvements of power grid infrastructure, energy efficiency in industrial processes and use of alternative energy sources. | <ul style="list-style-type: none"> – Average length of power transmission interruptions at BPGC is less than an hour – Power losses in transmission grids totalled 1.29% (-0.01 p.p. in 2017 vs 2016) – Power losses in distribution grids totalled 8.36% (+0.13 p.p. in 2017 vs 2016) | <ul style="list-style-type: none"> Energy |
| <p>8. Decent work and economic growth</p> <p>8.2. Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors</p> <p>8.3. Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services</p> <p>8.8. Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment</p> <p>8.9. By 2030, devise and implement policies to promote sustainable tourism that creates jobs and promotes local culture and products</p> | <ul style="list-style-type: none"> – Technological development and innovations – Growth of the citizens' income – Economic growth | <ul style="list-style-type: none"> – Timely payment of taxes, creation of jobs in the regions of operations, motivation and development of employees | <ul style="list-style-type: none"> – Payroll expenses RUB 132.419bn – Tax payments 2017/2016 +13.6% – Share of Sistema's revenue in the Russia's gross income is 0.88% – Sisistema's share in the Russian GDP is 0.77% | <ul style="list-style-type: none"> Economic performance Employment |

| UN Sustainable Development Goals | Russia's national priority | Role of Sistema Group | Indicators of the Corporation's contribution | GRI Standard |
|---|--|---|--|--|
| <p>9. Industry, innovation and infrastructure</p> <p>9.1. Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all</p> <p>9.5. Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people and public and private research and development spending</p> | <ul style="list-style-type: none"> – Technological development and innovations – Digitalisation | <ul style="list-style-type: none"> – Development of mobile and fixed-line networks, power supply, infrastructure, innovative solutions for cities – High-tech R&D – Upgrade programmes for production assets – Microelectronics, incl. RFID solutions for IoT | <ul style="list-style-type: none"> – Investment in the fixed assets of the Group RUB 117.7bn – Amount of portfolio companies' investment programmes RUB 130.5bn | <ul style="list-style-type: none"> Economic performance |
| <p>10. Reduced inequalities</p> <p>10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status</p> | <ul style="list-style-type: none"> – Increase of longevity and improvement of quality of life | <ul style="list-style-type: none"> – Implementation of projects for residents of rural and remote areas, the disabled, low-income families; employment of local population | <ul style="list-style-type: none"> – Taxes paid to regional budgets RUB 38.8bn – Number of employees with disabilities 1,015 | <ul style="list-style-type: none"> Indirect economic impacts Market presence |
| <p>11. Sustainable cities and communities</p> <p>11.3 By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries</p> | <ul style="list-style-type: none"> – Increase of longevity and improvement of quality of life – Digitalisation | <ul style="list-style-type: none"> – Redevelopment, comprehensive real estate development, innovative solutions for smart and safe cities | <ul style="list-style-type: none"> – Area of projects in Leader Invest's portfolio – 3.0m sq m in 45 in-fill and comprehensive development projects – Area of projects in Business Nedvizhimost's portfolio – >350,000 sq m of commercial and residential real estate | <ul style="list-style-type: none"> Economic performance |
| <p>12. Responsible production and consumption</p> <p>12.5. By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse</p> <p>12.6. Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle</p> <p>12.8. By 2030, ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature</p> | <ul style="list-style-type: none"> – Technological development and innovations – Enhancement of the export potential of the manufacturing sector and agriculture | <ul style="list-style-type: none"> – Improving production efficiency and environmental footprint and promoting the culture of responsible consumption among customers | <ul style="list-style-type: none"> – Waste generation in 2017 vs 2016 -7.9% | <ul style="list-style-type: none"> Energy Water Effluents and waste Compliance with requirements |
| <p>13. Climate action</p> <p>13.1. Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries</p> | <ul style="list-style-type: none"> – Technological development and innovations | <ul style="list-style-type: none"> – Reduction of greenhouse gas emissions; preservation and restoration of forests | <ul style="list-style-type: none"> – Greenhouse gas emissions in 2017 vs 2016 +9.0% | <ul style="list-style-type: none"> Emissions |
| <p>15. Life on land</p> <p>15.2. By 2030, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally</p> | <ul style="list-style-type: none"> – Technological development and innovations | <ul style="list-style-type: none"> – Responsible forest management and sustainable agriculture | <ul style="list-style-type: none"> – 95% of Segezha Group's forest is FSC-certified | <ul style="list-style-type: none"> Biodiversity |

DISCLAIMER

| UN Sustainable Development Goals | Russia's national priority | Role of Sistema Group | Indicators of the Corporation's contribution | GRI Standard |
|--|--|---|---|---|
| <p>16. Peace, justice and strong institutions</p> <p>16.5. Substantially reduce corruption and bribery in all their forms</p> | <p>– Anti-corruption</p> | <p>– Implementation of state-of-the-art corporate governance standards in the Group's practices, implementation of the anti-corruption policy</p> | <p>– No material fines</p> | <p>Corporate governance</p> <p>Interaction with stakeholders</p> <p>Ethics and integrity</p> <p>Anti-corruption</p> <p>Compliance with requirements</p> |
| <p>17. Partnerships for the Goals</p> <p>17.17. Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships</p> | <p>– Technological development and innovations</p> | <p>– Cooperation agreements with regions; partnership with the state, non-profits and environmental organisations</p> | <p>– Sistema and its companies and officers are members of about 40 major non-profits for development of business practices, enhancement of management, CSR and sustainable development.</p> | <p>Interaction with stakeholders</p> |

The non-financial report of Sistema PJSC for 2017 is unaudited; it contains consolidated data for the Group on the basis of information from the subsidiaries, as well as statements that are only predictions regarding the production, financial, economic, social and environmental indicators of the Corporation's development.

Due to changes in Sistema's investment portfolio, accounting policies of some of the Group's companies, the changing situation in the markets and various factors and risks associated with the activities of Sistema and its portfolio companies, actual events or results disclosed in subsequent reports may differ materially from those published earlier.

CONTACT DETAILS

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